

Hontex

Hontex International Holdings Company Limited

洪良國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 946

GLOBAL OFFERING

Sole Bookrunner, Sole Lead Manager and Sole Sponsor



兆豐資本
Mega Capital

IMPORTANT

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



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GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	500,000,000 Offer Shares (comprising 440,000,000 new Shares to be offered by the Company and 60,000,000 Sale Shares to be offered by the Selling Shareholders subject to Over-allotment Option)
Number of Public Offer Shares	:	50,000,000 Shares (subject to adjustment)
Number of International Placing Shares	:	450,000,000 Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	:	Not more than HK\$2.78 per Offer Share (payable in full on application in Hong Kong dollars, subject to refund, plus brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%) and expected to be not less than HK\$2.08 per Offer Share
Nominal value	:	HK\$0.10 per Share
Stock code	:	946

Sole Bookrunner, Sole Lead Manager and Sole Sponsor



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" in Appendix VIII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Hong Kong Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Sole Bookrunner (on behalf of the Underwriters), the Selling Shareholders and us, on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, 17 December 2009 and, in any event, not later than Tuesday, 22 December 2009. The Offer Price will be not more than HK\$2.78 and is currently expected to be not less than HK\$2.08. Applicants for Public Offer Shares are required to pay, on application, the maximum offer price of HK\$2.78 for each Share, together with brokerage fee of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price should be lower than HK\$2.78 (the maximum Offer Price) or if the Global Offering lapses.

The Sole Bookrunner (on behalf of the Underwriters) may, with the Selling Shareholders and our consent, reduce the number of Offer Shares and/or the indicative offer price range below that stated in this prospectus (which is HK\$2.08 to HK\$2.78 per Share) at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, notices of the reduction in the number of Offer Shares and/or the indicative offer price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Public Offer. Such notice will also be available at the website of the Stock Exchange at www.hkexnews.hk and our website at <http://ir.hontex.cn>. If applications for Offer Shares have been submitted prior to the day which is the last day for lodging of applications under the Public Offer, in the event that the number of Offer Shares and/or the indicative offer price range is to be reduced, such applications can subsequently be withdrawn. Details of the arrangement will then be announced by the Company as soon as practicable. Further details are set out in the sections headed "Structure and Conditions of the Global Offering" and "How to Apply for the Public Offer Shares" in this prospectus.

If, for any reason, the Offer Price is not agreed by Tuesday, 22 December 2009 between the Sole Bookrunner (on behalf of the Underwriters), the Selling Shareholders and us, the Global Offering (including the Public Offer) will not proceed and will lapse.

The Global Offering may be terminated by the Sole Bookrunner (on behalf of the Underwriters) at any time prior to 8:00 a.m. on the Listing Date following the occurrence of certain events described in the section headed "Underwriting" in this prospectus.

EXPECTED TIMETABLE¹

Application lists open² 11:45 a.m. on Thursday,
17 December 2009

Latest time to lodge **white** and **yellow** Application Forms 12:00 noon on Thursday,
17 December 2009

Latest time to complete electronic applications under the **HK eIPO**
White Form service through the designated website www.hkeipo.hk³ 11:30 a.m. on Thursday,
17 December 2009

Latest time to complete payment of the **HK eIPO White Form**
applications by effecting internet banking transfer(s) or
PPS payment transfer(s)³ 12:00 noon on Thursday,
17 December 2009

Latest time to give **electronic application instructions** to HKSCC⁴ 12:00 noon on Thursday,
17 December 2009

Application lists close² 12:00 noon on Thursday,
17 December 2009

Note 9 Expected Price Determination Date⁵ Thursday, 17 December 2009

The Offer Price, the level of indication of
interest in the International Placing, the basis of allotment,
the results of applications and Hong Kong identity
card/passport/Hong Kong business registration numbers
of successful applicants under the Public Offer to be
available through a variety of channels as described in
the section headed “How to Apply for the Public Offer
Shares” in this prospectus Wednesday, 23 December 2009

Despatch of share certificates and refund cheques in respect of
wholly or partially successful applications (where applicable)
or wholly or partially unsuccessful applications on or before⁶ Wednesday, 23 December 2009

Dealings in Shares on the Stock Exchange expected to
commence on 9:30 a.m. on Thursday,
24 December 2009

Notes:

1. All times refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure and Conditions of the Global Offering” in this prospectus.
2. If there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning in force at any time between 9:00 a.m. and 12:00 noon on Thursday, 17 December 2009, the application lists will not open and close on that day. Further information is set out in the section headed “How to Apply for the Public Offer Shares — Effect of bad weather on the opening of the application lists” in this prospectus.

EXPECTED TIMETABLE¹

3. You will not be permitted to submit your application through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
4. Applicants who apply by giving electronic application instructions to HKSCC should refer to the paragraph headed “How to Apply by Giving Electronic Application Instructions to HKSCC” under the section headed “How to Apply for the Public Offer Shares” in this prospectus.
5. Please note that the Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about Thursday, 17 December 2009. Notwithstanding that the Offer Price may be fixed at below the maximum offer price of HK\$2.78 per Share payable by applicants for Shares under the Public Offer, applicants who apply for Shares must pay on application the maximum offer price of HK\$2.78 per Share plus the brokerage fee of 1%, SFC transaction levy of 0.004%, and Stock Exchange trading fee of 0.005% but will be refunded the surplus application monies as provided in the section headed “How to Apply for the Public Offer Shares” in this prospectus.
6. Applicants who apply for 1,000,000 or more Public Offer Shares and have indicated in their Application Forms their wish to collect refund cheques and, where applicable, share certificates in person may do so from our Hong Kong Share Registrar, Tricor Investor Services Limited, from 9:00 a.m. to 1:00 p.m. on Wednesday, 23 December 2009 or any other date notified by us in the newspaper as the date of despatch of share certificates and refund cheques. Applicants who are individuals and who opt for personal collection must not authorise any other person to make their collection on their behalf. Applicants who are corporations and who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporation stamped with the corporations’ chops. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Tricor Investor Services Limited. Uncollected share certificates and refund cheques will be despatched by ordinary post at the applicant’s own risk to the addresses specified in the relevant Application Forms shortly thereafter. Further information is set out in the section headed “How to Apply for the Public Offer Shares”. Share certificates will only become valid certificates of title provided that the Public Offer has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms, which is expected to be at or around 8:00 a.m. on 24 December 2009.

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

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SUMMARY

This summary is an overview of the information contained in this prospectus and does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

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. The Group is also engaged in the design, development and marketing of fashion and leisure apparel and accessory products sold under the MXN brand.

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

Turnover	For the year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Fabric sales	548,476	83.9	769,841	82.6	888,984	70.2	431,213	82.6	511,537	62.6
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
Branded leisure clothing sales	—	—	—	—	222,685	17.6	17,658	3.4	245,677	30.0
Total	653,380	100.0	932,476	100.0	1,266,050	100.0	521,783	100.0	817,305	100.0

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 business 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 the apparel brand owners for more than ten years even though 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 meters. We offer weft and warp knitting along with dyeing services. Our fabric production cycle can be divided into three

SUMMARY

general procedures: knitting, dyeing and finishing. For the casual and sportswear OEM segment, our apparel manufacturing process is divided into five major stages: (i) raw materials inspection and testing; (ii) cutting and trimming; (iii) sewing and assembly; (iv) ironing; and (v) packaging.

The following tables present a number of annual production capacity and related information for our fabric manufacturing facilities:

	Period				
	For the year ended 31 December			For the six months ended 30 June	
	2006	2007	2008	2008	2009
Approximate output (tonnes)	12,576	14,758	15,420	7,587	7,886
Annualised production capacity (tonnes)	16,000	16,000	16,000	8,000	9,000
Annual production capacity represented by the percentage approximate output represents of annualised production (%)	79%	92%	96%	95%	88%

We operated apparel production lines with annual manufacturing capacity of approximately 1.63 million, 1.74 million and 2.53 million pieces of apparel products per annum as at 31 December 2006, 2007 and 2008 respectively. The following tables present a number of annual production capacity and related information for our apparel manufacturing facilities:

	Period				
	For the year ended 31 December			For the six months ended 30 June	
	2006	2007	2008	2008	2009
Approximate output (thousand pieces)	1,626	1,738	2,525	969	1,103
Annualised production (thousand pieces)	2,362	2,362	2,362	1,184	1,263
Annual production capacity represented by the percentage approximate output represents of annualised production (%)	69%	74%	107%	82%	87%

The approximate annual output as a percentage of the annualised production in 2008 exceeded 100%. As confirmed by the Directors, it is because the production of 320,200 pieces of apparel products commenced in 2007 but was not completed until 2008, when the finished apparel products were transported to the warehouse and recorded as inventory.

Apart from the above, we are also engaged in the design, development, wholesales 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 wholesale business, we employ a franchise distribution model which is commonly used by apparel brand owners in the PRC. Neither the franchise distributors nor the franchise stores were owned or operated by our Group. After our acquisition of Shishi Maigen in 2008, we had 420 franchise stores as at 31 December 2008, and 665 franchise stores as at the Latest Practicable Date. As at 31 December 2008 and the Latest Practicable Date, we had 11 and 22 franchise distributors, who in turn had 171 and 379 franchise stores, respectively. As confirmed by the Directors, the Group did not own any franchise stores during the Track Record Period and as at the Latest Practicable Date. Collectively, the MXN retail network covers 22 provinces, as well as more than 33 county-level cities in the PRC.

SUMMARY

The following table shows the number of MXN franchise stores directly sourcing from our Group and the number of MXN franchise stores sourcing from franchise distributor (excluding those franchise distributors) for different districts in the PRC as at 31 December 2008 and as at the Latest Practicable Date, respectively:

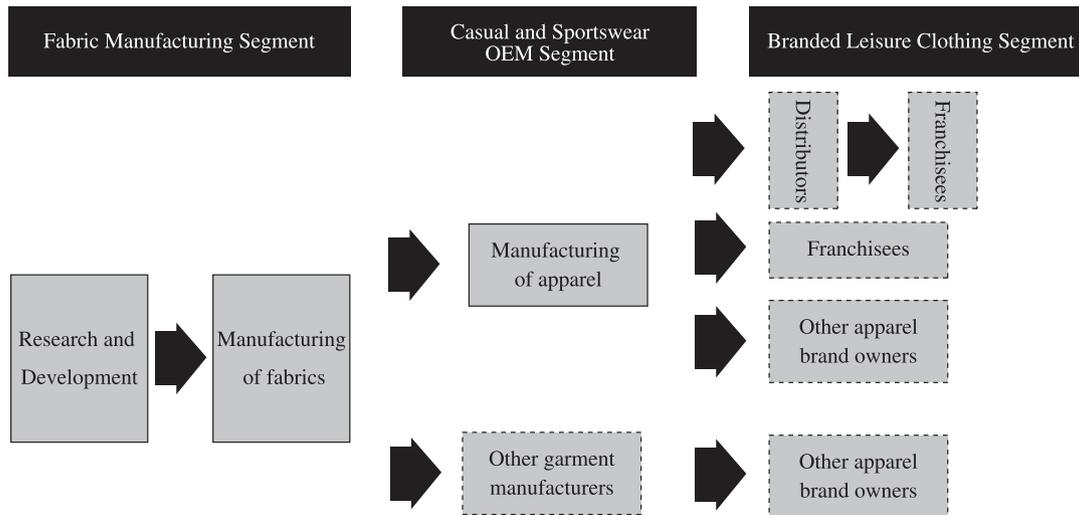
	As of 31 December 2008			As at the Latest Practicable Date		
	No. of franchise store directly sourcing from our Group	No. of franchise store sourcing from franchise distributor	Total no. of franchise store	No. of franchise store directly sourcing from our Group	No. of franchise store sourcing from franchise distributor	Total no. of franchise store
East China ⁽¹⁾	181	115	296	217	163	380
South China ⁽²⁾	18	56	74	15	77	92
Southwest China ⁽³⁾	21	—	21	22	30	52
Northeast China ⁽⁴⁾	17	—	17	22	14	36
North China ⁽⁵⁾	12	—	12	9	80	89
Northwest China ⁽⁶⁾	—	—	—	1	15	16
Total	249	171	420	286	379	665

Notes:

- (1) East China includes Shanghai, Jiangsu, Zhejiang, Anhui, Shandong, Jiangxi and Fujian.
- (2) South China includes Hubei, Hunan, Henan, Guangxi, Guangdong and Hainan.
- (3) Southwest China includes Sichuan, Guizhou, Tibet, Yunnan and Chongqing.
- (4) Northeast China includes Heilongjiang, Liaoning and Jilin.
- (5) North China includes Tianjin, Hebei, Shanxi, Beijing and Inner Mongolia.
- (6) Northwest China includes Xingjiang and Shaanxi.

SUMMARY

The chart below illustrates our current business model:



Notes:

- (1) Components of our segment model marked by solid lines refer to those parts of the value chain controlled by us, while those components marked by dotted lines indicate those not controlled by us.
- (2) For detailed arrangement of distributors and franchisees, please refer to section headed "Sales and Distribution".

COMPETITIVE STRENGTHS

We believe the following competitive strengths position us to capitalise on significant opportunities to grow our business:

Integrated and efficient production operations

The Group vertically integrates the manufacture of fabrics to the production of branded causal leisure apparel. Among the Company's subsidiaries, Fuqing Hong Liong produces fabrics, which serves as one of the suppliers of raw materials for the production of sportswear and leisure apparel (casual and sportswear OEM segment) by Fuqing Ecotex. Fuqing Ecotex also serves as one of the suppliers of sportswear and leisure apparel for Fuzhou Aike and Shishi Maigen. The Board believes that the Group's vertical integration strategy provides the Group with the flexibility to adjust product mix to meet changing market conditions and demands, and the capability to cater for the needs of customers. The Board is of opinion that the Group's efficient production and inventory management system enables the Group to fulfil customer orders within a short lead time.

Innovative design and product development

Product design

We believe that one of our core competitive strengths is our provision of fashionable branded products to meet consumer demands from time to time. Our MXN brand has its own merchandising department composing of 28 employees as at 31 October 2009.

SUMMARY

In order to blend international perspective into our designs and to strengthen the standards of our local designs in China, we leverage on our good social resources and network and obtain first hand clothing samples through market research. We visit places in the Southeast Asia such as Hong Kong and Thailand to experience first hand the latest trends in style and fabric materials in those places. Since 2008, we have engaged a fashion design agency in Hong Kong to assist us with the design of international and fashionable apparel products for the China market.

Product development

For the fabric manufacturing segment, we develop new fabric constructions, patterns, textures and colours to meet our customers' specifications. We have equipment in our facilities dedicated to sample manufacturing where we test new fabric concepts for actual end-use products. Based upon the results of internal evaluations and retail tests, new fabrics are introduced into the marketplace. We also focus on developing innovative fabrics with value-added features, including anti-bacteria, anti-odour, anti-static, UV protection, moisture management, micro-fibre, stretch, and anion fabrics.

We work closely with our customers to ensure product quality and our research and development team plays an important part in development processes to meet quality standards.

Multi-faceted marketing strategy

Promotion by entertainment celebrity

We believe that marketing and promotion strategy is the key of success in the branded leisure clothing segment. We have deployed a new marketing campaign by using entertainment celebrities to promote our brand and products to attract and appeal to the fashion-conscious consumer. We have contracted an entertainment celebrity, who is popular among the Chinese-speaking communities, Peter Ho (何潤東), as an image and brand representative of our MXN brand because we believe he matches our culture and the lifestyle images that we want to associate with the MXN brand. We believe this marketing strategy has been effective in attracting certain target consumers to our MXN brand and will result in increased market awareness and acceptance of our MXN brand as a trend-setting leisure wear brand.

Media advertising

Apart from the promotion by entertainment celebrities, we also strategically select other forms of advertising for our MXN brand that we believe match its image and market position.

We promote our MXN brand by posting advertisements in apparel magazines, broadcasting advertisements on bus media which cover 22 provinces and setting up advertising boards in stations or open areas outside shopping malls. Following the appointment of our entertainment celebrity, we have changed the advertising posters in the franchise shops and franchise stores accordingly in order to build up a clear brand image.

SUMMARY

Focus on value-added fabrics with higher margins

With our product development, technical expertise and production scale, we are able to produce customised, high value-added fabrics that command higher average selling prices and generate higher margins.

Established relationships with apparel brands

We believe our relationships with brand owners are due in large part to our reputation for reliability, in terms of quality control and on-time delivery, dedicated customer service, ability to innovate and competitive product pricing. We have established business relationships with a broad range of apparel brands such as internationally renowned labels, Decathlon, Kappa and Mizuno and local label, Li Ning and Anta. 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 the apparel brand owners for more than ten years even though we have not entered into long term supply contracts with these customers.

Experienced management team

Our core management team has been with the Group for about 15 years. Our Chairman, Vice-Chairman, and Chief Executive Officer have an average of over 20 years of industry experience.

The management team's ability to execute its business plan is demonstrated by the approximately 39.20% compound annual growth rate in turnover for the past three financial years and reflects the focus of our founders, executive Directors and senior management on enhancing profitability and creating shareholder value. After the completion of the Offering, our senior management will retain a significant financial interest in the Group's business.

BUSINESS STRATEGIES

Our principal business strategies are:

Expand and upgrade manufacturing facilities

In order to enhance our competitiveness and profitability, we seek to apply approximately HK\$132.2 million of the proceeds from the Global Offering, which represents approximately 13.2% of the net proceeds, to expand our manufacturing facilities, selectively upgrade production equipment and acquire environmental-friendly and energy-saving production equipment. Existing production equipment such as boiler equipment and thermal equipment will be upgraded. Environmental-friendly and energy-saving production equipment such as renovated dyeing equipment will be acquired in order to save energy, reduce production cost and increase production capacity for high-end products. We also seek to identify new production equipment designed to enhance our production efficiency and capacity, shorten turnaround time and reduce labour cost and energy consumption, particularly the equipment used for knitting, dyeing and finishing in our fabric manufacturing business. These planned upgrades and

SUMMARY

acquisitions lay the foundation for improving both productivity and profitability in the future. It is expected that the proceeds will be invested in 2010 and the production capacity will increase by approximately 50% in the second half of 2010.

Develop new high-tech fabric specifications

We are currently planning to introduce additional value-added fabrics such as environment-friendly fabrics and functional fabrics to secure our competitive strength in research and development of high-tech fabrics in the industry.

In order to achieve such target, we seek to increase our resources on innovation, research and development of new high-tech fabric specifications, and to annually file at least three patent applications for registering an invention or a new process. Increasing our resources in research and development includes an expansion of our research and development department, acquisition of new research and development equipment, hiring experts and scholars in this profession, provision of training to existing research and development employees to enhance their professional standards and formulation of relevant approaches to encourage innovation. These initiatives will be implemented in order to strengthen the innovation and development capability of own research and development department, which in turn will help us strive to become one of the world's leading professional manufacturers in functional fabrics and environment-friendly fabrics.

We expect to fund these initiatives from our internal resources.

Continue to develop and enhance our MXN brand name

Through the implementation of a number of innovative and diversified marketing plans targeted towards our major consumer group who are between the ages of 18 and 35, we intend to apply approximately HK\$259.7 million of the proceeds from the Global Offering, which represents approximately 26.0% of the net proceeds, to continue to develop and enhance our MXN brand and brand recognition as a leading and innovative retailer of trendy and fashionable casual wear and accessory products. The amount is significantly higher than the aggregated expenses on the same item during the Track Record Period. As advised by the Directors, before the acquisition by the Group in 2008, Shishi Maigen did not have a very well-organised marketing strategy. However, after the acquisition, we realised the importance of the popularity of a brand, which is also the core factor which leads to the success of running a brand business. So, our Directors advised that the number of franchise stores of MXN is expected to continue to expand, which will lead to an increase in the advertising and marketing costs as a result of the additional number of the franchise stores involved.

We intend to further promote the brand by engaging in various types of advertisement on mass media, including television commercials, radio, magazine advertising, outdoor displays, and multimedia advertisement on public transport, which will incur a substantial amount of promotion costs.

We first set up our MXN franchises in second-tier cities. In order to gain more brand awareness and exposure in first-tier cities at an accelerating pace, one of our initiatives is to appoint entertainment celebrities, who are popular in the trendy and youth mass market and have a fresh image that closely conveys the culture and lifestyle of our MXN brand, to be our image and brand spokespersons. In 2009, we appointed Peter Ho (何潤東), who is a popular Asian entertainment celebrity, to be our image and brand spokesperson.

SUMMARY

Moreover, we intend to hire a female celebrity as a spokesperson for the brand. Together with the current spokesperson, we intend to organise different marketing events to promote the brand, which will also significantly increase our cost of the advertising programme.

As advised by our Directors, we intend to apply approximately HK\$259.7 million of the net proceeds from the Global Offering in the three years after the listing of the Company for advertising and marketing. It is estimated that the advertising and marketing cost will be utilised as approximately HK\$38.9 million, HK\$90.9 million and HK\$129.9 million for each year of 2010 to 2012 respectively. We will use our internal resources to carry out the advertising and marketing activities in the subsequent years after that three years period of time as mentioned.

Expand and optimise our distribution network

We will continue to expand and optimise the distribution network of our MXN branded products. In 2008, our sales channels had mainly been distributionship and franchising. We intend to apply approximately HK\$352.6 million of the proceeds from the Global Offering, which represents approximately 35.3% of the net proceeds, to gradually speed up the establishing of 20 self-owned and operated flagship stores in 20 prime locations in major cities or provinces of the PRC in the coming years of 2010 and 2011. The flagship stores are planned to be located in East China (such as Shanghai and Fujian), South China (such as Hubei, Guangdong and Hong Kong), Southwest China (such as Sichuan and Yunnan), Northeast China (such as Heilongjiang Liaoning), and North China (such as Beijing and Tianjin). We believe that the flagship stores are a good means for promoting the image of the brand and style of the shop for attracting potential investment. This is another initiative of ours to outreach our MXN brand to increase brand recognition and reputation. We have no self-owned and operated flagship stores as the Latest Practicable Date.

Implement our multi-brand strategy

We confirm that we are currently in negotiation for the acquisition of another leisure apparel brand. Substantive negotiations are expected to be entered in 2010, and that particular brand will join our Group in the second half of the same year if the negotiation is successful. As confirmed by our Directors, the negotiation between the potential seller of the leisure apparel brand in the PRC has undergone for about one year. Both the potential seller and us were having a preliminary intention but there are no concrete terms or agreements at this stage. Thus, the acquisition may or may not be successful.

We intend to apply approximately HK\$132.2 million of the proceeds from the Global Offering, which represents approximately 13.2% of the net proceeds, for the acquisition of the abovementioned leisure apparel brand. This multi-brand strategy not only allows us to offer a wider range of product offerings but also allows us to distinguish and divide our target markets with a number of unique brands that cater and attract different customer groups. Therefore, we will continue to develop and promote each of our brands as a unique brand targeting different consumer groups.

Continue to reinforce our one-stop solutions

Through providing our customers with a variety of value-added services and solutions, we seek to strengthen our cooperative relationships with our customers and secure higher-margin business. Different from many Asian apparel companies that are mainly engaged in either fabric manufacturing, OEM

SUMMARY

manufacturing or distribution, we vertically integrate the apparel industry chain. We integrate fabric manufacturing, apparel manufacturing and branded distribution and enjoy the advantages of such one-stop solutions. From manufacturing of fabrics to trading of apparel, this business integration enables us to have more control and rights over different procedures throughout the apparel industry chain.

To reinforce our one-stop solutions and enhance our corporate image, we intend to apply approximately HK\$52.8 million of the proceeds from the Global Offering, which represents approximately 5.3% of the net proceeds, to establish a more centralised administrative corporate headquarters, where the internal resources of our Group, product design, logistics management, office and exhibitions are integrated. In addition, it will be where general assemblies for suppliers, distributors and customers who place their orders are held. As advised by our Directors, the Board has not identified any target building and is not under any negotiation for the acquisition. Our Directors confirmed that at this stage, we only have a preliminary plan to establish the corporate headquarters in Fuqing.

Continue to improve our management of production

Although we believe we currently enjoy flexibility in adjusting our production schedules to meet production needs through outsourcing production to sub-contractors and contract manufacturers, we will continue to expand and improve our manufacturing facilities in order to meet the expected growth of our business and the growing demand for our fabrics, sportswear products and leisure apparel and accessory products. In particular, we intend to apply approximately HK\$44.1 million of the proceeds from the Global Offering, which represents approximately 4.4% of the net proceeds, to purchase an ERP system for increasing operational efficiency by enhancing information management, production management, logistics management and operational control through the installation of the ERP system. We aim to do this in order to strengthen our control over operations and cost and to rapidly respond to the changing market trends and preferences. We believe that the growth in our business, operations and production volume will increase our efficiency in terms of product line utilisation rates while allowing us to reduce our raw material costs. We will also continue to refine and improve our manufacturing facilities in order to improve production rates and reduce stoppages.

Strengthen cooperative relationships with our MXN franchisees

We intend to apply approximately HK\$26.4 million of the proceeds from the Global Offering, which represents approximately 2.6% of the net proceeds, to develop our new corporate headquarters for our MXN distribution business. The setting up of the new MXN corporate headquarters can consolidate the design, logistics, operations and convention functions such as annual sales fairs into a single place, and in which, we can carry out conventions for potential investors, merchandisers, suppliers and franchise distributors. As advised by our Directors, the Board has not identified any target building and is not under any negotiation for the acquisition. Our Directors confirmed that at this stage, we only have a preliminary plan to establish the new MXN corporate headquarters in Xiamen.

SUMMARY

SUMMARY HISTORICAL FINANCIAL INFORMATION

The following table sets forth the combined income statements of the Group during the Track Record Period. You should read the summary in conjunction with the Accountants' Reports for the Group and for Shishi Maigen, our subsidiary acquired in May 2008, in Appendices I and II to this prospectus which have been prepared in accordance with Hong Kong Financial Reporting Standards, or HKFRSs.

Combined income statements

	<i>Note</i>	Year ended 31 December			Six months ended 30 June	
		2006 RMB'000	2007 RMB'000	2008 RMB'000	2008 RMB'000 (unaudited)	2009 RMB'000
Turnover	<i>1</i>	653,380	932,476	1,266,050	521,783	817,305
Cost of sales		<u>(502,275)</u>	<u>(697,969)</u>	<u>(911,631)</u>	<u>(385,687)</u>	<u>(538,602)</u>
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		<u>(1,454)</u>	<u>(2,351)</u>	<u>(5,906)</u>	<u>(853)</u>	<u>(5,048)</u>
Profit from operations		120,758	198,316	311,128	121,948	244,380
Finance costs		<u>(4,453)</u>	<u>(2,483)</u>	<u>(1,922)</u>	<u>(1,072)</u>	<u>(754)</u>
Profit before taxation		116,305	195,833	309,206	120,876	243,626
Income tax		<u>(13,809)</u>	<u>(25,372)</u>	<u>(66,867)</u>	<u>(26,050)</u>	<u>(60,255)</u>
Profit attributable to equity shareholders		<u><u>102,496</u></u>	<u><u>170,461</u></u>	<u><u>242,339</u></u>	<u><u>94,826</u></u>	<u><u>183,371</u></u>
Earnings per share	<i>2</i>					
Basic and diluted (cents)		<u><u>6.57</u></u>	<u><u>10.93</u></u>	<u><u>15.53</u></u>	<u><u>6.08</u></u>	<u><u>11.75</u></u>

Notes:

- Turnover represents income arising from fabric sales, casual and sportswear OEM sales and branded leisure clothing sales.
- The calculation of basic earnings per share for the Track Record Period is based on the profit attributable to equity shareholders of the Company for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, and on the assumption that 1,560,000,000 shares of the Company are in issue and issuable, comprising 10,000 shares in issue at the date of the Prospectus and 1,559,990,000 shares to be issued pursuant to the Capitalisation Issue as if the shares were outstanding throughout the Track Record Period.

SUMMARY

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2009

Forecast combined profit attributable to equity shareholders of our Company for the year ending 31 December 2009 (<i>Note 1</i>)	not less than RMB421 million (equivalent to approximately HK\$478 million)
Unaudited pro forma forecast basic earnings per Share for the year ending 31 December 2009 (<i>Note 2</i>)	not less than RMB0.211 (equivalent to approximately HK\$0.239)

Notes:

- (1) The forecast combined profit attributable to equity shareholders of our Company for the year ending 31 December 2009 is extracted from the paragraph headed “Profit Forecast” in the section headed “Financial Information” of this prospectus. The bases and principal assumptions on which the above profit forecast for the year ending 31 December 2009 has been prepared are summarised in Parts A and B of Appendix IV to this prospectus. The forecast combined profit attributable to equity shareholders of our Company for the year ending 31 December 2009 is based on the audited combined results of our Group for the six months ended 30 June 2009, the unaudited combined results of our Group for the three months ended 30 September 2009 and a forecast of the combined results of our Group for the remaining three months ending 31 December 2009.
- (2) The calculation of the unaudited pro forma forecast basic earnings per Share is based on the forecast combined profit attributable to equity shareholders of our Company for the year ending 31 December 2009 and on the assumptions that our Company had been listed since 1 January 2009, a total of 2,000,000,000 shares were in issue during the year ending 31 December 2009, but takes no account of any shares which may be allotted and issued upon exercise of the Over-allocation Option or any Shares that may be allotted and issued or repurchased by our Company. The unaudited pro forma forecast basic earnings per Share for the year ending 31 December 2009 is converted into Hong Kong dollars at an exchange rate of RMB0.8814 to HK\$1.00.

OFFERING STATISTICS

	Based on Offer Price of HK\$2.08 per Share	Based on Offer Price of HK\$2.78 per Share
Market capitalisation ¹	HK\$4,160 million	HK\$5,560 million
Prospective price/earnings multiple on a pro forma basis ²	8.70 times	11.63 times
Unaudited pro forma adjusted net tangible assets per Share ³	HK\$0.57	HK\$0.71

Notes:

1. The calculation of market capitalisation is based on 2,000,000,000 Shares expected to be in issue immediately following the Global Offering and the Capitalisation Issue (assuming the Over-allotment Option is not exercised).
2. The calculation of the prospective price/earnings multiple on a pro forma basis is based on each indicative offer price and the pro forma forecast basic earnings per Share for the year ending 31 December 2009.
3. The unaudited pro forma adjusted net tangible assets per Share as at 30 June 2009 is calculated after making the adjustments referred to in the section “Unaudited Pro Forma Financial Information” in Appendix III and on the basis of a total of 2,000,000,000 shares in issue immediately following the Global Offering and the Capitalisation Issue (assuming the Over-allotment Option is not exercised).

SUMMARY

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$1,000 million (assuming an Offer Price of HK\$2.43 per Share being the mid-point of the estimated Offer Price range), after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering and assuming that the Over-allotment Option is not exercised, which we currently intend to apply as follows:

- approximately HK\$132.2 million (equivalent to approximately RMB116.5 million) (approximately 13.2% of the net proceeds from the Global Offering) is expected to be used primarily to fund capital expenditure for acquiring environmental-friendly and energy-saving production equipment such as renovated dyeing equipment, in order to save energy, reduce production cost and increase production capacity for high-end products. It is also expected to fund capital expenditure for expanding our manufacturing facilities and selectively upgrading production equipment. It is expected that the proceeds will be invested in 2010 and the production capacity will increase by approximately 50% in the second half of 2010;
- approximately HK\$52.8 million (equivalent to approximately RMB46.5 million) (approximately 5.3% of the net proceeds from the Global Offering) is expected to be used primarily to fund capital expenditure for integrating the internal resources of our Group to establish a more centralised administrative corporate headquarters; As advised by our Directors, the Board has not identified any target building and is not under any negotiation for the acquisition. Our Directors confirmed that at this stage, we only have a preliminary plan to establish the corporate headquarters in Fuqing;
- approximately HK\$352.6 million (equivalent to approximately RMB310.8 million) (approximately 35.3% of the net proceeds from the Global Offering) is expected to be used primarily for establishing our self-owned and operated flagship stores in 20 prime locations in major cities or provinces of the PRC in order to promote the image of the brand and style of the shop for attracting potential investment;
- approximately HK\$44.1 million (equivalent to approximately RMB38.9 million) (approximately 4.4% of the net proceeds from the Global Offering) is expected to be used primarily for purchasing an ERP system for increasing operational efficiency by enhancing information management, production management, logistics management and operational control through the installation of the ERP system;
- approximately HK\$26.4 million (equivalent to approximately RMB23.3 million) (approximately 2.6% of the net proceeds from the Global Offering) is expected to be used primarily for developing our new corporate headquarters for our MXN franchise distribution business. The setting up of the new MXN corporate headquarters can consolidate the design, logistics, operations and convention functions such as annual sales fairs into a single place, and in which, we can also carry out convention for potential investors, merchandisers, suppliers and distributors. As advised by our Directors, the Board has not identified any target building and is not under any negotiation for the acquisition. Our Directors confirmed that at this stage, we only have a preliminary plan to establish the new MXN corporate headquarters in Xiamen;

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- approximately HK\$259.7 million (equivalent to approximately RMB228.9 million) (approximately 26.0% of the net proceeds from the Global Offering) is expected to be used primarily for developing and enhancing recognition of our brand through media advertising (such as television commercials, outdoor displays and magazine advertising); Details regarding the above advertising plans are set out in the section headed “Business — Marketing and Promotion” of this prospectus; and
- approximately HK\$132.2 million (equivalent to approximately RMB116.5 million) (approximately 13.2% of the net proceeds from the Global Offering) is expected to be used primarily for acquiring another leisure apparel brand to offer a wider range of product offerings and to distinguish and divide our target markets with a number of unique brands that cater and attract different customer groups. As advised by our Directors, the negotiation between the potential seller of the leisure apparel brand in the PRC and us has undergone for about one year. Both the potential seller and us were having a preliminary intention but there are no concrete terms or agreements at this stage.

The net proceeds that we estimate we would receive from subscriptions for additional Shares in the event the Over-allotment Option is exercised in full is approximately HK\$981 million and HK\$1,598 million (assuming the lowest and highest points of the estimated Offer Price range, respectively). In the event the Over allotment Option is exercised in full, we presently intend to apply the additional proceeds to the above uses in the proportions stated above.

If the Offer Price is fixed above or below HK\$2.43 per Share, being the mid-point of the estimated Offer Price range of HK\$2.08 to HK\$2.78 per Share, we intend to adjust the allocation of the net proceeds to the above uses in the proportions stated above.

To the extent that the net proceeds are not sufficient to fund the uses set forth above, we intend to fund the balance through a variety of means including cash generated from our operations and bank financing. We currently believe that the net proceeds from the Global Offering, when combined with such alternate sources of financing, are sufficient for the uses set forth above. To the extent that the net proceeds of the Global Offering are not immediately applied for the above purposes, we will deposit the net proceeds into interest-bearing demand deposits with financial institutions.

RISK FACTORS

Risks relating to our Company and business

- We operate in a highly competitive industry and we may lose market share if we do not compete successfully
- Our success depends on our ability and respond to the fast changing fashion trends and customer demands for fabric products
- Our operating results may be adversely affected by increases in the prices of raw materials that we use in our production processes
- Reliance on third-party franchise distributors and franchises may materially and adversely affect our future success

SUMMARY

- Our MXN brand has a limited history in the branded leisure industry
- We have no long-term sale contracts with our customers, which exposes us to potential volatility in our turnover
- Our ability to obtain an accurate record of the sales and inventory levels at our franchise distributor and franchise stores may be limited
- We rely heavily on the core experienced management team in the conduct of our business
- We depend on the key suppliers for raw materials, any failure in obtaining such materials from existing suppliers or alternative sources may affect our business
- Our future expansion plans are subject to risks and uncertainties, and may be difficult or expensive to manage
- Our strategy of acquiring complementary businesses and assets may not be successful
- Restrictions on foreign exchange and payments of dividends may limit our operating subsidiaries' ability to remit payments to our Company
- Changes in government regulations such as environmental laws and regulations could affect our results of operations
- Non-compliance with PRC employee social welfare contribution regulations could lead to the imposition of fines or penalties
- Our insurance coverage may not be sufficient to cover the risks related to our operations and losses
- Maintaining our reputation is a key to the success of our business and operating results
- Any future outbreak of a contagious diseases, including but not limited to swine influenza, may have a negative impact on our business and operating results

Risks relating to the PRC

- Increase in labour costs in the PRC could materially and adversely affect our profitability
- New labour laws in the PRC may materially and adversely affect our results of operation
- Any change in our tax treatment, including an unfavourable change in preferential enterprise income tax rates in the PRC, may have a material adverse impact on our financial condition and results of operations
- Changes in political and economic policies may have a negative impact on our operations
- Gains generated from the sales of our shares and dividends on our shares may be subject to PRC income tax

SUMMARY

Risks relating to the Global Offering

- There has been no prior public market for our Shares and an active trading market may not develop
- The trading volume and share price of our Shares may fluctuate
- Future sales of substantial amounts of our Shares in the public market could adversely affect the prevailing market price of our Shares
- Issue of new Shares under the Share Option Scheme or issuance of additional Shares will have a dilution effect and may affect the Group's profitability
- You may face difficulties in protecting your interests because we are incorporated under Cayman Islands law and Cayman Islands law may provide different protection to minority shareholders than the laws of Hong Kong and other jurisdictions
- Certain facts and statistics contained in this prospectus may not be reliable

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in the section headed “Glossary of Technical Terms.”

“Accountants’ Report”	the accountants’ report of Hontex International Holdings Company Limited dated 14 December 2009 addressed to the Directors and the Sole Sponsor
“Affiliate”	any other person or entity, directly or indirectly, controlling or controlled by or under direct or indirect common control with a specified person or entity
“Application Form(s)”	white, yellow and green application form(s), or where the context so requires, any of them
“Articles of Association” or “Articles”	the articles of association of our Company, adopted on 27 November 2009 and as amended from time to time
“associates”	has the meaning ascribed to it under the Listing Rules
“Board of Directors” or “Board”	the board of Directors
“Business Day”	any day (other than Saturday and Sunday) in Hong Kong on which banks in Hong Kong are open generally for normal banking business
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of 1,559,990,000 Shares to be made upon capitalisation of an amount of HK\$155,999,000 standing to the credit of the share premium account of the Company as referred to under the paragraph “Resolutions in writing of all the shareholders of the Company passed on 27 November 2009” in Appendix VII to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation

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“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Companies Act”	the BVI Business Companies Act, 2004 of the Laws of the BVI
“Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised)
“Companies Ordinance”	the Companies Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	Hontex International Holdings Company Limited, an exempted company incorporated in the Cayman Islands with limited liability on 14 July 2009 under the Companies Law
“connected person”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and, in the context of the Company means More Will, Joyous King, Sunny Beauty, Speedy Grand, Forever Art, Head Pearl, Shao Ten-Po, Hsu Chieh-Jung, Tseng Chung-Cheng, Liao Chin-Yi, Hu Chin-Shu who are acting in concert with one another. Details of the concert party arrangements are set out in the section headed “Corporate Reorganisation and Group Structure — Concert Party Arrangement in Connection with Fuqing Hong Liong, Fuzhou Aike and Shishi Maigen, and Voting Arrangement in Relation to Fuqing Ecotex” of this prospectus
“Deed of Indemnity”	the deed of indemnity given by the Controlling Shareholders in favour of us to provide certain indemnities, details of which are set out in the section headed “Other Information — 2. Estate duty, tax and property indemnity” in Appendix VII to this prospectus
“Deed of Non-Competition”	the deed of non-competition entered into between, among others, the Company, the Controlling Shareholders, Lucky Dragon, ZhongShan Hong Liong and Tai Wan Hong Liong Textile, details of which are set out in the section headed “Relationship with the Controlling Shareholders — Deed of Non-Competition” of this prospectus
“Director(s)”	the director(s) of our Company as at the date of this prospectus
“Easy Era”	Easy Era Group Limited, a company incorporated under the laws of the BVI with limited liability on 6 February 2008 and wholly owned by the Company

DEFINITIONS

“Easy Venture”	Easy Venture International Limited, a company incorporated in Hong Kong and an indirect wholly owned subsidiary of the Company
“Estate Duty Ordinance”	the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong
“Everprofuse”	Everprofuse Investment Corp., a company incorporated in Samoa which holds the entire equity interest in ZhongShan Hong Liong and an investment holding company. Everprofuse is owned as to 95% by Lucky Dragon and as to 5% by an independent third party and is a connected person of our Company
“First Heritage”	First Heritage Limited, a company incorporated in Hong Kong and an indirect wholly owned subsidiary of the Company
“Forever Art”	Forever Art Holding Limited, a company incorporated under the laws of the BVI with limited liability on 28 April 2008 and wholly owned by Ms. Hu Chin-Shu, a shareholder holding approximately 1.56% interest in the Company upon completion of the Capitalisation Issue and the Global Offering
“franchise store(s)”	store(s) (i) directly sourcing from our Group and selling exclusively our MXN branded products; (ii) directly sourcing from franchise distributor(s) and selling exclusively our MXN branded products (as the case may be). Such store(s) is/are owned and operated by independent third party(ies). For detailed arrangement of franchise store(s), please refer to section headed “Sales and Distribution”
“franchise distributor(s)”	distributor(s) directly sourcing from our Group and selling exclusively our MXN branded products by wholesaling our MXN branded products to franchise store(s) owned and operated by them. Such distributor(s) is/are owned and operated by independent third party(ies). For detailed arrangement of franchise distributor(s), please refer to section headed “Sales and Distribution”
“Fuqing Ecotex”	福清洪宇運動休閒用品有限公司 (Fuqing Ecotex Hi-tech Outdoor Product Ltd.), a company established in the PRC as a wholly foreign owned enterprise on 16 July 2002, a wholly-owned subsidiary of the Company
“Fuqing Hong Liong”	福清洪良染織科技有限公司 (Fuqing Hong Liong Textile Tech Co., Ltd.), a company established in the PRC as a wholly foreign owned enterprise on 16 April 1993, a wholly-owned subsidiary of the Company

DEFINITIONS

“Fuzhou Aike”	福州艾克服飾有限公司 (Fuzhou Aike Garment Co., Ltd.), a company established in the PRC as a wholly foreign owned enterprise on 26 July 2007, a wholly-owned subsidiary of the Company
“GDP”	gross domestic product
“Global Offering”	the Public Offer and the International Placing
“Group”, “our Group,” “we” or “us”	the Company and, except where the context otherwise requires, all its subsidiaries
“Head Pearl”	Head Pearl International Limited, a company incorporated under the laws of the BVI with limited liability on 7 February 2008 and owned by Mr. Shao Ten-Po, Mr. Hsu Chieh-Jung, Mr. Tseng Chung-Cheng and Mr. Liao Chin-Yi, each holding a 53.53%, 26.43%, 8.60% and 11.44% interest, respectively, a substantial shareholder of the Company
“HK eIPO White Form”	the application for Public Offer Shares to be issued in the applicant’s own name by submitting application online through the designated website of HK eIPO White Form at www.hkeipo.hk
“HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company, as specified on the designated website of HK eIPO White Form service at www.hkeipo.hk
“HKFRSs”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Holding Companies”	First Heritage, Star Guide, Easy Venture and Prosper Advance
“Hong Kong Share Registrar”	Tricor Investor Services Limited

DEFINITIONS

“Hong Liong Textile”	香港洪良染織有限公司 (Hong Liong Textile Company Limited), a company incorporated in Hong Kong with limited liability on 6 August 1992 and owned by Mr. Shao Ten-Po, Mr. Hsu Chieh-Jung, Mr. Tseng Chung-Cheng and Mr. Liao Chin-Yi, each holding a 60%, 20%, 12% and 8% interest, respectively, a connected person of the Company
“INEDs”	the independent non-executive Directors
“International Companies Act”	the BVI International Business Companies Act (Cap. 291 of the Laws of the BVI). As of 1 January 2007, this act became amalgamated with the BVI Business Companies Act, 2004
“International Placing”	the conditional placing by the International Placing Underwriters of the International Placing Shares with professional and institutional investors and other investors expected to have a sizeable demand for the Shares, as further described in the section headed “Structure and Conditions of the Global Offering”
“International Placing Shares”	450,000,000 Shares, comprising 390,000,000 new Shares and 60,000,000 Sale Shares initially being offered by us and the Selling Shareholders for subscription and purchase, respectively, at the Offer Price under the International Placing, subject to adjustment as described in the section headed “Structure and Conditions of the Global Offering”
“International Placing Underwriters”	the several underwriters of the International Placing listed in section headed “Underwriting — International Placing and Public Offer Underwriters”
“Joyous King”	Joyous King Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 22 April 2008 and wholly owned by Mr. Hsu Chieh-Jung, which is interested in approximately 8.07% in the Company upon completion of the Capitalisation Issue and the Global Offering
“Latest Practicable Date”	8 December 2009, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date on which dealings in the Shares first commence on the Main Board of the Stock Exchange

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Lucky Dragon”	Lucky Dragon Industries Limited, a company incorporated under the laws of the BVI with limited liability on 8 February 2000 and owned by Ms. Hu Chin-Shu, Ms. Chen Li-Chuan, Ms. Huang Szu-Ching, Ms. Hsu Fu-Mei, Ms. Hsuh Hui-Chen, Mr. Tseng Chung-Cheng and Mr. Liao Chin-Yi, each holding a 16%, 16%, 16%, 16%, 16%, 10% and 10% interest, respectively prior to completion of the Reorganisation which is principally engaged in investment holding and a connected person of the Company
“Mega Capital” or “Sole Sponsor” or “Sole Bookrunner” or “Sole Lead Manager”	Mega Capital (Asia) Company Limited, a licensed corporation under the SFO to carry out regulated activities of type 1 (dealing in securities) and type 6 (advising on corporate finance) and an overseas subsidiary of Mega Securities Holdings Company Limited
“More Will”	More Will Investments Limited, a company incorporated under the laws of the BVI with limited liability on 23 January 2008 and wholly owned by Mr. Shao Ten-Po, a substantial shareholder of the Company
“Offer Price”	the final price per Share (exclusive of brokerage fee of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed pursuant to the Public Offer and the International Placing, to be determined as further described in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“Offer Shares”	the Public Offer Shares and the International Placing Shares together, where relevant, with any additional Shares issued and allotted pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option expected to be granted by us to the International Underwriters, exercisable by Mega Capital on behalf of the International Placing Underwriters under the Underwriting Agreement pursuant to which we may be required by Mega Capital to issue up to an aggregate of 75,000,000 additional Shares (representing in aggregate approximately 15% of the number of Offer Shares initially available under the Global Offering) at the Offer Price, see “Structure and Conditions of the Global Offering”
“PRC” or “China”	the People’s Republic of China, provided that except where the context requires, references in this prospectus to the PRC or China do not include Taiwan or Hong Kong and Macau

DEFINITIONS

“Price Determination Agreement”	the agreement to be entered into between the Company, the Selling Shareholders and the Sole Bookrunner (for itself and on behalf of the Underwriters)
“Price Determination Date”	the date, expected to be on or around Thursday, 17 December 2009 but no later than Tuesday, 22 December 2009 on which the Offer Price is fixed for the purposes of the Global Offering
“Prosper Advance”	Prosper Advance International Limited, a company incorporated in Hong Kong and an indirect wholly owned subsidiary of the Company
“Public Offer”	the offer of Public Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price, on and subject to the terms and conditions described in this prospectus and the Application Forms
“Public Offer Shares”	the 50,000,000 new Shares (subject to adjustment) being initially offered by us for subscription pursuant to the Public Offer
“Public Offer Underwriters”	the several underwriters of the Public Offer listed in the section headed “Underwriting — International Placing and Public Offer Underwriters”
“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of the PRC
“Reorganisation”	the corporate reorganisation of the Group in preparation for the listing of Shares on the Stock Exchange, details of which are set out in the section headed “Corporate Reorganisation”
“Sale Shares”	the 60,000,000 existing Shares held by the Selling Shareholders to be sold under the International Placing
“Securities and Futures Commission” or “SFC”	the Securities and Futures Commission of Hong Kong
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended and supplemented or otherwise modified from time to time
“Selling Shareholders”	Head Pearl and Forever Art, the sellers of the Sale Shares
“Share(s)”	ordinary share(s), with a nominal value of HK\$0.10 each, in the share capital of our Company

DEFINITIONS

“Share Option Scheme”	the share option scheme conditionally approved and adopted by our Company pursuant to the written resolutions of the members of the Company passed on 27 November 2009, the principal terms of which are summarised in the section headed “Share Option Scheme” in Appendix VII to this prospectus
“Shishi Maigen”	石獅麥根服飾有限公司 (Shishi Maigen Dress Co., Ltd.), a company established in the PRC as a wholly foreign owned enterprise on 20 June 2002, a wholly-owned subsidiary of the Company
“Shishi Maigen’s Accountants’ Report”	the accountants’ report of Shishi Maigen dated 14 December 2009 addressed to the Directors and the Sole Sponsor
“Speedy Grand”	Speedy Grand Limited, a company incorporated under the laws of the BVI with limited liability on 8 August 2008 and wholly owned by Mr. Liao Chin-Yi, a shareholder which is interested in approximately 3.50% in the Company upon completion of the Capitalisation Issue and the Global Offering
“Star Guide”	Star Guide Investments Limited, a company incorporated in Hong Kong and an indirect wholly owned subsidiary of the Company
“Stock Borrowing Agreement”	the stock borrowing agreement dated 11 December 2009 entered into between Head Pearl and Mega Capital
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to it under section 2 of the Companies Ordinance
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Sunny Beauty”	Sunny Beauty Limited, a company incorporated under the laws of the BVI with limited liability on 29 May 2009 and wholly owned by Mr. Tseng Chung-Cheng, a shareholder which is interested in approximately 2.63% in the Company upon completion of the Capitalisation Issue and the Global Offering
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Track Record Period”	the period comprising the three years ended 31 December 2008 and the six months ended 30 June 2009
“Underwriters”	the Public Offer Underwriters and the International Placing Underwriters

DEFINITIONS

“Underwriting Agreement”	the underwriting agreement dated 11 December 2009 relating to the Global Offering entered into between the Company, Mega Capital, the Selling Shareholders, the Controlling Shareholders, the executive Directors, the International Placing Underwriters and the Public Offer Underwriters
“US\$”	United States dollars, the lawful currency of the United States
“ZhongShan Hong Liong”	中山洪良化纖有限公司 (ZhongShan Hong Liong Chemical Fiber Company Limited), a company established in the PRC and wholly owned by Everprofuse Investment Corp. which is in turn owned as to 95% by Lucky Dragon and as to 5% by an independent third party, ZhongShan Hong Liong is a connected person of our Company

In this prospectus, unless otherwise stated, certain amounts denominated in Renminbi have been translated into Hong Kong dollars and vice versa at an exchange rate of RMB0.8814 = HK\$1.00, in each case, for illustration purpose only. Such conversions shall not be construed as representations that amounts in Renminbi were or may have been converted into those currencies and vice versa at such rates or any other exchange rates.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains terms used in this prospectus in connection with the Company. The meanings given to these terms may differ from meanings given to them by others in the industry.

“double-knit”	Fabric produced on a circular-knitting machine equipped with two sets of latch needles situated at right angles to each other (dial and cylinder)
“functional fabrics”	Fabrics that incorporate value-added features such as moisture management, anti-microbial and anti-odour
“greige fabric”	An unprocessed form of fabric just off the loom or knitting machine
“ISO”	International Organisation for Standardisation, a worldwide federation of national standards bodies from all over the world
“ISO 14001”	The international standards of environmental management formulated by ISO Technical Committee 207 (ISO/TC 207)
“ISO 9001”	The international standards of quality management and quality assurance formulated by ISO Technical Committee 176 (ISO/TC 176) in 1987. The most recent upgraded version, ISO 9001:2000, was released in December 2000
“jersey”	A plain light-weight single-knit fabric
“polar-fleece”	Plain knitted fabric with both sides brushed and single side anti-pilling
“stretch fabrics”	Fabrics knitted with elastomers (spandex) to provide stretch properties
“striped”	Fabric of horizontal strip-pattern made by a series of colored yarns
“velour”	Plain knitted terry fabric with a sheared surface on one side and a smooth surface on the reverse
“warp”	A sheet of yarns wound together on a beam for the purpose of weaving or warp knitting
“warp knit”	A knitting method that differs from weft knitting in that each needle loops its own thread. The needles produce parallel rows of loops simultaneously that are interlocked in a zigzag pattern.
“weft”	Yarn that runs crosswise during the knitting process

GLOSSARY OF TECHNICAL TERMS

“weft knit”

Weft knitting uses one continuous yarn to form rows of loops across a fabric

“yarn”

A long, continuous length of interlocked fibres used to construct a fabric. As used in this prospectus, yarn includes cotton yarn and synthetic yarn

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties, including, but not limited to, the risk factors described in this prospectus. These forward-looking statements include, but are not limited to, statements relating to:

- our operations and business prospects;
- future developments, trends and competition in the global textile and fabric industry;
- products under development or planning;
- our strategy, business plans, objectives and goals;
- our capital expenditure plans;
- our dividend distribution plans;
- our future financial condition and operations;
- the amount and nature of, and potential for, future development of our business;
- general economic conditions in the the PRC; and
- changes in the regulatory environment and operating conditions in the markets in which we operate.

In some cases we use words such as “believe,” “seek,” “intend,” “anticipate,” “project,” “plan,” “potential,” “will,” “may,” “should,” “going forward,” “expect” and other similar expressions to identify forward-looking statements. All statements other than statements of historical facts included in this prospectus, including statements regarding our future financial position, strategy, projected costs and plans and objectives of management for future operations, are forward-looking statements. Although we believe that the expectations reflected in those forward-looking statements are reasonable, we can give no assurance that those expectations will prove to have been correct, and you are cautioned not to place undue reliance on such statements.

Furthermore, these forward-looking statements merely reflect our current view with respect to future events and are not a guarantee of future performance. Our financial condition may differ materially from the information contained or implied in the forward-looking statements as a result of a number of factors, including, but not limited to, factors disclosed under “Risk Factors” and elsewhere in this prospectus and the following:

- demand for new products;
- changes in the general operating environment of the PRC textile and fabric manufacturing industry;
- general economic, market and business conditions in the PRC and globally;
- the effects of competition on the demand for and the prices of our products;

FORWARD-LOOKING STATEMENTS

- the development of new products or technologies affecting our current and future business;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices; and
- other factors beyond our control.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation and do not intend to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Because of these risks, uncertainties or assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking statements. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

RISKS RELATING TO OUR COMPANY AND BUSINESS

We operate in a highly competitive industry and we may lose market share if we do not compete successfully

The fabric manufacturing business is highly competitive. We compete with domestic and foreign large and numerous small textile manufacturers. For weft knitted fabrics, we face direct competition from major players in the industry. In addition, we face competition in the warp knit sector even though competition is more fragmented. The principal competitive factors that influence our customers' purchasing decision include product quality and price. The importance of these factors is determined by the specific demand of particular customers and the characteristics of particular products. In addition, we are exposed to the risk that companies may enter our market in the future. There may also be significant consolidation in the textile industry. In order to gain market share, our competitors may mark down the price of their products aggressively, resulting in more intense competition. Increased competition may result in price reduction, reduced margins and loss of market share, any of which could materially and adversely affect our results of operations. Also, we may not compete effectively against current and future competitors.

Our success depends on our ability and respond to the fast changing fashion trends and customer demands for fabric products

The supply and demand for particular fabric products change from season to season and from year to year, depending on the fashion trends as well as other factors. Our success depends upon our ability to catch the fashion trends that dictate customer demands and consumer preferences. In addition, the purchasing power of customer and their demands may also be affected by increases in supply from our competitors in the industry or deteriorating economic conditions. Hence, if we fail to respond rapidly and effectively to the fast changing fashion trend and customers' demand, our operating results may be materially and adversely affected due to fluctuation in purchase order and inventory level.

Our operating results may be adversely affected by increases in the prices of raw materials that we use in our production processes

Raw material costs for raw yarn and the other raw materials required in the fabric manufacture process can be volatile. The price of raw yarns depends on market and economic conditions and consequently, the cost of yarn could have a material adverse effect on the results of our operations and financial condition.

Reliance on third-party franchise distributors and franchisers may materially and adversely affect our future success

We generate our revenues from our branded leisure clothing segment by wholesaling our MXN products to our franchise distributors or franchise stores. We sell our MXN products directly to our franchise stores or to our franchise distributors including franchise stores managed by them under franchise distributorship agreements which have a term of three years. As we do not have guarantee that our franchise distributors or franchise stores will renew the contract with us when expired, it is possible that their agreements with us will not be renewed on favourable terms or at all. If any of our franchise distributors or franchise stores terminates or does not renew its franchise distributorship agreement with us, we may not be able to replace such franchise distributors or franchise stores with a new and effective

RISK FACTORS

franchise distributor or franchise store in a timely manner or on terms acceptable to us, or at all. Our franchise distributors or franchise stores are not required to meet minimum purchase targets. If our franchise distributors or franchise stores do not place orders at historical levels or at all or, if any major franchise distributor or franchise stores substantially reduces its volume of purchases from us or ceases its business relationship with us, our business, financial condition, results of operations and prospects could materially suffer.

Our MXN brand has a limited history in the branded leisure industry

Our MXN brand, which was established in June 2002 and acquired by us in May 2008, has a limited history, and we have a limited operating history in the branded leisure clothing industry. Our franchise distributorship business model is new and has a short track record. As such, it is difficult to identify the difficulties that our Group may encounter in the different stages of developing and implementing this business model, and we cannot assure you that the growth in wholesales business will be sustainable or achieved at all in the future. You should consider our business and prospects in light of the risks and difficulties we face with a limited operating history in the branded leisure clothing industry and a franchise distributorship business model, and should not rely on our past results as an indication of our future performance. If we are unable to successfully address these risks, difficulties and challenges, our business, financial condition, results of operations and prospects could be materially and adversely affected.

We have no long-term sale contracts with our customers, which exposes us to potential volatility in our turnover

We only enter into short-term purchase orders with our customers of the fabric manufacturing segment and the casual and sportswear OEM segment. For the branded leisure clothing segment — Aike Sport, the average tenure of sales contracts between our customers and us is one year. For the branded leisure clothing segment — Shishi Maigen, the franchise agreements have a term of three years which will lapse at the end of the period. Our customers may cancel, reduce or defer purchase orders at will. Accordingly, the volume of our customers' purchase orders and our product mix may vary significantly from period to period, and it is difficult for us to forecast future order quantities. No assurance can be given that any of our customers will continue to place purchase orders with us in the future at the same level as in the current or prior periods, or at all and such reduction or termination of purchase order may be effected with short notice and we may not be able to locate alternative customers to replace the shorten purchase order. Furthermore, the actual volume of our customers' purchase orders may prove to be inconsistent with our expectations at the time we plan our expenditures. As a result, our results of operations may vary from period to period and may fluctuate significantly in the future.

Our ability to obtain an accurate record of the sales and inventory levels at our franchise distributors and franchise stores may be limited

Our ability to obtain an accurate record of the sales by our franchise distributors to franchise stores directly controlled by them and the final retail sales by those franchise stores and the other franchise stores which acquire MXN products directly from our Group, and consequently their respective inventory levels, may be limited. At present, we do not have an effective, integrated enterprise resource planning system. We review the monthly sales reports of our MXN products to the franchise distributors and franchise stores and also the reports on local market conditions. Presently, we also conduct random on-site inspections on our franchise distributors and franchise stores. By tracking the sales of our MXN

RISK FACTORS

products to the franchise distributors and franchise stores, we may collect information and data on the market acceptance of our products so that consumers' preferences can be reflected in the design and development of our future products. It also provides other useful information, such as market recognition of our MXN products in specific areas, so that we may adjust our marketing strategy if needed. However, we cannot guarantee the accuracy of the sales and inventory levels at our franchise distributors and franchise stores, which are indicated and derived from our analysis of the monthly sales reports of our MXN products to them. For this reason, we may not be able to obtain an accurate record of the final retail sales and inventory levels at our franchise distributors and franchise stores, or to identify or to avoid the accumulation of excess inventory at these franchise distributors and/or franchise stores. If our franchise distributors or franchise stores cannot manage their inventory levels, their future orders of our MXN products may be reduced, which would significantly and adversely affect our future business, financial conditions, results of operations and prospects.

We rely heavily on the core experienced management team in the conduct of our business

Our success depends significantly on the core experienced management team with over 15 to 20 years of experience, in particular our Chairman, Vice Chairman and Chief Executive Officers. Our future success is dependent on the continued involvement, efforts and performance and abilities of this core management team. If the core management team cease to be involved in the Group's management it may result in the loss of strategic direction and operational management and the inability to identify potential strategic initiatives which could adversely affect our profitability and financial results.

We depend on the key suppliers for raw materials, any failure in obtaining such materials from existing suppliers or alternative sources may affect our business

The principal raw materials used in the production of our apparel products are fabrics. Substantially all of our raw materials are sourced from PRC suppliers. Approximately 51.5%, 43.9% and 39.3% of our raw material were sourced from our top five suppliers for the years ended 31 December 2006, 2007 and 2008, respectively. We do not enter into long-term agreements with our raw material suppliers. For each order, we enter into separate purchase contracts which set out the terms regarding the price, purchase quantity, delivery terms, confidential obligations and settlement terms among others. We can give no assurance that our suppliers will continue to supply us the raw materials we need to produce our products at favourable or similar prices, or at all.

In addition, market prices for our raw materials are subject to fluctuation and may be dependent on the prices of commodities. Our results of operations may be adversely affected by increases in the market prices of raw materials, particularly if we are unable to pass on the increased cost of raw materials to our customers by selling our products at higher prices.

Our future expansion plans are subject to risks and uncertainties, and may be difficult or expensive to manage

We have expanded and intend to continue to expand our production capacity to capture market opportunities. Our ability to increase turnover, net income and cash flow depends upon continued expansion. In the event such expansion and construction does not occur or is not timely completed, our future expansion plans, profitability and growth may be materially and adversely affected. Any failure to successfully manage our expansion may make it difficult to effectively compete, develop new products or take advantage of new markets.

RISK FACTORS

Our strategy of acquiring complementary businesses and assets may not be successful

As part of our business strategy, we have pursued, and intend to continue to pursue, selective strategic acquisitions of businesses and assets that complement our existing business. We may make other acquisitions in the future if attractive opportunities arise. Acquisitions involve uncertainties and risks, including:

- potential ongoing financial obligations and unforeseen or hidden liabilities;
- failure to achieve the intended objectives, benefits or revenue-enhancing opportunities;
- costs and difficulties of integrating acquired businesses and managing a larger business; and
- diversion of resources and management attention.

Restrictions on foreign exchange and payments of dividends may limit our operating subsidiaries' ability to remit payments to our Company

At present, the RMB is not freely convertible to other foreign currencies, and the conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. Under current PRC laws and regulations, payments of current account items including profit distributions, interest payments and operation-related expenditures may be made in foreign currencies without prior approval from SAFE, but are subject to procedural requirements including presenting relevant documentary evidence of such transactions and conducting such transactions at designated foreign exchange banks within China that are licensed to engage in foreign exchange business. Strict foreign exchange control continues to apply to capital account transactions. These transactions must be approved by or registered with SAFE, and repayment of loan principal, distribution of return on direct capital investment and investment in negotiable instruments are also subject to restrictions. Under our current structure, our Company's source of funds will primarily consist of dividend payments by its subsidiaries in the PRC denominated in RMB. We cannot give any assurance that we will be able to meet all of our foreign currency obligations or to remit profit out of China. If our subsidiaries are unable to obtain SAFE approval or if future changes in relevant regulations were to place restrictions on the ability of the subsidiaries to remit dividend payments to our Company, our Company's liquidity and ability to satisfy its third party payment obligations and its ability to distribute dividends in respect of the Shares could be materially and adversely affected.

Changes in government regulations such as environmental laws and regulation could affect our results of operations

Our operations generate pollutants and waste in various stages of the manufacturing process, including the fabric dyeing process. Our operations are subject to periodic inspections by the relevant PRC environmental protection authority. The discharge, storage and disposal of such pollutants and waste are subject to environmental laws and regulations in the PRC, including laws and regulations requiring clean-up of contamination and reclamation. Historically, environmental legislation in the PRC has, in many cases, been less stringently enforced. However, more stringent standards may be introduced, stricter interpretations of existing laws may occur or enforcement may become more stringent in the PRC. Changes in the regulatory framework may result in an increase in our actual operating costs and liabilities for which we have not provided.

RISK FACTORS

Non-compliance with PRC employee social welfare contribution regulations could lead to the imposition of fines or penalties

In accordance with relevant PRC national labour laws and regulations, we are required to contribute to a number of employee social welfare schemes in respect of our employees. Such schemes include pension insurance, medical insurance, unemployment insurance, birth insurance, job-related injury insurance and housing provident fund contributions. Existing PRC national laws and regulations are more stringent than the requirements of local governments with respect to pension insurance, medical insurance, unemployment insurance and birth insurance. We did not fully comply with the national social insurance requirements with respect to pension insurance, medical insurance, unemployment insurance, birth insurance, job-related injury insurance and housing provident fund contributions for our migrant workers. The total amount of underpayment by our Group to the social welfare authorities and the housing fund authorities is approximately RMB45.3 million and RMB11.3 million, respectively. We have contacted the relevant social welfare authority of the Group, namely 福建省社會勞動保險局 (Fujian Province Social Labour Insurance Authority) and the housing fund authorities for Fuqing Hong Liong, Fuqing Ecotex and Fuzhou Aike, which is namely 福州住房公積金管理中心福清管理部 (Fuzhou Housing Provident Fund Management Center Fuqing Management Department), while for Shishi Maigen, which is namely 泉州住房公積金管理中心石獅管理部 (Quanzhou Housing Provident Fund Management Center Shishi Management Department), to pay all delinquent payments for social welfare insurance and housing funds for our migrant workers, and all penalties or fines that may arise from such delinquent payments. The relevant social welfare authorities and housing fund authorities have confirmed that they will not accept unilateral contributions from us, and no penalty or fine will be imposed on us on account of such historical delinquent payments. Although we have not received any orders to rectify the non-compliance, we can give no assurance that we will not be subject to such an order in the future.

Our insurance coverage may not be sufficient to cover the risks related to our operations and losses

Our operations are subject to hazards and risks associated with our manufacturing operations, which may cause significant harm to persons or damage to property. We can give no assurance that our operations will be free of accidents or that our insurance policies will be adequate to cover all losses incurred. Losses incurred and associated liabilities may have a material adverse effect on our results of operations if such losses or liabilities are not covered by our insurance policies.

Maintaining our reputation is a key to the success of our business and operating results

We believe that our reputation for product quality, product innovation and customer service has contributed significantly to the success of our business. Defects in our products, failure to meet delivery schedules or other factors could damage our reputation and business relationships and consequently, lead to lower turnover and higher costs. As our market becomes increasingly competitive, maintaining our reputation and enhancing our competitive position may be increasingly difficult.

RISK FACTORS

Any future outbreak of contagious diseases, including but not limited to swine influenza, may have a negative impact on our business and operating results

Several countries in Asia have reported cases of swine influenza. Any outbreak of epidemic diseases, such as swine flu or any other contagious disease, could have a material adverse effect on our financial condition and results of operations. An outbreak of a contagious disease could adversely affect customer consumption patterns and demand for our products, our ability to adequately staff our operations and the distribution networks for our products, as well as the general level of economic activity in Asia and elsewhere.

RISKS RELATING TO THE PRC

Increases in labour costs in the PRC could materially and adversely affect our profitability

The fabrics manufacturing industry is labour intensive. Labour costs in the PRC have been increasing recently. If labour costs in the PRC continue to increase, our production and administrative costs, including both our internal production costs and our outsourcing costs, will also increase. If we are unable to identify and employ other appropriate means to reduce our costs of production or to pass on the increased labour and other costs of production to our customers by selling our products at higher prices, our business, financial condition, results of operations and prospects could be materially and adversely affected.

New labour laws in the PRC may materially and adversely affect our results of operations

As at 30 September 2009, we had 1,917 employees in the PRC. On 29 June 2007, the PRC Government promulgated a new labour law, namely the Labour Contract Law of the PRC (中國人民共和國勞動合同法) (the “**New Labour Law**”), which became effective on 1 January 2008. The New Labour Law imposes greater liabilities on employers and significantly impacts the cost of an employer’s decision to reduce its workforce. Further, it requires certain terminations to be based upon seniority and not merit. If we decide to significantly change or decrease our workforce in the PRC, the New Labour Law could materially and adversely affect our ability to enact such changes in a manner that is most advantageous to our circumstances or in a timely and cost effective manner, thus our results of operations could be materially and adversely affected. We also could incur additional material compliance costs in connection with the New Labour Law.

Any change in our tax treatment, including an unfavourable change in preferential enterprise income tax rates in the PRC, may have a material adverse impact on our financial condition and results of operations

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 26 December

RISK FACTORS

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 Fuqing Rongqiao economic development zone, was granted a preferential tax rate of 15% under the Notice of the State Council [1992] No. 164, 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.

RISK FACTORS

Changes in political and economic policies may have a negative impact on our operations

The majority of our assets are located in the PRC. A substantial majority of our turnover is generated from products manufactured in our facilities in the PRC. Our results of operations and prospects are affected, to a significant degree, by economic, political and legal developments in the PRC. The economy of the PRC differs from the economies of most developed countries in many respects, including the extent of government involvement in the allocation of resources, capital investment, level of development, growth rate and control of foreign exchange.

Historically, the PRC economy has been centrally planned, through a series of economic plans promulgated and implemented by the PRC government. Since 1978, the PRC government has been promoting economic and political reforms. These reforms have brought about rapid economic growth and social progress in the PRC and the economy of the PRC has shifted gradually from a planned economy towards a market-oriented economy. Although we have benefited from some of the economic reforms implemented by the PRC government, government control of the economy nevertheless may have a negative effect on us. It is difficult to predict how future policies will affect the fabric industry. The PRC government's continued control over exports of goods could materially and adversely affect our business.

Moreover, we cannot assure you that the PRC government will continue to pursue economic reforms. A variety of policies and other measures that could be taken by the PRC government to regulate the economy could have a negative impact on our business, including the introduction of measures to control inflation or reduce growth, changes in the rate or method of taxation or the imposition of additional restrictions on currency conversions and remittances abroad. Our business, financial condition and results of operations may be adversely affected by the PRC government's political, economic and social policies and regulations.

Gains generated from the sales of our shares and dividends on our Shares may be subject to PRC income taxes

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.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares and an active trading market may not develop

Prior to the Global Offering, there has been no public market for our Shares. The Offer Price for the Shares will be determined by the Sole Lead Manager (on behalf of the Underwriters) and us. The Offer Price may not be indicative of the price at which the Shares will trade following the completion of

RISK FACTORS

the Global Offering. Although the Sole Lead Manager has indicated that it intends to make a market in the Shares, it is not obligated to do so, and any such market making will be subject to the limits imposed by applicable law, and may be interrupted or discontinued at any time without notice.

Accordingly, we cannot predict whether an active trading market for the Shares will develop or be sustained. Consequently, investors may be required to hold their Shares for an indefinite period of time or sell them for an amount less than the price paid.

The trading volume and share price of our Shares may fluctuate

The price and trading volume of our Shares may be highly volatile. Factors such as variations in our turnover, earnings and cash flow, announcements of new technologies, strategic alliances or acquisitions, industrial or environmental accidents suffered by us, loss of key personnel, changes in ratings by financial analysts and credit rating agencies, litigation or fluctuations in the market prices for our products or raw materials could cause large and sudden changes in the volume and price at which our Shares will trade. In addition, the Stock Exchange and other securities markets have, from time to time, experienced significant price and volume fluctuations that are not related to the operating performance of any particular company. These fluctuations may also materially and adversely affect the market price of the Shares.

Future sales of substantial amounts of our Shares in the public market could adversely affect the prevailing market price of our Shares

Except for the Shares issued in the Global Offering, we have agreed with the Sole Lead Manager not to issue any of our Shares or securities convertible into, or exchangeable for, our Shares during the period beginning from the date of this prospectus and continuing through the date which is six months from the date on which dealings in the Shares commence on the Stock Exchange, except with the prior written consent of the Sole Lead Manager. The Sole Lead Manager may, in its discretion, waive or terminate these restrictions. Please refer to the section headed “Underwriting — Underwriting Arrangements and Expenses — Undertakings” in this prospectus for a more detailed discussion of restrictions that may apply to future sales of our Shares by us.

After these restrictions lapse, the market price of our Shares could decline as a result of future sales of substantial amounts of our Shares or other securities relating to our Shares in the public market, the issuance of our new Shares or other securities relating to our Shares, or the perception that such sales or issuances may occur. This could also materially and adversely affect our ability to raise capital in the future at a time and at a price we deem appropriate.

Issue of new Shares under the Share Option Scheme or issuance of additional Shares will have a dilution effect and may affect the Group’s profitability

We may need to raise additional funds in the future to finance expansions of our operations or new acquisitions. If additional funds are raised through issuance of new Shares or other securities that may be converted into the Shares other than on a pro rata basis to our existing shareholders, the percentage ownership of the existing shareholders may be reduced and shareholders may experience subsequent dilutions. In addition, any such new securities may have preferred rights, options or pre-emptive rights that make them more valuable than or senior to the Shares.

RISK FACTORS

You may face difficulties in protecting your interests because we are incorporated under Cayman Islands law and Cayman Islands law may provide different protection to minority shareholders than the laws of Hong Kong and other jurisdictions

Our corporate affairs are governed by our memorandum and articles of association and by the Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes or judicial precedents in existence in Hong Kong and other jurisdictions. Such differences may mean that our minority shareholders may have different protection than they would have under the laws of Hong Kong or other jurisdictions.

Certain facts and statistics contained in this prospectus may not be reliable

Certain facts and statistics from official sources contained in this prospectus are derived from various publicly available government or official publications and generally believed to be reliable. However, we cannot guarantee the quality and reliability of these publications. We believe that the sources of this information are appropriate sources for such information. Our Directors and the Sole Sponsor have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The facts, statistics or information have not been independently verified by us, the Sole Sponsor, the Underwriters, their respective directors and advisers or any other parties involved in the Global Offering. No representation is given as to its accuracy or any other facts and statistics derived from government or official publications, which may not be consistent with other information and may not be complete or up-to-date. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics derived from government or official publications may be inaccurate or may not be comparable from period to period or to statistics produced for other economies and should not be unduly relied upon.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules provides that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong, which normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. The core business and operations of our Company are primarily located, managed and conducted in Fujian province, the PRC. Substantially, all of our Group's assets are based in the PRC. All of our executive directors are ordinarily based in the PRC and our Company does not and, in the foreseeable future, will not have any management presence in Hong Kong.

In view of that, we have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from the compliance with Rule 8.12 of the Listing Rules.

In order to ensure that regular communication is effectively maintained between the Stock Exchange and the Company, we will put in place the following measures:

- (a) we have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our Company's principal channel of communication with the Stock Exchange and ensure that our Group comply with the Listing Rules at all times. The two authorised representatives are Ms. Hu Chin-Shu, our executive Director, and the company secretary of the Company. The company secretary is ordinarily resident in Hong Kong. Each of the authorised representatives will be available to meet with the Stock Exchange within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and email (if applicable). Each of the two authorised representatives is authorised to communicate on behalf of the Company with the Stock Exchange. Our Company has registered as a non-Hong Kong company under Part XI of the Companies Ordinance where the company secretary will also be authorised to accept service of legal process and notices in Hong Kong on behalf of our Company.
- (b) Each of the authorised representatives has means to contact all members of the Board and of the senior management team promptly at all times as and when the Stock Exchange wishes to contact the Directors for any matters. To enhance the communication between the Stock Exchange, the authorised representatives and the Directors, we will implement a policy that (a) each Director will have to provide their respective office phone numbers, mobile phone numbers, residential phone numbers, fax numbers and email addresses (if applicable) to the authorised representatives and his or her respective alternates; and (b) in the event that a Director expects to travel and be out of office, he/she will have to provide the phone number of the place of his/her accommodation to the authorised representatives.
- (c) In addition, all Directors will provide their mobile phone numbers, residential phone numbers, office numbers, fax numbers and email address to the Stock Exchange to ensure that they will be readily contactable when necessary to deal promptly with enquiries from the Stock Exchange.
- (d) Furthermore, all Directors have confirmed that they possess valid travel documents to visit Hong Kong for business purposes and would be able to come to Hong Kong and meet the Stock Exchange upon reasonable notice.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In compliance with Rule 3A.19 of the Listing Rules, we will appoint a compliance adviser to act as the alternate channels of communication with the Stock Exchange for the period commencing on the date of the initial listing of the shares of our Company on the Main Board of the Stock Exchange and ending on the date on which the Company complies with Rule 13.46 in respect of its financial results for the first full financial year commencing after the date of its initial listing.

CONNECTED TRANSACTIONS

Members of our Group have entered and are expected to enter into certain transactions, which would constitute continuing connected transactions for our Company under the Listing Rules after the Listing. We have applied to the Stock Exchange for a waiver from strict compliance with the announcement requirement and/or independent shareholders' approval set out in Chapter 14A of the Listing Rules for such continuing connected transactions. For further details of such waiver, see the section headed "Connected Transactions" of this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus contains particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571 V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to the Group. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiry, that to the best of their knowledge, information and belief, there are no other facts the omission of which would make any statement in this prospectus misleading.

The Public Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Sole Sponsor, the Underwriters, any of their respective directors, officers, employees, agents, representatives or any other persons involved in the Global Offering.

FULLY UNDERWRITTEN

This prospectus is published in connection with the Global Offering and together with the Application Forms set out the terms and conditions of the Global Offering, for which Mega Capital is the sole sponsor and sole lead manager. Details of the structure of the Global Offering are set out in the section headed "Structure and conditions of the Global Offering" of this prospectus. The Global Offering comprises the Public Offer and the International Placing. The International Placing is fully underwritten by the International Placing Underwriters and the Public Offer is fully underwritten by the Public Offer Underwriters. Information relating to the underwriting arrangements is set out in the section headed "Underwriting" of this prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which is expected to be agreed and determined between our Company, the Selling Shareholders and the Sole Bookrunner, for itself and on behalf of the Underwriters, on or before Thursday, 17 December 2009, or such later date as may be agreed by the Sole Bookrunner, for itself and on behalf of the Underwriters, the Selling Shareholders and our Company, but in any event not later than Tuesday, 22 December 2009. If the Sole Bookrunner, for itself and on behalf of the Underwriters, the Selling Shareholders and the Company are unable to reach an agreement on the Offer Price by Tuesday, 22 December 2009, the Global Offering will not become unconditional and will lapse immediately.

RESTRICTIONS ON OFFER OF THE OFFER SHARES

No action has been taken in any jurisdiction other than Hong Kong to permit any public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering of the Offer Shares in certain jurisdictions is restricted by law. Accordingly, and without limitation to the following, this prospectus may not be used for or in connection with, and does not constitute, an offer to, or solicitation by, anyone in any jurisdiction in which it is unlawful to make such an unauthorised offer or solicitation.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Each person acquiring or subscribing for any Offer Shares will be required, or be deemed by his/her/its acquisition of the Offer Shares, to confirm that he/she/it is aware of the restrictions on offer of the Offer Shares as described in this prospectus and that he/she/it is not acquiring, and has not been offered, any such Offer Shares in circumstances that contravene any such restrictions. They should inform themselves and observe any applicable legal or regulatory requirements.

Persons who possess this prospectus are required by our Company, the Sole Sponsor and the Underwriters to observe such restrictions.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, Shares to be issued and/or offered pursuant to the Global Offering (including any Shares to be allotted and issued pursuant to the exercise of the Over-allotment Option) and any Shares to be allotted and issued upon the exercise of any options which have been or may be granted under the Share Option Scheme.

No part of the share or loan capital of our Company is listed or dealt in on any other stock exchange and, at present, no such listing or permission to deal in the share or loan capital of the Company is being or is proposed to be sought on any other stock exchange.

HONG KONG BRANCH REGISTER AND STAMP DUTY

All Shares issued and to be issued as mentioned in this prospectus (including any Shares to be issued upon the exercise of the Over-allotment Option) will be registered on our Company's branch register of members to be maintained by the Hong Kong Share Registrar in Hong Kong. Our Company's principal register of members will be maintained in the Cayman Islands. Only Shares registered on our Company's branch register of members maintained in Hong Kong may be traded on the Stock Exchange. Dealings in the Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Offer Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or, under contingent situation, any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

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

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Thursday, 24 December 2009. Shares will be traded in board lots of 1,000 each.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for, purchasing, holding or disposing of, dealings in, or exercising any rights in relation to the Offer Shares, you should consult an expert. None of our Company, our Directors, the Sole Sponsor, the Underwriters and any of their respective directors, agents or advisers or any other person involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from, the subscribing for, purchasing, holding or disposing of, dealings in, or exercising any rights in relation to the Offer Shares.

PROCEDURE FOR APPLICATION FOR THE PUBLIC OFFER SHARES

The procedure for applying for the Public Offer Shares is set out under the section headed “How to apply for the Public Offer Shares” of this prospectus and on the relevant application forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its structure and conditions, and the Over-allotment Option, are set out in the section headed “Structure and conditions of the Global Offering” of this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Executive Directors

Name	Address	Nationality
Shao Ten-Po	No. 18, Lane 619 Zhonghua Road 17 Neighbourhood Ankang Vil. Yongkang City Tainan County 710 Taiwan the Republic of China	Taiwanese
Tseng Chung-Cheng	No. 399, 7 Neighborhood Guo Lu Zi (過路子) Siguo Village (西過村) Yijhu Village Chiayi County Taiwan	Taiwanese
Liao Chin-Yi	No. 112, Fu An Road (府安路) Section 7, 16 Neighborhood Hai Nan Lane (海南里) An Nan District (安南區) Tainan City Taiwan	Taiwanese
Hu Chin-Shu	5, 11th Floor, No. 125 Sin Sing Street (新行街) 46 Neighborhood Yan Sing Lane (鹽行里) Yongkang City Tainan County Taiwan	Taiwanese
Liao Min-Chiang	No. 112, Fu An Road (府安路) Section 7, 16 Neighborhood Hai Nan Lane (海南里) An Nan District (安南區) Tainan City Tainan County Taiwan	Taiwanese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Non-executive Director

Name	Address	Nationality
Wang Shih-Ting	No. 1, 11 Long, 6 Lane (6巷11弄1號) Guo Guang Qi Street (國光七街) Xi Wan Lane (西灣里) Yung Kang City Tainan County	Taiwanese

Independent non-executive Directors

Name	Address	Nationality
Lu Chien-An	7th Floor, No. 12 Building, Avenue 57 Dai Chi Lane No. 12 Dai Chi Avenue Chung Shan District Taipei City	Taiwanese
Chang Chuan-Fang	No. 2, 6th Floor 6 Ning Po East Street Chung Cheng District Taipei City	Taiwanese
Chen Fang-Kun	No. 24, 470 Alley Linseu Road East (林森東路) 22 Neighborhood Zun Tou Lane (圳頭里) East District Chiayi County Taiwan	Taiwanese

PARTIES INVOLVED

Sole Bookrunner, Sole Lead Manager and Sole Sponsor	Mega Capital (Asia) Company Limited Units 2213–2214, 22nd Floor Cosco Tower 183 Queen's Road Central Sheung Wan Hong Kong
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Auditors and reporting accountants	KPMG <i>Certified Public Accountants</i> 8th Floor, Prince's Building 10 Chater Road, Central Hong Kong
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DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal advisers to the Company

As to Hong Kong law:

Sidley Austin
Level 39, Two International Finance Centre
8 Finance Street, Central
Hong Kong

As to Taiwan law:

Chien Yeh Law Offices
62nd Floor, Taipei 101 Tower
7 Xiu Yi Road, Section 5
Taipei 11049, Taiwan

As to PRC law:

Jingtian & Gongcheng
15th Floor, The Union Plaza
20 Chaoyangmenwai Dajie
Beijing 100020, PRC

As to Cayman Islands law:

Conyers Dill & Pearman
Cricket Square
Hutchins Drive
Grand Cayman KY1-1111
Cayman Islands

Legal advisers to the Sponsor

Michael Li & Co.
14th Floor
Printing House
6 Duddell Street
Central
Hong Kong

Property valuer

Jones Lang LaSalle Sallmanns Limited
17/F, Dorset House
Taikoo Place, 979 King's Road
Quarry Bay
Hong Kong

Receiving bankers

The Bank of East Asia, Limited
10 Des Voeux Road Central
Hong Kong

Standard Chartered Bank (Hong Kong) Limited
15 Floor, Standard Chartered Tower
388 Kwun Tong Road
Kowloon
Hong Kong

CORPORATE INFORMATION

Headquarter	Hongkuan Industrial Village Yangxia Town Fuqing Fujian China
Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office and principal place of business in Hong Kong	Unit 1601, 16/F., Cosco Tower 183 Queen's Road Central Hong Kong
Company secretary	Ms. Ko Ming Wai (HKICPA)
Authorised representatives	Hu Chin-Shu 5, 11th Floor, No. 125 Sin Sing Street (新行街) 46 Neighborhood Yan Sing Lane (鹽行里) Yongkang City Tainan County Taiwan Ko Ming Wai Room 401, Sui Shing House Siu Sai Wan Estate Chai Wan Hong Kong
Audit committee	Chen Fang-Kun (<i>Chairman</i>) Lu Chien-An Wang Shih-Ting Chang Chuan-Fang
Remuneration committee	Chang Chuan-Fang (<i>Chairman</i>) Chen Fang-Kun Shao Ten-Po
Nomination committee	Lu Chien-An (<i>Chairman</i>) Shao Ten-Po Chang Chuan-Fang

CORPORATE INFORMATION

Compliance adviser	Mega Capital (Asia) Company Limited Units 2213–2214, 22nd Floor Cosco Tower 183 Queen’s Road Central Sheung Wan Hong Kong
Principal bankers	China Construction Bank Corporation Co., Ltd. Fuqing Branch Finance Centre Yuan Hong Road Fuqing, Fujian China Bank of Communications Fuqing Branch No. 29, Jiangbin Road Fuqing, Fujian China China Citic Bank No. 29, Tongpan Road Fuzhou, Fujian China Hang Seng Bank Fuzhou Branch Shop 09 G/F of Yu Quan Garden 139 Gutian Road, Gulou District Fuzhou, Fujian China Bank of China Fuqing Branch 39 Dongmen Road Fuqing, Fujian China
Cayman Islands Principal Share Registrar and Transfer Office	Butterfield Fulcrum Group (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 609 Grand Cayman KY1-1107 Cayman Islands

CORPORATE INFORMATION

**Hong Kong branch share registrar
and transfer office**

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

INDUSTRY OVERVIEW

This section contains information and statistics relating to the Chinese economy and the industry in which we operate. We have derived such information and data partly from publicly available government official sources which have not been independently verified by us, the Sole Sponsor, the Underwriters or any of their respective affiliates or advisers. Our Directors have taken reasonable care in the reproduction of such information. The information in such government official sources may not be consistent with the information compiled within or outside China. We make no representation as to the correctness or accuracy of any of such information and, accordingly, such information should not be unduly relied on. We have taken such care as we consider reasonable in the reproduction and extraction of such information.

FABRIC MANUFACTURING INDUSTRY

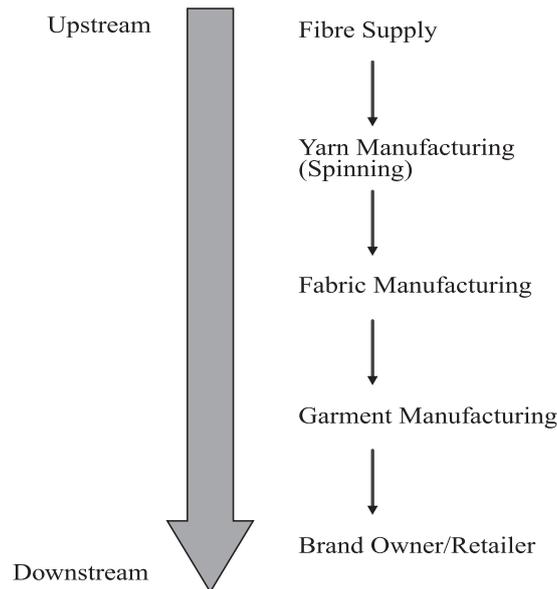
Overview of the global fabric manufacturing industry

The cost of production is the critical competitive factor of fabric products, as fabric products are mass-produced commodities. Economies of scale, availability of raw materials and low cost production inputs have shifted key fabric production centers away from developed countries such as the United States, United Kingdom, other European countries to China, India, and Pakistan. In the recent decades, China has gradually become the global center for fabric production due to its availability of low-cost and skilled labour and efficiencies gained from the co-location of the various parts of the textile industry value chain.

The production of fabric starts at the supply of fibre, which mainly includes cotton and other natural and synthetic sources. Fibre is then used to produce commodity yarn and sold to fabric manufacturers to knit and weave the yarn into fabrics. Apparel fabrics manufacturers take orders from garment manufacturers who produces apparel products from fabrics. For some fabric manufacturers, such as our Company, may work in partnership with brand owners to produce custom-made fabrics in terms of printing patterns, coloration, and functions of fabric.

INDUSTRY OVERVIEW

The diagram below illustrates the various steps in the textile industry production chain:



Fabric manufacturing can be categorised into two main types, namely knitting and weaving. Knitted fabric is mainly used in sports and casual wear due to its stretchable nature. Furthermore, knitted fabric are categorised into warp knitted (vertical knitting) and weft knitted (horizontal knitting). Warp knitted fabric is mainly applied in swimwear and inner wear, and weft knitted fabric is often used in T-shirts. Woven fabric is non stretchable and typically used in formal apparel. Depending on the raw materials used, both knitted and woven fabrics can be further categorised into cotton fabric, synthetic fabric, silk fabric, mixed fabric, etc.

Development trends of the global fabric manufacturing industry

Entrance barriers in the fabric industry

The Directors are in view that the rising costs to comply with increasingly stringent environmental and other regulations in the fabric industry are making a higher entry barrier for small fabric manufacturers. The rising costs pressure is creating intensity in the competition of the local fabric industry. The Directors believe that the compliance costs will be relatively easier to be absorbed by the fabric producers with a strong capital base and will encourage the smaller and less profitable business to exit. Also, the elevating costs will set barriers for new entrants trying to enter the local fabric industry.

Higher efficiency driven by improved manufacturing technique and technologies

The Directors believe that technology advances in computerised management systems and fabric manufacturing techniques have allowed the developed fabric manufacturers to enjoy shorter production time for products with higher quality, lower costs per unit and higher efficiency, and thus increase their scales of operations. The advanced manufacturing machineries and techniques have resulted in the development of fabric with bigger variety in terms of complication in patterns and functionalities. The more capitalised manufacturers in low-cost countries will have competitive advantages as they can adopt advanced machineries, which have higher costs, and hire technological advances in lower costs.

INDUSTRY OVERVIEW

Primary strengths of China's fabric industry

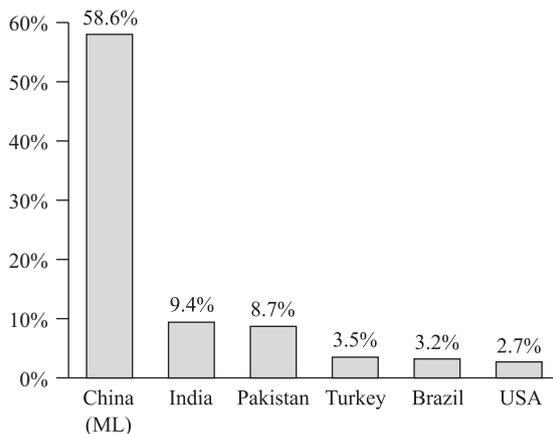
Strong growth in the domestic market growth

According to the National Bureau of Statistics of China, China's gross domestic product was approximately US\$4.4 trillion in 2008, and was ranked the fourth highest globally. China's population was about 1.34 billion in 2008 and is the world's most populated country. The rapid growth on China's economy and its large population keep expanding its domestic market in fast pace. According to Datamonitor, China's apparel retail industry generated total turnover of RMB516 billion in 2007, representing 32% of the Asia-Pacific apparel retail market. In 2012, China's apparel retail turnover are projected to reach RMB731 billion, representing a compound annual growth rate of 7.2%.

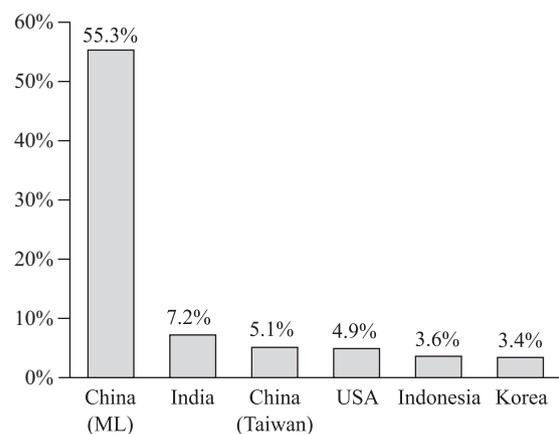
Abundant supply of raw materials

China's fabric manufacturing industry enjoys advantages in terms of the availability of and proximity to raw materials. China is the world's largest producer of cotton yarn and synthetic yarn, and continues to increase its share of the world's cotton and synthetic yarn production. The ICAC recorded that China accounted for 57% of world yarn production in 2008, up from 28% in 2000 and 18% in 1990. In 2007, China produced 58.6% of the world's cotton yarn and 55.3% of the world's synthetic yarn.

Leading Producers of Cotton Yarn in 2008
% of global production



Leading Producers of Synthetic Yarn in 2008
% of global production

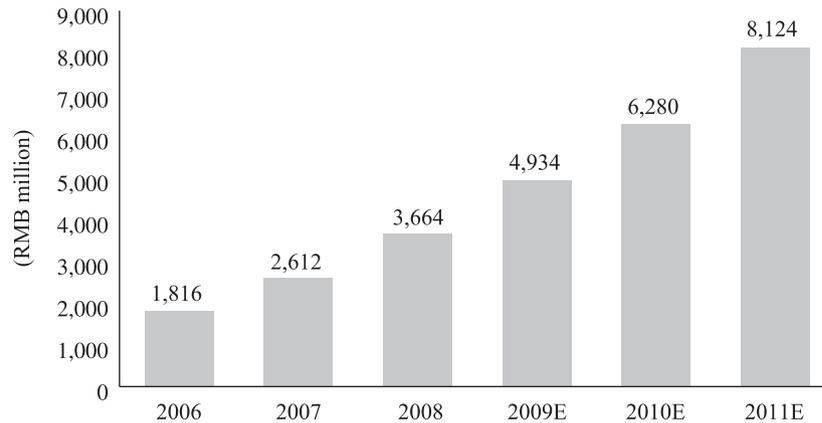


Source: *World Textiles Demand, April 2009, International Cotton Advisory Committee (ICAC)*

INDUSTRY OVERVIEW

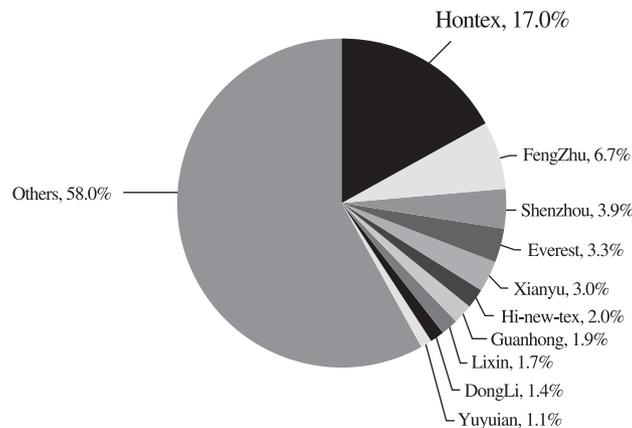
Fast growing multi-functional fabrics market

As consumers become more familiar with the advantages of the functional fabrics, the market size continues to grow in recent years. According to Euromonitor, the high tech, multi-functional, high quality polyester based knitted fabric market is expected to grow from RMB3.7 billion in 2008 to RMB8.1 billion in 2011, represent a CAGR of 30.4%.



Source: Euromonitor

The 2008 market share of total value sales of top 10 leading players in the high tech, multi-functional, high quality polyester based knitted fabric industry are set out as follow:



Source: Euromonitor

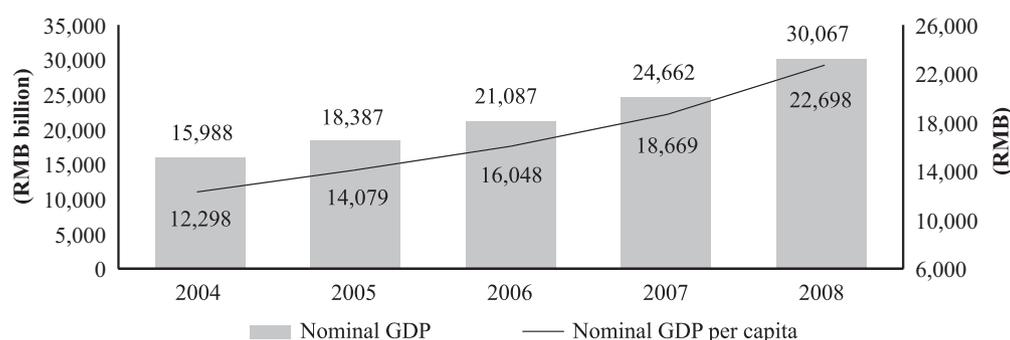
INDUSTRY OVERVIEW

RAPID GROWTH OF THE CHINESE ECONOMY AND ITS CONSUMER SPENDING POWER

Growth of the PRC economy

The PRC economy has been growing rapidly since the implementation of market liberalisation policies by PRC Government in the late 1970s. Economic growth was further reinforced by the launch of special economic zones along coastal PRC in the early 1990s. According to the National Bureau of Statistics of China, the nominal gross domestic product increased from RMB15,988 billions in 2004 to RMB30,067 billions in 2008, and the CAGR of the period is 22.3%, which reflects a steady growth. The nominal gross domestic product per capita increased from RMB12,298 in 2004 to RMB22,698 in 2008, and the CAGR of the period is 17.1%.

2004–2008 Nominal GDP and nominal GDP per capita in the PRC¹



Source: National Bureau of Statistics of China

Accelerating urbanisation trend

The urbanisation of PRC has been lifted by the rapid economic growth. Populations in urban cities have expanded with the influx of people from rural and less developed areas. During 2004 to 2008, the total urban population in PRC increased by approximately 66.9 million or approximately 11.8%. In 2008, the total urban population was approximately 606.7 million and accounted for approximately 45.7% of the total population. The table below shows the growth of the urban population from 2004 to 2008 in the PRC.

2004–2008 Growth of urban population in the PRC

	2004	2005	2006	2007	2008	CAGR
Urban population (millions)	543	562	577	594	607	3.2%
Total population (millions)	1,300	1,306	1,314	1,321	1,328	0.6%
Urbanisation rate (%)	41.8%	43.0%	43.9%	44.9%	45.7%	

Source: National Bureau of Statistics of China

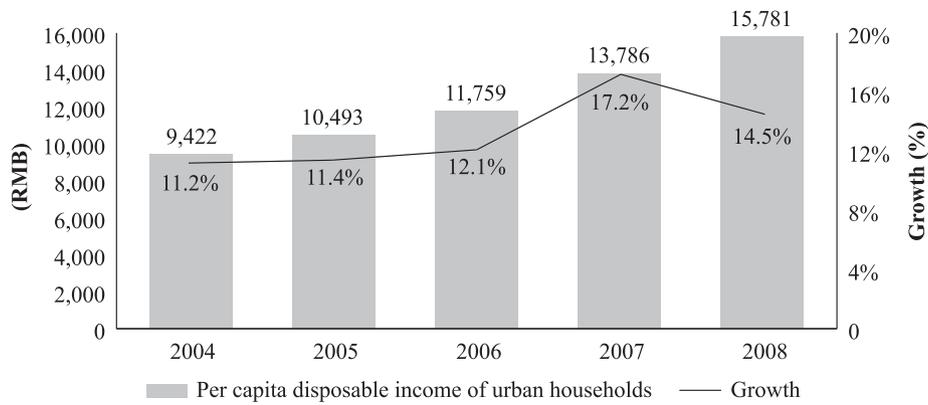
¹ Nominal GDP per capita calculated based on nominal GDP and total population.

INDUSTRY OVERVIEW

Disposable Income Growth of Urban Residents

Associated with the fast growth of GDP, income levels of urban residents have increased and living standards have improved with better purchasing power. Per capita annual disposable income levels of urban PRC residents have increased from RMB9,422 in 2004 to RMB15,781 in 2008 according to the National Bureau of Statistics of China. The CAGR during this period is 13.8%, and the chart below illustrates the per capita disposable income levels in the PRC from 2004 to 2008.

2004–2008 Per capita disposable income of urban households in the PRC



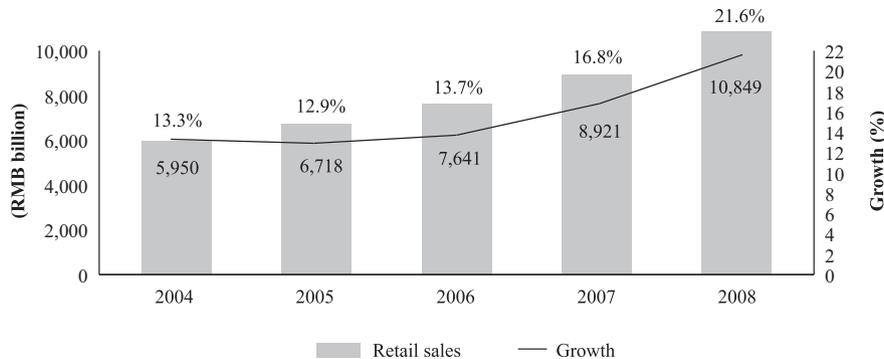
Source: National Bureau of Statistics of China

INDUSTRY OVERVIEW

THE BOOMING RETAIL INDUSTRY IN THE PRC

The retail sales of consumer goods in the PRC had experienced rapid growth amid the PRC's strong economy, growing middle class and increasing affluence. These changing demographics have coincided with the increase in disposable income per capita, suggesting that the consumption power of consumers in the PRC has risen. Consumer spending, as measured by the total value of retail sales of consumer goods, has grown from approximately RMB5,950.1 billions in 2004 to approximately RMB10,849 billions in 2008, with a CAGR of approximately 16.2%. The following chart sets forth the historical total retail sales of consumer goods in the PRC.

2002–2008 Retail sales and growth rate in the PRC

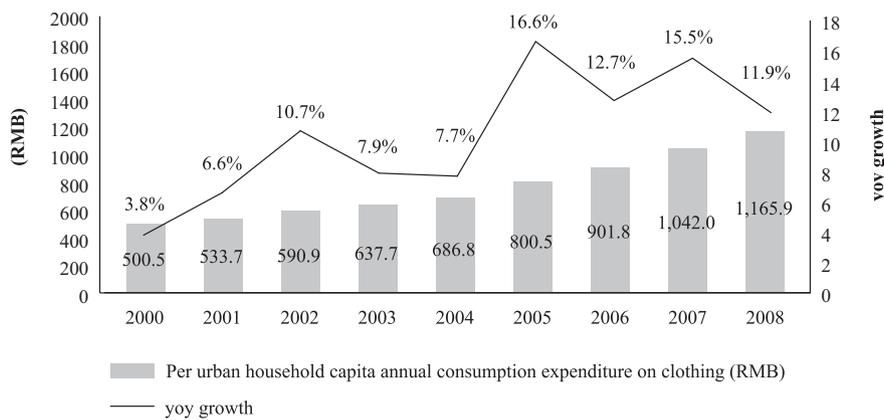


Source: National Bureau of Statistics of China — China Statistical Yearbook (2009)

Annual consumption expenditure on clothing of urban households

The annual consumption expenditure on clothing per urban household capita has grown from RMB638 in 2003 to RMB1,042 in 2007, with a CAGR of approximately 13.0%, which suggests an expanding target customer base for us who is interested in apparel products. Besides, the increasing size of the PRC's middle class and growing affluence in the PRC overall have greatly contributed to the increasing consumption. As the level of disposable income increases among these people, their purchases decisions become increasingly less driven by price and functionality, but more by brand image, product design and style.

2000–2008 Per urban household capita annual consumption expenditure on clothing (RMB)



Source: China Statistical Yearbook (2009)

INDUSTRY OVERVIEW

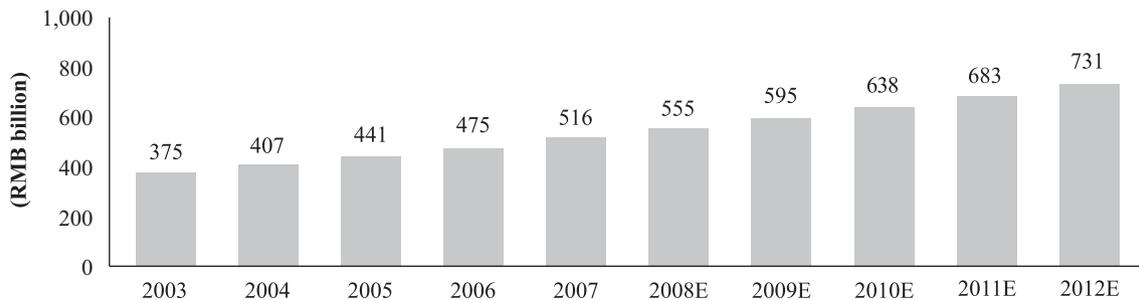
Key drivers of the growth of PRC's retail market

The Directors believe that the increase of disposable income among the people in the expanding middle class and the increased purchasing power of the PRC overall are the main drivers to the increased consumption of lifestyle-enhancing products such as entertainment, leisure, technology and fashion apparel. People will be less concerned with the price and functionality but more focused on the style and image of the brands.

THE GROWING APPAREL RETAIL MARKET IN THE PRC

Since joining the World Trade Organisation in 2002, the PRC has benefited from freer trade and liberalisation from many trade restrictions on textile and apparel products. According to Datamonitor, these liberalisations are expected to result in a gradual upward growth trend in apparel sales over the next few years. As shown in the chart below, apparel sales in the PRC are expected to grow from approximately RMB516 billion in 2007 to reach approximately RMB731 billion by 2012, representing a CAGR of 7.2%.

2003–2012 Annual apparel retail market value in the PRC



Source: Apparel Retail in China, Datamonitor, October 2008

REGULATIONS

ESTABLISHMENT, OPERATION AND MANAGEMENT OF A WHOLLY FOREIGN-OWNED ENTERPRISE

The establishment, operation and management of corporate entities in China is governed by 中華人民共和國公司法 (the Company Law of the PRC) (the “**Company Law**”), which was promulgated by 全國人民代表大會常務委員會 (the Standing Committee of the National People’s Congress) on 29 December 1993 and became effective on 1 July 1994. It was subsequently amended on 25 December 1999, 28 August 2004 and 27 October 2005. The Company Law generally governs two types of companies — limited liability companies and joint stock limited companies. The Company Law shall also apply to foreign-invested companies. Where laws on foreign investment have other stipulations, such stipulations shall apply.

The establishment procedures, verification and approval procedures, registered capital requirement, foreign exchange restriction, accounting practices, taxation and labour matters of a wholly foreign-owned enterprise are governed by 中華人民共和國外資企業法 (the Wholly Foreign-owned Enterprise Law of the PRC) (the “**Wholly Foreign-owned Enterprise Law**”), which was promulgated on 12 April 1986 and amended on 31 October 2000, and Implementation Regulation under the Wholly Foreign-owned Enterprise Law, which was promulgated on 12 December 1990 and amended on 12 April 2001.

Investment in the PRC conducted by foreign investors and foreign-owned enterprises shall comply with 外商投資產業指導目錄 (the Guidance Catalogue of Industries for Foreign Investment) (the “**Catalogue**”), which was amended and promulgated by 商務部 (the Ministry of Commerce) and 國家發展和改革委員會 (the National Development and Reform Commission) on 31 October 2007. The Catalogue, as amended, became effective on 1 December 2007 and contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of encouraged foreign-invested industries, restricted foreign-invested industries and prohibited foreign investment. Any industry not listed in the Catalogue is a permitted industry. As advised by our PRC legal advisers, there is no regulation or relevant provisions specifically restrict foreign investment in the dyeing, weaving and textile business and thus to our Group.

Our dyeing and weaving business of our Group’s PRC subsidiary, Fuqing Hong Liong falls into the “encouraged category” of the Catalogue, while the textile businesses carried out by Fuqing Ecotex and Shishi Maigen as well as the wholesale business carried out by Fuzhou Aike are not mentioned in the Catalogue, and therefore are deemed as a “permitted category”. The PRC subsidiaries of the Group have obtained all the necessary approvals to conduct their business as mentioned in their business licenses.

CROSS STRAIT INVESTMENT

According to the Guidelines Governing the Review of Investment or Technical Cooperation in the Mainland Area (the “**Guidelines**”), which is set forth pursuant to paragraph 1 of Article 35 of the Act Governing the Relations Between the Peoples of the Taiwan Area and Mainland Area (the “**Act**”), business operations and business items involved in the investment and cooperation in the PRC as referred to in the Guidelines and the relevant laws are divided into the prohibited category and the non-prohibited category, which is referred to as the general category in the Guidelines. The relevant authorities will review the item lists and categorisation on an annual basis and revise and update the lists and categorisation accordingly. Moreover, the Guidelines further stipulate that any one individual citizen of Taiwan shall not invest more than US\$5,000,000 per year in the Mainland Area. Nationals, legal

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entities, organisations or other institutions in Taiwan shall submit applications to the Investment Commission (the “**Commission**”) for approval prior to investing or engaging in technical cooperation in the PRC. Those approved to invest in the PRC shall submit to the Commission for its acknowledgement within six (6) months of commencement of their investment. Article 86 of the Act provides that any person who makes an investment in any item of the general category in violation of paragraph 1 of Article 35 of the Act shall be punished with an administrative fine of not less than NT\$50,000 but not more than NT\$25,000,000, or in addition thereto, ordered to terminate any violation or rectify within a specified time frame. Failure to terminate any violation or failure to rectify by the expiration of the required time period may result in consecutive fines being imposed on the individual or corporate violators.

Since some of the Controlling Shareholders had unreported investments to the Commission for approval prior to investing or engaging in technical cooperation in the PRC, they were in violation of paragraph 1 of Article 35 of the Act and were punished with an administrative fine. Among the Controlling Shareholders, Shao Ten-Po’s total unreported investment was US\$14,723,360; Hsu Chieh-Jung’s total unreported investment was US\$4,233,320; Tseng Chung-Cheng’s total unreported investment was US\$2,539,992 and Liao Chin-Yi’s total unreported investment was US\$1,829,328. These unreported investments represent all the historical investments made by the respective Controlling Shareholders in the PRC, of which applications had not been submitted to the Commission and hence no approvals had been obtained.

In preparation for the Listing, submission of supplemental applications of these unreported investments was made to the Commission on 10 July 2009. As advised by the respective Controlling Shareholders, they had not submitted supplemental applications of these unreported investments until then because they had overlooked and negligently failed to apply for the prior approvals due to the discrepancy of their understanding and the Commission’s interpretation on the Guidelines. The Commission rendered administrative fine on each of the Controlling Shareholders on 16 October 2009 and approved the submission of supplemental applications of the unreported investments on 22 October 2009 as stated in the letters from the Commission. The administrative fine for Shao Ten-Po is NT\$170,000, for his failure to submit applications for all the historical investments made in the PRC. An administrative fine of NT\$100,000 is imposed on each of Hsu Chieh-Jung, Tseng Chung-Cheng and Liao Chin-Yi for their failure to submit applications for all the historical investments made in the PRC. These result in a total administrative fine in the amount of NT\$470,000. The total administrative fine were fully settled as at the Latest Practicable Date. The unreported investments were legalised after the penalties were paid as stated in the letters from the Commission and the concern for any refund of these investments does not exist.

Since the unreported investments were approved with monetary administrative fine as well as submission of supplemental applications on 22 October 2009, the issue of unlikely ratification or confirmation of the previously unreported excessive amounts of investment does not exist. The non-compliance of submitting applications to the Commission for seeking approval prior to investing or engaging in technical cooperation in the PRC in accordance to the Guidelines has been solved by Shao Ten-Po, Hsu Chieh-Jung, Tseng Chung-Cheng and Liao Chin-Yi and the unreported investments has been re-approved by the Commission. In short, the Commission has forgiven the excessive investments in its letters according to the Taiwan legal advisers, the unreported investments are properly filed with

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the Commission subsequently. Therefore, even Shao Ten-Po's previously unreported investment exceeded the threshold of US\$5 million per year, there are no potential legal implications on the Group's business, shareholding structure and the Reorganisation.

Pursuant to the Reorganisation in preparation for the Listing, the Controlling Shareholders have submitted supplemental applications of the new investments arising from the Reorganisation to the Commission on 3 November 2009. For the new investments of the Controlling Shareholders arising from the Reorganisation, Shao Ten Po's total investment was US\$2,459,139; Hsu Chieh-Jung's total investment was US\$3,550,304; Tseng Chung-Cheng's total investment was US\$Nil; Liao Chin-Yi's total investment was US\$1,332,031 and Hu Chin-Shu's total investment was US\$826,334. Their relevant percentages of the Company's share capital upon completion of the Global Offering are 39.31%, 19.41%, 6.32%, 8.41% and 1.56% respectively. The Commission duly approved the submission of supplemental applications of the new investments arising from the Reorganisation on 23 November 2009. As a result, there will be no potential legal implications on the Group's business (and working capital), shareholding structure and the Reorganisation.

As advised by our Taiwan legal advisers, Chien Yeh Law Offices, the Controlling Shareholders have obtained all governmental approvals in Taiwan and, save for that the controlling shareholders made unreported investments with monetary sanctions in the past but subsequently obtained all the approvals, complied with the relevant Taiwan laws for the investments in the PRC and the Listing. Moreover, according to the Taiwan legal advisers, the Commission will deem the IPO proceeds to be used by the Group in the PRC as additional investments by the Controlling Shareholders and hence subject to the Commission's approval. Application for approval will be made once the IPO proceeds are used and such approval is expected to obtain within about one month from application. As advised by the Taiwan legal advisers, there is no legal impediment in obtaining such approval. The basis in their legal opinion of the Taiwan laws that there is no legal impediment in obtaining approvals from the Commission is that the law only impose monetary penalty to the unreported violation as follows: Paragraphs 1 and 2 of Article 3 of the Sanction Standard for Illegal Investment or Technical Cooperation in the PRC as amended on 2 February 2009, parties that invested in the PRC after 10 March 2008 without obtaining prior approval from the competent authority shall be imposed a fine. In addition, to the many prior experiences of our Taiwan legal advisers in relation to the listing of other companies in Hong Kong, there will be no penalty in whatever form other than the abovementioned monetary penalty. Finally, the law of our investment restriction is only applicable to the Taiwanese investor, individual or company, but not to the invested company; therefore, the penalty, if applicable to the Taiwanese investor, will not affect the operation of the Company. Therefore, there are no potential implications on the Group's operations (and working capital) and shareholding structure or the Controlling Shareholders are required to dispose of their shares in our Company since any potential punishment of monetary penalty will be imposed on the Controlling Shareholders individually instead of the Company nor the shareholders of the Company as a whole.

As advised by the Directors, Ms. Ko Ming Wai, the company secretary of the Company, will be responsible for closely monitoring any new cross strait investments to be made by the Controlling Shareholders after the Listing on a regular basis. When there are new cross strait investments made by any of the Controlling Shareholders after the Listing, she will notify the Commission immediately and submit applications of such investments to the Commission as soon as possible in order not to violate paragraph 1 of Article 35 of the Act and hence trigger the provision of Article 86 of the Act in the future.

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TAXATION

Income tax

Prior to 1 January 2008, income tax payable by foreign-invested enterprises in the PRC was governed by 中華人民共和國外商投資企業和外國企業所得稅法 (the Foreign-invested Enterprise and Foreign Enterprise Income Tax Law of the PRC) (“**FIE Tax Law**”) promulgated on 9 April 1991 and effective on 1 July 1991 and the related implementation rules. Pursuant to the FIE Tax Law, a foreign-invested enterprise was subject to a national income tax at the rate of 30% and a local tax at the rate of 3% unless a lower rate was provided by law or administrative regulations. The income tax on foreign-invested enterprises established in Special Economic Zones, foreign enterprises which have establishments or places in Special Economic Zones engaged in production or business operations, and on foreign-invested enterprises of a production nature in Economic and Technological Development Zones, was levied at the reduced rate of 15%. The income tax on foreign-invested enterprises of a production nature established in coastal economic open zones or in the old urban districts of cities where the Special Economic Zones or the Economic and Technological Development Zones are located, was levied at the reduced rate of 24%. Any foreign-invested enterprise of a production nature scheduled to operate for a period of not less than ten years was exempted from income tax for two years commencing from the first profit-making year (after offsetting all tax losses carried forward from previous years) and allowed a fifty percent reduction in the following three consecutive years.

According to the newly promulgated 中華人民共和國企業所得稅法 (Corporate Income Tax Law of the PRC) (“**New Tax Law**”), which was promulgated on 16 March 2007, the income tax for both domestic and foreign-invested enterprises will be at the same rate of 25% effective from 1 January 2008. However, there will be a transition period for enterprises that previously receive preferential tax treatments under the FIE Tax Law. Foreign-invested enterprises that are subject to an enterprise income rate lower than 25% may continue to enjoy the lower rate and gradually transit to the new tax rate after the effective date of the New Tax Law. Foreign-invested enterprises that enjoy a tax rate of 24% will have their tax rate increased to 25% in 2008. Foreign-invested enterprises which enjoy a fixed period of exemptions or reductions under the existing applicable rules and regulations may continue to enjoy such treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment has not commenced due to lack of profit, such preferential tax treatment will commence from the effective date of the New Tax Law.

Withholding tax on dividend distribution

Before the promulgation of the New Tax Law, the principal regulations governing distribution of dividends paid by wholly foreign-owned enterprises include the Wholly Foreign-owned Enterprise Law and the Implementation Regulation of the Wholly Foreign-owned Enterprise Law.

Under these regulations, wholly foreign-owned enterprises in China may only pay dividends from accumulated after-tax profit, if any, determined in accordance with PRC accounting standards and regulations. Dividends paid to its foreign investors are exempt from withholding tax. However, this provision has been revoked by the New Tax Law. The New Tax Law prescribes a standard withholding tax rate of 20% on dividends and other China-sourced passive income of non-resident enterprises. However, the Implementation Rules reduced the rate from 20% to 10%, effective from 1 January 2008.

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The PRC and the government of Hong Kong signed Arrangement between the Mainland of the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排) on 21 August 2006 (the “**Arrangement**”). According to the Arrangement, no more than the 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident, provided that the recipient is a company that holds at least 25% of the capital of the PRC company. The 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if the recipient is a company that holds less than 25% of the capital of the PRC company.

Value-added tax

The Provisional Regulations of the People’s Republic of China Concerning Value Added Tax (中華人民共和國增值稅暫行條例) (the “**VAT Regulations**”) was promulgated on 13 December 1993 by the State Council and amended on 5 November 2008. The amended VAT Regulations come into effect on 1 January 2009. Under the VAT Regulations, value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

The value-added tax rates shall be as follows:

1. The tax rate for goods sold or imported by taxpayers other than the goods set forth in Items 2 and 3 below shall be 17%.
2. The tax rate for sale or import of the following goods by taxpayers shall be 13%:
 - (a) grain, edible vegetable oil;
 - (b) tap water, central heating, air-conditioning, hot water, coal gas, liquid petroleum gas, natural gas, methane, and coal products for use by residents;
 - (c) books, newspapers, magazines;
 - (d) feed, chemical fertiliser, agrochemicals, agricultural machinery, agricultural film; and
 - (e) other goods specified by the State Council.
3. The tax rate for goods exported by taxpayers shall be zero, except where otherwise determined by the State Council.
4. The tax rate for processing and repair and replacement services provided by taxpayers shall be 17%.

Small-scale taxpayers engaged in selling goods or taxable services shall use a simplified method according to the total sales and the tax rate for calculating the tax payable. No input tax shall be creditable. The rate leviable on the small-scale taxpayers shall be 3%.

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Business tax

The Provisional Regulations of the People's Republic of China Concerning Business Tax (中華人民共和國營業稅暫行條例) (the “**Business Tax Regulations**”) was promulgated on 13 December 1993 by the State Council and amended on 5 November 2008. The amended Business Tax Regulations come into effect on 1 January 2009. Under the Business Tax Regulations, businesses that provide services (including entertainment business), assign intangible assets or sell immovable property are liable to business tax at a rate ranging from 3% to 20%, of the charges of the services provided, intangible assets assigned or immovable property sold, as the case may be. The formula for calculation of the amount of tax payable is set forth below:

Amount of tax payable = amount of business × tax rate

The amount of business shall be calculated in RMB. Taxpayers that settle their amounts of business income in currency other than RMB shall convert the amounts into RMB.

PRC customs duties

According to the Customs Law of the PRC, the consignee of the imports, the consignor of exports and the owner of the imports and the exports are the persons obligated to pay customs duties (generally speaking, exports are not subject to customs duties). The Customs is the authorities in charge of the collection of customs duties.

The customs duties in the PRC mainly fall under ad valorem duties, i.e. the price of import/export commodities is the basis for the calculation of the duties. When calculating the customs duties, import/export commodities shall be classified under appropriate tax items in accordance with the category provisions of the Customs Import and Export Tariff and shall be subject to tax levies pursuant to relevant tax rates.

Under the laws of the PRC, raw materials, supplementary materials, parts, components, accessories and packing materials imported for processing and assembling finished products for foreign parties or for manufacturing products for export shall be exempt from import duties pursuant to the actual amount of goods processed for export or import duties may be levied upfront on import materials and parts and subsequently refunded pursuant to the actual amount of goods processed for export.

To encourage the introduction of foreign investment, as of 1992, the PRC exercised exemption and reduction of customs duties on the import of machinery, equipment, parts and other materials within the total investment of foreign investment companies. But after the adjustment of policies as of 1 April 1996, such exemption and reduction has been terminated, while the foreign investment companies incorporated before then can still continue to enjoy such preferential treatment within the grace period.

As from 1 January 1998, according to the Notice of the State Council regarding the Adjustment of Taxation Policy of Import Equipment, in respect of the foreign investment projects that fall under Encouraging Category and Restricted B Category of the Industrial Guidance Catalogue of Foreign Investment and also involve the transfer of technology, the equipment imported for its own use within the total investment can be exempt from the customs duties, except for the commodities listed in the Catalogue of the Non-tax-exemption Import Commodity of Foreign Investment Projects.

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ENVIRONMENTAL PROTECTION

According to 中華人民共和國環境保護法 (the Environmental Protection Law of the PRC) (the “**Environmental Protection Law**”), promulgated and effective in 26 December 1989:

- any entity that discharges pollutants must establish environmental protection rules and adopt effective measures to control or properly treat waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation and other hazards it produces;
- any entity that discharges pollutants must report to and register with the relevant environmental protection authorities; and
- any entity that discharges pollutants in excess of the prescribed national or local standards must pay a fee therefor.

Violation of the Environmental Protection Law may result in fines, suspension of operation, close-down or even criminal liabilities.

FOREIGN CURRENCY EXCHANGE

The principal regulations governing foreign currency exchange in China is 中華人民共和國外匯管理條例 (the Foreign Exchange Administration Rules of the PRC) (the “**Foreign Exchange Administration Rules**”), promulgated by 國務院 (the State Council) on 29 January 1996 and became effective on 1 April 1996 and amended on 14 January 1997 and 1 August 2008. Under these rules, Renminbi is freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as direct investment, loan or investment in securities outside China unless prior approval of the SAFE is obtained.

Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a cap approval by SAFE) to satisfy foreign exchange liabilities or to pay dividends. In addition, foreign exchange transaction involving direct investment, loans and investment in securities outside China are subject to limitations and require approvals from SAFE.

ANTI-UNFAIR COMPETITION

The principal legal provisions governing market competition are set out in 中華人民共和國反不正當競爭法 (the Anti-unfair Competition Law of the PRC) (the “**Competition Law**”), which was promulgated on 2 September 1993 and came into effect on 1 December 1993.

The Competition Law provides that business operators shall not undermine their competitors by engaging in the following improper market activities:

- infringement of trademark rights or confidential business information;

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- false publicity through advertising or other means, or forgery and dissemination of false information that infringes upon the goodwill of competitors or the reputation of their products; and
- other improper practices, including commercial bribery, cartels, dumping sales at below-cost prices, and offering prizes as sales rebates illegally.

Violations of the Competition Law may result in the imposition of fines and, in serious cases, revocation of its business license as well as incurrence of criminal liability.

PRODUCT QUALITY

The principal legal provisions governing product liability are set out in 中華人民共和國產品質量法 (the Product Quality Law of the PRC) (the “**Product Quality Law**”), which was promulgated on 22 February 1993 and amended on 8 July 2000.

The Product Quality Law is applicable to the production and sale of any product within the PRC, and producers and sellers shall be liable for any failure of their products to meet quality standards in accordance with the Product Quality Law.

Violations of the Product Quality Law may result in the imposition of fines. In addition, the seller or producer will be ordered to suspend its operations and its business license will be revoked. Criminal liability may be incurred in serious cases. According to the Product Quality Law, consumers or other victims who suffer injury or property losses due to product defects may demand compensation from the producer as well as the seller. Where the responsibility lies with the producer, the seller shall, after settling compensation, have the right to recover such compensation from the producer, and vice versa.

OUR COMPLIANCE WITH THE PRC PERMITS, LICENSES AND APPROVAL

As advised by our PRC legal advisers, all the necessary approvals, permits and licenses in regard to its existing business in all material aspects have been obtained by our Group in compliance with all the relevant PRC rules and regulations.

HISTORY AND DEVELOPMENT

HISTORY AND DEVELOPMENT

Our Group was founded in 1993 when Fuqing Hong Liong was established in Fuzhou, China, on 16 April 1993 with an initial registered capital of US\$3.7 million to engage in the production of high-ended fabric and industrial use specialised textile products. The entire equity interest of Fuqing Hong Liong was owned by Hong Liong Textile, a company incorporated in Hong Kong in 1992. The equity interest in Hong Liong Textile was held by Shao Ten-Po, Hsu Chieh-Jung, Tseng Chung-Cheng and Liao Chin-Yi as to 60%, 20%, 12% and 8% respectively.

On 21 November 1995, the registered capital of Fuqing Hong Liong was increased to US\$6.7 million. The increased equity was mainly used for purchasing imported machinery and equipment and other materials.

On 26 June 1997, the registered capital of Fuqing Hong Liong was further increased to US\$10 million. The increased equity was mainly used for purchasing imported machinery and equipment and office equipment.

On 5 October 1998, Fuqing Hong Liong further increased its registered capital to US\$11 million.

In view of the development in the textile industry in China, we established Fuqing Ecotex on 16 July 2002 with an initial registered capital of US\$1.6 million. As advised by the Directors, the amount of the initial registered capital made by each of Chen Li-Chuan, Huang Szu-Ching, Hsu Fu-Mei and Hsueh Hui-Chen was US\$256,000 and they made their respective investments from their personal resources. Fuqing Ecotex, was wholly owned by Lucky Dragon since its incorporation which in turn was held by Tseng Chung-Cheng, Liao Chin-Yi, Hu Chin-Shu, Chen Li-Chuan, Huang Szu-Ching, Hsu Fu-Mei and Hsueh Hui-Chen in the interests of 10%, 10%, 16%, 16%, 16%, 16% and 16% respectively. Tseng Chung-Cheng, Liao Chin-Yi and Hu Chin-Shu are executive Directors and Chen Li-Chuan, Huang Szu-Ching, Hsu Fu-Mei and Hsueh Hui-Chen are friends of Shao Ten-Po, Hsu Chieh-Jung, Tseng Chung-Cheng and Liao Chin-Yi in Taiwan who have jointly invested in Lucky Dragon. Save for Huang Szu-Ching, who had worked at Fuqing Hong Liong as the assistant manager of the procurement department, none of Chen Li-Chuan, Hsu Fu-Mei and Hsueh Hui-Chen has been involved in the management or operation of our business. Save as disclosed, to the best knowledge of our Directors, having made reasonable enquires, each of Chen Li-Chuan, Huang Szu-Ching, Hsu Fu-Mei and Hsueh Hui-Chen is independent and not connected with the Company or any of its connected person.

Fuqing Ecotex is principally engaged in the production of industrial used specialised textile, special functional apparel, textile related outdoor leisure product and textile related sports accessories and apparels.

On 31 December 2005, the registered capital of Fuqing Hong Liong was increased to US\$11.6 million and its scope of business was changed from the production of textile and plastic products to the production of high-ended fabric and industrial textile and OEM in casual and sportswear products.

To capitalise on our expertise in high-quality sports and leisure apparel development and manufacturing, and our close proximity to the overall Chinese apparel market, Hong Liong Textile established Fuzhou Aike, a wholly foreign-owned enterprise in the PRC, on 26 July 2007 to engage in the China sports and leisure apparel retail market. Fuzhou Aike operates a leisure and sport brand “Aike

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Sport” which targets consumers between the ages of 6 and 14. The registered capital of Fuzhou Aike was US\$0.7 million. The scope of business of Fuzhou Aike includes the wholesaling of domestic and foreign apparel, sports bags, sport equipment and leisure accessories.

On 20 November 2007, the registered capital of Fuqing Hong Liong was increased to US\$13.3 million. The increased equity was mainly used for purchasing imported machinery and equipment and office equipment.

Leveraging on the experience gained from Fuzhou Aike, we expanded our group of consumers to cover those aged between 18 and 35 by acquiring the entire equity interest of Shishi Maigen, a wholly foreign-owned enterprise in the PRC that was principally engaged in the leisure apparel business under the brand “MXN”. Shishi Maigen was established on 20 June 2002 with an initial registered capital of US\$200,000.

On 26 May 2008, Chen Pin-Chou, Kuo Yuan-Li, Su Ming-Che and Chen Li-Nuan (collectively the “Sellers”), Shishi Maigen and Hong Liong Textile entered into a preliminary agreement whereby (a) the Sellers agreed to transfer the entire equity interest in Shishi Maigen to Hong Liong Textile for a consideration of US\$200,000, which was equivalent to the registered capital of Shishi Maigen, and (b) the Sellers agreed to provide confidentiality undertakings to Hong Liong Textile with respect to certain know-how of Shishi Maigen which the Sellers have undertaken not to use the know-how in any way which would result in them being in competition with the business of Hong Liong Textile for a consideration of RMB140,000,000 less US\$200,000. To the best of the Company’s knowledge, information and belief, the Sellers are independent third parties not connected with and not in any relationship, whether past or present, with the Group, its connected persons, shareholders, directors, or senior management or their respective associates. As confirmed by Shao Ten-Po and Tseng Chung-Cheng, Chen Pin-Chou and Kuo Yuan-Li had been friends of Shao Ten-Po and Tseng Chung-Cheng for 30 years. Chen Pin-Chou, Shao Ten-Po and Tseng Chung-Cheng had known each other in the Chiayi County, Taiwan, where they are from, and had become friends since then. Chen Pin-Chou, Kuo Yuan-Li, Shao Ten-Po and Tseng Chung-Cheng had invested in real estate business in Thailand together, which had ceased and the construction company they had invested in had also ceased its business afterwards. Su Ming-Che is a friend of Chen Pin-Chou. Chen Li-Nuan is married to Huang Chung-Ji, who was the executive director of Shishi Maigen prior to its acquisition by the Group.

On 12 September 2008, a sale and purchase agreement was entered into whereby Hong Liong Textile agreed to acquire from the Sellers the entire equity interest of Shishi Maigen from the Sellers at a cash consideration of US\$200,000 which was arrived at based on normal commercial terms after arm’s length negotiations between Hong Liong Textile and the Sellers and was determined with reference to the then registered capital of Shishi Maigen.

On 21 October 2009, the Sellers have entered into a non-compete, confidentiality and intellectual property rights agreement (the “Non-compete, Confidentiality and Intellectual Property Rights Agreement”) in favour of Hong Liong Textile and Shishi Maigen, as referred to in item (b) of the preliminary agreement entered into among the Sellers, Shishi Maigen and Hong Liong Textile on 26 May 2008 as mentioned in the above paragraph. As the Sellers are Taiwanese and Hong Liong Textile, as the purchaser in the transaction, is a company incorporated in Hong Kong, and Shishi Maigen has become a subsidiary of Hong Liong Textile after completion of the transaction, the parties have agreed to use Hong Kong law as the governing law for the Non-compete, Confidentiality and Intellectual

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Property Rights Agreement. The Directors have taken legal advice from the Company's legal advisers and confirm that the Non-compete, Confidentiality and Intellectual Property Rights Agreement has been duly executed by the parties thereto and is a legally binding and effective agreement between the parties.

Pursuant to the Non-compete, Confidentiality and Intellectual Property Rights Agreement, the Sellers confirmed and agreed that they have, in consideration of RMB138,600,400 (being the agreed sum of RMB140,000,000 less US\$200,000) undertaken to Hong Liong Textile from 26 May 2008:

- (a) not to, without the prior written consent of Hong Liong Textile and Shishi Maigen, disclose the Trade Secret (as defined below) in any form whatsoever to any third party at any time. For the purpose of the Non-compete, Confidentiality and Intellectual Property Rights Agreement, "Trade Secret" refers to any information in connection with Shishi Maigen, including without limitation, any proprietary technical information and business information in connection with Shishi Maigen which is unknown to the public and of economic value to Shishi Maigen and has a practical application to Shishi Maigen's business, Shishi Maigen's company files and documents, such as any type of contract, agreement, letter of intent, personnel files, administrative documents and information regarding Shishi Maigen's investors, vendors, customers or suppliers, any information relating to Shishi Maigen's business activities and business development, such as costs, business plans, business strategies (including pricing strategies), marketing strategy and plans, distributors, distribution channels, sales models, quotations, client lists and other relevant information, information regarding Shishi Maigen's financial status, such as assets, debts, account receivable, status of commercial operations and investments, information concerning Shishi Maigen's management methods, information relating to know-how, including technological methods, technological processes, data, design drawings, formulae, technical specifications, quality control and management as well as other relevant materials, which are not publicly available and have not been applied for registration as patent or other intellectual property rights;
- (b) not to, without the prior written consent of Hong Liong Textile and Shishi Maigen, (i) participate, conduct or operate any business or work for any business entity or engage in any kind of business which competes, either directly or indirectly, with that of Shishi Maigen (the "Restrained Business"), (ii) engage in the Restrained Business, whether acting in their own names or in the other party's name, (iii) engage jointly with any third party in the Restrained Business, and (iv) directly or indirectly hold shares in any entity, which engage in any kind of business in competition with Shishi Maigen, in any name or in any manner;
- (c) not to, without the prior written consent of Hong Liong Textile and Shishi Maigen, offer employment to any employee of Shishi Maigen, or attempt to induce or influence any employee of Shishi Maigen to leave the employ of Shishi Maigen or solicit business from any customers or suppliers of Shishi Maigen to do business with any entity competing with Shishi Maigen;
- (d) acknowledge and agree that all intellectual property rights developed by the Sellers, if any, during the time when the Sellers were shareholders and senior management of Shishi Maigen before completion of the acquisition of Shishi Maigen, shall belong to Shishi Maigen as if such rights are created primarily for the purpose of Shishi Maigen's business. For the purpose

HISTORY AND DEVELOPMENT

of the Non-compete, Confidentiality and Intellectual Property Rights Agreement, “intellectual property rights” shall include the Trade Secret, copyright, trademarks, trade names and other rights which are relevant to commercial logos in connection with Shishi Maigen, rights relating to invention patents, utility models and design patent (regardless of whether they are registered or under application) and all other intellectual property rights, including but not limited to goodwill in connection with Shishi Maigen.

The consideration of RMB138,600,400 was arrived at after arm’s length negotiation between Hong Liong Textile and the Sellers which the parties acknowledged to be adequate to compensate the Sellers for the confidentiality undertakings, non-competition undertakings, non-solicitation undertakings and the undertakings in connection with Shishi Maigen’s intellectual property rights as described above. As advised by the Directors, the consideration suggested by the Sellers and proposed to Hong Liong Textile for negotiation. The consideration of RMB138,600,400 was partly settled by Shishi Maigen declared dividend of RMB46,423,953 in respect of the profits attributable to the pre-acquisition period. As advised by the Directors, the consideration was then assessed by Hong Liong Textile based on an internal market research they conducted in assessing the valuation of comparable companies to Shishi Maigen in the market and on the reference to the profit estimates of approximately 4 times at the period of negotiation of Shishi Maigen acquisition in 2008. Specifically, the valuation of the intangible assets of Shishi Maigen, namely customer relationships and trademark of an aggregate amount of approximately RMB75,644,000, was assessed by an independent valuer. In October 2009, as part of the Reorganisation, Hong Liong Textile assigned its rights under the Non-compete, Confidentiality and Intellectual Property Rights Agreement to our Company. The Company considers that the retention of the intellectual property rights developed by the Sellers by Shishi Maigen as a result of the Non-compete, Confidentiality and Intellectual Property Rights Agreement would allow Shishi Maigen to continuously develop its business and pursuant to the confidentiality and non-compete undertakings from the Sellers, Shishi Maigen would eliminate any potential competition from the Sellers. Accordingly, the Company considers that the Non-compete, Confidentiality and Intellectual Property Rights Agreement is in the interests of the Company and the shareholders of the Company as a whole.

The consideration was paid by Hong Liong Textile on behalf of the Group. After the execution of the agreement for the acquisition of Shishi Maigen, on 1 July 2008, Shishi Maigen declared dividend of RMB46,423,953 in respect of the profits attributable to the pre-acquisition period which was used to settle the part of the consideration of RMB138,600,400. The remaining amount of RMB92,176,447 (the “Relevant Amount”) was advanced by Shao Ten-Po, Hsu Chieh-Jung, Tseng Chung-cheng and Liao Chin-Yi (the “Relevant Shareholders”). The amount due to shareholders of the Company represented the remaining part of the consideration payable by Hong Liong Textile to the four Sellers for giving the undertakings as stated in the Non-competition, Confidentiality and Intellectual Property Rights Agreement. After completion of the acquisition of Shishi Maigen and the entering of the Non-competition, Confidentiality and Intellectual Property Rights Agreement, Hong Liong Textile was indebted to the Relevant Shareholders in the Relevant Amount (the “First Transaction”).

Pursuant to the Reorganisation, the entire equity interest in Shishi Maigen has been transferred to us at a consideration of RMB93,576,000, which was determined based on the Relevant Amount and has been satisfied by the allotment and issue of 556 Shares, 295 Shares, 83 Shares and 1,757 Shares to More Will, Joyous King, Sunny Beauty, Speedy Grand and Head Pearl respectively at the direction of Hong Liong Textile (the “Second Transaction”).

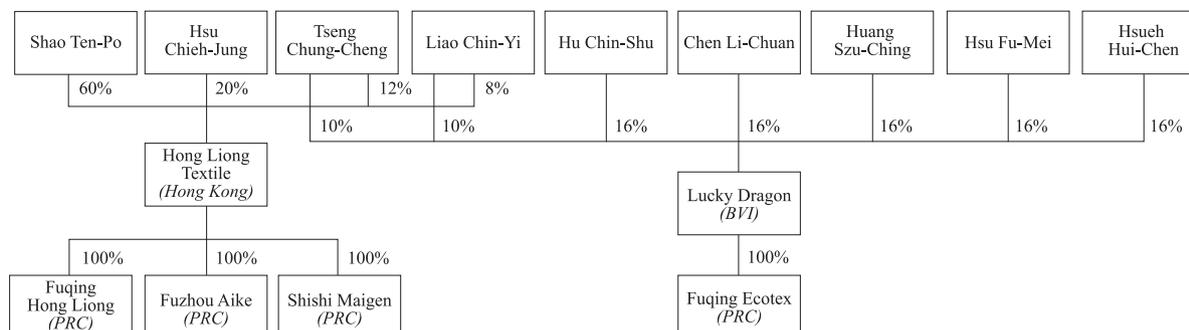
HISTORY AND DEVELOPMENT

After the issue of 556 Shares, 295 Shares, 83 Shares and 1,757 Shares respectively to More Will, Joyous King, Sunny Beauty, Speedy Grand and Head Pearl at the direction of the Relevant Shareholders, the Relevant Amount due from Hong Liong Textile to the Relevant Shareholders in the First Transaction has been set off against the same amount due from More Will, Joyous King, Sunny Beauty, Speedy Grand and Head Pearl (being the holding companies controlled by the Relevant Shareholders) to Hong Liong Textile in the Second Transaction.

CORPORATE REORGANISATION AND GROUP STRUCTURE

CORPORATE STRUCTURE PRIOR TO REORGANISATION

The following chart shows our corporate structure as it existed immediately prior to the Reorganisation:



CONCERT PARTY ARRANGEMENT IN CONNECTION WITH FUQING HONG LIONG, FUZHOU AIKE AND SHISHI MAIGEN, AND VOTING ARRANGEMENT IN RELATION TO FUQING ECOTEX

Prior to the Reorganisation, Hong Liong Textile was held by Shao Ten-Po, Hsu Chieh-Jung, Tseng Chung-Cheng and Liao Chin-Yi which in turn held the entire registered capital of Fuqing Hong Liong, Fuzhou Aike and Shishi Maigen. Accordingly, Fuqing Hong Liong and Fuzhou Aike have been owned as to 100% by Shao Ten-Po, Hsu Chieh-Jung, Tseng Chung-Cheng and Liao Chin-Yi collectively since their establishments. Prior to the Reorganisation, the directors of Fuqing Hong Liong were Shao Ten-Po, Hsu Chieh-Jung, Tseng Chung-Cheng and Liao Chin-Yi. The directors of Fuzhou Aike were Shao Ten-Po, Tseng Chung-Cheng and Liao Chin-Yi. The executive director of Shishi Maigen was Tseng Chung-Cheng.

Fuqing Ecotex was wholly-owned by Lucky Dragon, which was in turn held by Tseng Chung-Cheng, Liao Chin-Yi, Hu Chin-Shu, Chen Li-Chuan, Huang Szu-Ching, Hsu Fu-Mei and Hsueh Hui-Chen. Shao Ten-Po was appointed as the director of Lucky Dragon on 8 February 2000 and ceased to act as the director on 27 August 2002. Liao Chin-Yi was then appointed as the director of Lucky Dragon on 27 August 2002. Tseng Chung-Cheng was appointed as the executive director of Fuqing Ecotex on 16 July 2002.

In order to consolidate the control of the Group and to manage the Group as a combined unit, the shareholders have since the establishment of the Group come to an arrangement to act in an unanimous fashion towards the governing of the companies comprising the Group.

In the case of Fuqing Ecotex, which was held by Lucky Dragon, a company owned as to 10% by Tseng Chung-Cheng, as to 10% by Liao Chin-Yi, as to 16% by Hu Chin-Shu, as to 16% by Chen Li-Chuan, as to 16% by Huang Szu-Ching, as to 16% by Hsu Fu-Mei and as to 16% by Hsueh Hui-Chen prior to the Reorganisation, certain of the shareholders were passive investors who were not involved in the management of Fuqing Ecotex. Chen Li-Chuan, Huang Szu-Ching, Hsu Fu-Mei and Hsueh Hui-Chen were the passive investors (the "Passive Investors") and Hsu Fu-Mei and Hsueh Hui-Chen have through confirmations in writing, which were signed on 15 April 2002 and 5 January 2004 respectively, appointed Shao Ten-Po, Hsu Chieh-Jung, Tseng Chung-Cheng and Liao Chin-Yi as their attorneys to

CORPORATE REORGANISATION AND GROUP STRUCTURE

exercise the voting rights in respect of their shares of Lucky Dragon at their sole discretion and each of Huang Szu-Ching and Chen Li-Chuan has through confirmations in writing, which were signed on 28 January 2004, appointed Shao Ten-Po as their attorney to exercise the voting rights in respect of their shares of Lucky Dragon at his sole discretion. Accordingly, Shao Ten-Po, Hsu Chieh-Jung, Tseng Chung-Cheng and Liao Chin-Yi have the actual voting rights of Fuqing Ecotex, as well as effective control and the authority to govern the financial and operating policies of Fuqing Ecotex since its establishment. As advised by our PRC legal advisers, each of the confirmations given by the Passive Investors does not violate the PRC laws and is valid throughout the material times. Ms. Hu Chin-Shu is not a passive investor because she has taken part in the management of Fuqing Ecotex during the Track Record Period. Ms. Hu confirmed that she has acted as a concert party with Shao Ten-Po, Hsu Chieh-Jung, Tseng Chung-Cheng and Liao Chin-Yi when exercising her voting right at shareholders' meetings of Lucky Dragon.

The Passive Investors appointed Shao Ten-Po, Hsu Chieh-Jung, Tseng Chung-Cheng and Liao Chin-Yi as their attorney to exercise the voting rights in respect of their shares of Lucky Dragon at their sole discretion due to the reason that unlike Shao Ten-Po, Hsu Chieh-Jung, Tseng Chung-Cheng and Liao Chin-Yi, the Passive Investors were unfamiliar with business management as well as lacked of commercial background, experience of establishing successful enterprises, effective business channels and extensive personal connections. As such, the Passive Investors decided to appoint Shao Ten-Po, Hsu Chieh-Jung, Tseng Chung-Cheng and Liao Chin-Yi as their attorney to exercise their voting rights in respect of their shares of Lucky Dragon at their sole discretion. During the Track Record Period, dividends were declared by Fuqing Ecotex to its then shareholders before it became a subsidiary of the Company. Dividends were received by Tseng Chung-Cheng, Liao Chin-Yi and Hu Chin-Shu. As advised by the Directors, the Passive Investors waived their dividends during the Track Record Period because they were not involved in the management of the company.

Shao Ten-Po, Hsu Chieh-Jung, Tseng Chung-Cheng and Liao Chin-Yi have also confirmed that they have voted unanimously, through Lucky Dragon, at board meetings and shareholders' meetings of Fuqing Ecotex and reached consensus before voting by virtue of the powers vested in them pursuant to the confirmations.

To reconfirm 1) the arrangement between Shao Ten-Po, Hsu Chieh-Jung, Tseng Chung-Cheng and Liao Chin-Yi; and 2) that Hu Chin-Shu has acted as a concert party with Shao Ten-Po, Hsu Chieh-Jung, Tseng Chung-Cheng and Liao Chin-Yi when exercising her voting rights at shareholders' meetings of Lucky Dragon, and to properly record the various confirmations made among the shareholders with respect to the consensus and concert actions, on 27 November 2009, Shao Ten-Po, Hsu Chieh-Jung, Tseng Chung-Cheng, Liao Chin-Yi and Hu Chin-Shu (the "Concert Parties") have executed a written confirmation to confirm that since the establishment of Fuqing Hong Liong, Fuqing Ecotex and Fuzhou Aike and the acquisition of Shishi Maigen, among other things:

- (i) when exercising their respective shareholders' rights, or voting rights at the board meetings, of Fuqing Hong Liong, Fuqing Ecotex and Fuzhou Aike, they have acted unanimously in accordance with the consensus achieved among them. Tseng Chung-Cheng, who was the executive director of Shishi Maigen, has acted unanimously in accordance with the consensus achieved among the Concert Parties; and

CORPORATE REORGANISATION AND GROUP STRUCTURE

- (ii) prior to voting on any resolutions in board meetings of Fuqing Hong Liong, Fuqing Ecotex and Fuzhou Aike, and prior to Tseng Chung-Cheng resolving matters relating to Shishi Maigen, each of the Concert Parties would discuss the relevant matters with each other with a view to reaching consensus and an unanimous vote; and decisions based on the consensus achieved in connection with Fuqing Hong Liong, Fuzhou Aike, Fuqing Ecotex and Shishi Maigen have not been challenged by any Concert Party for any reason.

Through the concert party arrangement mentioned above and based on the unanimous voting record among the Concert Parties, the Concert Parties are a group of controlling shareholders for the purpose of Rule 8.05(1)(c) of the Listing Rules.

REORGANISATION

The companies comprising our Group underwent the Reorganisation in preparation for the Listing. The principal steps involved in the Reorganisation are summarised below:

Incorporation of our Company

- (a) on 14 July 2009, our Company was incorporated in the Cayman Islands as an exempted company with limited liability. Upon incorporation, one nil-paid Share was held by Mr. Liao Chin-Yi, representing the entire issued share capital of the Company, which was subsequently transferred to Head Pearl on 27 November 2009;

Incorporation of More Will, Joyous King, Sunny Beauty, Speedy Grand, Head Pearl and Forever Art

- (b) More Will was incorporated in the BVI on 23 January 2008, with an issued share capital of US\$1 representing 1 share of US\$1 and is wholly owned by Shao Ten-Po;
- (c) Joyous King was incorporated in the BVI on 22 April 2008, with an issued share capital of US\$1 representing 1 share of US\$1 and is wholly owned by Hsu Chieh-Jung;
- (d) Sunny Beauty was incorporated in the BVI on 29 May 2009, with an issued share capital of US\$1 representing 1 share of US\$1 and is wholly owned by Tseng Chung-Cheng;
- (e) Speedy Grand was incorporated in the BVI on 8 August 2008, with an issued share capital of US\$1 representing 1 share of US\$1 and is wholly owned by Liao Chin-Yi;
- (f) Head Pearl was incorporated in the BVI on 7 February 2008, with an issued share capital of US\$10,000 divided into 10,000 shares of US\$1 each and is held as to 53.53% by Mr. Shao Ten-Po, 26.43% by Mr. Hsu Chieh-Jung, 8.6% by Mr. Tseng Chung-Cheng and 11.44% by Mr. Liao Chin-Yi, respectively;
- (g) Forever Art was incorporated in the BVI on 28 April 2008, with an issued share capital of US\$1 divided into 1 share of US\$1 each and is wholly owned by Hu Chin-Shu;

CORPORATE REORGANISATION AND GROUP STRUCTURE

Incorporation of Easy Era

- (h) Easy Era was incorporated in the BVI on 6 February 2008, with an issued share capital of US\$1 representing 1 share of US\$1 and is wholly owned by the Company;

Incorporation of the Hong Kong Holding Companies

- (i) Easy Venture was incorporated in Hong Kong on 23 February 2009, with an issued share capital of HK\$1 representing 1 share of HK\$1, and is wholly owned by Easy Era;
- (j) Prosper Advance was incorporated in Hong Kong on 30 March 2009, with an issued share capital of HK\$1 representing 1 share of HK\$1, and is wholly owned by Easy Era;
- (k) First Heritage was incorporated in Hong Kong on 22 June 2009, with an issued share capital of HK\$1 representing 1 share of HK\$1, and is wholly owned by Easy Era;
- (l) Star Guide was incorporated in Hong Kong on 22 June 2009, with an issued share capital of HK\$1 representing 1 share of HK\$1, and is wholly owned by Easy Era;

Transfer of equity interest in each of Fuqing Hong Liong, Fuzhou Aike, Shishi Maigen and Fuqing Ecotex

- (m) On 24 November 2009, the entire equity interest in Fuqing Hong Liong was transferred to Easy Venture from Hong Liong Textile as part of our reorganisation in preparation for the Listing at a consideration equivalent to RMB249,310,000 in shares of Easy Venture which was determined based on its net asset value as at 30 June 2009 and was settled by the allotment and issue of 1,500 Shares, 720 Shares, 112 Shares and 3,999 Shares, all credited as fully-paid, to More Will, Joyous King, Speedy Grand and Head Pearl, respectively, at the direction of Hong Liong Textile and the one nil-paid Share held by Head Pearl being credited as a fully paid Share;
- (n) On 24 November 2009, the entire equity interest in Fuzhou Aike was transferred to Star Guide from Hong Liong Textile as part of our reorganisation in preparation for the Listing at a consideration equivalent to RMB6,555,000 in shares of Star Guide which was determined based on its net asset value as at 30 June 2009 and was settled by the allotment and issue of 40 Shares, 20 Shares and 118 Shares, all credited as fully-paid, to More Will, Joyous King and Head Pearl, respectively, at the direction of Hong Liong Textile;
- (o) On 24 November 2009, the entire equity interest in Shishi Maigen was transferred to Prosper Advance from Hong Liong Textile as part of our reorganisation in preparation for the Listing at a consideration equivalent to RMB93,576,000 which was determined based on the investment costs incurred by Hong Liong Textile in the acquisition of Shishi Maigen in 2008 and, as confirmed by the Company, all outstanding amount owed by our Group to the Controlling Shareholders has been settled by the allotment and issue of 556 Shares, 295 Shares and 1,757 Shares, all credited as fully-paid, to More Will, Joyous King and Head Pearl, respectively, at the direction of Hong Liong Textile;

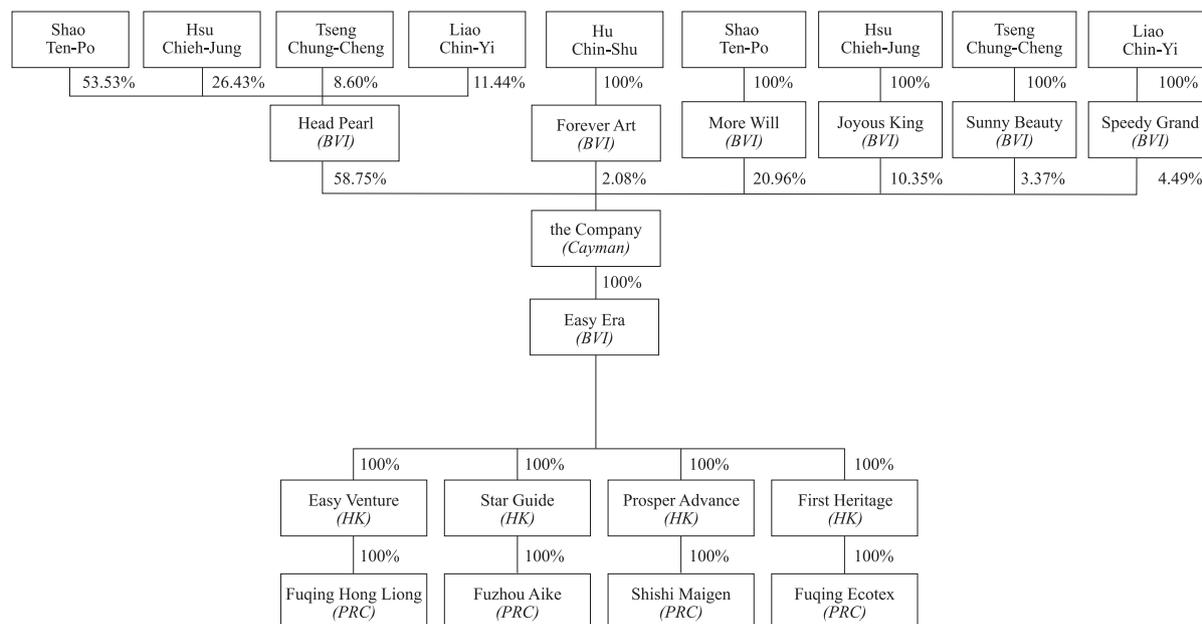
CORPORATE REORGANISATION AND GROUP STRUCTURE

- (p) in 24 November 2009, in preparation of the Reorganisation for the Listing, Chen Li-Chuan, Huang Sze-Ching, Hsu Fu-Mei and Hsueh Hui-Chen transferred their shares in Lucky Dragon (i.e. the investment holding company holding 100% interest in Fuqing Ecotex before the Reorganisation), representing approximately 64% of Lucky Dragon, to Tseng Chung-Cheng and Liao Chin-Yi at a consideration of RMB9,000,000 determined with reference to the annual compound growth rate of 3.8% from the amount of their initial registered capital of US\$1,024,000 made, as agreed upon between 1) Chen Li-Chuan, Huang Sze-Ching, Hsu Fu-Mei and Hsueh Hui-Chen, and 2) Tseng Chung-Cheng and Liao Chin-Yi. Upon such transfer, Fuqing Ecotex was owned as to 16% by Hu Chin-Shu, 42% by Tseng Chung-Cheng and 42% by Liao Chin-Yi; and
- (p) On 24 November 2009, the entire equity interest in Fuqing Ecotex was transferred to First Heritage from Lucky Dragon as part of our reorganisation in preparation for the Listing at a consideration equivalent to RMB35,324,000 in shares of First Heritage which was determined based on its net asset value as at 30 June 2009 and was settled by the allotment and issue of 337 Shares, 337 Shares and 208 Shares, all credited as fully-paid, to Sunny Beauty, Speedy Grand and Forever Art, respectively, at the direction of Lucky Dragon.

The Directors have advised that the consideration for the transfer of shares in Lucky Dragon by Chen Li-Chuan, Huang Sze-Ching, Hsu Fu-Mei and Hsueh Hui-Chen to Tseng Chung-Cheng and Liao Chin-Yi was determined with reference to the annual compound growth rate of 3.8% p.a. from the amount of the initial registered capital made by the Passive Investors, which in turn was based on the average historical time deposit interest rate of about 3.1% p.a. plus a premium. The Directors have advised that the terms of the transfer were determined after negotiation among the parties involved and that it was an understanding among the shareholders of Fuqing Ecotex at the time of investments that the annual return of the Passive Investors shall be a guaranteed return based on a percentage which is slightly higher than the time deposit in the local bank. The guaranteed rate of return of investment would be determined with reference to the average historical time deposit interest rate plus a nominal premium at the time when the Passive Investors exiting from their investment. In addition, Shao Ten-Po and other Concert Parties have the right to request the Passive Investors to exit as and when necessary. Given that Shao Ten-Po and other Concert Parties have a strong industrial background in the PRC and Taiwan, and that the Passive Investors did not participate in the management of Fuqing Ecotex since its establishment, and that they do not have a strong business relation network in the PRC and Taiwan or any management expertise in apparel and OEM businesses, they believe that their investment in Fuqing Ecotex is purely an investment plan with a guaranteed return. Considering that Shao Ten-Po and other Concert Parties intend to restructure the shareholding structure of the Group during the Reorganisation for the purpose of listing, Shao Ten-Po and other Concert Parties have exercised the right to request the Passive Investors to exit from their investment in Fuqing Ecotex at the consideration calculated based on the agreed method.

CORPORATE REORGANISATION AND GROUP STRUCTURE

Upon completion of the Reorganisation, our Company became the holding company of our Group. The following chart sets out the structure of our group immediately after the Reorganisation:



CAPITALISATION ISSUE

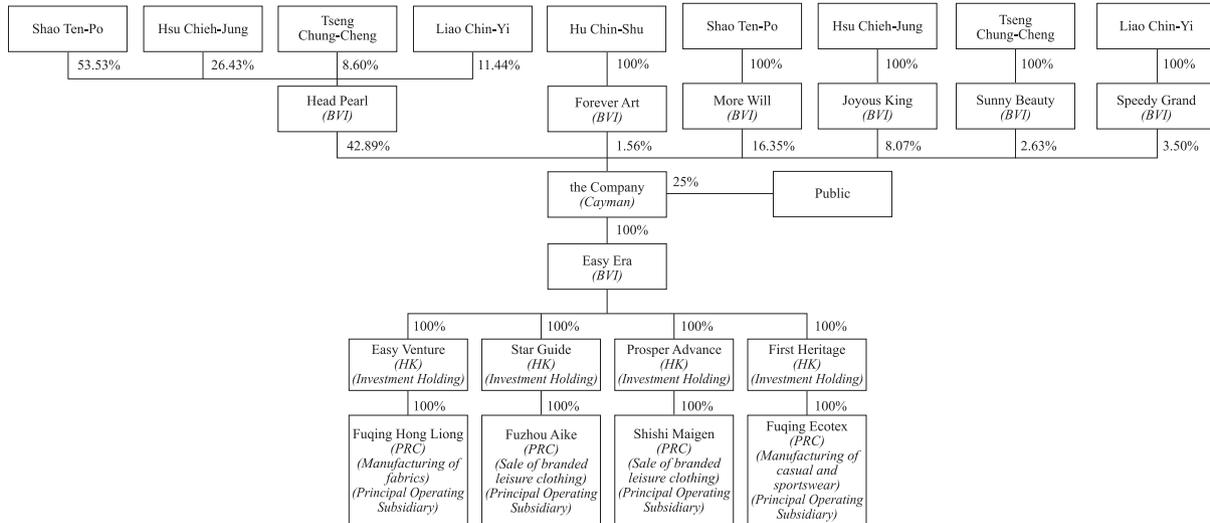
On 27 November 2009, the authorised share capital of the listing company was increased from HK\$380,000 divided into 3,800,000 Shares to HK\$500,000,000 divided into 5,000,000,000 Shares through the creation of 4,996,200,000 additional Shares.

Conditional upon the crediting of our Company's share premium account as a result of the issue of the Offer Shares pursuant to the Global Offering, our Directors are authorised to capitalise an amount of HK\$155,999,000 standing to the credit of the share premium account of our Company by applying such sum towards the paying up in full at par a total of 1,559,990,000 Shares for allotment and issue to our shareholders as of 27 November 2009, on a pro rata basis.

CORPORATE REORGANISATION AND GROUP STRUCTURE

GROUP STRUCTURE

The following chart sets forth our Group's corporate and shareholding structure upon completion of the Capitalisation Issue and the Global Offering (assuming that the Over-allotment Option is not exercised):



BUSINESS

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. The Group is also engaged in the design, development and marketing of fashion and leisure apparel and accessory products sold under the MXN brand.

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

Turnover	For the year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Fabric sales	548,476	83.9	769,841	82.6	888,984	70.2	431,213	82.6	511,537	62.6
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
Branded leisure clothing sales	—	—	—	—	222,685	17.6	17,658	3.4	245,677	30.0
Total	653,380	100.0	932,476	100.0	1,266,050	100.0	521,783	100.0	817,305	100.0

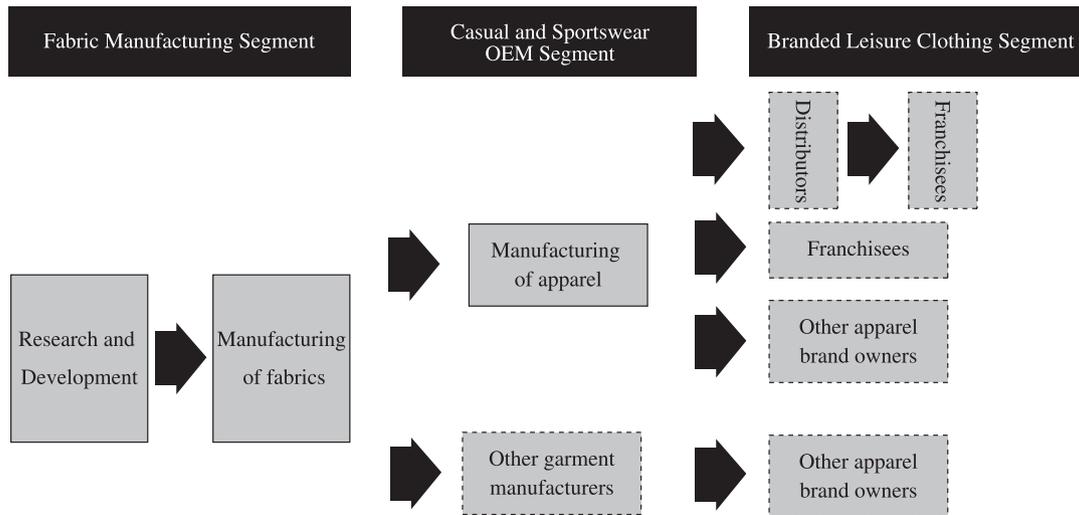
We collaborate closely with apparel brand owners to design fabrics that meet customised order particulars. Our finished fabrics comprise more than 2,880 designs and specifications. Our fabrics are used in a broad range of garments, including men's, women's and children's clothing, sportswear, golf shirt, T-shirt, swimwear and inner-wear. We have established business 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 the apparel brand owners for more than ten years even though 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 meters. We offer weft and warp knitting along with dyeing services.

Apart from the above, we are also engaged in the design, development, wholesale and marketing of fashion and leisure apparel and accessory products, sold under the MXN brand, which was acquired by us in the PRC pursuant to the agreement with Chen Pin-Chou, Kuo Yuan-Li, Su Ming-Che and Chen Li-Nuan dated 26 May 2008.

BUSINESS

The chart below illustrates our current segment model:



Note: Components of our segment model marked by solid lines refer to those parts of the value chain controlled by us, while those components marked by dotted lines indicate those not controlled by us.

COMPETITIVE STRENGTHS

We believe the following competitive strengths position us to capitalise on significant opportunities to sustain the growth of our business:

Integrated and efficient production operations

The Group vertically integrates the manufacture of fabrics to the production of branded causal leisure apparel. Among the Company's subsidiaries, Fuqing Hong Liong produces fabrics, which serves as one of the suppliers of raw materials for the production of sportswear and leisure apparel (Casual and Sportswear OEM Segment) by Fuqing Ecotex. Fuqing Ecotex also serves as one of the suppliers of sportswear and leisure apparel for Fuzhou Aike and Shishi Maigen. The Board believes that the Group's vertical integration strategy provides the Group with the flexibility to adjust product mix to meet changing market conditions and demands, and the capability to cater for the needs of customers. The Board is of opinion that the Group's efficient production and inventory management system enables the Group to fulfil customer orders within a short lead time.

Innovative design and product development

Product design

We believe that one of our core competitive strengths is our provision of fashionable branded products to meet consumer demands from time to time. Our MXN brand has its own merchandising department composing of 28 employees as at 31 October 2009.

In order to blend international perspective into our designs and to strengthen the standards of our local designs in China, we leverage on our good social resources and network and obtain first hand clothing samples through market research. We visit places in the Southeast Asia such as Hong Kong and

BUSINESS

Thailand to experience first hand the latest trends in style and fabric materials in those places. Since 2009, we have engaged a fashion design agency in Hong Kong to assist us with the design of international and fashionable apparel products for the China market.

Product development

For the fabric manufacturing segment, we develop new fabric constructions, patterns, textures and colours to meet our customers' specifications. We have equipment in our facilities dedicated to sample manufacturing where we test new fabric concepts for actual end-use products. Based upon the results of internal evaluations and retail tests, new fabrics are introduced into the marketplace. We also focus on developing innovative fabrics with value-added features, including anti-bacteria, anti-odour, anti-static, UV protection, moisture management, micro-fibre, stretch, and anion fabrics.

We work closely with our customers to ensure product quality and our research and development team plays an important part in development processes to meet quality standards.

Multi-faceted marketing strategy

Promotion by entertainment celebrity

We believe that marketing and promotion strategy is the key of success in the branded leisure clothing segment. We have deployed a new marketing campaign by using entertainment celebrities to promote our brand and products to attract and appeal to the fashion-conscious consumer. We have contracted an entertainment celebrity, who is popular among the Chinese-speaking communities, Peter Ho (何潤東), as an image and brand representative of our MXN brand because we believe he matches our culture and the lifestyle images that we want to be associated with the MXN brand. We believe this marketing strategy has been effective in attracting certain target consumers to our MXN brand and will result in increased market awareness and acceptance of our MXN brand as a trend-setting leisure wear brand.

Media advertising

Apart from the promotion by entertainment celebrities, we also strategically select other forms of advertising for our MXN brand that we believe match its image and market position.

We promote our MXN brand by posting advertisements in apparel magazines, broadcasting advertisements on bus media which cover 22 provinces and setting up advertising boards in stations or open areas outside shopping malls. Following the appointment of our entertainment celebrity, we have changed the advertising posters in the franchise shops and franchise stores accordingly in order to build up a clear brand image.

Focus on value-added fabrics with higher margins

With our product development, technical expertise and production scale, we consider that we are able to produce customised, high value-added fabrics that command higher average selling prices and generate higher margin.

BUSINESS

Established relationships with apparel brands

We believe our relationships with brand owners are due in large part to our reputation for reliability, in terms of quality control and on-time delivery, dedicated customer service, ability to innovate and competitive product pricing. We have established business relationships with a broad range of apparel brands such as internationally renowned labels, Decathlon, Kappa and Mizuno and local label, Li Ning and Anta. 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 the apparel brand owners for more than ten years even though we have not entered into long term supply contracts with these customers.

Experienced management team

Our core management team has been with the Group for about 15 years. Our Chairman, Vice-Chairman, and Chief Executive Officer have an average of over 20 years of industry experience.

The management team's ability to execute its business plan is demonstrated by the approximately 39.2% compound annual growth rate in turnover for the past three financial years and reflects the focus of our founders, executive Directors and senior management on enhancing profitability and creating shareholder value. After the completion of the Offering, our senior management will retain a significant financial interest in the Group's business.

BUSINESS STRATEGIES

Our principal business strategies are:

Expand and upgrade manufacturing facilities

In order to enhance our competitiveness and profitability, we seek to apply approximately HK\$132.2 million of the proceeds from the Global Offering, which represents approximately 13.2% of the net proceeds, to expand our manufacturing facilities, selectively upgrade production equipment and acquire environmental-friendly and energy-saving production equipment. Existing production equipment such as boiler equipment and thermal equipment will be upgraded. Environmental-friendly and energy-saving production equipment such as renovated dyeing equipment will be acquired in order to save energy, reduce production cost and increase production capacity for high-end products. We also seek to identify new production equipment designed to enhance our production efficiency and capacity, shorten turnaround time and reduce labour costs and energy consumption, particularly the equipment used for knitting, dyeing and finishing in our fabric manufacturing segment. These planned upgrades and acquisitions lay the foundation for improving both productivity and profitability in the future. It is expected that the proceeds will be invested in 2010 and the production capacity will increase by approximately 50% in the second half of 2010.

Develop new high-tech fabric specifications

We are currently planning to introduce additional value-added fabrics such as environment-friendly fabrics and functional fabrics to secure our competitive strength in research and development of high-tech fabrics in the industry.

In order to achieve such target, we seek to increase our resources on innovation, research and development of new high-tech fabric specifications, and to annually file at least three patent applications for registering an invention or a new process. Increasing our resources in research and development includes an expansion of our research and development department, acquisition of new research and development equipment, hiring experts and scholars in this profession, provision of training to existing research and development employees to enhance their professional standards and formulation of relevant approaches to encourage innovation. These initiatives will be implemented in order to strengthen the innovation and development capability of our own research and development department, which in turn will help us strive to become one of the world's leading professional manufacturers in functional fabrics and environment-friendly fabrics.

We expect to fund these initiatives from our internal resources.

Continue to develop and enhance our MXN brand name

Through the implementation of a number of innovative and diversified marketing plans targeted towards our major consumer group who are between the ages of 18 and 35, we intend to apply approximately HK\$259.7 million of the proceeds from the Global Offering, which represents approximately 26.0% of the net proceeds, to continue to develop and enhance our MXN brand and brand recognition as a leading and innovative retailer of trendy and fashionable casual wear and accessory products. The amount is significantly higher than the aggregated expenses on the same item during the Track Record Period. As advised by the Directors, before the acquisition by the Group in 2008, Shishi Maigen did not have a very well-organised marketing strategy. However, after the acquisition, the new management of our Group realised the importance of the popularity of a brand, which is also the core factor which leads to the success of running a brand business. So, our Directors advised that the number of franchise stores of us is expected to continue to expand, which will lead to an increase in the advertising and marketing costs as a result of the additional number of the franchise stores involved.

We intend to further promote the brand by engaging in various types of advertisement on mass media, including television commercials, radio, magazine advertising, outdoor displays, and multimedia advertisement on public transport, which will incur a substantial amount of promotion costs.

We first set up our MXN franchises in second-tier cities. In order to gain more brand awareness and exposure in first-tier cities at an accelerating pace, one of our initiatives is to appoint entertainment celebrities, who are popular in the trendy and youth mass market and have a fresh image that closely conveys the culture and lifestyle of our MXN brand, to be our image and brand spokespersons. In 2009, we appointed Peter Ho (何潤東), who is a popular Asian entertainment celebrity, to be our image and brand spokesperson.

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Moreover, we intend to hire a female celebrity as a spokesperson for the brand. Together with the current spokesperson, we intend to organise different marketing events to promote the brand, which will also significantly increase our cost of the advertising programme.

As advised by our Directors, we intend to apply approximately HK\$259.7 million of the net proceeds from the Global Offering in the three years after the listing of the Company for advertising and marketing. It is estimated that the advertising and marketing cost will be utilised as approximately HK\$38.9 million, HK\$90.9 million and HK\$129.9 million for each year of 2010 to 2012 respectively. We will use our internal resources to carry out the advertising and marketing activities in the subsequent years after that three years period of time as mentioned.

Expand and optimise our distribution network

We will continue to expand and optimise the distribution network of our MXN branded products. In 2008, our sales channels had mainly been distributionship and franchising. We intend to apply approximately HK\$352.6 million of the proceeds from the Global Offering, which represents approximately 35.3% of the net proceeds, to gradually speed up the establishing of 20 self-owned and operated flagship stores in 20 prime locations in major cities or provinces of the PRC in the coming years of 2010 and 2011. The flagship stores are planned to be located in East China (such as Shanghai and Fujian), South China (such as Hubei, Guangdong and Hong Kong), Southwest China (such as Sichuan and Yunnan), Northeast China (such as Heilongjiang Liaoning), and North China (such as Beijing and Tianjin). We believe that the flagship stores are a good means for promoting the image of the brand and style of the shop for attracting potential investment. This is another initiative of ours to outreach our MXN brand to increase brand recognition and reputation. We have no self-owned and operated flagship stores as the Latest Practicable Date.

Implement our multi-brand strategy

We confirm that we are currently in negotiation for the acquisition of a second sports and leisure apparel brand. Substantive negotiations are expected to be entered in 2010, and that particular brand will join our Group in the second half of the same year if the negotiation is successful. As confirmed by our Directors, the negotiation between the potential seller of the leisure apparel brand in the PRC has undergone for about one year. Both the potential seller and us were having a preliminary intention but these are no concrete terms or arrangements at this stage. Thus, the acquisition may or may not be successful.

We intend to apply approximately HK\$132.2 million of the proceeds from the Global Offering, which represents approximately 13.2% of the net proceeds, for the acquisition of the second sports and leisure apparel brand. This multi-brand strategy not only allows us to offer a wider range of product offerings but also allows us to distinguish and divide our target markets with a number of unique brands that cater and attract different customer groups. Therefore, we will continue to develop and promote each of our brands as a unique brand targeting different consumer groups.

Continue to reinforce our one-stop solutions

Through providing our customers with a variety of value-added services and solutions, we seek to strengthen our cooperative relationships with our customers and secure higher-margin business. Different from many Asian apparel companies that are mainly engaged in either fabric manufacturing, casual and

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sportswear OEM manufacturing or distribution, we vertically integrate the apparel industry chain. We integrate fabric manufacturing, apparel manufacturing and branded distribution and enjoy the advantages of such one-stop solutions. From manufacturing of fabrics to trading of apparel, this business integration enables us to have more control and rights over different procedures throughout the apparel industry chain.

To reinforce our one-stop solutions and enhance our corporate image, we intend to apply approximately HK\$52.8 million of the proceeds from the Global Offering, which represents approximately 5.3% of the net proceeds, to establish a more centralised administrative corporate headquarters, where the internal resources of our Group, product design, logistics management, office and exhibitions are integrated. In addition, it will be where general assemblies for suppliers, distributors and customers who place their orders are held. As advised by our Directors, the Board has not identified any target building and is not under any negotiation for the acquisition. Our Directors confirmed that at this stage, we only have a preliminary plan to establish the corporate headquarters in Fuqing.

Continue to improve our management of production

Although we believe we currently enjoy a flexibility in adjusting our production schedules to meet production needs through outsourcing production to sub-contractors and contract manufacturers, we will continue to expand and improve our manufacturing facilities in order to meet the expected growth of our business and the growing demand for our fabrics, sportswear products and leisure apparel and accessory products. In particular, we intend to apply approximately HK\$44.1 million of the proceeds from the Global Offering, which represents approximately 4.4% of the net proceeds, to purchase an ERP system for increasing operational efficiency by enhancing information management, production management, logistics management and operational control through the installation of the ERP system. We aim to do this in order to strengthen our control over operations and cost and to rapidly respond to the changing market trends and preferences. We believe that the growth in our business, operations and production volume will increase our efficiency in terms of product line utilisation rates while allowing us to reduce our raw material costs. We will also continue to refine and improve our manufacturing facilities in order to improve production rates and reduce stoppages.

Strengthen cooperative relationships with our MXN franchisees

We intend to apply approximately HK\$26.4 million of the proceeds from the Global Offering, which represents approximately 2.6% of the net proceeds, to develop our new corporate headquarters for our MXN distribution business. The setting up of the new MXN corporate headquarters can consolidate the design, logistics, operations and convention functions such as annual sales fairs into a single place, and in which, we can carry out conventions for potential investors, merchandisers, suppliers and franchise distributors. As advised by our Directors, the Board has not identified any target building and is not under any negotiation for the acquisition. Our Directors confirmed that at this stage, we only have a preliminary plan to establish the new MXN corporate headquarters in Xiamen.

PRINCIPAL PRODUCTS

Fabric Manufacturing Segment

We now manufacture and offer a wide range of designs and specifications of functional and comfortable chemical fibre knitted fabrics to garment manufacturers in China. Designs for fabrics that meet individualised order specifics are typically developed after exchanging ideas and working closely with owners of major domestic and foreign well-known apparel brands. To meet the tastes and preferences of their target consumers, many of these orders made by the apparel brand owners require highly customised, complex design and production specifications. Our garment manufacturer customers in turn manufacture finished garments using our chemical fibre knitted fabrics for sale to the apparel brand owners.

Weft knitted and warp knitted fabric

We produce and sell weft knitted and warp knitted fabrics which are made from raw yarns. Weft knitted fabric is commonly used for the production of lightweight apparel, such as T-shirts, polo shirts and night clothes, and is knitted in one continuous row.

On the other hand, warp knitted fabric is knitted using vertical, horizontal and diagonal interlooping of raw yarns. A variety of complex fabrics can be made from warp knitted fabric ranging from stretch and compression fabrics to heavy and sturdy fabrics. Therefore, warp knitted fabric is commonly used for the production of apparel requiring such complexity, for example, swimwear, underwear and non-apparel products such as automobile decorations.

Main fabric specifications

The weft knitted and warp knitted fabrics we manufacture have more than 2,880 designs and specifications. The table below lists out a few of the many types of fabric that we mainly produce and classification is mainly made by type of finish and knitting structure:

Name	Description	Typical end use as expected by the Company
Environmental-friendly fabrics	fabrics knitted with recycled fibre or decomposable fibre	Sportswear, golf shirt, inner-wear
Functional fabrics	fabrics that incorporate value-added features such as anti-microbial, anti-electromagnetic radiation, anti-ultraviolet, anti-odour, anti-infrared, warmth-retaining, light-weight and moisture management	Sportswear, golf shirt
Jersey	a plain light-weight single-knit fabric	T-shirt, inner-wear
Double-knit	fabric produced on a circular-knitting machine equipped with two sets of latch needles situated at right angles to each other	Turtleneck, polo shirt

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Name	Description	Typical end use as expected by the Company
Striped	fabric knitted with different fibres and then dyed with horizontal strip pattern made by two to four kinds of colored yarns according to individualised order specifics	T-shirt, polo shirt, golf shirt
Velour	Plain knitted terry fabric with a sheared surface on one side and a smooth surface on the reverse	Pullover, jacket, pants
Polar-fleece	plain knitted fabric with both sides brushed and single side anti-pilling	Hooded jacket
Nylex	a plain fabric with a pillled and sanded surface on one side resembling the detailed touch of peach skin and velvet	Furniture, indoor slippers, boots
Stretch fabrics	fabrics knitted with elastomers (spandex) to provide stretch properties	Inner-wear, t-shirt, swimwear

Casual and Sportswear OEM Segment and Branded Leisure Clothing Segment

To maximise the efficient use of our manufacturing capacity, we also manufacture apparel for various domestic and foreign well-known brands. We categorise our principal products under these two components of our segment model into (i) sportswear and, (ii) leisure apparel and accessory products. Among the other brands, our leisure apparel and sportswear are as well sold under the Aike Sport brand, which is owned by us; and our leisure apparel and accessory products are also sold under the MXN brand, which was acquired by us in May 2008. These brands have their own target consumer groups and are managed by our separate subsidiaries, each of which is responsible for its own product design and development, production, marketing and promotion, distribution and retail.

Aike Sport

The Aike Sport brand was launched in 2008 and is owned by us. Through our brand, we strive to deliver sports and leisure apparel to our target group of consumers, who are consumers between the ages of 6 and 14. We also strive to make functional fabrics, affordable to children in China. By combining the functionality of functional fabrics which incorporate features such as moisture management, anti-microbial and anti-mould with the characteristics, demand and fashion trends of children and teenagers' clothing, we believe that we have been successful in designing fashionable sports and leisure apparel which are appealing to the trendy and youth mass market.

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MXN

The MXN brand was acquired in May 2008 and is owned by us. We understand that the designer of the MXN logo “**MXN** 慕新” took the main letters of two words: MODERN and NATURE as the basis of the brand culture. The collision of two arrows forming “X” closely links modern and nature which are the two essences highly valued by the new generation of young consumers. The Board is of the view that the logo represents a more in-depth interpretation of our brand name “MXN” which emphasises the culture of naturally designed, simple and stylish clothing and accessory products. Through our brand, we strive to deliver casual wear and accessory products which feature the characteristics of popular cultures to our target group of consumers, who would be consumers between the ages of 18 and 35.

Major Awards

The following table sets out our major awards obtained by us:

Brand	Year of grant	Awards	Awarding body
HO-COOLING	2004.12	Well-known trademark of Fuzhou	Administration for Industry and Commerce of Fuzhou
HO-COOLING	2006.01	Fujian top brand	Government of Fujian Province
HO-COOLING	2008.12	Fujian top brand	Rongqiao Economic & Technological Development Zone/Government of Fujian Province
	2008.09	Well-known trademark of Fujian Province	Administration for Industry and Commerce of Fujian

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Product Offerings

We currently offer a wide range of products including (i) fabrics, (ii) sportswear and (iii) leisure apparel and accessory products. The following table lists out our major product types under each of the above-mentioned categories:

Fabrics	Sportswear	Leisure apparel and accessory products
Environmental-friendly fabrics	sports T-shirts	Jeans
Functional fabrics	sports pants	Casual pants
● Ho-cooling [®]	long-sleeved shirts	Vests
● Smartech [®] -BB	short-sleeved T-shirts	Short pants
● Smartech [®] -DD	short-sleeved shirts	Jackets
● Smartech [®] -NS	sports suits	Shirts
● Smartech [®] -PH		Windbreakers
● Smartech [®] -NT		T-shirts
● Smartech [®] -MR		Down coats
● Smartech [®] -CS		Belts
Jersey		
Double-knitted		
Stripped		
Velour		
Polar-fleece		
Nylex		
Stretch fabrics		

During 2006 and 2007, all of our turnover was derived from fabric manufacturing segment and casual and sportswear OEM segment. The turnover derived from our Aike brand and MXN brand amounted to approximately 17.6% of our total turnover in 2008 under the branded leisure clothing segment. 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						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>(unaudited)</i>			
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Fabric sales	548,476	83.9	769,841	82.6	888,984	70.2	431,213	82.6	511,537	62.6
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
Branded leisure clothing sales	—	—	—	—	222,685	17.6	17,658	3.4	245,677	30.0
Total	<u>653,380</u>	<u>100.0</u>	<u>932,476</u>	<u>100.0</u>	<u>1,266,050</u>	<u>100.0</u>	<u>521,783</u>	<u>100.0</u>	<u>817,305</u>	<u>100.0</u>

RESEARCH, DEVELOPMENT AND DESIGN

Research and development

As at 31 October 2009, our research and development team consisted of 26 experienced researchers. Our research and development efforts focus on developing new fabrics and styles to meet specific styling requirements or other specific properties, such as insulation, weight, strength, and support as well as improving fabric quality and production efficiency. We sometimes collaborate with our customers to produce new fabrics.

As advised by our Directors, the collaborations with its customers to produce new fabrics were material to our Group. As the investment cost contributed by the Group was absorbed in the administrative and management cost of each department, there is no separate classification for new product development. In the research and development project collaborated with customers, our Group involved in the design of style, texture, color, function and final structure of new products. Our Group also produced samples of new products for customers. As the cost of the Group in developing new products with customers was absorbed in the administrative and management cost in different departments, there is no profit sharing between our Group and the customers.

As advised by our Directors, the amount of research and development expenses incurred by our Group were approximately RMB1.22 million, RMB1.22 million and RMB1.51 million and RMB0.56 million for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 respectively.

For the fabric manufacturing segment, we develop new fabric constructions, patterns, textures and colours to meet our customers' specifications. We have equipment in our facilities dedicated to sample manufacturing where we test new fabric concepts for actual end-use products. Based upon the results of internal evaluations and retail tests, new fabrics are introduced into the marketplace. We also focus on developing functional fabrics with value-added features, including anti-bacteria, anti-odour, anti-static, UV protection, moisture management, micro-fibre, stretch, and anion fabrics.

We work closely with our customers to ensure product quality and our research and development team plays an important part in development processes to meet quality standards.

Product design

Our Group strived to make functional fabrics. By combining the functionality of functional fabrics with the characteristics, demand and fashion trends of children and teenagers' clothing, our Directors believe that we had been successful in designing fashionable sports and leisure apparel. We did not hire any design agency for Aike Sport brand products but our Group have an in-house design team for the product design. Our in-house design team for Aike Sport brand consist of 6 employees as at 31 October 2009.

As a brand which emphasises the culture of naturally designed, simple and stylish clothing and accessory products, we believe our MXN brand must continue to focus on designing innovative and stylish branded apparel products that are able to attract and sustain the new generation of young

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consumers. We believe that one of our core competitive strengths is our provision of fashionable branded products to meet consumer demands from time to time. Our MXN brand has its own merchandising department which comprises 24 employees as at the Latest Practicable Date.

In order to blend international perspective into our designs and to strengthen the standards of our local designs in China, we leverage our good social resources and network and obtain first hand clothing samples through market research. We visit major cities such as Hong Kong and Thailand in the Southeast Asia to experience first hand the latest trends in style and fabric materials in those cities. Since 2008, we have employed a fashion design agency from Hong Kong to assist us in designing international and fashionable apparel products for the China market.

Our product design process starts with our own dedicated product design department producing a planned portfolio of apparel products which in turn is submitted to the Hong Kong fashion design agency for product design. With a deep understanding of the current fashion trends, the Hong Kong fashion agency begins their design from three areas: trend, design and fashion theme and sets a general design direction for the clothing every season. Subsequently, our own product design department will refine the ideas of the Hong Kong fashion agency by considering the China market, the Chinese consumers' purchasing habits and the market information. As advised by our Directors, our Group has not entered into long-term agreement with the fashion design agency. Our Directors also confirmed that the fashion design agency is independent of the Group.

We plan to purchase an ERP system to analyse customers' purchasing behaviour. In addition, we plan to upgrade our logistics management (i.e. inventory control and scheduling).

MANUFACTURING PROCESSES

Fabric manufacturing segment

Our production processes are of a high degree of mechanisation. We process raw yarn and greige fabric into weft knitted or warp knitted fabrics.

Our fabric production cycle can be divided into three general procedures: knitting, dyeing and finishing, which are illustrated as follows:

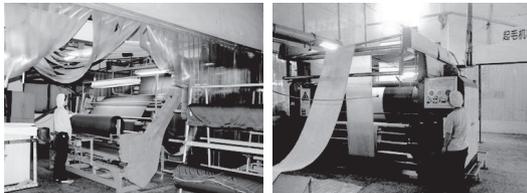
Knitting



Dyeing



Pilling*



Finishing



* This step of the production process does not apply to all fabric types. Only nylex go through this process. If the pilling process is required, the dyed fabrics are then dried at high temperature and pilled.

Knitting

This procedure occurs in our knitting factory. Employees from the knitting workshops first collect raw yarn in accordance with the fabric production schedule. In the production of warp knitted fabrics, raw yarns are put up on a horizontal scroll. The horizontal scroll is put onto the knitting machine and raw yarns are fed from the horizontal scroll to the knitting machine for knitting. In the production of weft knitted fabrics, raw yarns are put up on cones. After winding, cones of raw yarns are put on creels to feed into the circular knitting machines for knitting. Upon completion of the knitting, the knitted fabrics are first tested before being transported to the warehouse of semi-finished products.

Dyeing

This procedure occurs in our dyeing and finishing plant. Employees from the dyeing and finishing workshops first collect semi-finished products (including the knitted fabrics self-produced and greige fabrics purchased) from the warehouse of semi-finished products, dyes and dye auxiliaries. In preparation for the dyeing process, fabrics are first inspected. They are then scoured to remove dust, impurities and oil. Dyes and dye auxiliaries are then added onto the scoured fabrics for the dyeing process. After being dehydrated, dyed fabrics then undergo an intermediate inspection to check whether their colors and quality match customers' specifics. If the pilling process is required, the dyed fabrics are then dried at high temperature and pilled; otherwise, they are then inspected by our quality control employees and will then be processed through the finishing step.

Finishing

This procedure occurs in our dyeing and finishing plant. Fabrics will be transported to the warehouse of finished products for shipping after final inspection and packaging.

Casual and sportswear OEM segment

Our apparel manufacturing process is divided into five major stages: (i) raw materials inspection and testing; (ii) cutting and trimming; (iii) sewing and assembly; (iv) ironing; and (v) packaging.

The major raw materials in the production of apparel are fabrics. Prior to being cut and trimmed into individual components of the desired shape, fabrics and other raw materials are usually required to be inspected and tested by our quality control department. During the inspection and testing, fabrics are put onto a winding machine for our quality control staff members to view their colors and textures such as knitting patterns, thickness and touch. We confirm that other raw materials undergo a conventional viewing of their quality which can be identified easily through an appearance inspection. After our quality control inspection and testing, raw materials qualified for processing are then prepared for sewing and stitching. Individual components such as sleeves, front and back are then assembled to form the finished products. To preserve the shape and appearance of the finished products, ironing might be necessary. In order to ensure high quality of products, finished products will be prepared for packaging and shipping after final inspection by our quality control staff members.

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MANUFACTURING FACILITIES

Fabric manufacturing segment

The following tables present a number of annual production capacity and related information for our fabric manufacturing facilities:

	Period				
	For the year ended 31 December		2008	For the six months ended 30 June	
	2006	2007		2008	2009
Approximate output (tonnes)	12,576	14,758	15,420	7,584	7,886
Annualised production capacity (tonnes)	16,000	16,000	16,000	8,000	9,000
Annual production capacity represented by the percentage approximate output represents of annualised production (%)	79%	92%	96%	95%	88%

Casual and sportswear OEM segment

Apart from the captive cogeneration power facility included in our Fuqing manufacturing facility, we operate our own apparel manufacturing facilities to more effectively control the quality of our products as well as to respond more quickly to consumer demand. Other than those apparel products produced under outsourcing, the production of our entire apparel products takes place at our own production facilities located in Fuqing, Fujian Province. We operated apparel production lines with annual manufacturing capacity of approximately 1.63 million, 1.74 million and 2.53 million pieces of apparel products per annum as at 31 December 2006, 2007 and 2008 respectively. The following tables present a number of annual production capacity and related information for our apparel manufacturing facilities:

	Period				
	For the year ended 31 December		2008	For the six months ended 30 June	
	2006	2007		2008	2009
Approximate output (thousand pieces)	1,626	1,738	2,525	969	1,103
Annualised production (thousand pieces)	2,362	2,362	2,362	1,184	1,262
Annual production capacity represented by the percentage approximate output represents of annualised production (%)	69%	74%	107%	82%	87%

The approximate annual output as a percentage of the annualised production in 2008 exceeded 100%. As confirmed by the Directors, it is because the production of 320,200 pieces of apparel products commenced in 2007 but was not completed until 2008, when the finished apparel products were transported to the warehouse and recorded as inventory.

We believe that our current apparel manufacturing facilities are cost-competitive. At the same time, we also continue to improve our manufacturing facilities and production lines to increase productivity of our manufacturing facilities and enhance quality control. Currently, our apparel production lines are staffed with three shifts a day, each shift comprising approximately 240 to 270 production staff.

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In order to improve production efficiencies at our existing manufacturing facilities and production lines, we plan to allocate a portion of the proceeds from the Global Offering to capital expenditure for the purchase of environmental energy-saving production facilities.

Sewing equipment is the most important among all the production equipment for our daily production. As a contingency plan to cope with power shortages and suspensions and mechanical failures of our sewing equipment, our maintenance technicians are on call to carry out repairs and troubleshooting. The Group has maintenance manual specifically for sewing equipment and sewing equipment can only be operated by the trained staff. During the Track Record Period, we did not experience any major failures of our sewing equipment.

THIRD-PARTY OUTSOURCING

For the fabric manufacturing segment, we may outsource to some third-party sub-contractors during the peak season, when the demand exceeds our production capacity, for the production processes of dyeing, printing, and pilling. We select the third-party sub-contractors based on the quality and cost of their work. We do not enter into long-term agreements with third-party sub-contractors but instead maintain flexibility by working with them based on individual orders, and we generally supply them with raw materials in the outsourcing production.

For the casual and sportswear OEM segment, we occasionally outsource the production of some of our sportswear and leisure apparel and accessory products to various third-party sub-contractors. Sub-contractors are engaged to perform all or certain of the production steps. We outsource our whole production processes occasionally when the demand exceeds our production capacity. We select the third-party sub-contractors based on the quality and cost of their work. We do not enter into long-term agreements with third-party sub-contractors but instead maintain flexibility by working with them based on individual orders, and we generally supply them with materials in the outsourcing production.

For the branded leisure clothing segment, the production processes of the Group's Aike and MXN branded leisure clothing products are outsourced to third-party contract manufacturers as well as contracted to Fuqing Ecotex. The Group engage the contract manufacturers to perform the entire production processes and they will be responsible for purchasing the relevant raw materials. We select the third-party contract manufacturers based on their reputation as well as the quality and cost of their work. We do not enter into long-term agreements with third-party contract manufacturers but instead maintain flexibility by working with them based on individual orders.

The number of sub-contractors available and approved by the Group's production on fabric for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 was 19, 10, and 12 and 9.

The number of sub-contractors available and approved by the Group's production on OEM segment for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 was 8, 7, and 7 and 12.

The number of contract manufacturers available and approved by the Group's branded leisure clothing segment for the year ended 31 December 2008 and the six months ended 30 June 2009 was 42 and 33.

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The costs incurred by us in respect of third-party sub-contractors under outsourcing arrangements for 2006, 2007 and 2008 were approximately RMB29.2 million, RMB28.7 million and RMB27.0 million respectively, representing a percentage of the Group's total cost of sales of 5.8%, 4.1% and 3.0% respectively, for each of the year during the Track Record Period. Our Directors consider that the production processes outsourced to the sub-contractors are critical to the Group's production. The percentage of apparel products produced by sub-contractors of the Group for 2006 and 2007 was approximately 30% of the total number of apparel products produced. For 2008, the percentage dropped to approximately 22%. Although the Directors consider the production processes outsourced to the sub-contractors are crucial to the Group's production, they are of the view that there are no associated risks with outsourcing arrangements as there are a number of sub-contractors can be found in Fuzhou. In order to maintain the competitiveness between the sub-contractors, the costs of outsourcing offered by the sub-contractors would not fluctuate much. The Directors advised that sub-contractors can easily be replaced if the quality of products is poor or the charge of outsourcing is high. As confirmed by the Directors, they do not think there is any significant risk associated with outsourcing. Our Directors confirm that the sub-contractors are independent third parties.

RAW MATERIALS, MATERIALS PURCHASED AND SUPPLIERS

The principal raw materials used in the production of our fabric products are raw yarns and greige fabric, chemicals and dye auxiliaries while the raw materials used in the manufacture of our apparel products are fabrics. All these materials can be obtained from domestic suppliers in the PRC. For the branded leisure clothing segment, since the Group engages the contract manufacturers to perform the entire production processes and they will be responsible for purchasing the relevant raw materials, the materials purchased by the Group in this segment is finished garments.

We have developed solid and steady relationships with many of our key suppliers, as they have been supplying to us for years. As advised by our Directors, our Group maintained solid and steady relationship with its key suppliers. Given our solid and steady relationships with many of our key suppliers, we believe that our suppliers generally prioritises their supply to us and we did not experience any material delays in receiving supplies from our suppliers during the Track Record Period.

Our suppliers including raw material suppliers as well as sub-contractors and contract manufacturers to whom we outsource the manufacture of our apparel products. Through our one-stop solutions to the apparel industry chain, for each of the years ended 31 December 2006, 2007 and 2008, purchases of fabrics made by Fuqing Ecotex from Fuqing Hong Liong amounted to approximately RMB50.4 million, RMB102.3 million and RMB105.4 million, respectively. For the year ended 31 December 2008, purchases of finished garments made by Fuzhou Aike and Shishi Maigen (after the date of its acquisition by the Group) from Fuqing Ecotex amounted to approximately RMB21.0 million and RMB38.7 million, respectively.

For each of the years ended 31 December 2006, 2007 and 2008, purchases from our top five suppliers amounted to RMB183.99 million, RMB243.03 million and RMB228.61 million, respectively, representing 36.6%, 34.8% and 25.1% of our total purchases. During these periods, purchases from our largest supplier amounted to RMB74.29 million, RMB75.15 million and RMB66.05 million, respectively, representing 14.8%, 10.8% and 7.2% of our total purchases for 2006, 2007 and 2008. We confirm that we generally enjoy credit of 30–60 days from our suppliers.

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We purchase certain raw materials from our connected parties. Please refer to the section headed “Connected Transactions — Continuing Connected Transactions” in this prospectus. Apart from that, none of our Directors, our chief executive, or any person who (to our knowledge) owns more than 5% of our issued share capital or any of our subsidiaries, or any of their respective associates, had any interest in any of our top five suppliers during the track Record Period.

INVESTMENTS IN OTHER COMPANIES

As at the Latest Practicable Date, save as disclosed herein, we have not invested in any other companies.

SALES AND DISTRIBUTION

Customers

The customers of the fabric manufacturing segment and casual and sportswear OEM segment are mostly brand owners, who are the end-users of our fabrics. We have dedicated sales teams assigned to those brand accounts to provide frequent contact in order to enhance our knowledge of and responsiveness to their specific needs and ensure full accountability for sales-related activities and customer service. As at 30 September 2009, our sales and marketing team consisted of approximately 382 personnel.

Accordingly, our sales efforts primarily target global and PRC brands with a strong image and a high volume of business. We have developed and maintained good business relationships with internationally renowned labels such as Decathlon, Mizuno and Kappa and local labels such as Li Ning and Anta.

Our top five largest customers accounted for approximately 27.9%, 27.7%, and 15.8%, respectively, of our total turnover for the three years ended 31 December 2006, 2007, and 2008. Sales to our largest customer of each year amounted to RMB70.25 million, RMB84.43 million and RMB60.5 million, respectively, representing 10.8%, 9.1% and 4.8% of our total sales. None of the Directors, their respective associates or, so far as the Directors are aware, the existing shareholders of the Company had any interest in any of the top five largest customers of the Group during the Track Record Period. 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 distributions 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. We perform ongoing credit evaluations of our franchise distributors’ and franchise stores’ financial condition and they are generally not required to provide collateral to guarantee us their payment obligations. We monitor our receivable balances from each franchise distributor and franchise store weekly, and will make appropriate assessments in a timely manner as to whether or not an allowance for doubtful debts will need to be made. As of 31 December 2006, 2007 and 2008 and 30 June 2009, our allowance for doubtful debts was approximately RMB Nil, RMB4.8 million, RMB4.8 million and RMB8.1 million respectively and impairment loss of RMB Nil, RMB4.8 million, RMB Nil and RMB3.3 million was recognised for the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009.

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During the Track Record Period, the percentage of the aggregate sales of fabrics and casual and sportswear OEM to the leading brands customers is listed out as follow:

	Year ended 31 December		
	2006	2007	2008
Decathlon	22.42%	21.33%	18.29%
Li-Ning	15.29%	13.43%	16.18%
Anta	3.30%	6.66%	6.86%
Mizuno	11.05%	11.53%	12.58%
Kappa	2.36%	2.69%	1.73%

For our branded leisure clothing segment under the Aike Sport brand, we do not have any franchise distributors or franchise stores and all sales are made to wholesalers. We have a showroom in our Fuqing head office for displaying the Aike Sport apparel and for the wholesaler to place their orders. For the Aike Sport, the tenure of the sales contracts between our Group and our customers would be agreed after negotiations on a case by case basis.

For our branded leisure clothing segment under the MXN brand, please read the sub-section headed “Distribution” under this section for further details of the franchise stores. All of our customers are franchise distributors and franchise stores. Under our wholesale business model, we employ a franchise distribution model which is commonly used by apparel brand owners in the PRC. Neither the franchise distributors nor the franchise stores were owned or operated by our Group. After our acquisition of Shishi Maigen in 2008, we had 420 franchise stores as at 31 December 2008, and 665 franchise stores as at the Latest Practicable Date. For the year ended 31 December 2008 and as at the Latest Practicable Date, we had 11 and 22 franchise distributors, who in turn had 171 and 379 franchise stores, respectively. As confirmed by the Directors, the Group did not own any franchise stores during the Track Record Period and as at the Latest Practicable Date. For the year ended 31 December 2008 and the Latest Practicable Date, the total number of MXN franchise stores was increased by about 58% while the total number of the MXN franchise stores that are not under the franchise distributors was increased by about 15%. As confirmed by the Directors, the Group did not own the franchise stores in 2006 and 2007.

The following table sets forth the amount of sales of Aike Sport and MXN products under the branded leisure clothing segment for the year ended 31 December 2008 and six months ended 30 June 2008 and 2009 as follows:

	Year ended	Six months ended 30 June	
	31 December	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Aike Sport	20,341	2,288	12,516
MXN	<u>202,344</u>	<u>15,370</u>	<u>233,161</u>
	<u><u>222,685</u></u>	<u><u>17,658</u></u>	<u><u>245,677</u></u>

Sales

Fabric sales

Our sales team, which consisted of approximately 49 personnel as at 30 September 2009, evaluates our production capacity before accepting a sales order and makes direct sales to our customers. While we obtain such sales orders by visiting the offices of apparel brand owners and exploring cooperation opportunities periodically, we also receive sales orders from customers who are directed to us by other apparel brand owners, some of whom we have been working closely with. We do not have long-term written sales contracts with most of our customers. From time to time we enter into informal written contracts or order forms with garment manufacturers, but orders are also frequently accepted upon oral agreement or via email or fax. We believe this is consistent with the industry practice. Since our production of fabrics is commenced only after these informal written contracts and orders are accepted, there is no tenure for the contracts we enter into with our customers. For the fabric manufacturing segment, we generally provide our customers with trade credit of 30–60 days, and we collect a 30–50% deposit for orders of special fabrics. For the casual and sportswear OEM segment, we generally provide our customers with trade credit of 30 to 60 days. For the branded leisure clothing segment, please read “Distribution” under this section.

Casual and sportswear OEM sales

Our sales team under the casual and sportswear OEM segment consisted of approximately 11 personnel as at 30 September 2009 and makes direct sales to our customers. Same as the fabric manufacturing segment, we obtain sales orders by visiting the offices of apparel brand owners and exploring cooperation opportunities periodically. In addition, we receive sales orders largely from customers who purchase our fabrics after working closely with us to develop certain fabrics that require highly customised, complex design and production specifications. For this segment, we also from time to time enter into informal written contracts or orders with various domestic and foreign well-known brands. Since we only commence production of casual and sportswear OEM products after having confirmed these informal written contracts and orders with them, there is no tenure for the contracts we enter into with our customers. In 2006, approximately 16.1% of our turnover was derived from casual and sportswear OEM sales. Although the turnover derived from casual and sportswear OEM sales had increased to approximately 17.4% in 2007, our management began the process of shifting our business focus to franchise distribution of branded leisure clothing, because we believe it has greater potential and such positioning differentiates us from major competitors. Our Directors believe that the increase in GDP, the increase in average income and spending power of the PRC citizens, and the increasingly strong sentiment towards the overall economic conditions in China brought and to be brought by the Beijing 2008 Olympic Games and the Guangzhou 2010 Asian Games respectively will increase the demand and thus the sales of branded leisure clothing.

In 2008, the turnover derived from casual and sportswear OEM sales has decreased to approximately 12.2%. We will continue to concentrate our resources to strengthen our branded leisure clothing segment and we plan to continue to reduce our casual and sportswear OEM segment and its contribution to our Group’s total turnover.

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Post-sales customer support

We believe our reputation is key to success of our business and we place importance on the quality of customer support that we provide. Therefore, our dedicated sales team provides our customers with dedicated post-sales customer service. Our sales team is also responsible for the day-to-day handling of minor claims or complaints from existing clients and coordination with the production team for any necessary reprocessing of orders.

General operations for our branded leisure clothing segment

Aike Sport

Under our branded leisure clothing segment for the Aike Sport products, we generate all of our turnover from sales of apparel to wholesaler. We do not sell our Aike Sport products to the end-customers.

MXN

We generally generate all of our turnover in this segment from sales of our branded leisure clothing on a franchise basis. We sell our branded leisure clothing to our customers who were primarily franchise distributors and franchise stores (directly under us or our franchise distributors). We do not sell our products directly to the end-customers. Franchise distributors and franchise stores under us place wholesale orders for our products directly with us, and franchise stores under the franchise distributors place wholesale orders for our products directly with our franchise distributors.

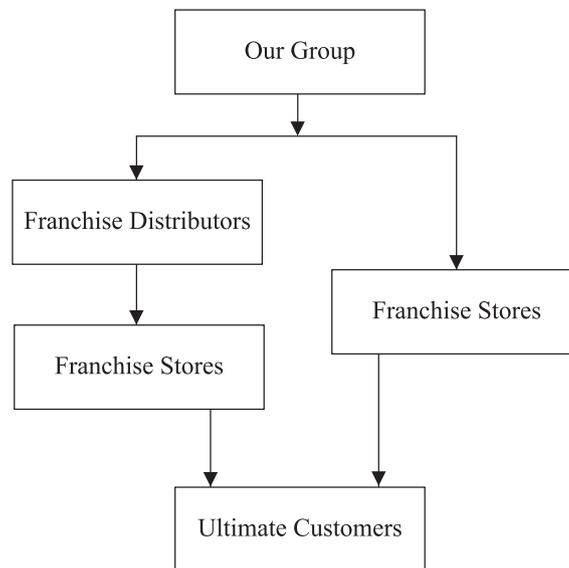
During the Track Record Period, our sales of MXN products recorded substantial growth. The Directors are of the view that this growth was not due to the accumulation of inventories at franchise distributor and franchise store level but as a result of the increase in sales of our MXN products to end retail customers in the PRC based on the following reasons:

- (i) By reviewing sales reports of our MXN products to the franchise distributors and franchise stores and reports on local market conditions throughout the Track Record Period, we closely monitored the sales to franchise distributors and franchise stores. The monthly sales data indicates that there were continuous sales to franchise distributors and franchise stores. We consider that this indicates there was no accumulation of inventories at franchise distributor and franchise store level. We also conducted random on-site inspections on our franchise distributors and franchise stores;
- (ii) We would work closely with our franchise distributors and franchise stores to collect their feedback and such feedback will assist our product design. Shortly after a sales fair, representatives of franchise distributors and/or franchise stores could enter into purchase orders whereby they would be obliged to purchase the agreed-upon quantity stated therein and Shishi Maigen would provide the products in accordance with such purchase orders. We can determine potential market demand of end retail customers through feedback from franchise distributors and franchise stores;

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- (iii) We encourage our franchise stores to clear inventory levels by allowing our franchise stores to exchange such excess inventory amongst other franchise stores, or to seek assistance from us to act as an intermediary between two franchise stores to exchange such inventory if necessary without charges. We also increase awareness of our brand through advertising. In addition, our franchise distributors and franchise stores with excess inventory at the end of each season may sell such excess inventory through special sales with our prior permission; and
- (iv) In recent years, China's apparel retail market recorded sharp increases. According to Datamonitor, China's apparel sales are expected to grow from approximately RMB595 billion in 2009 to reach approximately RMB731 billion by 2011, representing a CAGR of approximately 10.8%. Given such growth in China's apparel retail market, our Directors are of an opinion that our successful advertising strategies, increased brand reputation and the expansion and optimisation of franchise distributors and franchise stores have been a key factor enabling us to take advantage of the growth in China's apparel retail market and translate this growth into our sales during the Track Record Period.

The following chart illustrates the relationships among our Group, our MXN franchise distributors, our MXN franchise stores and ultimate customers as at the Latest Practicable Date:



Distribution

The distribution network of branded leisure clothing

Aike Sport

For our branded leisure clothing segment under the Aike Sport brand, we do not have any distribution network. We have a showroom for displaying the Aike Sport products and for the wholesaler to place their orders.

MXN

For our branded leisure clothing segment under the *MXN* brand, we have franchise distributors and franchise stores in selling our *MXN* products to the end customers. The following map sets forth the geographic distribution network of our branded leisure clothing under the *MXN* brand in the PRC as at the Latest Practicable Date:



Our Directors advised that all of the franchise distributors and franchise stores are Independent Third Parties. We have not terminated any of the distributorship agreements or replaced any of the franchise distributors and franchise stores for our *MXN* products since we signed distributorship agreements with them. Each franchise distributor is given exclusivity over its appointed geographic territory.

Under our wholesale business model, we employ a franchise distribution model which is commonly used by apparel brand owners in the PRC. Neither the franchise distributors nor the franchise stores were owned or operated by our Group. After our acquisition of Shishi Maigen in 2008, we had 420 franchise stores as at 31 December 2008, and 665 franchise stores as at the Latest Practicable Date. As at 31 December 2008 and the Latest Practicable Date, we had 11 and 22 franchise distributors, who in turn had 171 and 379 franchise stores, respectively. As confirmed by the Directors, the Group did not own any franchise stores during the Track Record Period and as at the Latest Practicable Date. Collectively, the *MXN* distribution network covers 22 provinces, as well as more than 33 county-level cities in the PRC. Our franchise distributors have direct contractual relationships with the franchise stores under them, but we do not. However, through our distributors, we are able to indirectly place certain operating requirements on our franchise stores, including compliance with our standard operating procedures, uniform pricing policy, standard store display and layout, as well as customer service standards. In addition, we currently have 8 regional sales managers who are responsible for monitoring

BUSINESS

and assisting franchise distributors and franchise stores in their respective geographic regions to ensure that our franchise distributors and franchise stores remain in compliance with these operating requirements.

The following table shows the number of MXN franchise stores directly sourcing from our Group and the number of MXN franchise stores sourcing from franchise distributor (excluding those franchise distributors) for different districts in the PRC as at 31 December 2008 and as at the Latest Practicable Date, respectively:

	As of 31 December 2008			As at the Latest Practicable Date		
	No. of franchise store directly sourcing from our Group	No. of franchise store sourcing from franchise distributor	Total no. of franchise store	No. of franchise store directly sourcing from our Group	No. of franchise store sourcing from franchise distributor	Total no. of franchise store
East China ⁽¹⁾	181	115	296	217	163	380
South China ⁽²⁾	18	56	74	15	77	92
Southwest China ⁽³⁾	21	—	21	22	30	52
Northeast China ⁽⁴⁾	17	—	17	22	14	36
North China ⁽⁵⁾	12	—	12	9	80	89
Northwest China ⁽⁶⁾	—	—	—	1	15	16
Total	249	171	420	286	379	665

Notes:

- (1) East China includes Shanghai, Jiangsu, Zhejiang, Anhui, Shandong, Jiangxi and Fujian.
- (2) South China includes Hubei, Hunan, Henan, Guangxi, Guangdong and Hainan.
- (3) Southwest China includes Sichuan, Guizhou, Tibet, Yunnan and Chongqing.
- (4) Northeast China includes Heilongjiang, Liaoning and Jilin.
- (5) North China includes Tianjin, Hebei, Shanxi, Beijing and Inner Mongolia.
- (6) Northwest China includes Xingjiang and Shaanxi.

Criteria for selection of distributors

Our relationships with our MXN franchise distributors and MXN franchise stores have been stable. In addition, as each of our distributors has been selected after an extensive screening process, we expect to maintain long-term relationships with each of them. We strategically select our distributors based on various criteria, including the following:

- capital resources and financial stability;
- experience in the leisure clothing industry and franchise or retail sales;
- management capabilities;
- sales channels, local recognition and business network; and
- sales performance.

Franchise agreements between each franchise distributor and franchise store with our Group under the MXN brand

Each of the franchise distributors and franchise stores that are directly under the Group enters into a franchise agreement with Shishi Maigen. The franchise agreements for the franchise distributors and franchise stores that are directly under the Group are identical except the terms of pricing. The franchise agreements generally includes the following principal terms:

- Geographical exclusivity — Each franchise distributor and franchise store exclusively sells our *MXN* products within a defined geographic area;
- Product exclusivity — Our franchise distributors and franchise store are not permitted to sell outside their exclusive territories and are prohibited from distributing or selling any products that compete with our products;
- Minimum purchase amount — The franchise agreements do not specify the minimum purchase amount that the franchise distributors and franchise stores are expected to purchase from us during the year.
- Undertakings — Our franchise distributors and franchise stores are also required to comply with our sales policies, adhere to our pricing policies, and enforce our standardised shop design and layout upon *MXN* franchise distributors and franchise stores within their exclusive geographic area;
- Payment and credit terms — We set payment and credit terms on a case-by-case basis with each franchise distributor and franchise store. We generally give a credit period of one month to our franchise stores, while for the franchise distributor, delivery of products was made after payment;
- Pricing — We agree to sell our products to our franchise distributors at a uniform price, and sell to our franchise stores with the price range of about 5% difference; besides, we sell our products to our franchise distributors at a lower price than the franchise stores;
- Duration — The agreement has a term of three years which will lapse at the end of the period;
- Protection of our intellectual property rights — Our franchise distributors and franchise stores are only allowed to use our intellectual property in connection with the sale of our products and we require our distributors not to participate or assist in any activities that may infringe upon our intellectual property rights;
- Right of termination — If the franchise distributors or franchise stores fail to comply with the franchise agreements, we have the right to terminate the franchise agreements;
- Pricing policy — Franchise distributor or franchise store are required to follow the uniform suggested retail price that we adopt from time to time for each product;

BUSINESS

- Transportation arrangement and obligation – Our franchise distributor or franchise store are generally responsible for making their own delivery arrangements with the risk of loss of or damage to products during transport being borne by the franchise distributors and franchise store.

As of the Latest Practicable Date, we were not aware of any of our franchise distributors or franchise stores committing any material breach of their distributorship agreements with us. In 2009, we will start renewing the distributorship agreements entered into since 2006 with our franchise distributors and franchise stores as the franchise agreements would lapsed at the end of period. Subject to arm's length negotiations, we will continue to renew the distributorship agreements with franchise distributors and franchise stores every three years in the future.

Sales fairs

We hold sales fairs where we showcase our branded apparel products to potential and existing customers, distributors and franchisees. Customers, distributors and franchisees can place purchase orders for our products at or shortly after these sales fairs. We review purchase orders placed at these sales fairs before entering into corresponding sales contracts with the customers, distributors and franchisees.

Return policy

We do not have any obsolete stock arrangements with our franchise distributors and franchise stores. We only accept returns of defective products from our franchise distributors and franchise stores. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, there was no record of returned products.

MARKETING AND PROMOTION

Aike Sport

As we do not have any distribution network, we do not have a strong marketing strategy in promoting our Aike Sport products.

MXN

Promotion by entertainment celebrities

We believe that a strong marketing and promotion strategy is the key to success in the branded leisure clothing segment. We have deployed a new marketing campaign by using entertainment celebrities to promote our brand and products to attract and appeal to the fashion-conscious consumer. We selected an entertainment celebrity, who is popular among the Chinese-speaking communities, Peter Ho (何潤東), as an image and brand representative of our MXN brand because we believe he matches our culture and the lifestyle images that we want to be associated with our MXN brand. We believe this marketing strategy has been effective in attracting certain target consumers to our MXN brand and will result in increased market awareness and acceptance of our MXN as a trend-setting leisure clothing brand.

Media advertising

Apart from the promotion by entertainment celebrities, we also strategically select other forms of advertising for the MXN brand that we believe match its image and market position.

We promote our MXN brand by posting advertisements in apparel magazines, broadcasting advertisements on bus media which cover 22 provinces, and setting up advertising boards in stations or open areas outside shopping malls. Following the appointment of our entertainment celebrities, we have changed the advertising posters in the franchise distributors and franchise stores, accordingly, in order to build up a clear brand image.

COMPETITION

Fabric Manufacturing Segment

We operate in a highly competitive industry. According to Euromonitor International, the total revenue of the PRC high tech, multi-functional, high quality polyester based knitted fabric market was approximately RMB3.7 billion for 2008. We accounted for 17.0% of this amount and were ranked number one among all players in the high tech, multi-functional, high quality polyester based knitted fabric market in the PRC in terms of revenues for 2008. We compete with a large number of fabric manufacturers in the PRC. Although we may face competition from new entrants in the future, we believe that the high capital requirements, increasing technology requirements in developing and manufacturing new fabric and the importance of customer relationships pose significant barriers to entry for new competitors.

Compared with us, our major competitors may have more financial resources and higher productivity. However, we believe the following weaknesses of our major competitors allow us to obtain a competitive advantage over them:

- Lack of professional teams of specialists for the one-stop production of functional fabrics including manufacture, research and development, and management;
- Limited production capacity for only large-volume orders of general fabrics and a small number of orders of functional fabrics, whereas we position ourselves as specialising in functionality of our fabrics and producing customised orders with small volume and/or a variety of functions; and
- Instability of high value-added functional fabrics manufactured when compared with those manufactured by us.

We compete on the basis of the quality and reliability of our customer service. Because our customers are international and PRC brands with strong images, we must provide a high level of service to them. Quality of service includes reliability in meeting delivery deadlines, responsiveness and flexibility in meeting customer requirements. We seek to enhance our competitive position by offering a broad range of products to deepen our relationships.

The quality of our fabrics is an important competitive factor, and we seek to meet the requirements of our customers and brand owners.

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Apart from quality, we consider price remains an important competitive factor for the majority of our fabrics, especially fabrics that can be readily produced by a large number of our competitors. We believe our efficient production model driven by modern facilities and advanced technologies in developing new fabric construction patterns, textures and colors which translates into competitive pricing terms for our customers.

Although the pricing of our fabrics is slightly higher when compared with that of our major competitors and there are limited channels to recruit specialists in the production of functional fabrics, we believe that as the leading PRC high tech, multi-functional, high quality polyester based knitted fabric manufacturer in the PRC, the above qualities of our fabric manufacturing segment allow us to achieve a competitive advantage over our major competitors.

Casual and Sportswear OEM Segment

The domestic demand for casual and sportswear in China has been steadily rising in recent years, in line with economic growth. Market participants mainly compete in areas such as, among other things, product quality, price, and the ability to fulfill delivery commitments to shippers and brand owners.

We face competition from domestic OEM enterprises in the casual and sportswear OEM market in China. Although our major competitors have more abundant resources to put in the apparel manufacturing process such as sewing and have established a good relationship with their customers due to their long-standing history of business, we believe that as a vertically integrated apparel manufacturer in China, we have a competitive advantage of one-stop solutions for fabric manufacturing and order acceptance over our major competitors which have no direct collaboration with any fabric manufacturers.

Branded leisure clothing segment

The sports and leisure industry is keenly competitive in the PRC. We compete with an increasing number of international and domestic sports and leisure footwear companies, sports and leisure apparel companies, sports accessories companies, and large companies with diversified lines of sports and leisure shoes, apparel and accessories. We expect competition to further intensify due to the entry of new foreign and domestic sports and leisure wear retailers in the PRC and as a result we may be required to adjust our prices in response to our competitors' pricing policies. Our ability to maintain or further increase our profitability will primarily depend on our ability to compete effectively by leveraging our leading market position in the PRC, our brand recognition and product portfolio, our distributors' extensive distribution network, our experienced management and our product designs to differentiate ourselves from our competitors.

Performance style and quality of apparel and accessories, new product development, price, product identity through marketing and promotion, and support to distributors and customer service are important aspects of competition in the sports, leisure apparel and accessories business. We believe that we are competitive in all these areas particularly as a result of, what we believe is, our brand name, product quality and research and development.

QUALITY CONTROL

Fabric manufacturing segment

We believe that provision of reliable and high-quality fabrics to customers is the key to our success. For this reason, we focus on the quality of our products by performing quality inspection and testing procedures at different stages throughout our manufacturing process, from the procurement of raw materials through packaging of finished products. Because of our quality control standards, we believe the reprocessing ratio of our knitted and dyed products remains at a very low level.

We believe that the quality of our products have been widely acknowledged in the textile industry both locally and internationally. The following table presents the details of main certifications and accreditations we have obtained:

Accreditation	Issuing Organisation	Area of accreditation	Date of issue
04 Spring/Summer Selected Enterprises of Trendy Fabrics of the PRC (04年春夏中國流 行面料)	China Textile Development Centre/ China Textile Information Centre	04 Spring/Summer Trendy fabrics of the PRC	2003.03
04–05 Autum/Winter Selected Enterprises of Trendy Fabrics of the PRC (04–05年秋冬中 國流行面料入圍企業)	China Textile Development Centre/ China Textile Information Centre	04–05 Autum/Winter Trendy fabrics of the PRC	2003.11
05 Spring/Summer Selected Enterprises of Trendy Fabrics of the PRC (05年春夏中國流 行面料入圍企業)	China Textile Development Centre/ China Textile Information Centre	05 Spring/Summer Trendy fabrics of the PRC	2004.03
05–06 Autum/Winter Selected Enterprises of Trendy Fabrics of the PRC (05–06年秋冬中 國流行面料入圍企業)	China Textile Development Centre/ China Textile Information Centre	05–06 Autumn/Winter Trendy fabrics of the PRC	2004.09
06 Spring/Summer Trendy Fabrics of the PRC (06 年春夏中國流行面料入 圍企業)	China Textile Development Centre/ China Textile Information Centre	06 Spring/Summer Trendy fabrics of the PRC	2005.03

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Accreditation	Issuing Organisation	Area of accreditation	Date of issue
06-07 Autumn/Winter Selected enterprises of trendy fabrics of the PRC (06-07年秋冬中 國流行面料入圍企業)	China Textile Development Centre/ China Textile Information Centre	06-07 Autumn/Winter Trendy fabrics of the PRC	2005.09
07 Spring/Autumn Selected enterprises of trendy fabrics of the PRC (07年春夏中國流 行面料入圍企業)	China Textile Development Centre/ China Textile Information Centre	07 Spring/Autumn Trendy fabrics of the PRC	2006.03
06 Development and Contribution Award for Textile Production in China (06年度全國紡 織產品開發貢獻獎)	Textile Development Centre (紡織產品開發 中心)		2006.10
09 Spring/Summer Selected enterprises of trendy fabrics of the PRC (09年春夏中國流 行面料入圍企業)	China Textile Development Centre/ China Textile Information Centre	09 Trendy fabrics of the PRC	2008.02
ISO9001-ISO2000 certification	Intertek testing services NA.Inc		2007.08
ISO9002 certification	Marie C. Almeda		1998.09
ISO9001-ISO14001 certification	Knowledge System Registration Ltd. (珂 瑪認證培訓有限公司)		2000
ISO9001-ISO14001 certification	Knowledge System Registration Ltd. (珂 瑪認證培訓有限公司)		2004.10
ISO14001: 2004 certification	Intertek testing services NA.Inc		2006.01
OEKO-TEX Standard 100 Certificate (OEKO-TEX 標準100國際認證)	Swiss Texile Testing Institute		2007.06

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Accreditation	Issuing Organisation	Area of accreditation	Date of issue
OEKO-TEX Standard 100 Certificate (OEKO-TEX 標準100國際認證)	Swiss Texile Testing Institute		2008.05
Laboratory Quality Management (實驗室品質管理)	Mizuno		2008.12
Centre Laboratory Certificate	Li Ning		2006.12

Our quality assurance standards have been recognised by a number of well-known apparel brands. We carry out testing on the quality of our fabrics in our own laboratories, without the need to engage third-party laboratories.

Our quality control system covers the following key areas:

- *Procurement of raw materials:* Raw materials are tested before orders are confirmed and business transactions are completed to ensure quality. Raw yarns and greige fabrics are physically tested by us for eligibility. Chemicals such as dyes and dyeing auxiliaries must be chemically certified through a quality inspection for eligibility.

Raw materials are also tested when they reach the warehouse. Warehouse staff check the quantity of raw materials delivered prior to confirming the receipt of raw materials. Our quality assurance department is responsible for the inspection of raw yarns. Staff from our quality control department are responsible for the testing of greige fabrics and semi-finished fabrics purchased. Our technical centre is responsible for the quality examination of dyes and dyeing auxiliaries. Packaging materials undergo a conventional viewing of their quality which can be identified easily through an appearance inspection.

- *Production:* At each of our production steps, comprehensive inspection on the quality of the semi-finished and finished fabrics is conducted with the assistance of machines, to ensure compliance with customers' order specifications. Semi-finished and finished fabrics need to go through three quality testing points. Preliminary inspection is carried out on greige fabrics before dyeing. After the dyeing procedure, an intermediate inspection is performed to check whether the colors and quality of the dyed fabrics match customers' order specifications. During the final inspection, fabrics are put onto a winding machine for our quality control staff members to clearly identify knitting patterns of the fabrics, colors and any flaws. Thickness and touch of the fabrics are inspected by hands. The fabrics then go through physical, chemical and bacteria testing; after which, a quality inspection report is issued by the quality assurance department and the fabrics are qualified to be transported to the warehouse.
- *Machinery and equipment management:* Due to differences in items of machinery and equipment subject to maintenance and their maintenance cycle, we carry out regular or occasional inspections and maintenance and fixed repairs at the end of each year to enhance the reliability and product quality.

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- *Sales:* If our customers are not satisfied with our products or our products have quality problems, our sales staff will immediately handle the complaints and provide remedial service.
- *Employee quality awareness:* We provide our existing employees with systemic and professional training on quality and quality assurance, as well as a professional quality assurance staff certificate course. We also conduct continuous assessment of their performance.

Casual and Sportswear OEM Segment

Our quality control procedures start early in the raw material procurement stage when our warehouse staff check the quantity of raw materials delivered prior to confirming the receipt of raw materials. During the inspection and testing conducted by our quality assurance department, fabrics are put onto a winding machine for our quality assurance staff members to view their colors and textures such as knitting patterns, thickness and touch. Other raw materials undergo a conventional viewing of their quality which can be identified easily through an appearance inspection to ensure that the raw materials comply with our quality standards. At each stage of the manufacturing process, an appearance inspection is carried out on the semi-finished components and their cutting and trimming, and only qualified semi-finished components are allowed for the next manufacturing stage. During the ironing stage, our quality assurance staff members conduct an appearance inspection on the fabrics, sewing crafts and supplementary sewing materials of the semi-finished components to ensure that they meet our quality requirements. During the packaging stage, our quality assurance staff members perform an appearance inspection on the supplementary packaging materials such as price tags and care labels to ensure that they are appropriately attached to the right apparel products, which are then packaged according to customers' requirements.

Branded Leisure Clothing Segment

Our on-site quality control personnel perform a number of quality inspection and testing procedures at different stages in the manufacturing process. They are also responsible for quality inspection procedures on the branded products prior to their shipment. For our branded products supplied by our OEM manufacturers, quality control procedures on procurement of raw materials are completed by them. Our OEM manufacturers arrange for quality inspectors to carry out inspections on the apparel products throughout the manufacturing process to make sure that the finished apparel products meet the quality requirements specified by us in the contracts.

We generally inspect and monitor the manufacturing process of our OEM manufacturers through our on-site quality control personnel. A sample appearance inspection is carried out on the semi-finished components and their cutting and trimming. During the sewing stage, our quality control personnel conduct a sample appearance inspection on the fabrics, sewing crafts and supplementary sewing materials of the semi-finished components to ensure that they meet our quality requirements. During the ironing and packaging stages, our quality control personnel perform an appearance inspection on the supplementary packaging materials such as price tags and care labels to ensure that they are appropriately attached to the right apparel products, which are then packaged according to our requirements. After the branded products reach our warehouse, a sample appearance inspection is carried out. Quality for particular quantities of branded products can then be inferred without having to conduct quality inspection and testing on all branded products. So far, we have never received any significant

complaints about the quality of our branded products from our customers in connection with social, health and safety regulation that may impose material and adverse effects on our business or relationship with such customers.

ENVIRONMENTAL ISSUES

Fabric Manufacturing business

There are no environmental protection laws or regulations in the PRC specifically applicable to fabrics and clothing manufacturers in the PRC. In general, we are required to abide by the Environmental Protection Law of the PRC (中華人民共和國環境保護法) which took effect on 26 December 1989, pursuant to which we should establish a system for environmental protection and take effective measures to prevent pollution caused by production, construction work or other activities.

According to the Environmental Protection Law, where the construction of a project may cause any pollution to the environment, an environmental impact evaluation must be performed to determine the preventive and remedial measures to be adopted, and the relevant environmental protection administration approval shall be obtained. Enterprises discharging pollutants must register with relevant environmental protection administration departments. Enterprises discharging pollutants in excess of the standards set by the State Environment Protection Administration of China shall be responsible for paying a sewage discharge fee for exceeding the standard and the cost of eliminating the pollutants.

Depending upon the circumstances and the extent of the pollution, the relevant environmental protection administration departments may impose various types of penalties on persons or enterprises who are in violation of the Environmental Protection Law. Penalties include issuance of a warning notice; imposition of a fine; determination of a time limit for rectification; issuance of an order to reinstall and resume operation of environmental protection facilities which have been dismantled or left unused; issuance of an order to suspend production or to suspend and close the business; imposition of administrative sanctions or investigation and establishment of criminal liabilities against the personnel in charge. In addition, in cases where the pollution causes damage to others, civil indemnification to victims shall be required.

Furthermore, due to the composition of the products which we manufacture, there is minimal waste discharge, noise, water or air pollution. Also, all the trash and remaining waste resulting from the production process is delivered to a professional waste treatment enterprise for recycling. As at the Latest Practicable Date, no administrative sanctions, penalties or punishments had been imposed upon us for the violation of any environmental laws or regulations.

In accordance with the requirements of relevant laws and regulations on environment protection, we have adopted advanced technologies and equipment to prevent and reduce pollution. All of our construction and extension projects comply with the relevant environmental impact assessment procedures for construction projects and have undergone inspection and have been approved by the relevant environmental protection authorities. We have reported to and registered with the relevant environmental protection administration departments for pollutants discharge and have obtained the Permit for the Discharge of Pollutants.

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Our factory has obtained all permits or approvals from, among others, the relevant planning, public security, fire control and environmental protection government departments, and conducted the filing of completion of construction project with the relevant construction departments.

Our PRC legal advisors have confirmed that during 2006, 2007 and 2008 and up to the Latest Practicable Date, (i) our operations complied with the relevant requirements on environmental protection, and (ii) no significant penalty was imposed on us for the reason of any violation of environmental protection rules and regulations.

The expenditure for environmental compliance of the Group is currently approximately RMB346,300 for the year 2008 and primarily relates to the expenses incurred by the water treatment facilities in Fuqing.

Branded leisure clothing segment

Our branded leisure clothing segment has not engaged in any business operations that may cause environmental pollution and other public hazards, and the franchised shops have not imposed any environmental conditions as part of the preconditions to placing order for our products.

Our PRC legal advisors have confirmed that there are no environmental regulations specific to the franchise sector in the PRC that are applicable to us.

INFORMATION TECHNOLOGY

We believe that our management information system significantly enhances product procurement, inventory and logistics management, and financial and cash management, and helps us minimise costs of maintaining inventory, achieve better franchise inventory allocation and improves our overall performance. We maintain a computerised information system which integrates the functions of merchandising, stock replenishment, procurement and distribution, sales and financial management. For our branded leisure clothing segment, we maintain a computerised information system for carrying out sales analyse.

We also use our information systems to identify fast and slow moving products, analyse the sales trend of different products based on the historical data of stock orders and selling data and improve our merchandise mix.

INVENTORY CONTROL

We are committed to reducing excess inventory of raw materials and finished goods, and meanwhile continuing to meet the supply demands of our franchise distributors and franchise stores. 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 closely monitor our inventories, including inventory levels and inventory age. 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

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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 and as at 30 June 2009 were subsequently consumed or sold higher than costs.

LEGAL PROCEEDINGS

From time to time, we may be involved in litigation or other legal proceedings in the ordinary course of our businesses. We are not aware of any material legal or administrative proceedings currently existing or pending against us. We are not involved in any intellectual property rights dispute or claims in relation to our product design/development and manufacturing.

PROPERTIES

Our owned land

As at 31 October 2009, we owned the land use rights certificates to one parcel of land with a site area of approximately 111,960 square metres, on which 18 buildings and various ancillary structures have been erected for our business activities and operations in the PRC. The total gross floor area of the buildings is approximately 31,756.75 square metres. We had paid full consideration for our land use rights in the PRC.

Our owned buildings

As at 31 October 2009, we owned 18 buildings on land owned by our Group that support our business activities and operations in the PRC. All of them are being used for production, storage, office, residential and ancillary facilities purposes. The total gross floor area of these buildings is approximately 31,756.75 square metres. We have building ownership certificates and real estate title certificates for 16 buildings. For the remaining 4 buildings of the property with a total gross floor area of approximately 3,962 square metres, we have not obtained any title certificates. We lease a total gross floor area of approximately 448 square metres to 2 independent third parties for office purpose. We typically enter into standard tenancy agreements with our tenants, who are required to pay fixed rental fees to us on a monthly basis. The tenancy agreements covers terms of three years. For the ten months ended 31 October 2009, we received rental income in the sum of RMB494,910 from our tenants.

We lack formal title certificates to certain buildings that we occupy for our business as storage, research centre and staff welfare centre. All these defective title properties are located in the area which Fuqing Hong Liong legally owns the land use rights, and the usage of those properties is for storage and administration. No production activity is there in the defective title properties. Therefore, our Directors do not anticipate there will be any material financial losses arising from the lack of formal building title certificates.

We are taking necessary action to obtain title certificates for these business premises and ancillary premises. As advised by our Directors, our Company has submitted the applications for the buildings that are currently without ownership certificates in September 2009, and the relevant title certificates are

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expected to be obtained in January 2010 following the normal approval procedures. As advised by our PRC legal adviser, if the owner of the construction uses the land before it passes a construction completion inspection, the authority will require to rectify, and could impose a fine amounting to 2%–4% of the total construction cost which is estimated to be RMB38,000 to RMB76,000. Since our Company has completed the construction planning for the buildings that are currently without ownership certificates, there are no significant legal impediments to obtaining the relevant title certificates for these buildings. Our Directors believe the absence of building title certificate in respect of such business premises will not result in any material adverse effect on our operations. Besides, the ancillary premises are not directly related to our operations. Therefore, no turnover or operational profits have been generated from the use of the ancillary premises and we believe that the lack of title certificates will not result in any material adverse effect to our operations as a whole. Accordingly, we consider them to be non-essential and, if required, comparable and suitable replacements can be acquired or leased by us without any material adverse effect on our business or operations as a whole.

Details of the property valuation together with the summary of valuation and valuation certificates from Jones Lang LaSalle Sallmanns Limited in respect of the land and buildings owned or leased by us are set forth in Appendix V “Property Valuation” to this prospectus.

Leased properties

As at 31 October 2009, we leased from third party 7 premises that support our business activities and operations in the PRC. The premises with a total floor area of approximately 3,504.68 square metres. All of them are being used as office buildings, warehouse or dormitory. All our leases are entered into with independent third parties and we are using the leased premises in accordance with the purposes stated in the respective lease agreements. As advised by our PRC legal adviser, none of the lease agreements is registered. However, the lease agreement is valid and enforceable although it is not registered. According to the 《城市房地產管理法》(Urban Real Estate Management Law) and 《城市房屋租賃管理辦法》(Urban Housing Leasing Regulations), the lease agreements are required to be registered, but there is no specific penalty imposed on the non-registration of lease agreements. Also the 《福州市房屋租賃管理暫行規定》(Fuzhou Interim Provisions for Housing Lease Management) had been annulled on April 28, 2004 according to 《福州市人民政府決定廢止的規章、規範性檔目錄》(Abolished regulations and normative directory by Fuzhou People’s Government) issued by Government of Fuzhou. Therefore, the non-registration of the lease agreement does not have material impact on our Group. Please refer to Appendix V to this prospectus for further details regarding the buildings or units that we occupy and the terms of the leases.

All of the leased properties with non-registration agreements are currently in use during our operations, but we believe that the incompliance of the lease will not adversely affect our business operation. Shishi Maigen has been using the leased properties with non-registration agreements since its establishment in 2002. Shishi Maigen’s use of these leased properties has never been challenged in the past 7 years although the lessor has never provided the legal title certificates to Shishi Maigen and the lease agreements have not been registered. In addition, Shishi Maigen is planning to move within the next few months, and if anyone challenges Shishi Maigen’s use right to the leased properties, Shishi Maigen will execute the relocation plan immediately. A similar property can be easily found in the vicinity of Shishi Maigen for it to immediately execute the relocation plan.

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INSURANCE

We maintain insurance policies in respect of our offices, manufacturing facilities and inventories covering losses owing to fire, flood, earthquake and hurricane. We believe that such insurance coverage is adequate. We also carry insurance covering risks such as loss and theft of, and damage to, properties. We do not maintain business interruption insurance. Significant damage to any of our manufacturing facilities or buildings, whether as a result of fire or other causes, would have a material adverse effect on our results of operations. In 2008, we expended an aggregate of approximately RMB114.3 million on maintaining insurance policies. We do not maintain insurance against product liability for products we sell, since our standard purchase contracts obligate the suppliers to bear this risk. Furthermore, it is not compulsory to maintain product liability insurance under PRC law.

EMPLOYEES

For the years ended 31 December 2006, 2007 and 2008 and as at 30 September 2009, we had 1,612, 1,793, 1,754 and 1,917 staff, respectively. The following table sets forth, for the periods indicated, the breakdown of number of our employees employed in the areas of sales and administration, research and development and manufacturing as of 31 December 2008 and the Latest Practicable Date:

Division	As of 31 December 2008		As at 30 September 2009	
	Number of employees	Percentage of total employees	Number of employees	Percentage of total employees
Sales and marketing	107	6.1	382	19.9
Manufacturing and logistics	1,437	81.9	1,327	69.2
Administration and human resources	147	8.4	155	8.1
Research and development	<u>63</u>	<u>3.6</u>	<u>53</u>	<u>2.8</u>
Total	<u><u>1,754</u></u>	<u><u>100</u></u>	<u><u>1,917</u></u>	<u><u>100</u></u>

The number of sales and marketing employees increased significantly in 2009. Such increase was mainly due to the increase in number of franchise stores of the Group during the period. As at 30 June 2009, the Group had 547 stores, representing an increase of approximately 27% or 116 store compared to that as at 31 December 2008. The Group plans to further expand and it is expected that the number of stores will further increase in the future. The increase in number of sales and marketing employees is to cope with the Group's business expansion.

Our total staff costs for the years ended 31 December 2006, 2007 and 2008 were RMB33.0 million, RMB37.0 million and RMB43.8 million, respectively, which accounted for 5.0%, 4.0% and 3.5% of our total turnover, respectively. We provide both internal and external training to our staff on a regular basis. Our internal training target the newly hired staff and the external training target the existing and potential promoted staff to enhance their technical and product knowledge including sales and management skills, factory management skills, industrial engineering, research and quality control technique. We arrange for external trainers to provide training to our staff at our production premises

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and we also arrange for our staff to attend external training. Our management actively participate in the evaluation of our staff and provide timely performance feedback. We adopt a performance-based incentive scheme for all our employees. We plan to continue to improve the working environment in our manufacturing facilities and the living facilities for our employees. We seek to grow our management team internally through effective training and promotion programs. We adhere strictly to both statutory employment standards and those requested by our customers, such as wages and working hours, and maintain internal standards and workplace practices that exceed both.

We have not fully paid the social welfare insurance for our migrant workers as the high turnover rate of these workers employed by us compounded by their mobility generally makes it unduly burdensome and practically difficult to establish a system which would enable us to track their movement, as is necessary to fully comply with the social welfare and housing fund laws and regulations. The practical difficulty of administering such for migrant workers is further exacerbated by their reluctance to make these necessary co-contributions and any attempts by us to enforce co-contributions would decrease these workers' take-home pay and increase their turnover rate. We have contacted the relevant social welfare authorities and housing fund authorities to pay all delinquent payments of social welfare insurances and housing funds for our migrant workers, and all penalties or fines that may arise from such delinquent payments. The relevant social welfare authorities and housing fund authorities have issued the compliance certificates to each of our PRC subsidiaries confirming that they will not accept unilateral contributions from us, and no penalty, recovery or fine will be imposed on us on account of such historical delinquent payments. As confirmed by our Directors, the total amount of underpayment and penalty by our Group due to the social welfare authority and the housing fund authority are approximately RMB45.3 million and RMB11.3 million respectively. During the period from 1 July 2009 to the Latest Practicable Date, no requests for any current payments of social welfare insurances and housing funds for our migrant workers, and no penalty, recovery, or fine on account of such current payments were received from the relevant social welfare authorities and housing fund authorities. We have contacted the relevant social welfare authorities and housing fund authorities to pay all delinquent payments of social welfare insurances and housing funds for our migrant workers, and all penalties or fines that may arise from such delinquent payments during the period from 1 July 2009 to the Latest Practicable Date. The Controlling Shareholders have agreed to provide indemnity to the Group in respect of the non-compliance in this regard during the period from 1 July 2009 to the Latest Practicable Date, and any delinquent payments and all relevant penalties or fines that may arise from such non-compliance. As advised by the Directors, our Group will closely monitor and take any necessary measurement to comply with and to enforce our migrant workers to comply with the social welfare and housing fund laws and regulations after the Listing.

Our PRC legal adviser advised that, as confirmed by relevant social welfare authorities, the non-compliances of our Group in this regard were due to the imperfection of the current social welfare system of the PRC and the practical difficulty of the social welfare laws and regulations. Besides, the Controlling Shareholders have agreed to provide indemnity to the Group in respect of the non-compliance in this regards.

OCCUPATIONAL SAFETY

To ensure that our production facilities comply with applicable safety standards, we have established several factory safety manuals such as fire safety manual and production safety manual which provide the prevention of accident in our production facilities. All our production facilities are

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required to be thoroughly tested before commencement of production. All operators of production facilities are required to be well trained before they are allowed to operate production facilities. Training sessions are provided on the required safety and hygiene standards. During the Track Record Period, we have not experienced any material or prolonged stoppages of production due to production facilities failure and we have not experienced any major accidents during our production process. We are not aware that any toxic substances produced during the production process has caused personal injuries. As of the Latest Practicable Date, our production facilities complied with all applicable laws, regulations and standards in relation to safety.

PRODUCTION SAFETY MATTERS

We have complied with the Production Safety Law by procuring all our employees to follow our safety rules, which are based on the applicable government regulations and customer requirements, and conducting routine safety training for them. During the Track Record Period and the six months ended 30 June 2009, we have complied with all applicable production safety laws in all material respects according to the recognition documents issued by the local tax authorities at the places where each subsidiary operates. We have made, and will continue to make, efforts and take necessary measures to ensure the safety of our employees, especially those working in the Fuqing factory. Such measures include ensuring that the design, installation, use and maintenance of our equipments meet national and industrial standards, providing occupational safety education and training to employees to enhance their awareness of safety issues, providing suitable protective devices to the employees and requiring them to properly wear those devices. Our PRC legal advisors have confirmed that our operations are in compliance with the current applicable production safety law in all material respects.

INTELLECTUAL PROPERTY RIGHTS

We use the Hontex, Ecotex, Aike Sport and MXN brand for the marketing and sales of our products. As of the Latest Practicable Date, we owned the rights to not less than 19 registered trademarks in the PRC and 10 other countries and were in the course of applying of 22 trademark applications in the PRC. For more information, please see the paragraph headed “Intellectual property rights of the Group” in Appendix VII to this prospectus.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

BACKGROUND OF CONTROLLING SHAREHOLDERS

Immediately following the completion of the Capitalisation Issue and the Global Offering, our Controlling Shareholders will together own approximately 75% of the enlarged issued share capital of the Company (assuming the Over-allocation Option is not exercised). As at the Latest Practicable Date, in addition to the interests in our Company, the Controlling Shareholders also held interests in ZhongShan Hong Liong. ZhongShan Hong Liong was incorporated in PRC on 9 August 1999 and is principally engaged in the manufacture of cotton/chemical fibre blend fabrics for industrial shoes and bags. ZhongShan Hong Liong is wholly owned by Everprofuse which is an investment holding company. Mr. Shao Ten-Po, the executive Director and our Chairman is also the director of Everprofuse. Everprofuse is owned as to 95% by Lucky Dragon and as to 5% interest by an independent third party. Lucky Dragon is owned by Ms. Hu Chin-Shu, Ms. Chen Li-Chuan, Ms. Huang Szu-Ching, Ms. Hsu Fu-Mei, Ms. Hsuh Hui-Chen, Mr. Tseng Chung-Cheng and Mr. Liao Chin-Yi, each holding a 16%, 16%, 16%, 16%, 10% and 10% interest, respectively before completion of the Reorganisation. The director of Lucky Dragon is Mr. Liao Chin-Yi, our executive Director, as well as our CEO.

To the best of our Directors' knowledge, information and belief save as disclosed herein, our Directors have confirmed that our Controlling Shareholders and our Directors have no interests in businesses other than our Group's businesses which may directly or indirectly compete against the businesses of our Group.

COMPARISON OF OUR BUSINESS AND THE BUSINESS OF ZHONGSHAN HONG LIONG

Our Directors consider that there is clear business delineation and that there is no competition between ZhongShan Hong Liong and our Group for the following reasons:

(a) *Products and target customers*

We are a vertically-integrated manufacturer of chemical fibre knitted fabrics (化纖類) with primary focus on functional fabrics which are used for the manufacturing of sportswear. Functional fabrics are fabrics of complex construction using polyester or other polymer-based raw materials with single or multiple special function(s), for example, higher elasticity, water repellent and/or quick drying function and are used primarily for the manufacturing of sportswear which demands for such special functions. Our target customers include renowned sportswear manufacturers in China including Decathlon, Anta, Mizuno and Li Ning. To the best of Directors' knowledge information and belief, our Directors confirmed that ZhongShan Hong Liong is principally engaged in the manufacture of cotton/chemical fibre blend fabrics which mix cotton and chemical yarns in the manufacturing process and are commonly used in everyday clothing and for other applications such as industrial shoes and bags. ZhongShan Hong Liong's target customers are primarily industrial shoes and travelling and computer bags manufacturers. There is no overlapping of major customers between our Group and ZhongShan Hong Liong. Our Directors consider that ZhongShan Hong Liong is not a competitor to our Group because it is engaged in different lines of fabric products which target different markets and customers. Our Group will focus on fabrics for sportswear clothing after Listing while ZhongShan Hong Liong are not engaged and will not engage in the manufacture of sportswear clothing fabrics after our Listing pursuant to the Deed of Non-Competition.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

(b) *Design and design technology*

Our in-house design team handles all our design activities for our chemical fibre knitted fabrics independently from ZhongShan Hong Liong's design team that handles the design of cotton/chemical fibre blend fabrics. Whilst our in-house design team has its own design database, technology and know-how for our business, to the best of the Directors' knowledge information and belief, ZhongShan Hong Liong relies on its own designers and its design database, technology and know-how.

(c) *Production process*

As disclosed in the section headed "Business — Manufacturing Facilities" of this prospectus, we have our own fabric manufacturing facility independent of ZhongShan Hong Liong's for the manufacture of our products. We may also outsource some of our manufacturing requirements to third-party subcontractors as disclosed in the section headed "Business — Third Party Outsourcing".

(d) *Sales network and pricing of products*

Our target customers include sportswear and leisure apparel manufacturers in China. ZhongShan Hong Liong's major customers include manufacturers of industrial shoes and travelling and computer bags.

(e) *Revenue model*

Our business derives revenues from the sales of chemical fibre knitted fabrics (化纖類) with primary focus on complex and value-added fabrics, fabrics for sportswear and leisure apparel and apparel for various domestic and foreign premium apparel brands in China. To the best of the Directors' knowledge information and belief, ZhongShan Hong Liong mostly derives revenues from the sales of cotton/chemical fibre blend fabrics to industrial shoe manufacturers and manufacturers of travelling and computer bags in Taiwan and China.

(f) *Composition of board members*

None of our Directors, our management team and staff holds a position on the board of directors or the management team of ZhongShan Hong Liong. None of the members of the board of directors of ZhongShan Hong Liong has any management or executive role in our Group. There is no overlapping between the management and operation of our Group and that of ZhongShan Hongliong in any aspects. Therefore, our Directors are of the view that competition between ZhongShan Hong Liong and our Group does not exist.

Reason for exclusion

As confirmed by the Directors, ZhongShan Hong Liong was not included into our Group for the following reasons: First, it is the nature of the fabric business that the characteristics of consumers and markets differ according to the type of fabrics, apparel and applicability. Second, our Group's primary business focus and strategy is related to complex and value-added fabrics for sportswear and leisure apparel manufacturers in China. ZhongShan Hong Liong is principally engaged in the manufacture of

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

cotton/chemical fibre blend fabrics for industrial shoes and bags. However, as confirmed by the Directors, less than 10% in terms of revenue and quantity of the fabrics produced by ZhongShan Hong Liong are used for the production of casual wear. ZhongShan Hong Liong will only manufacture cotton/chemical fibre blend fabrics for industrial shoe and bags, they will not manufacture casual wear after our Listing pursuant to the terms of the Deed of Non-Competition. As a result, ZhongShan Hong Liong is outside the scope of our business and hence was not included into our Group. We believe that our Group's focus on complex and value-added fabrics has been important to our success in this market segment but that our Group's expertise and experience in the PRC would not necessarily translate into success in other market in which ZhongShan Hong Liong is specialised. Third, we believe that substantial opportunity exists for our continued expansion within our existing business segment. We presently have no plan to develop the cotton/chemical fibre blend fabrics market in the near future and intend to focus on our market share with primary focus on complex and value-added fabrics for sportswear and leisure premium apparel brands in the PRC. Hence, our Controlling Shareholders do not consider it appropriate to inject the business of ZhongShan Hong Liong into our Group. As ZhongShan Hong Liong is not engaged in the manufacture of products which are similar to those of our Group, and that the major customers of our Group and ZhongShan Hong Liong are different, and the raw materials used for the manufacture of the products of our Group are different from those used by ZhongShan Hong Liong for its manufacture of cotton/chemical fibre blend fabrics, the Directors consider that there is no competition among the Group and ZhongShan Hong Liong. Pursuant to the Deed of Non-Competition, ZhongShan Hong Liong has undertaken with the Company that, so long as our Controlling Shareholders remain interested in 30% or more of the voting rights at general meeting of our Company, he/she/it and any companies controlled by him/her/it, as the case may be, will not compete with our Group in respect of the Core Business, including production of casual wear, conducted by our Group. For the definition of Core Business, please refer to the sub-section headed "Deed of Non-Competition" under this section.

SHAREHOLDERS' INTERESTS IN TAI WAN HONG LIONG

Each of Mr. Shao Ten-Po, Mr. Tseng Chung-Cheng and Mr. Liao Chun Yi is a director and a shareholder of Tai Wan Hong Liong Textile Co., Ltd. ("Tai Wan Hong Liong") holding approximately 35%, 6% and 8% interest in Tai Wan Hong Liong respectively. Tai Wan Hong Liong is principally engaged in the trading of weaving machineries, yarns and industrial fabrics for shoes, bags, tents and toys. Industrial fabrics are usually heavier, of higher tensile strength and can withstand longer wear and tear than fabrics for the manufacture of apparel. Our Group will focus on fabrics for sportswear clothing after Listing while Tai Wan Hong Liong are not engaged and will not engage in the manufacture of sportswear clothing fabrics after our Listing pursuant to the terms of the Deed of Non-Competition. As Tai Wan Hong Liong is engaged in a different product line, Tai Wan Hong Liong is not a competitor to our Group. Besides, as Tai Wan Hong Liong is not engaged in the manufacture of products which are similar to those of our Group, and that the customers of our Group and Tai Wan Hong Liong are different, the Directors consider that there is no competition among the Group and Tai Wan Hong Liong. Pursuant to the Deed of Non-Competition, Tai Wan Hong Liong has undertaken with the Company that, so long as our Controlling Shareholders remain interested in 30% or more of the voting rights at general meeting of our Company, he/she/it and any companies controlled by him/her/it, as the case may be, will not compete with our Group in respect of the core businesses conducted by our Group.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

DEED OF NON-COMPETITION

In order to avoid any future competition between us and ZhongShan Hong Liong and Tai Wan Hong Liong and between us and our Controlling Shareholders, the Deed of Non-Competition has been entered into between, among others, our Company, the Controlling Shareholders, Lucky Dragon, ZhongShan Hong Liong and Tai Wan Hong Liong. Pursuant to the terms of the Deed of Non-Competition, each of the Controlling Shareholders, Lucky Dragon, ZhongShan Hong Liong and Tai Wan Hong Liong (the “Covenantors”) has undertaken with the Company that, so long as our Controlling Shareholders remain interested in 30% or more of the voting rights at general meeting of our Company, he/she/it and any companies controlled by him/her/it, as the case may be, will not compete with our Group in respect of the core businesses conducted by our Group. For the purposes of the Deed of Non-Competition, our Group’s core businesses (the “Core Business”) are manufacturing of chemical fibre knitted fabrics, especially with focus on functional fabrics, manufacturing of garments on an OEM basis for overseas premium apparel brand and PRC apparel brand owners, and wholesaling of fashion and leisure apparel and accessory products.

The principal terms of the Deed of Non-Competition are as follows:

- each of the Covenantors will not, without our prior written consent, participate, conduct or operate any business or services that will compete directly or indirectly with the Core Business;
- each of the Covenantors will not directly or indirectly take any action which constitutes an interference with or a disruption of any of our Group’s business activities including, but not limited to, solicitation of our Group’s customers, suppliers or personnel of any member of our Group;
- each of the Covenantors will offer to our Company a right of first refusal in respect of the opportunity to participate or acquire any interest in future projects or joint ventures which are offered to any company controlled by any of the Covenantors which could or may compete with the Core Business (the “Business Opportunity”).

Right of first refusal in respect of a Business Opportunity

Our Company will have a right of first refusal in respect of a Business Opportunity to participate or acquire any interest in future projects or joint ventures which are offered to any company controlled by any Covenantor which could or may compete with the Core Business. In the event that any Covenantor is aware of a Business Opportunity, he/she/it shall procure that such Business Opportunity is first offered to our Company and our Company shall have a right of first refusal in respect of such Business Opportunity. In particular, each Covenantor will:

- (i) direct to our Company any such Business Opportunity;
- (ii) provide to our Company (subject to such confidentiality requirements as may be applicable) all information and documents possessed by it or its associates in respect of the Business Opportunity to enable our Company to evaluate the merit of the Business Opportunity and to secure the Business Opportunity.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

The Business Opportunity will be reviewed by our executive Directors, who shall make their recommendation on whether or not to take up the Business Opportunity referred to us under the terms of the Deed of Non-Competition to our INEDs within seven days after a Covenantor notifies our Company of such Business Opportunity in writing. Our INEDs will be responsible for deciding whether or not to take up a Business Opportunity referred to us under the terms of the Deed of Non-Competition, without the attendance by a Director who have management responsibilities in any company controlled by any Covenantor (except as invited by our INEDs to assist them).

A Covenantor will not pursue the Business Opportunity, unless and until our independent non-executive Directors (a) resolve that our Company will not pursue such Business Opportunity; or (b) do not resolve whether or not to pursue such Business Opportunity within a reasonable period of time (which is normally one month unless the parties agree otherwise) after he/she/it notifies our Company of such Business Opportunity in writing. Our Company is of the view that the one-month period for our INEDs to consider whether our Company shall pursue such Business Opportunity is reasonable as it allows sufficient time for our executive Directors to make their recommendation to our INEDs and for our INEDs to review the information relating to the Business Opportunity and (where necessary) to employ, at our Company's cost, an independent financial adviser as they consider necessary to advise our INEDs on the Business Opportunity.

In considering whether our Group will exercise the right of first refusal, our INEDs will take into account the written proposal prepared by the management of our Company regarding such Business Opportunity, the business strategy and financial condition of our Group, the potential of the Opportunity and whether the terms of the Business Opportunity are fair and reasonable and on normal commercial terms, with reference to the then prevailing market prices of the Business Opportunity. Our INEDs may, at our Company's cost, employ an independent financial adviser as they consider necessary to advise them on the terms of any such Business Opportunity.

Our independent non-executive Directors will also review, at least on annual basis, the pre-emptive rights or first rights of refusal, if any, provided by our Controlling Shareholders on the Business Opportunity and decide whether to exercise these rights.

In addition, to ensure our INEDs are able to conduct the above decision-making process, each of our Controlling Shareholders has undertaken in the Deed of Non-competition to provide and to procure the provision to us of all information necessary for the enforcement of the undertakings contained therein. Each of our Controlling Shareholders has further undertaken to make a statement in our annual report confirming their compliance and that of their respective affiliates with the terms of the Deed of Non-competition.

We will disclose in our annual report on how the undertakings in the Deed of Non-competition were complied with and enforced in accordance with the principles of making voluntary disclosures in the Corporate Governance Report as defined in Appendix 23 of the Listing Rules.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

INDEPENDENCE OF THE GROUP

The Directors are satisfied our Group is capable of carrying on its business independently from the Controlling Shareholders after Listing. This conclusion is based on, among others, the following:

Operational independence

We conduct our business independently from our Controlling Shareholders. Our Group has personnel and capabilities to handle all operational functions including power generation, procurement, safety control, finance and accounting, human resources and information technology.

There is no sharing of property, plant and equipment between the Group and the Controlling Shareholders. We do not share any of our employees with the Controlling Shareholders or their affiliates.

Although we entered into the connected transactions with companies controlled by our Controlling Shareholders as set out in the section headed “Connected Transactions” of this prospectus, we believe that our purchases and sales can be easily replaced by other comparable alternative supplies and customers without causing any material disruption to our operations. As such, our Directors confirm that we are able to operate independently despite the existence of such transactions and can carry on our business independently of our Controlling Shareholders and their associates.

For the purchase of raw yarns from Poly Luck Enterprise Limited (“Poly Luck”), we entered into a framework purchase agreement (the “First Raw Yarns Purchase Agreement”) with Poly Luck on 27 November 2009, whereby Poly Luck has agreed to supply raw yarns to our Group from time to time on a non-exclusive basis. Such raw yarns serve as our Group’s raw materials for the production of our fabric products. We expect the above transaction will continue upon Listing. For the three years ended 31 December 2008, the aggregate amount of the purchase of raw yarns from Poly Luck amounted to approximately RMB23.7 million, RMB10.1 million and RMB1.0 million, representing approximately 7.9%, 2.3% and 0.2% of our total raw materials purchase costs, respectively.

For the purchase of raw yarns from Sum Vision Company Corp. (“Sum Vision”), we entered into a framework purchase agreement (the “Second Raw Yarns Purchase Agreement”) with Sum Vision on 27 November 2009, whereby Sum Vision has agreed to supply raw yarns to our Group from time to time on a non-exclusive basis. Such raw yarns serve as our Group’s raw materials for the production of our fabric products. We expect the above transaction will continue upon Listing. For the three years ended 31 December 2008, the aggregate amount of the purchase of raw yarns from Sum Vision amounted to approximately RMB1.1 million, RMB7.3 million and RMB5.3 million, representing approximately 0.4%, 1.6% and 1.0% of our total raw materials purchase costs, respectively.

For the purchase of greige fabric, chemicals and dye auxiliaries (原絲半成品／染料助劑物料) (“Auxiliary Materials”) from Vicko Enterprises Limited (“Vicko Enterprises”) and raw yarns and fabric materials (“Fabric Materials”, together with the Auxiliary Materials, the “Materials”) from Keytrack Development Inc. (“Keytrack Development”), we entered into a framework purchase agreement (the “Material Purchase Agreement”) with Vicko Enterprises and Keytrack

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Development on 27 November 2009, whereby Vicko Enterprises and Keytrack Development have agreed to supply the Materials to our Group from time to time on a non-exclusive basis. Such Materials are necessary for the production of our fabric products. We expect the above transaction will continue upon Listing. For the three years ended 31 December 2008, the aggregate amount of the purchase of the Materials from Vicko Enterprises and Keytrack Development amounted to approximately RMB12.4 million, RMB7.4 million and RMB3.7 million, representing approximately 4.1%, 1.7% and 0.7% of our total raw materials purchase costs, respectively.

Management independence

The Group has an independent team of technical, managerial, financial and administrative professionals independent from the Controlling Shareholders to handle the day-to-day operations of the Group.

Financial independence

We have an independent financial system and makes financial decisions according to our Group's business needs.

All non-trade balances due from/to the Controlling Shareholders and their associates will be fully settled before listing.

During the Track Record Period, save as disclosed in the Accountants' report in Appendix I of this prospectus, the Controlling Shareholders, through entities either controlled or partly-owned by them, had not provided loans to our Group or bank guarantee to secure bank loans of our Group.

We have sufficient capital to operate our business independently, and have adequate internal resources and a strong credit profile to support our daily operations. We had our own finance department and has established its own financial reporting system independent of the Controlling Shareholders. We have our own bank account, makes its own tax registrations and has employed a sufficient number of dedicated financial accounting personnel.

Corporate Governance Measures

Our Directors believe that there are adequate corporate governance measures in place to manage any potential conflicts of interest between the Controlling Shareholders, the Directors and the Company. In order to avoid potential conflicts of interests, we have implemented the following measures:

- As part of our preparations for the Global Offering, we have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provide that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his/her associates have a material interest nor shall such Director be counted in the quorum present at the meeting.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

- A Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and absent himself/herself from the board meetings on matters involving the Group and/or matters in which such Director or his/her associates have a material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of the independent non-executive Directors.
- We are committed that our Board should include a balanced composition of executive and non-executive Directors (including INEDs). We have appointed three INEDs. We believe our INEDs possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial, external opinion to protect the interests of our public shareholders.
- We have appointed Mega Capital as our compliance advisor, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors' duties and corporate governance.
- As required by the Listing Rules, our INEDs shall review any connected transactions annually and confirm in our annual report that such transactions have been entered into in our ordinary and usual course of business, are either on normal commercial terms or on terms no less favorable to us than available to or from independent third parties and on terms that are fair and reasonable and in the interests of our shareholders as a whole.

In addition, if our INEDs consider it necessary or desirable, they may also engage professional advisors (including an independent financial advisor) at the costs of the Company to advise them on matters relating to the Deed of Non-Competition or on any business opportunities which may be referred to us by the Controlling Shareholders.

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

We have entered into numerous related party transactions with our Controlling Shareholders and their associates under normal commercial terms in our ordinary and normal course of business during the Track Record Period. The details of such related party transactions have been disclosed in Appendix I to this prospectus. Upon the Listing, we intend to continue certain of these related party transactions in our ordinary and normal course of business. Such transactions will constitute continuing connected transactions for our Company under the Listing Rules.

Non-exempt continuing connected transactions

1. *Purchase of raw yarns from Poly Luck*

On 27 November 2009, the Company entered into the First Raw Yarns Purchase Agreement with Poly Luck whereby Poly Luck has agreed to supply raw yarns to our Group as requested by us from time to time on a non-exclusive basis. Such raw yarns serve as our Group's raw materials for the production of our fabric products. The term of the First Raw Yarns Purchase Agreement will become effective on the Listing Date and expire on 31 December 2011. Formal purchase agreements (by way of purchase orders and confirmations) will be entered into between our Group and Poly Luck with the detailed terms and conditions as specified in the relevant purchase orders. We are required to settle the purchase price within one month after delivery. The transactions under the First Raw Yarns Purchase Agreement will be conducted on normal commercial terms and will be on terms no less favourable than those available from independent third parties.

The First Raw Yarns Purchase Agreement was entered into in the ordinary and usual course of business and on normal commercial terms. The purchase price payable by our Group to Poly Luck under the First Raw Yarns Purchase Agreement will be estimated based on the expected purchase amount of the raw yarns with reference to our expected production requirement. The purchase price will be comparable to the prevailing market prices.

Connected person

Poly Luck is principally engaged in the trading of raw yarns and fabrics, and is owned as to 50% by Hu Chin-Shu, an executive Director, and as to 50% by Liao Min-Chiang, an executive Director. Poly Luck is an associate of each of Hu Chin-Shu and Liao Min-Chiang and hence a connected person of our Company under the Listing Rules. The transactions contemplated under the First Raw Yarns Purchase Agreement will therefore constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules upon the Listing. We are informed by Poly Luck that Poly Luck has its own independent customers other than our Group.

Reasons for the transaction

We began to purchase raw yarns from Poly Luck as raw materials for our production since 2004 which has proven to be a reliable source of raw materials for our Company. Our Directors consider that it is in our interests to continue our relationship with Poly Luck after the Listing.

CONNECTED TRANSACTIONS

Historical transaction value

For the three years ended 31 December 2008, the aggregate amount of the purchase of raw yarns from Poly Luck amounted to approximately RMB23.7 million, RMB10.1 million and RMB1.0 million, representing approximately 7.9%, 2.3% and 0.2% of our total raw material purchase costs, respectively. The decrease was due to the quality of domestically produced raw yarns have improved significantly during the period which has replaced the Group's requirement of imported raw yarns supplied by Poly Luck.

For the period from 1 January 2009 to the Latest Practicable Date, purchase of raw yarns from Poly Luck amounted to approximately RMB0.2 million.

Annual Caps

Based on our Directors' estimate of our anticipated production volume and our requirement of raw yarns in the coming three years, it is expected that the following annual cap amounts payable by our Group for the transactions under the First Raw Yarns Purchase Agreement will not exceed:

- (a) RMB0.5 million for the year ending 31 December 2009;
- (b) RMB1.0 million for the year ending 31 December 2010; and
- (c) RMB1.5 million for the year ending 31 December 2011.

In arriving at the annual caps, we have taken into account: (i) the historical transaction amount of raw yarns supplied by Poly Luck to our Group during the Track Record Period (ii) the expected increase in demand for our Group's products, based on the sales contract entered into between our Group and our customers and as a result of anticipated growth of our business operations; and (iii) potential fluctuations in the cost of the materials to be purchased by the Group. The annual caps are estimated based on the projected growth in the purchase volumes for the three years ending 31 December 2011 as a result of continued expected increasing demand for our Group's products.

Given that the assets ratio in respect of the above transaction calculated on an annual basis for the year ending 31 December 2011 is less than 2.5% of the total assets of the Group for the year ended 31 December 2008, the transactions contemplated under the First Raw Yarns Purchase Agreement will be exempt from the independent shareholders' approval requirements but subject to the reporting and announcement requirements under Rule 14A.34 of the Listing Rules.

CONNECTED TRANSACTIONS

2. Purchase of Auxiliary Materials from Vicko Enterprises and raw yarns and fabric materials from Keytrack Development

On 27 November 2009, the Company entered into the Material Purchase Agreement with Vicko Enterprises and Keytrack Development whereby Vicko Enterprises and Keytrack Development have agreed to supply the Materials to our Group as requested by us from time to time on a non-exclusive basis. Such Materials are necessary for the production of our fabric products. The term of the Material Purchase Agreement will become effective on the Listing Date and expire on 31 December 2011. Formal purchase agreements (by way of purchase orders and confirmations) will be entered into between our Group and Vicko Enterprises and Keytrack Development (as the case may be) with the detailed terms and conditions as specified in the relevant purchase orders. We are required to settle the purchase price within one month after delivery. The transactions under the Material Purchase Agreement will be conducted on normal commercial terms and will be on terms no less favourable than those available from independent third parties.

The Material Purchase Agreement was entered into in the ordinary and usual course of business and on normal commercial terms. The purchase price payable by our Group to Vicko Enterprises and Keytrack Development (as the case may be) under the Material Purchase Agreement will be estimated based on the expected purchase amount of the Materials with reference to our expected production requirement. The purchase price will be comparable to the prevailing market prices.

Connected person

Vicko Enterprises is principally engaged in the trading of raw yarns, fabrics, dyestuff accelerant and machineries, and is owned as to 50% by Hu Chin-Shu, an executive Director, and as to 50% by Tsai Te-Tsan, an independent third party. Vicko Enterprises is an associate of Hu Chin-Shu and hence a connected person of our Company under the Listing Rules. Keytrack Development is principally engaged in the trading of raw yarns, and is owned as to 50% by Hu Chin-Shu, an executive Director, and as to 50% by Tsai Te-Tsan, an independent third party. Keytrack Development is an associate of Hu Chin-Shu and hence a connected person of our Company under the Listing Rules. The transactions contemplated under the Material Purchase Agreement will therefore constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules upon the Listing. We are informed by Vicko Enterprises and Keytrack Development that they have their own independent customers other than our Group.

Reasons for the transaction

We began to purchase the Materials from Vicko Enterprises and Keytrack Development as raw materials for our production since 2004 which has proven to be a reliable source of raw materials for our Company. Our Directors consider that it is in our interests to continue our relationship with Vicko Enterprises and Keytrack Development after the Listing.

CONNECTED TRANSACTIONS

Historical transaction value

For the three years ended 31 December 2008, the aggregate amount of the purchase of the Materials from Vicko Enterprises and Keytrack Development amounted to approximately RMB12.4 million, RMB7.4 million and RMB3.7 million, representing approximately 4.1%, 1.7% and 0.7% of our total raw materials purchase costs, respectively. For the period from 1 January 2009 to the Latest Practicable Date, purchase of Materials from Vicko Enterprises and Keytrack Development amounted to approximately RMB0.5 million.

Annual Caps

Based on our Directors' estimate of our anticipated production volume and our requirement of the Materials in the coming three years, it is expected that the following annual cap amounts payable by our Group for the transactions under the Material Purchase Agreement will not exceed:

- (a) RMB0.5 million for the year ending 31 December 2009;
- (b) RMB0.8 million for the year ending 31 December 2010; and
- (c) RMB1.0 million for the year ending 31 December 2011.

The increase in the annual cap over the amount purchased from Keytrack Development and Vicko Enterprises was due to the expected increase in demand for Materials which cannot be satisfied by domestic suppliers.

In arriving at the annual caps, we have taken into account: (i) the historical transaction amount of the Materials supplied by Vicko Enterprises and Keytrack Development to our Group during the Track Record Period (ii) the expected increase in demand for our Group's products, based on the sales contract entered into between our Group and our customers and as a result of anticipated growth of our business operations; and (iii) potential fluctuations in the cost of the materials to be purchased by the Group. The annual caps are estimated based on the projected growth in the purchase volumes for the three years ending 31 December 2011 as a result of continued expected increasing demand for our Group's products.

Given that the assets ratio in respect of the above transaction calculated on an annual basis for the year ending 31 December 2011 is less than 2.5% of the total assets of the Group for the year ended 31 December 2008, the transactions contemplated under the Material Purchase Agreement will be exempt from the independent shareholders' approval requirements but subject to the reporting and announcement requirements under Rule 14A.34 of the Listing Rules.

3. Purchase of raw yarns from Sum Vision Company Corp. ("Sum Vision")

On 27 November 2009, the Company entered into a framework purchase agreement (the "**Second Raw Yarns Purchase Agreement**") with Sum Vision whereby Sum Vision has agreed to supply raw yarns to our Group as requested by us from time to time on a non-exclusive basis. Such raw yarns serve as our Group's raw materials for the production of our fabric products. The term of the Second Raw Yarns Purchase Agreement will become effective on the Listing Date and expire on 31 December 2011. Formal purchase agreements (by way of purchase orders and confirmations) will be entered into between

CONNECTED TRANSACTIONS

our Group and Sum Vision with the detailed terms and conditions as specified in the relevant purchase orders. We are required to settle the purchase price within one month after delivery. The transactions under the Second Raw Yarns Purchase Agreement will be conducted on normal commercial terms and will be on terms no less favourable than those available from independent third parties.

The Second Raw Yarns Purchase Agreement was entered into in the ordinary and usual course of business and on normal commercial terms. The purchase price payable by our Group to Sum Vision under the Second Raw Yarns Purchase Agreement will be estimated based on the expected purchase amount of the raw yarns with reference to our expected production requirement. The purchase price will be comparable to the prevailing market prices.

Connected person

Sum Vision is principally engaged in the trading of imported raw yarns, and is owned as to 50% by Liao Min-Chiang, a non-executive Director and as to 50% by Hsu Fu-Mei a shareholder of Lucky Dragon. Sum Vision is an associate of Liao Min-Chiang and hence a connected person of our Company under the Listing Rules. The transactions contemplated under the Second Raw Yarns Purchase Agreement will therefore constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules upon the Listing. We are informed by Sun Vision that Sun Vision has its own independent customers other than our Group.

Reasons for the transaction

We began to purchase raw yarns from Sum Vision as raw materials for our production since 2004 which has proven to be a reliable source of raw materials for our Company. Our Directors consider that it is in our interests to continue our relationship with Sum Vision after the Listing.

Historical transaction value

For the three years ended 31 December 2008, the aggregate amount of the purchase of raw yarns from Sum Vision amounted to approximately RMB1.1 million, RMB7.3 million and RMB5.3 million, representing approximately 0.4%, 1.6% and 1.0% of our total raw material purchase costs, respectively. For the period from 1 January 2009 to the Latest Practicable Date, purchase of raw yarns from Sum Vision amounted to approximately RMB4.7 million.

Annual Caps

Based on our Directors' estimate of our anticipated production volume and our requirement of raw yarns in the coming three years, it is expected that the following annual cap amounts payable by our Group for the transactions under the Second Raw Yarns Purchase Agreement will not exceed:

- (a) RMB6.0 million for the year ending 31 December 2009;
- (b) RMB8.0 million for the year ending 31 December 2010; and
- (c) RMB10.0 million for the year ending 31 December 2011.

CONNECTED TRANSACTIONS

In arriving at the annual caps, we have taken into account: (i) the historical transaction amount of raw yarns supplied by Sum Vision to our Group during the Track Record Period (ii) the expected increase in demand for our Group's products, based on the sales contract entered into between our Group and our customers and as a result of anticipated growth of our business operations; and (iii) potential fluctuations in the cost of the materials to be purchased by the Group. The annual caps are estimated based on the projected growth in the purchase volumes for the three years ending 31 December 2011 as a result of continued expected increasing demand for our Group's products.

Given that the assets ratio in respect of the above transaction calculated on an annual basis for the year ending 31 December 2011 is more than 2.5% of the total assets of the Group for the year ended 31 December 2008 but the total consideration is not less than HK\$10.0 million, the transactions contemplated under the Second Raw Yarns Purchase Agreement will be subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

APPLICATION FOR WAIVERS

Our Directors (including our INEDs) consider that each of the continuing connected transactions described above have been and will be entered into in the ordinary and usual course of business of our Group, on normal commercial terms, and are fair and reasonable and in the interests of our shareholders as a whole.

Accordingly, our Company has applied to the Stock Exchange for a waiver from strict compliance with the announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules at the time of the Listing in respect of the transaction set out above.

Our Company will comply with the relevant requirements under Chapter 14A of the Listing Rules, including the cap amounts as stated above. Our Directors (including our independent non-executive Directors) are of the view that the cap amounts as stated above are fair and reasonable.

CONFIRMATION FROM THE SPONSOR

The Sole Sponsor is of the view that (i) the continuing connected transactions described above for which waivers are sought are on normal commercial terms and have been entered into in the ordinary and usual course of business of our Company; and (ii) the cap amount of these continuing connected transactions described above are fair and reasonable and in the interest of our shareholders as a whole.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS

Our board of Directors consists of 9 Directors, of whom 5 are executive Directors, 1 are non-executive Director and 3 are INEDs. The functions and duties conferred on the Board include: convening shareholders' meetings and reporting their work to the shareholders' meetings, implementing the resolutions of the shareholders' meetings, determining the Company's business plans and investment plans, formulating the Company's annual budget and final accounts, formulating the Company's proposals for dividend and bonus distributions and for the increase or reduction of registered capital as well as exercising other powers, functions and duties as conferred by the Articles of Association.

The following table sets out certain information concerning the Directors.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Shao Ten-Po	59	executive Director
Tseng Chung-Cheng	62	executive Director
Liao Chin-Yi	62	executive Director
Hu Chin-Shu	41	executive Director
Liao Min-Chiang	35	executive Director
Wang Shih-Ting	33	non-executive Director
Lu Chien-An	36	INED
Chang Chuan-Fang	63	INED
Chen Fang-Kun	55	INED

Executive Directors

Mr. Shao Ten-Po ("Mr. Shao"), aged 59, is an executive Director, the chairman and a founder of our Group. Mr. Shao was appointed as an executive Director on 14 July 2009. Mr. Shao is responsible for the formulation of the overall corporate direction and business strategies of the Group. He joined us as the director in October 1993. Prior to joining our Group, he worked as chairman of Nam Liong Enterprise Company Limited and Tien Jiang Enterprise Co., Ltd. Mr. Shao is a founder of Nam Liong Enterprise Company Limited and has been director since 1973. He has over 35 years of experience in the textile industry. Mr. Shao is also the directors of Hong Liong Textile (an investment holding company), Tai Wan Hong Liong Textile Co., Ltd. (a yarns, industrial fabrics and machineries trading company), Nam Liong Enterprise Company Limited (EPS, self-adhesive patches manufacturing), Tien Jiang Enterprise Co., Ltd. (multi-layer laminated materials manufacturing), Tiong Liong Industrial Co., Ltd. (functional shoe materials manufacturing), U-Long Prosperity Co., Ltd. (flat weaving factory).

Mr. Tseng Chung-Cheng ("Mr. Tseng"), aged 62, is an executive Director and a founder of our Group. Mr. Tseng was appointed as an executive Director on 27 November 2009. Mr. Tseng is responsible for the management of the branded leisure clothing segment of our Group and the formulation of the overall corporate direction and business strategies of the Group. He joined us as a director in October 1993. Before joining our Group, he worked as the director of Castle Securities Broker Inc. (大府城證券投資顧問股份有限公司) from 1989 to 2005. Prior to that, he worked for Kuan Hwa Dyeing & Knitting Co., Ltd. (冠華染織股份有限公司) for 29 years and had worked as their factory head, general manager, and director. Mr. Tseng has over 29 years of experience in the textile industry. He obtained a Bachelor of Arts Degree in Industrial Management from Taiwan Tamsui

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Institute of Business Administration in June 1969. Mr. Tseng is also directors of Hong Liong Textile Co., Ltd. (investment company), Tai Wan Hong Liong Textile Company Ltd. (a yarns, industrial fabrics and machineries trading company), Kuan Hwa Dyeing & Knitting Co., Ltd. (冠華染織股份有限公司) (textile and dyeing processing), Great Wall Securities Co., Ltd. (securities investment company), Yoho Landis Beach Resort Kenti (resort hotel), and 志誠投資公司 (Zhicheng Investment Co. Ltd.) (securities investment company).

Mr. Liao Chin-Yi (“*Mr. Liao*”), aged 62, is an executive Director and the chief executive officer and a founder of our Group. Mr. Liao was appointed as an executive Director on 27 November 2009. Mr. Liao is responsible for overall sales and marketing, production of our products and the formulation of the overall corporate direction and business strategies of the Group. He joined our Group as the general manager in October 1993. Prior to joining our Group, Mr. Liao worked as the assistant manager of the business department of Taiwan Can Corporation (台灣製罐股份有限公司) from January 1990 to September 1993. Mr. Liao has over 16 years of experience in the textile industry. He obtained a Bachelor of Science Degree in Mechanical Engineering from Taiwan National Taipei University of Technology in June 1969. Mr. Liao is also directors of Hong Liong Textile Co., Ltd. (investment holding company), Tai Wan Hong Liong Textile Co., Ltd. (a yarns, industrial fabrics and machineries trading company), and Lucky Dragon Industries Limited (investment holding company).

Ms. Hu Chin-Shu (“*Ms. Hu*”), aged 41, is an executive Director. Ms. Hu was appointed as an executive Director on 27 November 2009. She has adopted and implemented a number of strategic plans to expand and promote the business of our Group. She joined us as the manager of the finance department since May 1995 and has worked as the assistant to director in the general manager office since November 2004. Ms. Hu has over 14 years of experience in the textile industry. Ms. Hu is also directors of Poly Luck Enterprise Limited (trading company), Keytrack Development Inc. (investment holding company), Vicko Enterprises Ltd. (trading company). Ms. Hu holds a Master of Management degree from National Cheng Kung University, Taiwan achieved in June 2006 and had participated in an advanced programme of excellent corporate operation and management offered by Tsinghua University, China for a year from May 2008 to May 2009.

Ms. Liao Min-Chiang (“*Ms. Liao*”), aged 35, is an executive Director, responsible for the human resources and internal control. Ms. Liao was appointed as an executive Director on 27 November 2009. She joined us in December 1997 and had worked as an executive of the general manager office until December 2005. From December 2005 to June 2009, Ms. Liao had worked as the assistant manager of the human resources department and internal control department. In July 2009, she was promoted as the manager of both departments. Ms. Liao is also directors of Poly Luck Enterprise Limited (trading company), Sun Vision Company Corp. (trading company) and Sun Moon Star Enterprises Limited (日月星企業有限公司) (trading company). Ms. Liao completed a Master of Management degree program from James Cook University, Australia in May 2006. Mr. Liao is the daughter of our executive Director, Mr. Liao Chin-Yi.

Despite the executive Directors ordinarily reside in Taiwan, each executive Director travels frequently to and from the PRC for the performance and discharge of his/her duties as an executive Director and the management of the Group.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

During the Track Record Period, each of Mr. Shao, Mr. Hsu Chieh-Jung (“Mr. Hsu”), Mr. Liao and Mr. Tseng acted in the capacity of both a director and a founder of the Group and they have chosen to receive dividend income in lieu of directors’ remuneration. In addition, there were no contracts which set out the amount of remuneration in place between these directors and the Company. As such, all these directors either did not receive any emoluments or received a low remuneration during the Track Record Period and there was no arrangement under which the director waived or agreed to waive any remuneration during the same period.

As advised by the Directors, Mr. Hsu, aged 62, will not be appointed as a Director. Mr. Hsu, for the reasons of health and age, has expressed his desire to pursue other endeavors unrelated to the business of the Group.

Non-executive Directors

Ms. Wang Shih-Ting (“Ms. Wang”), aged 33, is a non-executive Director. Ms. Wang was appointed as a non-executive Director on 27 November 2009. Ms. Wang is also the head of the International Trade Department of Nam Liong Enterprise Company Limited. Ms. Wang has over ten years of experience in the textile industry. She was graduated in the Royal Conservatory of Music in July 1998 with a Bachelor of Music degree.

Independent Non-executive Directors

Mr. Lu Chien-An (“Mr. Lu”), aged 36, is an INED. Mr. Lu was appointed as an INED on 27 November 2009. Mr. Lu is currently the assistant manager of 東南亞投資顧問公司 (Southeast Asia Investment Consultant Company). Besides, he is also the assistant manager of the valuation department of China Intangible Asset Appraisal Co., Ltd. Mr. Lu graduated from National Chengchi University in July 2008, with a Master of Operation Management and is currently a doctoral student of Shanghai University of Finance and Economics. He is a certified valuation analyst.

Mr. Chang Chuan-Fang (“Mr. Chang”), aged 63, is an INED. Mr. Chang was appointed as an INED on 27 November 2009. Mr. Chang has senior management experience in the financial industry. He currently serves as a consultant to the chairman of Waterland Securities Co., Ltd. and the chairperson of Shenzhen Changcheng Investment Holding Co. Ltd. Prior to that, he had been the general manager of Great Wall Securities Co. Ltd. from 2005 until 2009. From 1988 to 2005, he had been the general manager of Castle Securities Broker Inc., 華碩證券公司 (Hua Shuo Securities Company), 中興證券公司 (Zhong Xing Securities Company), and 台中證券公司 (Tai Zhong Securities Company). Mr. Chang graduated from Tamkang University of Taiwan in 1974, with a Bachelor of Business degree.

Mr. Chen Fang-Kun (“Mr. Chen”), aged 55, is an INED. Mr. Chen was appointed as an INED on 27 November 2009. Mr. Chen is currently the general manager of 聯壹科技公司 (Lian Yi Technology Company) (“Lian Yi”) in Taiwan. Since 2002, Mr. Chen has worked as the general manager of Lian Yi and was responsible for overseeing overall strategy planning, investment decisions, business operations, financial management and internal control of Lian Yi. Mr. Chen had over 15 years of extensive experience in accounting, finance and internal controls related experience. Prior to joining Lian Yi, Mr. Chen had been the assistant manager of Tong Lung Metal Industry Co., Ltd (“Tong Lung”) in August 1982, he was responsible for accounting, reporting, financial and treasury management. In July 1994, Mr. Chen was being promoted to senior manager of the finance department of Tong Lung and was responsible for oversees of accounting, reporting, financial management and internal controls of Tong

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Lung. Mr. Chen was also the chief officer of the listing of Tong Lung in Taiwan in 1994. From August 1994 to June 1996, Mr. Chen had been the senior manager of the management department of Tong Lung. From July 1996 to April 1999, Mr. Chen had been the vice general manager of domestic investment department, management department and investment department of Tong Lung responsible for conducting analysis, management and control of domestic and foreign investment plans. From April 1999 to August 2001, Mr. Chen had been the General Manager and consultant of Tong Lung. Mr. Chen graduated from National Cheng Kung University in Taiwan in 1979, with a Bachelor of Accounting degree.

As of the Latest Practicable Date, save as disclosed under the section headed “C. Further information about Directors and substantial shareholders” in Appendix VII to this prospectus, the Directors do not have any interest or short positions in the shares or underlying shares in the Company within the meaning of Part XV of the SFO.

Please refer to the section headed “C. Further information about Directors and substantial shareholders” in Appendix VII to this prospectus for the amount of the Directors’ emoluments and the basis of determining such emoluments.

Save as disclosed above, there is no other information in respect of the Directors to be disclosed pursuant to rules 13.51(2) of the Listing Rules and there is no other matter that needs to be brought to the attention of the shareholders of the Company.

SENIOR MANAGEMENT

Mr. Kuo Juing-Shou (“Mr. Kuo”), aged 58, is the vice general manager, responsible for our fabrics related business. Mr. Kuo has over ten years of experience in the textile industry. Prior to joining the Group in December 1998, he was the general manager of Wan Hui Company (萬輝公司) and Wamin Automatic Machinery Co., Ltd..

Mr. Yeh Fu-Ti (“Mr. Yeh”), aged 52, is the assistant manager, responsible for managing the manufacture department. Mr. Yeh has over 28 years of experience in the textile industry. Prior to joining the Group in October 2006, he was the chief engineer of Jing Sheng Dyeing and Finishing Company (精盛染整公司). Mr. Yeh completed a diploma program on textiles at Vanung University (萬能技術學院) in October 2004.

Mr. Tseng Shiu-Lin (“Mr. Tseng”), aged 35, is the assistant manager of the procurement department of our Group. He joined our Group in July 2003 and had worked as the head of internal control department until March 2005. From July 2006 to October 2008, Mr. Tseng returned to our Group in November 2008 and has worked as the assistant manager of the procurement department since then. He completed an Master of Business Administration degree program in Saint John’s University, New York, in January 2003. Mr. Tseng Shu-Lin is the son of our executive Director, Mr. Tseng Chung-Cheng.

Mr. Chen Min (“Mr. Chen”), aged 36, is a general manager, responsible for the casual apparel business of our Group. He has over seven years of experience in the apparel industry. Mr. Chen has been working for Shishi Maigen since January 2002. He joined our Group in May 2008 after the acquisition of Shishi Maigen by our Group.

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COMPANY SECRETARY

Ms. Ko Ming Wai (高明慧), aged 30, is the company secretary of our Company. Ms. Ko is responsible for the company secretarial functions and reviewing and supervising our Group's overall internal control systems and provides advice to the Board and audit committee. Ms. Ko is employed on a full-time basis and she is ordinarily resident in Hong Kong as required under Rule 8.17 of the Listing Rules. Ms. Ko joined our Group in October 2009 and is responsible for overseeing matters related to control and compliance of our Group. Prior joining our Group, Ms. Ko worked as manager of PricewaterhouseCoopers. Ms. Ko had over 8 years of experience in auditing and accounting. In 2001, Ms. Ko graduated from the The Chinese University of Hong Kong with a Bachelor degree in Business Administration. She has been a member of Hong Kong Institute of Certified Public Accountant since 2005.

CORPORATE GOVERNANCE

We have put in place our corporate governance structure with a view to creating shareholder value. Our Board of Directors, which includes three INEDs out of a total nine Directors, is responsible for setting strategic, management and financial objectives and ensuring that the interests of our shareholders, including those of minority shareholders, are protected. Our Board of Directors has established an audit committee, a remuneration committee and a nomination committee.

AUDIT COMMITTEE

We have established an audit committee in compliance with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The primary duties of the audit committee will be to make recommendations to the Board on the appointment of and removal of auditors, to review and supervise our financial reporting process and internal control system and provide advice and comments to the Board. The audit committee is also empowered to review and report to the Board on the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget. The audit committee consists of four members, namely Mr. Chang Chuan-Fang, Mr. Chen Fang-Kun and Mr. Lu Chien-An, our INEDs, and Ms. Wang Shih Ting, our non-executive Director. The chairman of the audit committee is Mr. Chen Fang-Kun.

REMUNERATION COMMITTEE

We have set up a remuneration committee (the "Remuneration Committee") which consists of three members, namely Mr. Chen Fang-Kun and Mr. Chang Chuan-Fang, our INEDs and Mr. Shao Ten-Po, our executive Director. The chairman of the committee is Mr. Chang Chuan-Fang, an INED. The Remuneration Committee considers and recommends to our Board of Directors the remuneration and other benefits paid by the Company to the Directors and the senior management of the Company. The remuneration of all the Directors and the senior management is subject to regular monitoring by the Remuneration Committee to ensure that the levels of their remuneration and compensation are appropriate.

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NOMINATION COMMITTEE

We have established a nomination committee in compliance with the Code of Corporate Governance Practices set out in Appendix 14 of the Listing Rules. Our nomination committee comprises three members, namely Mr. Lu Chien-An, Mr. Chang Chuan-Fang and Mr. Shao Ten-Po. Our nomination committee considers and recommends to the Board on the appointment of executive Directors and senior management staff. The chairman of the committee is Mr. Lu Chien-An.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

During the Track Record Period, each of Mr. Shao Ten-Po, Mr. Hsu Chieh-Jung, Mr. Liao Chin-Yi and Mr. Tseng Chung-Cheng acted in the capacity of both a director and a founder of the Group and they have chosen to receive dividend income in lieu of directors' remuneration. All these directors agreed to waive any emoluments in full or receive a low remuneration during the Track Record Period.

Our senior management receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of the Group. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations.

Upon and after Listing, our Remuneration Committee will review and determine the remuneration and compensation packages of our Directors and senior management with reference to salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of our Group and the compensation package of our Directors and senior management will be in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of the Group, as well as options to be granted under the Share Option Scheme.

Under the arrangements currently in force, the aggregate amount of directors' fees and other emoluments payable to the Directors for the year ending 31 December 2009 is estimated to be approximately HK\$3.0 million, excluding any discretionary bonuses.

COMPLIANCE ADVISER

We have appointed Mega Capital as our compliance advisor upon listing of our Shares on the Stock Exchange in compliance with Rule 3A.19 of the Listing Rules. We have entered into a compliance advisor's agreement with Mega Capital that contains the following material terms:

- we have appointed Mega Capital as our compliance advisor for the purpose of Rule 3A.19 of the Listing Rules for a period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier;
- Mega Capital will provide us with services, including guidance and advice as to compliance with the requirements under the Listing Rules and applicable laws, rules, codes and guidelines;

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- we have agreed to indemnify Mega Capital for certain actions against it and losses incurred by it arising out of or in connection with the performance by Mega Capital of its duties under the agreement; and
- we may terminate the appointment of Mega Capital as our compliance advisor only if its work is of an unacceptable standard as determined under the Listing Rules and the relevant laws and regulations or if there is a material dispute (which cannot be resolved within 30 days) over fees payable to it as permitted by Rule 3A.26 of the Listing Rules. Mega Capital will have the right to resign or terminate its appointment by service of a 14 days notice to us if we materially breach the agreement.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised) and the Capitalisation Issue, the following persons will have or be deemed or taken to have an interest or short position in our shares or underlying shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Capacity in which interests are held	Number of Shares	Approximate percentage
Shao Ten-Po	Interest of controlled corporation	1,184,724,000 ⁽¹⁾	59.24%
Head Pearl	Beneficial owner	857,748,000 ⁽¹⁾	42.89%
More Will	Beneficial owner	326,976,000 ⁽¹⁾	16.35%
Hsu Chieh-Jung	Interest of controlled corporation	161,460,000 ⁽²⁾	8.07%
Joyous King	Beneficial owner	161,460,000 ⁽²⁾	8.07%

Notes:

1. Shao Ten-Po is interested in the entire issued share capital of More Will and 53.35% of Head Pearl, he is deemed to be interested in all the Shares held by Head Pearl by virtue of the SFO.
2. Hsu Chieh-Jung is interested in the entire issued share capital of Joyous King. Mr. Hsu is also interested in 26.43% of the issued share capital of Head Pearl.
3. More Will, Joyous King, Sunny Beauty, Speedy Grand, Forever Art, Shao Ten-Po, Hsu Chieh-Jung, Tseng Chung-Cheng, Liao Chin-Yi and Hu Chin-Shu, who together hold 75% interest in our Company, are considered parties acting in concert under the Hong Kong Takeovers Code and entitled to exercise or control the exercise of more than 30% of the voting power at general meetings of the Company, they are regarded as the controlling shareholders of our Company. Details of the concert party arrangements are set out in the section headed “Reorganisation and Group Structure — Concert Party Arrangement” of this prospectus.

SHARE CAPITAL

The following is a description of our authorised share capital and our share capital in issue and to be issued as fully paid or credited as fully paid immediately before and after completion of the Global Offering (without taking into account any Shares that may be issued pursuant to the Share Option Scheme):

<i>Authorised share capital:</i>	<i>HK\$</i>
<u>50,000,000,000</u> Shares	<u>500,000,000</u>
<i>Shares issued and to be issued, fully-paid or credited as fully-paid:</i>	
10,000 Shares in issue	1,000
1,559,990,000 Shares to be issued pursuant to the Capitalisation Issue	155,999,000
<u>440,000,000</u> Shares to be issued pursuant to the Global Offering	<u>44,000,000</u>
<u>2,000,000,000</u> Shares	<u>200,000,000</u>

ASSUMPTIONS

The above table assumes that the Global Offering will become unconditional. It also assumes that the Over-allotment Option has not been exercised. It takes no account of any Shares which may be allotted and issued upon the exercise of any options which have been or may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates granted to our Directors for the allotment and issue or repurchase of Shares as referred to below.

RANKING

The Offer Shares will rank equally in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify for all dividends or other distributions declared, made or paid after the date of this prospectus.

SHARE OPTION SCHEME

Our Company has approved and conditionally adopted the Share Option Scheme on 27 November 2009, the principal terms of which are summarised in the paragraph headed “Share Option Scheme” in the section headed “Other Information” in Appendix VII to this prospectus. Pursuant to the Share Option Scheme, eligible participants of the Share Option Scheme (including the Directors and directors of other members of the Group, full-time and part-time employees of the Group) may be granted options which entitle them to subscribe for Shares representing (when aggregated with options granted under any other scheme) not more than 10% of the issued share capital of the Company as at the Listing Date.

SHARE CAPITAL

GENERAL MANDATE TO ISSUE SHARES

The Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- (a) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering and Capitalisation Issue (such share capital shall exclude the Shares which may be issued pursuant to the Over-allotment Option); and
- (b) the aggregate nominal value of share capital of our Company repurchased by the Company (if any) under the general mandate to repurchase Shares referred to below.

The Directors may, in addition to Shares which they are authorised to issue under the general mandate, allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or on the exercise of options granted under the Share Option Scheme.

The general mandate will expire at the earliest of:

- the conclusion of our Company's next annual general meeting; or
- the expiration of the period within which the Company is required by law or the Articles to hold its next annual general meeting; or
- the date on which such mandate is varied, revoked or renewed by an ordinary resolution of the Shareholders in general meeting. For further details of the general mandate, see the paragraph headed "Written resolutions passed by all the Shareholders on 27 November 2009" in the section headed "Further information about the Company and its subsidiaries" in Appendix VII to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

The Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue following completion of the Global Offering and Capitalisation Issue (excluding the Shares which may be issued pursuant to the Over-allotment Option). The repurchase mandate only relates to repurchases made on the Stock Exchange, or any other stock exchange on which the Shares are listed (and which is recognised by the SFC in Hong Kong and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed "Repurchase by the Company Shares" in the section headed "Further information about the Company and its subsidiaries" in Appendix VII to this prospectus. The repurchase mandate will expire at the earliest of:

- the conclusion of the Company's next annual general meeting; or
- the expiration of the period within which our Company is required by law or the Articles to hold its next annual general meeting; or
- the date on which such mandate is varied, revoked or renewed by an ordinary resolution of the Shareholders in general meeting.

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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

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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

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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.

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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.

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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.

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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

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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.

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- 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.

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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

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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.

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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.

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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
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Turnover	653,380	932,476	1,266,050	521,783	817,305
Cost of sales	<u>(502,275)</u>	<u>(697,969)</u>	<u>(911,631)</u>	<u>(385,687)</u>	<u>(538,602)</u>
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	<u>(1,454)</u>	<u>(2,351)</u>	<u>(5,906)</u>	<u>(853)</u>	<u>(5,048)</u>
Profit from operations	120,758	198,316	311,128	121,948	244,380
Finance costs	<u>(4,453)</u>	<u>(2,483)</u>	<u>(1,922)</u>	<u>(1,072)</u>	<u>(754)</u>
Profit before taxation	116,305	195,833	309,206	120,876	243,626
Income tax	<u>(13,809)</u>	<u>(25,372)</u>	<u>(66,867)</u>	<u>(26,050)</u>	<u>(60,255)</u>
Profit attributable to equity shareholders	<u>102,496</u>	<u>170,461</u>	<u>242,339</u>	<u>94,826</u>	<u>183,371</u>
Earning per share					
Basic and diluted (cents)	<u>6.57</u>	<u>10.93</u>	<u>15.53</u>	<u>6.08</u>	<u>11.75</u>

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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	%	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

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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:

Total units sold, average selling prices ⁽¹⁾ and gross profit margin	For the year ended 31 December									For the six months ended 30 June					
	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	%
	<i>(unaudited)</i>														
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

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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

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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:

Cost of sales	For the year ended 31 December						For the six months ended 30 June			
	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
	<i>(unaudited)</i>									
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	<u>20,787</u>	<u>4.1</u>	<u>25,150</u>	<u>3.6</u>	<u>25,238</u>	<u>2.8</u>	<u>11,380</u>	<u>3.0</u>	<u>9,796</u>	<u>1.8</u>
Total cost of sales	<u>502,275</u>	<u>100.0</u>	<u>697,969</u>	<u>100.0</u>	<u>911,631</u>	<u>100.0</u>	<u>385,687</u>	<u>100.0</u>	<u>538,602</u>	<u>100.0</u>

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.

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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 margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit margin	Gross profit	Gross profit margin
	RMB'million	%	RMB'million	%	RMB'million	%	RMB'million	%	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

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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.

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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.

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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.

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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 <i>RMB'000</i>	2007 <i>RMB'000</i>	2008 <i>RMB'000</i>	2008 <i>RMB'000</i> <i>(unaudited)</i>	2009 <i>RMB'000</i>
Profit before taxation	<u>116,305</u>	<u>195,833</u>	<u>309,206</u>	<u>120,876</u>	<u>243,626</u>
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-deductible expenses ⁽¹⁾	—	—	114	44	73
Withholding tax on undistributed profits of PRC subsidiaries	—	—	12,004	5,138	9,905
Effect of tax concessions ⁽²⁾	<u>(3,637)</u>	<u>(4,003)</u>	<u>(4,455)</u>	<u>(1,380)</u>	<u>(2,459)</u>
Actual tax expense	<u>13,809</u>	<u>25,372</u>	<u>66,867</u>	<u>26,050</u>	<u>60,255</u>

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

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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 nylax, 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.

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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's 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

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- (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

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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.

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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.

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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.

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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.

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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

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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.

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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.

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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

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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.

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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 <i>RMB'000</i>	2007 <i>RMB'000</i>	2008 <i>RMB'000</i>	2008 <i>RMB'000</i>	2009 <i>RMB'000</i>
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	<u>(8,932)</u>	<u>1,526</u>	<u>(281,178)</u>	<u>(10,572)</u>	<u>(305,966)</u>
Net increase in cash and cash equivalents	<u>13,346</u>	<u>54,167</u>	<u>86,720</u>	<u>198,753</u>	<u>62,029</u>
Cash and cash equivalents at end of the year/period	<u>35,008</u>	<u>89,175</u>	<u>175,895</u>	<u>287,928</u>	<u>237,924</u>

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

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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.

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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.

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

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.

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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
	2006	2007	2008	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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	<u>161,273</u>	<u>331,872</u>	<u>277,197</u>	<u>212,341</u>
Total assets less current liabilities	242,471	412,932	424,832	348,520
Non-current liabilities	—	—	30,731	39,150
Net assets	<u><u>242,471</u></u>	<u><u>412,932</u></u>	<u><u>394,101</u></u>	<u><u>309,370</u></u>

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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
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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	<u>35,008</u>	<u>89,175</u>	<u>175,895</u>	<u>237,924</u>	<u>297,695</u>
	<u>317,606</u>	<u>542,715</u>	<u>638,096</u>	<u>595,249</u>	<u>748,668</u>
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	<u>2,849</u>	<u>7,672</u>	<u>18,322</u>	<u>28,403</u>	<u>12,131</u>
	<u>156,333</u>	<u>210,843</u>	<u>360,899</u>	<u>382,908</u>	<u>373,009</u>
Net current assets	<u>161,273</u>	<u>331,872</u>	<u>277,197</u>	<u>212,341</u>	<u>375,659</u>

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

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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.

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

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

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.

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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
	2006	2007	2008	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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	<u>5,356</u>	<u>6,929</u>	<u>4,562</u>	<u>469</u>
Subtotal	125,460	226,308	253,353	196,956
Prepayments, deposits and other receivables	<u>55,180</u>	<u>82,131</u>	<u>88,754</u>	<u>28,017</u>
Total	<u><u>180,640</u></u>	<u><u>308,439</u></u>	<u><u>342,107</u></u>	<u><u>224,973</u></u>

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

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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
	2006	2007	2008	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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	—	—
	<u>55,180</u>	<u>82,131</u>	<u>88,754</u>	<u>28,017</u>

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.

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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.

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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
	2006	2007	2008	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	—	—	4,848	4,848
Impairment loss recognised	<u>—</u>	<u>4,848</u>	<u>—</u>	<u>3,276</u>
At 31 December	<u>—</u>	<u>4,848</u>	<u>4,848</u>	<u>8,124</u>

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.

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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
	2006	2007	2008	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2009</i> <i>RMB'000</i>
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	<u>14,029</u>	<u>14,017</u>	<u>14,863</u>	<u>19,063</u>
Subtotal	<u>89,055</u>	<u>121,488</u>	<u>137,471</u>	<u>194,294</u>
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	<u>2,206</u>	<u>4,655</u>	<u>4,733</u>	<u>3,029</u>
Subtotal	<u>30,850</u>	<u>44,757</u>	<u>86,411</u>	<u>38,505</u>
Trade and other payables	<u><u>119,905</u></u>	<u><u>166,245</u></u>	<u><u>223,882</u></u>	<u><u>232,799</u></u>

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

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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.

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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
	2006	2007	2008	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2009</i> <i>RMB'000</i>
Current				
Bank loans — secured	<u>33,579</u>	<u>36,907</u>	<u>25,119</u>	<u>28,130</u>

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
	2006	2007	2008	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2009</i> <i>RMB'000</i>
Analysed into:				
Bank loans repayable within one year	<u>33,579</u>	<u>36,907</u>	<u>25,119</u>	<u>28,130</u>

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.

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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.

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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	<u>(693)</u>	
Net book value as at 31 October 2009		<u>(28,233)</u>
Valuation surplus		<u><u>55,464</u></u>

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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.

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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 RMB'000 (note (1))	Estimated net proceeds from the Offering RMB'000 (note (2))	Unaudited pro forma adjusted net tangible assets RMB'000	Unaudited pro forma adjusted net tangible assets per Share RMB (note (3))	Unaudited pro forma adjusted net tangible assets per Share HK\$
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)	<u>244,355</u>	<u>1,017,994</u>	<u>1,262,349</u>	<u>0.63</u>	<u>0.71</u>

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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.

FINANCIAL INFORMATION

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.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS AND USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$1,000 million (assuming an Offer Price of HK\$2.43 per Share being the mid-point of the estimated Offer Price range), after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering and assuming that the Over-allotment Option is not exercised, which we currently intend to apply as follows:

- approximately HK\$132.2 million (equivalent to approximately RMB116.5 million) (approximately 13.2% of the net proceeds from the Global Offering) is expected to be used primarily to fund capital expenditure for acquiring environmental-friendly and energy-saving production equipment such as renovated dyeing equipment, in order to save energy, reduce production cost and increase production capacity for high-end products. It is also expected to fund capital expenditure for expanding our manufacturing facilities and selectively upgrading production equipment. It is expected that the proceeds will be invested in 2010 and the production capacity will increase by approximately 50% in the second half of 2010;
- approximately HK\$52.8 million (equivalent to approximately RMB46.5 million) (approximately 5.3% of the net proceeds from the Global Offering) is expected to be used primarily to fund capital expenditure for integrating the internal resources of our Group to establish a more centralised administrative corporate headquarters; As advised by our Directors, the Board has not identified any target building and is not under any negotiation for the acquisition. Our Directors confirmed that at this stage, we only have a preliminary plan to establish the corporate headquarters in Fuqing;
- approximately HK\$352.6 million (equivalent to approximately RMB310.8 million) (approximately 35.3% of the net proceeds from the Global Offering) is expected to be used primarily for establishing our self-owned and operated flagship stores in 20 prime locations in major cities or provinces of the PRC in order to promote the image of the brand and style of the shop for attracting potential investment;
- approximately HK\$44.1 million (equivalent to approximately RMB38.9 million) (approximately 4.4% of the net proceeds from the Global Offering) is expected to be used primarily for purchasing an ERP system for increasing operational efficiency by enhancing information management, production management, logistics management and operational control through the installation of the ERP system;
- approximately HK\$26.4 million (equivalent to approximately RMB23.3 million) (approximately 2.6% of the net proceeds from the Global Offering) is expected to be used primarily for developing our new corporate headquarters for our MXN franchise distribution business. The setting up of the new MXN corporate headquarters can consolidate the design, logistics, operations and convention functions such as annual sales fairs into a single place, and in which, we can also carry out convention for potential investors, merchandisers, suppliers and distributors. As advised by our Directors, the Board has not identified any target building and is not under any negotiation for the acquisition. Our Directors confirmed that at this stage, we only have a preliminary plan to establish the new MXN corporate headquarters in Xiamen;

FUTURE PLANS AND USE OF PROCEEDS

- approximately HK\$259.7 million (equivalent to approximately RMB228.9 million) (approximately 26.0% of the net proceeds from the Global Offering) is expected to be used primarily for developing and enhancing recognition of our brand through media advertising (such as television commercials, outdoor displays and magazine advertising); Details regarding the above advertising plans are set out in the section headed “Business — Marketing and Promotion” of this prospectus; and
- approximately HK\$132.2 million (equivalent to approximately RMB116.5 million) (approximately 13.2% of the net proceeds from the Global Offering) is expected to be used primarily for acquiring another leisure apparel brand to offer a wider range of product offerings and to distinguish and divide our target markets with a number of unique brands that cater and attract different customer groups. As advised by our Directors, the negotiation between the potential seller of the leisure apparel brand in the PRC and us has undergone for about one year. Both the potential seller and us were having a preliminary intention but there are no concrete terms or agreements at this stage.

The net proceeds that we estimate we would receive from subscriptions for additional Shares in the event the Over-allotment Option is exercised in full is approximately HK\$981 million and HK\$1,598 million (assuming the lowest and highest points of the estimated Offer Price range, respectively). In the event the Over allotment Option is exercised in full, we presently intend to apply the additional proceeds to the above uses in the proportions stated above.

If the Offer Price is fixed above or below HK\$2.43 per Share, being the mid-point of the estimated Offer Price range of HK\$2.08 to HK\$2.78 per Share, we intend to adjust the allocation of the net proceeds to the above uses in the proportions stated above.

To the extent that the net proceeds are not sufficient to fund the uses set forth above, we intend to fund the balance through a variety of means including cash generated from our operations and bank financing. We currently believe that the net proceeds from the Global Offering, when combined with such alternate sources of financing, are sufficient for the uses set forth above. To the extent that the net proceeds of the Global Offering are not immediately applied for the above purposes, we will deposit the net proceeds into interest-bearing demand deposits with financial institutions.

UNDERWRITING

UNDERWRITERS

Public Offer and International Placing Underwriters

Sole Lead Manager

Mega Capital (Asia) Company Limited

Co-Lead Managers

Daiwa Securities SMBC Hong Kong Limited

ICBC International Capital Limited

Co-Managers

China Everbright Securities (HK) Limited

CIMB Securities (HK) Limited

CMB International Capital Corporation Limited

Guotai Junan Securities (Hong Kong) Limited

KAB Asia Securities Limited

VC Brokerage Limited

UNDERWRITING ARRANGEMENT AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement, we are initially offering 500,000,000 Offer Shares for subscription and purchase by the public in Hong Kong and International Placing to certain professional, institutional investors and other investors expected to have a sizeable demand for the Shares on and subject to the terms and conditions set out in this prospectus and the Application Forms. The Underwriting Agreement is conditional upon, among other things:

- (a) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) approval for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option) and Shares which may fall to be issued upon the exercise of any options that have been or may be granted under the Share Option Scheme subject to such customary conditions that may be imposed by the Stock Exchange, on or before 30 days from the date of this prospectus (or if that is not a Business Day, the immediate preceding Business Day) or such later date as the Company may agree in writing with the Sole Lead Manager on behalf of the Underwriters; and
- (b) certain other conditions set out in the Underwriting Agreement (including but not limited to the entering into of the Price Determination Agreement on or before the Price Determination Date or such other date as may be agreed between the Company, the Selling Shareholders and the Sole Bookrunner (for itself and on behalf of the Underwriters)).

UNDERWRITING

Grounds for termination

The obligations of the Underwriters to subscribe or procure subscribers for the Offer Shares will be subject to termination by notice in writing from the Sole Lead Manager (for itself and on behalf of the Underwriters) to the Company if any of the following events occur before 8:00 a.m. on the Listing Date:

- (A) (1) there is any change or prospective change in the business or in the financial or trading position of any member of the Group; or
- (2) any event or series of events resulting or representing or likely to result in any change or development of local, national or international financial, political, industrial, economic, currency, military, conflict-related, legal, fiscal, exchange control, regulatory, equity or other financial market or other conditions, circumstances or other conditions, circumstances or matters (including without limitation any moratorium on suspension or material restriction of commercial banking activities in Hong Kong, US, the European Union (or any member thereof), the PRC, Taiwan or elsewhere or trading in securities on the Stock Exchange) shall have occurred, happened or come into effect; or
- (3) any new law or regulation or change (whether or not forming part of a series of changes) in existing laws or regulation or any change in the interpretation or application thereof by any court or governmental authority of any of the jurisdiction in which the Group operates or has or is deemed by any applicable law to have a presence (by whatever name called) of any jurisdiction relevant to the Group shall have been introduced or effected; or
- (4) a change or development occurs involving a prospective change in taxation or exchange control (or in the implementation of any exchange control) or foreign investment regulations in Hong Kong, Taiwan, the BVI, the Cayman Islands, the PRC, the US, the European Union (or any member thereof), or elsewhere; or
- (5) a change or development in the conditions of Hong Kong, the PRC, the US or international equity securities or other financial markets (including, without limitation, stock and bond markets, money and foreign exchange markets and inter-bank markets); or
- (6) any event, act or omission which gives rise or is likely to give rise to any liability of the Company, the Controlling Shareholders or the executive Directors pursuant to certain indemnities contained in the Underwriting Agreement; or
- (7) the imposition of economic or other sanctions or withdrawal of trading privileges, in whatever form, directly or indirectly, by the US, the European Union (or any member thereof) or any other country or organisation in Hong Kong, the PRC, or any other jurisdiction relevant to the Company; or
- (8) any event, or series of events of force majeure (including without limitation the generality thereof, any act of God, acts of government, war, riot, public disorder, civil commotion economic sanction, fire, flooding, explosion, epidemic, outbreak of an

UNDERWRITING

infections disease (including but not limited to severe acute respiratory syndrome and swine influenza), calamity, crisis terrorism, strike or lockout) (whether or not covered by insurance) shall have occurred, happened or come into effect; or

- (9) any outbreak or escalation of hostilities involving Hong Kong, the PRC, the US, the European Union (or any member thereof), or any other jurisdiction relevant to the Company; or
- (10) there is, in the sole and absolute opinion of the Sole Lead Manager, a change in the system under which the value of the Hong Kong dollar is linked to that of the US dollar; or
- (11) there is, in the sole and absolute opinion of the Sole Lead Manager, a material change in the exchange rate between the US dollar and the Renminbi, or between the Hong Kong dollar and the Renminbi; or
- (12) a demand by any creditor for repayment or payment of any indebtedness of the Company or in respect of which the Company is liable prior to its stated maturity which demand has or could be expected to have a material adverse effect on the Company; or
- (13) any loss or damage sustained by our Company (howsoever caused and whether or not the subject of any insurance or claim against any person) which has or could be expected to have a material adverse effect on the Company; or
- (14) a petition is presented for the winding-up or liquidation of our Company or our Company makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of our Company or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of our Company or anything analogous thereto occurs in respect of our Company,

which in the sole and absolute opinion of the Sole Lead Manager (on behalf of the Underwriters):

- (1) is or will or is likely to be materially adverse to the business, financial or other condition or prospects of our Company or, to any present or prospective shareholder in its capacity as such; or
- (2) has or will or is likely to have a material adverse effect on the success of the Global Offering, or the level of Offer Shares being applied for or accepted or the distribution of Offer Shares; or
- (3) makes it inadvisable or inexpedient to proceed with the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by the prospectus; or

UNDERWRITING

- (B) any of the Underwriters shall become aware of the fact that, or have cause to believe that:
- (1) any of the representation and warranties given by our Company, the Controlling Shareholders and the executive Directors pursuant to the Underwriting Agreement is untrue, inaccurate or misleading in any respect when given or repeated as determined by the Sole Lead Manager in its sole and absolute discretion, or that the Company, the Controlling Shareholders and the executive Directors is in breach of any provision of the Underwriting Agreement;
 - (2) any statement contained in this prospectus is untrue, incorrect or misleading in any respect, or any matter arises or is discovered which would, if this prospectus were to be issued at that time, constitute an omission therefrom as determined by the Sole Lead Manager in its sole and absolute discretion; or
 - (3) there has been a breach on the part of the Company or any of the Controlling Shareholders, the Selling Shareholders and the executive Directors of any of the provisions of the Underwriting Agreement as determined by the Sole Lead Manager in its sole and absolute discretion.

Undertakings

Each of the Selling Shareholders and the Controlling Shareholders has undertaken to the Company and the Sole Lead Manager (on behalf of the Underwriters) that each of them shall not and shall procure that their associates or companies controlled by them or nominees or trustee holding in trust for them shall not and shall procure that the relevant registered holder(s) (as the case may be) of the Shares shall not (except pursuant to or in connection with the Stock Borrowing Agreement):

- (a) in the period commencing on the date by reference to which disclosure of the shareholding (direct or indirect) of each of the Selling Shareholders and the Controlling Shareholders is made in this prospectus and ending on the date which is six months from the Listing Date (the “**First Lock-up Period**”) save in pursuance of the Stock Borrowing Agreement, sell, transfer or otherwise dispose of (including without limitation the creation of any option over or pledge or charge as security) nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which each of them is shown by this prospectus to be the beneficial owner (whether direct or indirect) or securities of the Company owned by them or the relevant company, nominee or trustee (including any interest on any shares in any company controlled by them which are directly or indirectly the beneficial owner of any of the Shares or securities of the Company immediately following the completion of the Global Offering and the Capitalisation Issue (the “**Relevant Securities**”)); and
- (b) in the period of six months commencing on the date on which the First Lock-up Period referred to in (a) above expires, (the “**Second Lock-up Period**”), sell, transfer or otherwise, dispose of (including without limitation the creation of any option over or pledge or charge as security) nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Relevant Securities, immediately following such sale, transfer or disposal or upon the exercise of enforcement of such options, rights interests or encumbrances, the Selling Shareholders and the Controlling Shareholders

UNDERWRITING

collectively would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company, and that in the event of any such sale, transfer or disposal, all reasonable steps shall be taken to ensure that such sale, transfer or disposal shall be effected in such a manner so as not to create a disorderly or false market for the Shares during the progress of such sale, transfer or disposal or after the completion thereof.

The Company has undertaken to and covenanted with each of the Underwriters that, and each of the Controlling Shareholders, the executive Directors and the Selling Shareholders has undertaken to and covenanted with each of the Underwriters to procure that, without the prior written consent of the Sole Lead Manager (on behalf of the Underwriters), the Company will not, and subject always to the requirement of the Stock Exchange, save pursuant to the Global Offering or grant of any option under the Share Option Scheme; (i) during the First Lock-up Period allot and issue or agree to allot and issue any shares or securities in the Company or any of its major subsidiary (as defined in Chapter 13 of the Listing Rules) or grant or agree to grant any options, warrants or other rights carrying the rights to subscribe for, or otherwise convert into, or exchange for, any securities of the Company or any of its major subsidiaries (defined as aforesaid); (ii) during the Second Lock-up Period, allot and issue or agree to allot and issue any shares or securities in the Company or any of its major subsidiary (as defined in Chapter 13 of the Listing Rules) or grant or agree to grant any options, warrants or other rights carrying the rights to subscribe for, or otherwise convert into, or exchange for, any securities of the Company or any of its major subsidiaries (defined as aforesaid), if immediately following such allotment and issue, the Major Shareholders, either individually or taken together with the other of them, would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company or the single largest shareholder of the Company.

Each of the Company, the Selling Shareholders, the Controlling Shareholders and the executive Directors has undertaken to and covenanted with each of Mega Capital and the Underwriters that save with the prior written consent of the Sole Lead Manager (on behalf of the Underwriters), neither the Company nor any of its subsidiaries shall during the First Lock-up Period purchase any securities of the Company.

Each of the Selling Shareholders, the Controlling Shareholders and the executive Directors has further undertaken to the Company and the Sole Lead Manager (on behalf of the Underwriters) that within the period commencing on the date by reference to which disclosure of the shareholding (direct or indirect) of each of the Selling Shareholders, the Controlling Shareholders and the executive Directors is made in this prospectus and ending on the date which is 12 months from the Listing Date, they shall:

- (a) when they pledge or charge any Shares beneficially owned by them (whether directly or indirectly), in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform the Company in writing of such pledge or charge together with the number of Shares so pledged or charged; and
- (b) when they receive indications, whether verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform the Company in writing of such indications.

The Company has undertaken with the Stock Exchange that it shall inform the Stock Exchange as soon as it has been informed of matters referred to in (a) and (b) above and disclose such matters by way of a press announcement which is published in the newspapers as soon as possible.

UNDERWRITING

Commission and expenses

The Underwriters will receive a commission of 2.6% on the Offer Price for the issue of all the Offer Shares, out of which they will, as the case may be, pay any sub-underwriting commissions, and the Sole Sponsor will, in addition, receive a sponsorship fee and a documentation fee in relation to the Global Offering. Each of the Selling Shareholders shall be responsible for their own legal fees, duties payable on the transfers of the Sale Shares, if any, and the Stock Exchange trading fee and transaction levy on the offer of the Sale Shares. The Company shall be responsible for its own legal fee, all listing fees of the Stock Exchange and capital duty on the increase and/or issue of its share capital, if any, and the Stock Exchange trading fee and transaction levy on the offer of the New Shares. The underwriting commission, documentation fee, legal and other professional fees, printing and other expenses relating to the Global Offering are estimated to be approximately HK\$77.6 million and will be payable on a pro rata basis by our Company and the Selling Shareholders.

Underwriters' interests in the Group

Save for its interests and obligations under the Underwriting Agreement, none of the Underwriters or any of their respective associates has or may, as a result of the Global Offering, have any interest in any class of securities of any member of the Group (including option to subscribe for or nominate persons to subscribe for such securities).

Sole Sponsor's interests in the Group

Save for its interests and obligations under the Underwriting Agreement and Mega Capital's appointment as compliance adviser as described in the section headed "Directors, Senior Management and Employees", none of the Sole Sponsor or any of their respective associates has or may, as a result of the Global Offering, have any interest in any class of securities of any member of the Group (including option to subscribe for or nominate persons to subscribe for such securities).

No director or employee of the Sole Sponsor who is involved in providing advice to the Company has or may, as a result of the Global Offering, have any interest in any class of securities of the Company or any other member of the Group, including options or rights to subscribe for or nominate persons to subscribe for such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed for or purchased by any such director or employee pursuant to the Global Offering.

No director or employee of the Sole Sponsor has a directorship in the Company or any other member of the Group.

None of the Sole Sponsor or any of their respective associates has accrued any material benefit as a result of the successful outcome of the Global Offering, including by way of example, the repayment of material outstanding indebtedness or success fees other than the following:

1. by way of underwriting and placing commission payable to the Sole Sponsor for acting as one of the Underwriters under the Underwriting Agreement;
2. the financial advisory and documentation fee payable to the Sole Sponsor as sponsor of the Global Offering; and

UNDERWRITING

3. certain associates of the Sole Sponsor, including Mega Securities (Hong Kong) Company Limited whose ordinary businesses involve the trading of and dealings in securities, may be involved in the trading of and dealings in the securities of the Company.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

The Global Offering comprises the International Placing and the Public Offer. Assuming the Over-allotment Option is not exercised, the total number of Offer Shares under the Global Offering is 500,000,000 Shares, of which 450,000,000 Offer Shares, comprising 390,000,000 new Shares and 60,000,000 Sale Shares, representing in aggregate 90% of the total number of Shares initially available under the Global Offering, will be conditionally placed with professional, institutional investors and other investors expected to have a sizeable demand for the Shares at the Offer Price under the International Placing, and 50,000,000 Shares, representing the remaining 10% of the total number of Shares initially available under the Global Offering, will be offered to the public in Hong Kong for subscription at the Offer Price under the Public Offer.

You may apply for Shares under the Public Offer or indicate an interest for Shares under the International Placing, but may not do both. The Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors. The International Placing will involve the selective marketing of Shares to professional, institutional and other investors expected to have a sizeable demand for Shares. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealings in shares and other securities and corporate entities which regularly invest in shares and other securities.

Assuming the Over-allotment Option is not exercised, the Offer Shares will represent approximately 25% of the Company's enlarged issued share capital immediately after the completion of the Global Offering. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 27.7% of the enlarged issued share capital of the Company immediately after the completion of the Global Offering and the exercise of the Over-allotment Option. Further information about the Over-allotment Option is set out in the paragraph headed "Over-allotment Option and Stock Borrowing Arrangements" below.

The Global Offering is sponsored and lead managed by the Sole Sponsor. The Sole Sponsor is also the sole bookrunner of the Global Offering. The International Placing is fully underwritten by the International Placing Underwriters and the Public Offer is fully underwritten by the Public Offer Underwriters, in each case, on a several basis, and each being subject to the terms and conditions of the Underwriting Agreement.

PRICE PAYABLE ON APPLICATION

The Offer Price will be not more than HK\$2.78 per Public Offer Share and is expected to be not less than HK\$2.08 per Public Offer Share. Applicants under the Public Offer must pay, on application, the maximum Offer Price of HK\$2.78 per Public Offer Share plus 1% brokerage, a 0.004% SFC transaction levy and a 0.005% Stock Exchange trading fee, amounting to a total of HK\$2,808.05 per board lot of 1,000 Shares. Each Application Form includes a table showing the exact amount payable for certain multiples of Offer Shares.

If the Offer Price, as finally determined in the manner described below, is lower than the maximum price of HK\$2.78 per Share, appropriate refund payments will be made. Further details are set out in the section headed "How to apply for the Public Offer Shares" in this prospectus.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

DETERMINING THE OFFER PRICE

The International Placing Underwriters are soliciting from prospective investors indications of interests in acquiring International Placing Shares. Prospective investors will be required to specify the number of International Placing Shares they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or about Thursday, 17 December 2009. The Offer Price is expected to be determined by the Sole Bookrunner (for itself and on behalf of the Underwriters), the Selling Shareholders and the Company on or before Thursday, 17 December 2009, or such later date as may be agreed by the Sole Bookrunner (for itself and on behalf of the Underwriters), the Selling Shareholders and the Company, but in any event not later than Tuesday, 22 December 2009.

If, based on the level of interests expressed by professional, institutional investors and other investors expected to have a sizeable demand for the Shares under the book-building process, the Sole Bookrunner (for itself and on behalf of the Underwriters, and with the consent of the Selling Shareholders and the Company) thinks it appropriate (for instance, if the level of interests is below the indicative Offer Price range) the Offer Price may be reduced to a price below the indicative Offer Price range stated in this prospectus at any time prior to the morning of the latest day for lodging applications under the Public Offer. In such case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the latest day for lodging applications under the Public Offer, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notices of the reduction of the Offer Price to a price below the indicative Offer Price range. Upon issue of such a notice, the revised Offer Price will be final and conclusive and the Offer Price will be fixed at such revised Offer Price. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics as currently set out in the section headed “Summary” of this prospectus and any other financial information which may change as a result of any such reduction. If applications for Public Offer Shares have been submitted prior to the day which is the latest day for lodging applications under the Public Offer, then even if the Offer Price is so reduced, such applications cannot be subsequently withdrawn.

An announcement of, among other things, the final Offer Price, the results of applications and the basis of allotment of the Public Offer Shares is expected to be published on Wednesday, 23 December 2009.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Public Offer Shares is conditional upon, among other things:

- (a) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) approval of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and the respective Application Forms (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option) and Shares which may fall to be issued upon the exercise of any options that have been or may be granted under the Share Option Scheme subject to such customary conditions that may be imposed by the Stock Exchange;

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

- (b) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (which requires, amongst other things, that the Offer Price be agreed between the Sole Bookrunner (for itself and on behalf of the Underwriters), the Selling Shareholders and the Company), and the Underwriting Agreement not being terminated in accordance with its terms; and
- (c) the entering into of the Price Determination Agreement on or before the Price Determination Date or such other date as may be agreed between the Company, the Selling Shareholders and the Sole Bookrunner (for itself and on behalf of the Underwriters),

in each case on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event no later than 30 days from the date of this prospectus (or if that is not a Business Day, the immediate preceding Business Day) (or such later date the Sole Bookrunner may agree in writing with the Company for itself and on behalf of the Underwriters).

If the Sole Bookrunner (for itself and on behalf of the Public Offer Underwriters), the Selling Shareholders and the Company do not enter into the Price Determination Agreement on or before the Price Determination Date, the Global Offering will not proceed. If the above conditions are not fulfilled or waived by the Sole Bookrunner (for itself and on behalf of the Underwriters) prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Public Offer will be published by the Company in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse, and all application monies will be returned, without interest, on the terms set out in the section headed “Conditions of your application – Refund of your money” in the notes attached to the application forms. In the meantime, such application monies will be held in one or more separate bank accounts with the receiving banker(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

OFFER MECHANISM — BASIS OF ALLOCATION OF THE OFFER SHARES

The Public Offer

For allocation purposes only, the total number of Public Offer Shares initially available for public subscription under the Public Offer (taking into account any adjustment of Offer Shares between the Placing and the Public Offer referred to below), will be divided equally into two pools: pool A and pool B:

- Pool A: The Public Offer Shares in pool A will be allocated on an equitable basis to successful applicants who have applied for the Public Offer Shares with an aggregate subscription price of HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable) or less; and
- Pool B: The Public Offer Shares in pool B will be allocated on an equitable basis to successful applicants who have applied for the Public Offer Shares with an aggregate subscription price of more than HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable) and up to the value of pool B.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Applicants should be aware that applications within the same pool, and as well as between different pools, are likely to receive different allocation ratios. Where one of the pools is under-subscribed and the other pool is over-subscribed, the surplus Public Offer Shares from the under-subscribed pool will be transferred to the over-subscribed pool to satisfy excess demand in the over-subscribed pool and be allocated accordingly. Applicants can only apply to receive an allocation of Public Offer Shares in either pool A or pool B but not from both pools. No applications will be accepted from investors applying for more than the total number of Public Offer Shares originally allocated to each pool. Multiple applications or suspected multiple applications within either pool or between pools will be identified and rejected. Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not indicated and will not indicate an interest for any International Placing Shares under the International Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be). The Company and the Sponsor have full discretion to reject or accept any application, or to accept only part of an application.

Allocation of the Public Offer Shares, including any Offer Shares which may be re-allocated from the International Placing, to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. Where the Public Offer is over-subscribed, the basis of allocation may vary depending on the number of Public Offer Shares validly applied for by each applicant. The allocation of the Public Offer Shares may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares in such circumstances than others who have applied for the same number of Public Offer Shares, and these applicants who are not successful in the ballot may not receive any Public Offer Shares.

International Placing

Allocation of the International Placing Shares to professional, institutional investors and other investors expected to have a sizeable demand in the Shares pursuant to the International Placing will be effected in accordance with the "book-building" process undertaken by the International Placing Underwriters. Final allocation of the International Placing Shares pursuant to the International Placing is based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to acquire further and/or hold or sell the International Placing Shares after the Listing. Such allocation is generally intended to result in a distribution of the International Placing Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Company and the shareholders of the Company as a whole.

Investors who have been allocated any of the International Placing Shares under the International Placing will not be allocated any Public Offer Shares under the Public Offer. Similarly, investors who have been allocated any Public Offer Shares under the Public Offer will not be allocated any International Placing Shares under the International Placing.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Over-subscription

The allocation of Offer Shares between the Public Offer and the International Placing is subject to adjustment on the following basis:

- (a) if the number of Public Offer Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times of the number of Public Offer Shares initially available for subscription under the Public Offer, then the Shares will be reallocated to the Public Offer from the International Placing so that an aggregate of 150,000,000 Public Offer Shares will be available for subscription under the Public Offer, representing 30% of the Offer Shares initially available under the Global Offering (assuming the Over-allocation Option is not exercised);
- (b) if the number of Public Offer Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times of the number of Public Offer Shares initially available for subscription under the Public Offer, then the Shares will be reallocated to the Public Offer from the International Placing so that an aggregate of 200,000,000 Public Offer Shares will be available for subscription under the Public Offer, representing 40% of the Offer Shares initially available under the Global Offering (assuming the Over-allotment Option is not exercised); and
- (c) if the number of Public Offer Shares validly applied for under the Public Offer represents 100 times or more of the number of Public Offer Shares initially available for subscription under the Public Offer, then the Shares will be reallocated to the Public Offer from the International Placing so that an aggregate of 250,000,000 Public Offer Shares will be available for subscription under the Public Offer, representing 50% of the Offer Shares initially available under the Global Offering (assuming the Over-allotment Option is not exercised).

In each such case, the additional Offer Shares re-allocated to the Public Offer will be allocated equally between pool A and pool B and the number of Offer Shares allocated to the International Placing will be correspondingly reduced.

Under-subscription

If the Public Offer is under-subscribed, the Sole Bookrunner (for itself and on behalf of the Underwriters) may, at its absolute discretion re-allocate all or any of the unsubscribed Public Offer Shares originally included in the Public Offer to the International Placing, in such proportion as it considers appropriate provided that there is sufficient demand under the International Placing to take up such re-allocated Offer Shares.

If the International Placing is under-subscribed, the Sole Bookrunner (for itself and on behalf of the Underwriters) may, at its absolute discretion re-allocate all or any of the unsubscribed International Placing Shares originally included in the International Placing to the Public Offer, in such proportion as it considers appropriate provided that there is sufficient demand under the Public Offer to take up such re-allocated Offer Shares. Details of any reallocation of Offer Shares between the Public Offer and the Placing will be disclosed in the results announcement of the Global Offering, which is expected to be published on Wednesday, 23 December 2009.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

OVER-ALLOTMENT OPTION AND STOCK BORROWING ARRANGEMENTS

Under the Underwriting Agreement, the Company has granted to Mega Capital the right, but not obligation, to exercise the Over-allotment Option, exercisable at any time within 30 days after the last day for the lodging of applications under the Public Offer. Pursuant to the Over-allotment Option, Mega Capital has the right to require our Company to issue up to 75,000,000 additional Offer Shares, representing 15% of the total number of Offer Shares initially available for subscription under the Global Offering, solely for the purpose of covering over-allocations in the International Placing (if any). These Shares will be issued at the Offer Price. Mega Capital may, at its option, also cover any over-allocations by, among other means, purchasing Shares in the secondary market or through stock borrowing arrangements from holders of the Shares or exercise of the Over-allotment Option, or by a combination of these means or otherwise as may be permitted under applicable laws. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations. The maximum number of Shares that may be over-allocated in the International Placing shall not exceed the number of Shares that may be allotted and issued under the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

In order to facilitate settlement of over-allocations in connection with the International Placing, the Stock Borrowing Agreement has been entered into among Head Pearl and Mega Capital in compliance with Rule 10.07(3) of the Listing Rules. Under the Stock Borrowing Agreement, Head Pearl, being one of the substantial Shareholders has agreed with Mega Capital, that if requested by Mega Capital, it will, subject to the terms of the Stock Borrowing Agreement, make available to Mega Capital up to 75,000,000 Shares held by it, by way of stock lending, in order to cover Over-allotment Option in connection with the International Placing. The Stock Borrowing Agreement shall be subject to the conditions that:

- (a) such stock borrowing arrangement will only be effected by Mega Capital (for itself and on behalf of the International Placing Underwriters) for settlement of Over-allotment Option in the International Placing;
- (b) the maximum number of Shares to be borrowed from Head Pearl by Mega Capital (for itself and on behalf of the International Placing Underwriters) will be limited to the maximum number of Shares which may be issued upon the full exercise of the Over-allotment Option;
- (c) the same number of Shares so borrowed shall be returned to Head Pearl or its nominees, as the case may be, from time to time on or before 5:00 p.m. on the third Business Day following the earlier of (i) the last day on which the Over-allotment Option may be exercised; or (ii) the day on which the Over-allotment Option is exercised and entertained in full in accordance with the Stock Borrowing Agreement and the terms of the relevant request from Mega Capital;
- (d) the stock borrowing arrangement will be effected in compliance with all applicable listing rules, laws and regulatory requirements including those of Hong Kong; and
- (e) no payments or other benefit will be made to Head Pearl by Mega Capital or any of the International Placing Underwriters under the stock borrowing arrangement.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

TRANSFER OF SALE SHARES

All transfer of the Sale Shares to applicants (or their designated person(s)) will be effected on the Company's principal register of members in the Cayman Islands. An indication of interest in the International Placing Shares shall constitute an irrevocable instruction by the applicant(s) that the transfer of all the Sale Shares in respect of which the relevant application is accepted shall be effected on the Company's principal register of members in the Cayman Islands to be followed by a removal of the Sale Shares to the Company's Hong Kong branch register of members prior to the issue of share certificates.

STABILISATION

In connection with the Global Offering, Mega Capital may over-allocate Shares and may cover such over-allocations by means of exercising the Over-allotment Option no later than earlier of the thirtieth day after the last day for lodging of applications under the Public Offer or the commencement of trading of the Shares, stock borrowing, or making open market purchases of the Shares in the secondary market. The number of Shares over-allocated will not be greater than the number of Shares which may be issued upon the full exercise of the Over-allotment Option, being 75,000,000 Shares, which is 15% of the Shares initially available for subscription under the Global Offering.

In addition, Mega Capital, or any person acting for it, may over-allot or effect transactions in the market or otherwise with a view to stabilising and maintaining the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the issue date in the market. Such stabilisation transactions may include exercising the Over-allotment Option, stock borrowing, making market purchases of Shares in the secondary market or selling Shares to liquidate a position held as a result of those purchases. Any such market purchases will be effected in compliance with all applicable laws, rules and regulatory requirements.

However, there is no obligation on Mega Capital or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of Mega Capital and may be discontinued at any time. Any such stabilisation activity is required to be brought to an end on the earlier of the thirtieth day of the last day for the lodging of applications under the Public Offer or the commencement of trading of the Shares.

As a result of effecting transactions to stabilise or maintain the market price of the Shares, Mega Capital, or any person acting for it, may maintain a long position in the Shares. The size of the long position, and the period of which Mega Capital, or any person acting for it, will maintain the long position are at the discretion of Mega Capital and are uncertain. In the event that Mega Capital liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares.

Stabilising action by Mega Capital, or any person acting for it, is not permitted to support the price of the Shares for longer than the stabilising period, which begins on the commencement of trading in the Shares on the Stock Exchange after the Offer Price is announced and ends on the earlier of the thirtieth day after the last day for the lodging of applications under the Public Offer or the commencement of trading of the Shares. The stabilising period is expected to end on or before Saturday, 16 January 2010. After this date, when no further stabilising action may be taken, demand for the security, and therefore its price, could fall. Any stabilising action taken by Mega Capital, or any person acting for it, may not

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilising period. Bids for or market purchases of the Shares by Mega Capital, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for the Shares by subscribers or purchasers.

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to delay and, if possible, prevent a decline in the initial public offer price of such securities. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilisation is effected is not permitted to exceed the Offer Price.

Stabilisation is not a practice commonly associated with the distribution of securities in Hong Kong. In Hong Kong, such stabilisation activities are restricted to cases where underwriters genuinely purchase shares in the secondary market solely for the purpose of covering over-allocations in an offering. The relevant provisions of the SFO and the Securities and Futures (Price Stabilising) Rules, prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

WHICH APPLICATION FORM TO USE

There are three ways to make an application for the Public Offer Shares. You may (i) use a **WHITE** or **YELLOW** Application Form; (ii) apply online through the designated website of the HK eIPO White Form Service Provider, referred to in this prospectus as the **HK eIPO White Form Service** (www.hkeipo.hk); or (iii) give electronic application instructions to HKSCC via CCASS to cause HKSCC Nominees to apply for the Public Offer Shares on your behalf.

Use a **WHITE** Application Form or apply online through **HK eIPO White Form Service** if you want the Public Offer Shares to be issued in your own name. Use a **YELLOW** Application Form if you want the Public Offer Shares to be issued in the name of HKSCC Nominees Limited and deposited directly into CCASS for credit to your CCASS investor participant stock account or your designated CCASS participant's stock account maintained in CCASS.

Except where you are a nominee and provide the required information in your application, you or your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or applying online through **HK eIPO White Form Service** or by giving electronic application instructions to HKSCC.

You should note that by completing and submitting the **WHITE** and **YELLOW** Application Forms or by applying through the **HK eIPO White Form Service** for the Public Offer Shares, among other things:

- (a) you agree with our Company and each of the shareholders, and our Company agrees with each of the shareholders, to observe and comply with the Companies Law, the Hong Kong Companies Ordinance, our memorandum of association and the Articles;
- (b) you confirm that you have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations save as set out in any supplement to this prospectus;
- (c) you agree that none of our Company, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering is or will be liable for any information and representations not contained in this prospectus (and any supplement thereto);
- (d) you agree to disclose to our Company and/or the Hong Kong Share Registrar, receiving bankers, the Underwriters and their respective advisors and agents any personal data which they require about you and the person(s) for whose benefit you have made the application.

WHO CAN APPLY FOR THE PUBLIC OFFER SHARES

You can apply for the Public Offer Shares available for subscription by the public on a **WHITE** or **YELLOW** Application Form if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- have a Hong Kong address;
- are not a U.S. person (as defined in Regulation S);
- are outside the United States; and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you wish to apply for Public Offer Shares online through the **HK eIPO White Form Service**, in addition to the above you must also:

- have a valid Hong Kong identity card number, and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **HK eIPO White Form Service** if you are an individual applicant. Corporations or joint applicants may not apply by means of **HK eIPO White Form**.

If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the application form must be signed by a duly authorised officer, who must state his or her representative capacity.

If an application is made by a person duly authorised under a valid power of attorney, the Sole Bookrunner (or its agents or nominees) may accept it at its discretion, and subject to any conditions it think fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

We, the Sole Bookrunner or the designated HK eIPO White Form Service Provider (where applicable) or our or their respective agents, have full discretion to reject or accept any application, in full or in part, without assigning any reason.

The Public Offer Shares are not available to existing beneficial owners of Shares, or Directors or chief executives of our Company or any of its subsidiaries, or their respective associates (as defined in the Listing Rules) or any other connected persons (as defined in the Listing Rules) of our Company or its subsidiaries or persons who will become our Company's connected persons immediately upon completion of the Global Offering.

You may apply for Public Offer Shares under the Public Offer or indicate an interest for International Placing Shares under the International Placing, but may not do both.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

WHERE TO COLLECT THE WHITE OR YELLOW APPLICATION FORMS FOR THE PUBLIC OFFER SHARES

- (a) You can collect a **WHITE** Application Form and a prospectus between 9:00 a.m. on Monday, 14 December 2009 until 12:00 noon on Thursday, 17 December 2009 from:

Any participant of the Stock Exchange

or

Mega Capital (Asia) Company Limited

Units 2213–2214
22/F., Cosco Tower
183 Queen's Road Central
Sheung Wan
Hong Kong

or

Daiwa Securities SMBC Hong Kong Limited

Level 26, One Pacific Place
88 Queensway
Hong Kong

or

ICBC International Capital Limited

Levels 17 & 18, Three Pacific Place
1 Queen's Road East
Hong Kong

or

China Everbright Securities (HK) Limited

36/F, Far East Finance Center
16 Harcourt Road
Hong Kong

or

CIMB Securities (HK) Limited

25/F, Central Tower
28 Queen's Road Central
Hong Kong

or

CMB International Capital Corporation Limited

Units 1803-4, 18/F.,
Bank of America Tower
12 Harcourt Road
Hong Kong

or

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Guotai Junan Securities (Hong Kong) Limited

27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

or

KAB Asia Securities Limited

30th Floor, Chinachem Century Tower
178 Gloucester Road
Wanchai
Hong Kong

or

VC Brokerage Limited

28/F., The Centrium
60 Wyndham Street
Central
Hong Kong

or any of the following branches of **The Bank of East Asia, Limited:**

District	Branch	Address
Hong Kong Island	Main Branch	10 Des Voeux Road Central
	Queen's Road Central Branch	Shop A–C, G/F, Wah Ying Cheong Central Building, 158–164 Queen's Road Central
	Wanchai Branch	Shop A–C, G/F, Easey Commercial Building, 253–261 Hennessy Road, Wanchai
	Kennedy Town Centre Branch	Shop D, G/F, Kennedy Town Centre, 23 Belcher's Street
	Taikoo Shing Branch	Shop G1010–1011, Yiu Sing Mansion
Kowloon	Mongkok Branch	638–640 Nathan Road
	Prince Edward Branch	G/F, Hanley House, 776–778 Nathan Road
	Hoi Yuen Road Branch	Unit 1, G/F, Hewlett Centre, 54 Hoi Yuen Road
	East Tsim Sha Tsui Branch	Shop G3–G5, G/F, East Ocean Centre, 98 Granville Road, Tsim Sha Tsui
New Territories	Tai Wai Branch	16–18 Tai Wai Road, Cheung Fung Mansion, Shatin
	Tuen Mun Branch	Shop G16, G/F, Eldo Court Shopping Centre
	Ha Kwai Chung Branch	202 Hing Fong Road

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

or any of the following branches of **Standard Chartered Bank (Hong Kong) Limited**:

District	Branch	Address
Hong Kong Island	88 Des Voeux Road Branch	88 Des Voeux Road Central, Central G/F, Yee Wah Mansion, 38–40A Yee Wo Street, Causeway Bay Shop 4A, G/F, Aberdeen Centre Site 5, No. 6 Nam Ning Street, Aberdeen
	Causeway Bay Branch	
	Aberdeen Branch	
Kowloon	Kwun Tong Hoi Yuen Road	G/F, Fook Cheong Building, No. 63 Hoi Yuen Road, Kwun Tong Basement, Shop B1, G/F Golden Crown Court, 66–70 Nathan Road, Tsimshatsui Shop A, G/F, Perfect Industrial Building, 31 Tai Yau Street, San Po Kong Shop G101, G/F., Lok Fu Shopping Centre
	68 Nathan Road Branch	
	San Po Kong Branch	
	Lok Fu Shopping Centre Branch	
New Territories	Tsuen Wan Branch	Shop C, G/F & 1/F, Jade Plaza, 298 Sha Tsui Road, Tsuen Wan 140, Yuen Long Main Road, Yuen Long Shop No. G047–G052, Tuen Mun Town Plaza Phase I, Tuen Mun
	Yuen Long Branch	
	Tuen Mun Town Plaza Branch	

- (b) You can collect a **YELLOW** Application Form and a prospectus during normal business hours between 9:00 a.m. on Monday, 14 December 2009 until 12:00 noon on Thursday, 17 December 2009 from:

Depository Counter of
Hong Kong Securities Clearing Company Limited
2nd Floor Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

- (c) Your broker may have the Application Forms and this prospectus available.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

HOW TO COMPLETE THE WHITE OR YELLOW APPLICATION FORM

There are detailed instructions on each Application Form. You should read those instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicant(s)) at your own risk at the address stated in the Application Form.

If your application is made through a duly authorised attorney, Mega Capital in consultation with the Company, or its agents, may accept your application at its discretion, and subject to any conditions it thinks fit, including evidence of the authority of your attorney. Mega Capital, in its capacity as agent for the Company, has full discretion to reject or accept any application, in full or in part, without assigning any reason thereof.

In order for the **YELLOW** Application Form to be valid, you, as the applicant(s), must complete the form as indicated below and sign on the first page of the Application Form. Only written signatures will be accepted.

- (a) if the application is made through a designated CCASS participant, other than a CCASS investor participant:
 - (i) the designated CCASS participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box;
- (b) if the application is made by an individual CCASS investor participant:
 - (i) the Application Form must contain the CCASS investor participant's name and Hong Kong identity card number; and
 - (ii) the CCASS investor participant should insert its participant I.D. in the appropriate box in the Application Form;
- (c) if the application is made by a joint individual CCASS investor participant:
 - (i) the Application Form must contain all joint CCASS investor participants' names and the Hong Kong identity card numbers of all joint CCASS investor participants; and
 - (ii) the CCASS participant I.D. should be inserted in the appropriate box in the Application Form;
- (d) if the application is made by a corporate CCASS investor participant:
 - (i) the Application Form must contain the CCASS investor participant's company name and Hong Kong business registration number; and
 - (ii) the participant I.D. and company chop, bearing the applicant's company name, should be inserted in the appropriate box in the Application Form.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Incorrect or omission of details of the CCASS participant (including participant I.D. and/or company chop bearing its company name) or other similar matters may render your application invalid.

Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked “For nominees” account numbers or other identification codes for each beneficial owner or, in the case of joint beneficial owners, for each such joint beneficial owner.

Each **WHITE** or **YELLOW** Application Form must be accompanied by either one separate cheque drawn on the applicant’s Hong Kong dollar bank account in Hong Kong and bearing the account name (either pre-printed by the bank or certified by an authorised signatory of such bank on the reverse of the cheque) which must correspond with the name of the applicant (or, in the case of joint applicants, the name of the first applicant) on the relevant Application Form, or one separate banker’s cashier order on the reverse of which the bank has certified by an authorised signatory the name of the applicant, which must correspond with the name of the applicant (or, in the case of joint applicants, the name of the first applicant) on the relevant Application Form. All such cheques or banker’s cashier orders must be made payable to “**The Bank of East Asia (Nominees) Limited — Hontex Public Offer**” as set out in the Application Form and crossed “**Account Payee Only**”.

HOW TO APPLY BY USING HK eIPO WHITE FORM

General

If you are an individual and meet the criteria set out in paragraph above headed. “Who can apply for the Public Offer Shares” under this section, you may apply through **HK eIPO White Form** by submitting an application through the designated website at www.hkeipo.hk. If you apply through **HK eIPO White Form**, the Shares will be issued in your own name.

Detailed instructions for application through the **HK eIPO White Form** Service are set out on the designated website at www.hkeipo.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated HK eIPO White Form Service Provider and may not be submitted to our Company.

If you give electronic application instructions through the designated website at www.hkeipo.hk, you will have authorised the designated HK eIPO White Form Service Provider to apply on the terms and conditions set out in this prospectus, as supplemented and amended by the terms and conditions applicable to the **HK eIPO White Form** service.

In addition to the terms and conditions set out in this prospectus, the designated HK eIPO White Form Service Provider may impose additional terms and conditions upon you for the use of the **HK eIPO White Form** Service. Such terms and conditions are set out on the designated website at www.hkeipo.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.

By submitting an application to the designated HK eIPO White Form Service Provider through the **HK eIPO White Form** Service, you are deemed to have authorised the designated HK eIPO White Form Service Provider to transfer the details of your application to the Company and the Hong Kong Share Registrar.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

You may submit an application through the **HK eIPO White Form Service** in respect of a minimum of 1,000 Public Offer Shares. Each electronic application instruction in respect of more than 1,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at www.hkeipo.hk.

You should make payment for your application made by **HK eIPO White Form Service** in accordance with the methods and instructions set out in the designated website at www.hkeipo.hk. **If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Thursday, 17 December 2009, or such later time as described under the paragraph headed “Effect of Bad Weather on the Opening of the Application Lists” under this section, the designated HK eIPO White Form Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.hkeipo.hk.**

Once you have completed payment in respect of any **electronic application instruction** given by you or for your benefit to the designated **HK eIPO White Form Service Provider** to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular application reference number will not constitute an actual application.

Warning: The application for Public Offer Shares through the **HK eIPO White Form Service** is only a facility provided by the designated **HK eIPO White Form Service Provider** to public investors. **Our Company, our Directors, the Sole Bookrunner, the Sole Sponsor, the Sole Lead Manager and the Underwriters take no responsibility for such applications, and provide no assurance that applications through the HK eIPO White Form service will be submitted to our Company or that you will be allotted any Public Offer Shares.**

Please note that internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the HK eIPO White Form Service, you are advised not to wait until the last day for submitting applications in the Public Offer to submit your electronic application instructions. In the event that you have problems connecting to the designated website for the **HK eIPO White Form Service**, you should submit a **WHITE** Application Form. However, once you have submitted electronic application instructions and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** Application Form. See the paragraph headed “How Many Applications May You Make” under this section.

You may submit your application to the designated **HK eIPO White Form Service Provider** through the designated website at www.hkeipo.hk from 9:00 a.m. on Monday, 14 December 2009 until 11:30 a.m. on Thursday, 17 December 2009 or such later time as described under the paragraph headed “Effect of Bad Weather on the Opening of the Applications Lists” under this section (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 17 December 2009, the last application day, or, if the application lists are not opened on that day, then by the time and date stated in “Effect of Bad Weather on the Opening of the Applications Lists” under this section.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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

If you apply for 1,000,000 Public Offer Shares or more through the **HK eIPO White Form Service** by submitting an electronic application to the designated HK eIPO White Form Service Provider through the designated website at www.hkeipo.hk and your application is wholly or partially successful, you may collect your Share certificate(s) and/or refund cheque(s) (where applicable) in person from Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 23 December 2009, or such other date as notified by the Company in the newspapers as the date of despatch/collection of share certificates/refund cheques.

If you do not collect your share certificate(s) and/or refund cheque(s) personally within the time specified for collection, they will be sent to the address specified in your application instruction to the designated HK eIPO White Form Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your share certificate(s) and/or refund cheque(s) (where applicable) will be sent to the address specified in your application instruction to the designated **HK eIPO White Form Service Provider** through the designated website at www.hkeipo.hk on Wednesday, 23 December 2009 by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated **HK eIPO White Form Service Provider** set out below in the sub-paragraph entitled "Additional information" below.

Additional Information

For the purposes of allocating Public Offer Shares, each applicant giving electronic application instructions through **HK eIPO White Form Service** to the **HK eIPO White Form Service Provider** through the designated website at www.hkeipo.hk will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Public Offer Shares for which you have applied, or if your application is otherwise rejected by the designated **HK eIPO White Form Service Provider**, the designated **HK eIPO White Form Service Provider** may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated **HK eIPO White Form Service Provider** on the designated website at www.hkeipo.hk.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Public Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre
2/F Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to us and our Hong Kong Share Registrar.

Application for Public Offer Shares by HKSCC Nominees on your behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Public Offer Shares:

- (i) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees does the following things on behalf of each such person:
 - **agrees** that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- **undertakes** and **agrees** to accept the Public Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
- **undertakes** and **confirms** that that person has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, and has not received or been placed or allocated (including conditionally or provisionally) any Offer Shares under the International Placing nor otherwise participated in the International Placing;
- (if the **electronic application instructions** are given for that person's own benefit) **declares** that only one set of **electronic application instructions** has been given for that person's benefit;
- (if that person is an agent for another person) **declares** that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorised to give those instructions as that other person's agent;
- **understands** that the above declaration will be relied upon by us, the directors, the Sole Sponsor in deciding whether or not to make any allotment of Public Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;
- **authorises** us to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Public Offer Shares allotted in respect of that person's **electronic application instructions** and to send share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between us and HKSCC;
- **confirms** that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- **confirms** that that person has only relied on the information and representations in this prospectus and the Application Form in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf and will not rely on any other information and representations save as set out in any supplement to this prospectus;
- **agrees** that we, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters and any of their respective directors, officers, employee, partners, agents or advisers are liable only for the information and representations contained in this prospectus and any supplement thereto;
- **agrees** to disclose that person's personal data to us, the Hong Kong Share Registrar, the receiving banker, the Sole Sponsor, the Sole Lead Manager, the Underwriters, and/or any of their advisers and agents and any information which they may require about that person;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- **agrees** (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;
- **agrees** that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable before Wednesday, 13 January 2010, such agreement to take effect as a collateral contract with us and to become binding when that person gives the instructions and such collateral contract to be in consideration of us agreeing that we will not offer any Public Offer Shares to any person before Wednesday, 13 January 2010, except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before Wednesday, 13 January 2010 if a person responsible for this prospectus under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- **agrees** that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instruction** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offer published by us;
- **agrees** to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to the Public Offer Shares;
- **agrees** with us, for ourselves and for the benefit of each of our shareholders (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of our shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Cayman Companies Law, the Memorandum of Association and the Articles of Association; and
- **agrees** that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to us or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- instructed and authorised HKSCC to arrange payment of the maximum offer price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the initial price per Share paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy and Stock Exchange trading fee, by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

Multiple applications

If you have made an application by giving **electronic application instructions** to HKSCC and you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Minimum subscription amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 1,000 Public Offer Shares. Such instructions in respect of more than 1,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms.

Time for inputting electronic application instructions to HKSCC via CCASS

Those who are not CCASS Investor Participants can instruct their brokers or custodians who are CCASS Clearing Participants or CCASS Custodian Participants to give electronic applications to HKSCC via CCASS terminals to apply for Public Offer Shares on their behalf.

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the specified times on the following dates:

Monday, 14 December 2009	—	9:00 a.m. to 8:30 p.m.⁽¹⁾
Tuesday, 15 December 2009	—	8:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, 16 December 2009	—	8:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, 17 December 2009	—	8:00 a.m.⁽¹⁾ to 12:00 noon

(1) These times may be subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, 14 December 2009 until 12:00 noon on Thursday, 17 December 2009 (24 hours daily, except the last application day).

Effect of bad weather on the last application day

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, 17 December 2009, the last application day. If:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal

is in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 17 December 2009, the last application day will be postponed to the next business day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 am. and 12:00 noon on such day.

If the application lists of the Hong Kong Public Offer do not open and close on Thursday, 17 December 2009 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong on the other dates mentioned in the section headed “Expected Timetable”, such dates mentioned in the section headed “Expected Timetable” may be affected. A press announcement will be made in such event.

Allocation of Public Offer Shares

For the purposes of allocating the Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given will be treated as an applicant.

Deposit of Share certificates into CCASS and refund of application monies

- No temporary document of title will be issued. No receipt will be issued for application monies received.
- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account at the close of business on Wednesday, 23 December 2009 or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner, where supplied), your Hong Kong Identity Card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offer in the manner described in “How to Apply for the Public Offer Shares — Publication of Results” and to publish the basis of allotment of the Public Offer in the newspapers

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

on Wednesday, 23 December 2009. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 23 December 2009 or such other date as shall be determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 23 December 2009. Immediately following the credit of Public Offer Shares credited to your CCASS Investor Participant stock account and credit of the refund monies (if any) to your designated bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the initial price per Hong Kong Offer Share paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 23 December 2009. No interest will be paid thereon.

Section 40 of the Companies Ordinance

For the avoidance of doubt, we and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** to HKSCC via CCASS is a person who may be entitled to compensation under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance).

Personal Data

The section of the Application Form titled "Personal Data" applies to any personal data and any other information held by us, the Hong Kong Share Registrar, the receiving bankers, the Sole Bookrunner, the Sole Sponsor, the Sole Lead Manager and the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data and any other information about applicants other than HKSCC Nominees.

Warning

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. We, the Directors, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Public Offer Shares.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (i) submit a **WHITE** or **YELLOW** Application Form; or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, 17 December 2009 or such later time as described in the paragraph above titled "Effect of bad weather on the last application day".

HOW MANY APPLICATIONS MAY YOU MAKE

There is only one situation where you may make more than one application for Public Offer Shares:

If you are a nominee, you may lodge more than one application in your own name on behalf of different beneficial owners. In the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code, for each beneficial owner (or, in the case of joint beneficial owners, for each such joint beneficial owner). If you do not include this information, the application will be treated as being for your benefit. Otherwise, multiple applications are not allowed and will be rejected.

It will be a term and condition of all applications that by completing and delivering an Application Form or submitting an **electronic application instruction**, you:

- (if the application is made for your own benefit) warrant that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated HK eIPO White Form Service Provider through **HK eIPO White Form Service** (www.hkeipo.hk);
- (if you are an agent for another person) warrant that reasonable enquiry has been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated HK eIPO White Form Service Provider through **HK eIPO White Form Service** (www.hkeipo.hk), and that you are duly authorised to sign the Application Form or give electronic application instructions as that other person's agent.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Save as referred to above, all of your applications will be rejected as multiple applications if you, or you and joint applicants together or any of your joint applicants:

- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated HK eIPO White Form Service Provider through **HK eIPO White Form Service** (www.hkeipo.hk);
- both apply (whether individually or jointly) on a **WHITE** Application Form and a **YELLOW** Application Form or apply on a **WHITE** or **YELLOW** Application Form and by giving **electronic application instructions** to HKSCC via CCASS or to the designated HK eIPO White Form Service Provider through **HK eIPO White Form Service**;
- apply (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated HK eIPO White Form Service Provider through **HK eIPO White Form Service** (www.hkeipo.hk) for more than 50% of the Public Offer Shares initially available for subscription by the public; or
- have applied for or taken up, or indicated an interest for, or have been or will be placed (including conditionally and/or provisionally) International Offer Shares under International Placing.

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any electronic application instruction given by you or for your benefit to the designated HK eIPO White Form Service Provider to make an application for Public Offer Shares, an actual application will be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form Service** by giving **electronic application instructions** through the designated website at www.hkeipo.hk and completing payment in respect of such **electronic application instructions**, or of submitting one application through the **HK eIPO White Form Service** and one or more applications by any other means, all of your applications are liable to be rejected.

All of your applications for Public Offer Shares will also be rejected as multiple applications if more than one application for Public Offer Shares is made for your benefit (including the part of an application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealings in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control means you:

- control the composition of the board of directors of that company;
- or control more than half of the voting power of that company; or
- hold more than half of the issued share capital of that company, not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital.

HOW MUCH ARE THE PUBLIC OFFER SHARES

The maximum Offer Price of the Public Offer Share is HK\$2.78 each. You must also pay brokerage of 1%, a SFC transaction levy of 0.004% and a Stock Exchange trading fee of 0.005%. This means that for every board lot of 1,000 Shares, you will pay HK\$2,808.05. Each of the Application Forms has a table showing the exact amount payable for certain multiples of Public Offer Shares. Your payment must be by one cheque or one banker's cashier order and must comply with the terms of the Application Forms.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee in full when you apply for the Public Offer Shares. If your application is successful, brokerage is paid to participants of the Stock Exchange, transaction levy is paid to the SFC and the trading fee is paid to the Stock Exchange.

If the Offer Price as finally determined is less than HK\$2.78 per Public Offer Share, appropriate refund payments (including the brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest.

Details of the procedures for refund are set out below in the paragraph headed "Collection/posting of share certificates and/or refund cheques and deposit of share certificates into CCASS".

MEMBERS OF THE PUBLIC — TIME FOR APPLYING FOR PUBLIC OFFER SHARES

Applications on White or Yellow Application Forms

Completed **WHITE** and **YELLOW** Application Forms, with payment attached, to which cheques or banker's cashier orders are securely stapled, should be deposited in the special collection boxes provided at any of the branches of The Bank of East Asia, Limited and Standard Chartered Bank (Hong Kong) Limited listed on pages 214 to 215 of this prospectus at the following times:

Monday, 14 December 2009	—	9:00 a.m. to 5:00 p.m.
Tuesday, 15 December 2009	—	9:00 a.m. to 5:00 p.m.
Wednesday, 16 December 2009	—	9:00 a.m. to 5:00 p.m.
Thursday, 17 December 2009	—	9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 17 December 2009. Applications for the Public Offer Shares will not be processed, and no allotment of any such Public Offer Shares will be made until the closing of the application lists.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

HK eIPO White Form

You may submit your application to the designated HK eIPO White Form Service Provider through the designated website at www.hkeipo.hk from 9:00 a.m. on Monday, 14 December 2009 until 11:30 a.m. on Thursday, 17 December 2009 or such later time as described under the paragraph headed “Effect of Bad Weather on the Opening of the Application Lists” below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 17 December 2009, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the paragraph headed “Effect of Bad Weather on the Opening of the Application Lists” below.

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

EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not be open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 17 December 2009. Instead, the application lists will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

Business day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allocated Public Offer Shares are set out in the notes attached to the Application Forms, and you should read them carefully.

You should note in particular the following two situations in which Public Offer Shares will not be allocated to you:

(a) if your application is revoked

By completing and submitting an Application Form or **electronic application instructions** to HKSCC or the designated **HK eIPO White Form** Service Provider, your application or the application made by HKSCC Nominees or the designated **HK eIPO White Form** Service Provider on your behalf may not be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or a public holiday in Hong Kong). This agreement will take effect as a collateral contract with us, and will

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

become binding when you lodge your Application Form or submit your **electronic application instructions** to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of our agreement not to offer any Public Offer Shares to any person before the end of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or a public holiday in Hong Kong) except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees or the designated **HK eIPO White Form** Service Provider on your behalf may only be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or a public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under such section to exclude or limit the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedures provided, all applications that have been submitted will remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of the prospectus as supplemented. If your application or the application made by HKSCC Nominees or the designated **HK eIPO White Form** Service Provider on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications that are not rejected will be constituted by notification in the press of the results of allotment, and where such basis of allotment is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

(b) if the allocation of the Public Offer Shares is void

The allocation of the Public Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** to HKSCC or apply by a **YELLOW** Application Form) will be void if the Listing Committee of the Stock Exchange does not grant the listing of, and permission to deal in, the Shares either:

- within three weeks from the date of the closing of the application lists; or
- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies the Company of that longer period within three weeks of the date of the closing of the application lists.

(c) if the Company or their respective agents exercise their discretion

Our Company and their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application, without having to give any reasons for any rejection or acceptance.

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(d) Your application will be rejected or not be accepted if:

- your application is a multiple or a suspected multiple applications;
- your Application Form is not completed correctly in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonored on its first presentation;
- you or the person for whose benefit you are applying have applied for and/or received or will receive Placing Shares under the International Placing;
- we believe that by accepting your application would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is received or your address is located;
- if you apply for more than 100% of the Public Offer Shares in either Pool A or Pool B initially available for subscription under the Public Offer; or
- any of the Underwriting Agreements does not become unconditional or it is terminated in accordance with their respective terms thereof.

PUBLICATION OF RESULTS

The Company expects to publish the final Offer Price, the details of the level of interests in the International Placing, the results of applications and basis of allotment of the Public Offer Shares on Wednesday, 23 December 2009 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our Company's website at <http://ir.hontex.cn> and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- on our website at <http://ir.hontex.cn> and the Stock Exchange's website at www.hkexnews.hk from Wednesday, 23 December 2009 onward;
- on our designated results of allocations website at www.tricor.com.hk/ipo/result on a 24-hour basis from 8:00 a.m. on Wednesday, 23 December 2009 to 12:00 midnight on Tuesday, 29 December 2009. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its Application Form to search for his/her/its own allocation result;
- from our designated allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Public Offer Shares allocated to them, if any, by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Wednesday, 23 December 2009 to Tuesday, 29 December 2009 (excluding Saturday, Sunday and public holidays in Hong Kong); and

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- from special allocation results booklets setting out the results of allocations which will be available for inspection during opening hours of designated branches of the receiving banks from Wednesday, 23 December 2009 to Monday, 28 December 2009 (excluding Saturday, Sunday and public holidays in Hong Kong) at the addresses set out in the paragraph headed “Where to Collect the White or Yellow Application Forms for the Public Offer Shares” in this section above.

COLLECTION/POSTING OF SHARE CERTIFICATES AND/OR REFUND CHEQUES AND DEPOSIT OF SHARE CERTIFICATES INTO CASS

The Company will not issue temporary documents of title. No receipt will be issued for application monies received.

(a) If you apply using a WHITE application form:

If you have applied for 1,000,000 Public Offer Shares or more and have indicated on your Application Form that you will collect your share certificate(s) and/or refund cheque(s) (if any), you may collect it/them in person from Tricor Investor Services Limited between 9:00 a.m. and 1:00 p.m. on the date notified by the Company in the newspapers as the date of despatch of share certificates and/or refund cheques. This date is expected to be on Wednesday, 23 December 2009.

If you are an individual who opts for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant who opts for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your corporation’s chop. Both individuals and authorised representatives of corporations (if applicable) must produce, at the time of collection, evidence of identity acceptable to Tricor Investor Services Limited.

If you do not collect your share certificate(s) and/or refund cheque(s) (if any) within the specified time available for collection, it/they will be sent to the address on your Application Form shortly after 1:00 p.m. on the date of despatch by ordinary post at your own risk.

If you have applied for 1,000,000 Public Offer Shares or more but have not indicated on your Application Form that you will collect your share certificate(s) and/or refund cheque(s) (if any) in person; or if you have applied for less than 1,000,000 Public Offer Shares; or if your application is rejected, not accepted or accepted in part only or if the Offer Price as finally determined is less than the initial price per Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon) paid on application; or if the conditions of the Public Offer described in the paragraph headed “Conditions of the Global Offering” in the section headed “Structure and conditions of the Global Offering” of this prospectus are not fulfilled in accordance with their terms, or if any application is revoked or any allotment pursuant thereto has become void, then your share certificate(s) and/or refund cheque(s) (if any) in respect of the application monies or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, if any, (without interest) will be sent to the address on your Application Form on the date of despatch by ordinary post at your own risk.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(b) If you apply using a YELLOW application form or by giving Electronic Application Instructions to HKSCC:

Your share certificate(s) will be issued in the name of HKSCC Nominees Limited and deposited into CCASS for credit to your CCASS investor participant stock account or the stock account of your designated CCASS participant, as instructed by you, at the close of business on Wednesday, 23 December 2009, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees Limited. The procedures for collection of refund cheques for **YELLOW** Application Forms are the same as those for **WHITE** Application Forms set out in paragraph headed “(a) If you apply using a WHITE Application Form” above.

If you are applying through a designated CCASS participant (other than a CCASS investor participant):

- the Company expects to make available the application results of the Public Offer, including the application results of CCASS participants (and in the case of CCASS clearing participants and CCASS custodian participants, the Company shall include information relating to the relevant beneficial owner), your Hong Kong identity card/passport/Hong Kong business registration number or other identification code (as appropriate) and the basis of allotment of the Public Offer in the manner described in the paragraph headed “Publication of Results” above in this section on Wednesday, 23 December 2009. You should check the results made available by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 23 December 2009 or any other date as shall be determined by HKSCC or HKSCC Nominees.
- You can also check the number of Public Offer Shares allocated to you (and the amount of refund (if any) payable to you if you have instructed a CCASS clearing/custodian participant to give electronic applications on your behalf) with that CCASS clearing participant or CCASS custodian participant.

If you are applying as a CCASS investor participant:

- the Company expects to publish the results of CCASS investor participants’ applications together with the results of the Public Offer in the manner described in the paragraph headed “Publication of Results” above in this section on Wednesday, 23 December 2009. You should check against the results made available by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 23 December 2009 or such other date as shall be determined by HKSCC or HKSCC Nominees Limited.
- You can also check the number of the Public Offer Shares allotted to you and (if you are applying by giving electronic application instruction to HKSCC) the amount of refund (if any) payable to you via the CCASS Phone System or CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Wednesday, 23 December 2009. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of the Public Offer Shares credited to your CCASS investor participant stock account and the amount of refund credited (if any) to your designated bank account.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(c) If you apply by using HK eIPO White Form:

If you apply for 1,000,000 Public Offer Shares or more through the **HK eIPO White Form** service by submitting an electronic application instruction to the HK eIPO White Form Service Provider through the designated website at www.hkeipo.hk and your application is wholly or partially successful, you may collect your share certificate(s) and/or refund cheque(s) (where applicable) in person from Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, 23 December 2009, or such other date as notified by us in the newspapers as the date of despatch/collection of share certificates/refund cheques.

If you do not collect your share certificate(s) and/or refund cheque(s) personally within the time specified for collection, they will be sent to the address specified in your application instruction to the HK eIPO White Form Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your share certificate(s) and/or refund cheque(s) (where applicable) will be sent to the address specified in your application instruction to the HK eIPO White Form Service Provider through the designated website at www.hkeipo.hk on Wednesday, 23 December 2009 by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the HK eIPO White Form Service Provider set out above in the paragraph headed "How to Apply by using HK eIPO WHITE Form — Additional Information".

Refund cheque

All refunds (except where you apply by giving **electronic application instructions** to HKSCC) will be by a cheque crossed "Account Payee Only", made out to you, or, if you are joint applicants, to the first-named applicant on your Application Form. Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your, refund cheque.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange is expected to commence on Thursday, 24 December 2009. The Shares will be traded in board lots of 1,000 each.

The Stock Exchange stock code for the Shares is 00946.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares issued and to be issued as mentioned in this prospectus and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit,

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

clearance and settlement in CCASS with effect from the Listing Date or, under contingent situation, such other date determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building 10
Chater Road
Central
Hong Kong

14 December 2009

The Board of Directors
Hontex International Holdings Company Limited
Mega Capital (Asia) Company Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Hontex International Holdings Company Limited (the "Company") and its subsidiaries (herewith collectively referred to as the "Group"), including the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 (the "Relevant Period"), the combined balance sheets of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009 together with the notes thereto (the "Financial Information") for inclusion in the prospectus of the Company dated 14 December 2009 (the "Prospectus").

The Company was incorporated in the Cayman Islands on 14 July 2009 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation completed on 27 November 2009 (the "Reorganisation") as detailed in the section headed "Corporate reorganisation" in Appendix VII to the Prospectus, the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company, Easy Venture International Limited, First Heritage Limited, Prosper Advance International Limited and Star Guide Investments Limited as they are newly incorporated investment holding companies and have not carried on any business since their respective dates of incorporation.

The statutory financial statements of other companies now comprising the Group, which were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the People's Republic of China (the "PRC"), were audited during the Relevant Period by the respective statutory auditors as indicated below:

<i>Name of company (note)</i>	<i>Financial period</i>	<i>Statutory auditors (note)</i>
Fuqing Hong Liong Textile Tech Co., Ltd. (福清洪良染織科技有限公司)	Years ended 31 December 2006, 2007 and 2008	Fujian Xinyurong Certified Public Accountants Co., Ltd. (福建鑫玉融會計師事務所有限責任公司)
Fuqing Ecotex Hi-Tech Outdoor Product Co., Ltd. (福清洪宇運動休閒用品有限公司)	Years ended 31 December 2006, 2007 and 2008	Fujian Xinyurong Certified Public Accountants Co., Ltd. (福建鑫玉融會計師事務所有限責任公司)
Fuzhou Aike Garment Co., Ltd. (福州艾克服飾有限公司)	Period from 26 July 2007 to 31 December 2007 and year ended 31 December 2008	Fujian Xinyurong Certified Public Accountants Co., Ltd. (福建鑫玉融會計師事務所有限責任公司)
Shishi Maigen Dress Co., Ltd. (石獅麥根服飾有限公司)	Year ended 31 December 2008	Fujian Jin Rui Certified Public Accountants Co., Ltd. (福建金瑞會計師事務所有限公司)

Note: The English translation of the company names and statutory auditors is for reference only. The official names of these companies and statutory auditors are in Chinese.

BASIS OF PREPARATION

The Financial Information has been prepared by the directors of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the Group, on the basis set out in Section A below, after making such adjustments as are appropriate. Adjustments have been made, for the purpose of this report, to restate these financial statements to conform with the accounting policies referred to in Section C, which are in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") promulgated by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). HKFRSs include Hong Kong Accounting Standards and interpretations.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with HKFRSs, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules. This responsibility

includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our audit procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Relevant Period in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform our work to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have not audited any financial statements of the companies comprising the Group in respect of any period subsequent to 30 June 2009.

OPINION

In our opinion, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information, on the basis of presentation set out in Section A below and in accordance with the accounting policies set out in Section C below, gives a true and fair view of the Group's combined results and cash flows for the Relevant Period, and the state of affairs of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the combined income statement, the combined statement of comprehensive income, the combined statement of changes in equity and the combined cash flow

statement for the six months ended 30 June 2008, together with the notes thereon (the “Corresponding Financial Information”), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A. BASIS OF PRESENTATION

The companies that took part in the Reorganisation were controlled by the same group of equity shareholders (“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 Dress Co., Ltd. The net assets of the combining companies are combined using the existing book values from the Controlling Shareholders’ perspective.

The Financial Information relating to the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group as set out in Section B for the Relevant Period includes the results of operations of the companies comprising the Group for the Relevant Period. The combined balance sheets of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009 as set out in Section B have been prepared to present the combined assets and liabilities of the Group as at those dates.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

<i>Name of company</i>	<i>Place and date of incorporation/ establishment</i>	<i>Issued and fully paid-up capital/ registered capital</i>	<i>Attributable equity interest</i>	
			<i>Direct</i>	<i>Principal activities</i>
Fuqing Hong Liong Textile Tech Co., Ltd.	The PRC/ 16 April 1993	US\$13,300,000	100%	Manufacture and sale of fabrics
Fuqing Ecotex Hi-Tech Outdoor Product Co., Ltd.	The PRC/ 16 July 2002	US\$1,600,000	100%	Manufacture and sale of casual and sportswear
Fuzhou Aike Garment Co., Ltd.	The PRC/ 26 July 2007	US\$700,000	100%	Trading of children's wear and uniforms
Shishi Maigen Dress Co., Ltd.	The PRC/ 20 June 2002	US\$200,000	100%	Trading of branded leisure clothing
Easy Venture International Limited	Hong Kong/ 23 February 2009	HK\$1	100%	Investment holding
First Heritage Limited	Hong Kong/ 22 June 2009	HK\$1	100%	Investment holding
Prosper Advance International Limited	Hong Kong/ 30 March 2009	HK\$1	100%	Investment holding
Star Guide Investments Limited	Hong Kong/ 22 June 2009	HK\$1	100%	Investment holding

All entities established in the PRC are wholly foreign owned enterprises.

B. FINANCIAL INFORMATION**1. Combined income statements**

	<i>Section C</i>	Year ended 31 December			Six months ended	
		<i>Note</i>	2006	2007	2008	2008
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					<i>(unaudited)</i>	
Turnover	2	653,380	932,476	1,266,050	521,783	817,305
Cost of sales	16(b)	<u>(502,275)</u>	<u>(697,969)</u>	<u>(911,631)</u>	<u>(385,687)</u>	<u>(538,602)</u>
Gross profit		151,105	234,507	354,419	136,096	278,703
Other revenue	3	2,755	3,443	2,364	1,230	1,326
Other net income	3	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		<u>(1,454)</u>	<u>(2,351)</u>	<u>(5,906)</u>	<u>(853)</u>	<u>(5,048)</u>
Profit from operations		120,758	198,316	311,128	121,948	244,380
Finance costs	4(a)	<u>(4,453)</u>	<u>(2,483)</u>	<u>(1,922)</u>	<u>(1,072)</u>	<u>(754)</u>
Profit before taxation	4	116,305	195,833	309,206	120,876	243,626
Income tax	5(a)	<u>(13,809)</u>	<u>(25,372)</u>	<u>(66,867)</u>	<u>(26,050)</u>	<u>(60,255)</u>
Profit attributable to equity shareholders		<u>102,496</u>	<u>170,461</u>	<u>242,339</u>	<u>94,826</u>	<u>183,371</u>
Earnings per share	9					
Basic and diluted (cents)		<u>6.57</u>	<u>10.93</u>	<u>15.53</u>	<u>6.08</u>	<u>11.75</u>

The accompanying notes form part of the Financial Information. Details of dividends declared to equity shareholders of the Group during the year/period are set out in Section C note 8.

2. Combined statements of comprehensive income

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year/period	<u>102,496</u>	<u>170,461</u>	<u>242,339</u>	<u>94,826</u>	<u>183,371</u>
Total comprehensive income for the year/period	<u><u>102,496</u></u>	<u><u>170,461</u></u>	<u><u>242,339</u></u>	<u><u>94,826</u></u>	<u><u>183,371</u></u>

3. Combined balance sheets

	<i>Section C Note</i>	As at 31 December			As at 30 June
		2006 <i>RMB'000</i>	2007 <i>RMB'000</i>	2008 <i>RMB'000</i>	2009 <i>RMB'000</i>
Non-current assets					
Property, plant and equipment	11	70,353	78,989	75,684	68,854
Construction in progress	12	9,040	—	—	313
Intangible assets	13	47	87	69,947	64,882
Goodwill	14	—	—	133	133
Lease prepayments	15	1,758	1,710	1,662	1,638
Deferred tax assets	22(b)	—	274	209	359
Total non-current assets		<u>81,198</u>	<u>81,060</u>	<u>147,635</u>	<u>136,179</u>
Current assets					
Inventories	16	92,065	135,650	111,435	123,708
Trade and other receivables	17	180,640	308,439	342,107	224,973
Amount due from shareholder	28(d)	9,893	9,451	8,659	8,644
Cash and cash equivalents	18	<u>35,008</u>	<u>89,175</u>	<u>175,895</u>	<u>237,924</u>
Total current assets		<u>317,606</u>	<u>542,715</u>	<u>638,096</u>	<u>595,249</u>
Current liabilities					
Bank loans	19	33,579	36,907	25,119	28,130
Trade and other payables	20	119,905	166,245	223,882	232,799
Amount due to shareholder	28(d)	—	19	93,576	93,576
Current tax payable	22(a)	<u>2,849</u>	<u>7,672</u>	<u>18,322</u>	<u>28,403</u>
Total current liabilities		<u>156,333</u>	<u>210,843</u>	<u>360,899</u>	<u>382,908</u>
Net current assets		<u>161,273</u>	<u>331,872</u>	<u>277,197</u>	<u>212,341</u>
Total assets less current liabilities		242,471	412,932	424,832	348,520
Non-current liabilities					
Deferred tax liabilities	22(b)	—	—	30,731	39,150
NET ASSETS		<u>242,471</u>	<u>412,932</u>	<u>394,101</u>	<u>309,370</u>
CAPITAL AND RESERVES					
Paid-in capital	23	104,471	122,471	122,471	122,471
Reserves	24	<u>138,000</u>	<u>290,461</u>	<u>271,630</u>	<u>186,899</u>
TOTAL EQUITY		<u>242,471</u>	<u>412,932</u>	<u>394,101</u>	<u>309,370</u>

The accompanying notes form part of the Financial Information.

4. Combined statements of changes in equity

	<i>Section C Note</i>	Attributable to equity shareholders of the Company			
		Paid-in capital <i>RMB'000</i> <i>(Note 23(b))</i>	Statutory reserve <i>RMB'000</i> <i>(Note 24(a))</i>	Retained profits <i>RMB'000</i>	Total equity <i>RMB'000</i>
At 1 January 2006		99,509	3,934	31,570	135,013
Total comprehensive income for the year		—	—	102,496	102,496
Shareholders' contributions	23(b)	4,962	—	—	4,962
Appropriation to statutory reserve		—	9,769	(9,769)	—
At 31 December 2006		<u>104,471</u>	<u>13,703</u>	<u>124,297</u>	<u>242,471</u>
At 1 January 2007		104,471	13,703	124,297	242,471
Total comprehensive income for the year		—	—	170,461	170,461
Shareholders' contributions	23(b)	18,000	—	—	18,000
Dividend declared in respect of the previous year	8	—	—	(18,000)	(18,000)
Appropriation to statutory reserve		—	17,683	(17,683)	—
At 31 December 2007		<u>122,471</u>	<u>31,386</u>	<u>259,075</u>	<u>412,932</u>
At 1 January 2008		122,471	31,386	259,075	412,932
Total comprehensive income for the year		—	—	242,339	242,339
Dividend declared in respect of the previous year	8	—	—	(261,170)	(261,170)
Appropriation to statutory reserve		—	25,450	(25,450)	—
At 31 December 2008		<u>122,471</u>	<u>56,836</u>	<u>214,794</u>	<u>394,101</u>

	<i>Section C Note</i>	Attributable to equity shareholders of the Company			
		Paid-in capital <i>RMB'000</i> <i>(Note 23(b))</i>	Statutory reserve <i>RMB'000</i> <i>(Note 24(a))</i>	Retained profits <i>RMB'000</i>	Total equity <i>RMB'000</i>
(Unaudited)					
At 1 January 2008		122,471	31,386	259,075	412,932
Total comprehensive income for the period		—	—	94,826	94,826
Dividend declared in respect of the previous year	8	—	—	(223,837)	(223,837)
Appropriation to statutory reserve		—	826	(826)	—
At 30 June 2008		<u>122,471</u>	<u>32,212</u>	<u>129,238</u>	<u>283,921</u>
At 1 January 2009		122,471	56,836	214,794	394,101
Total comprehensive income for the period		—	—	183,371	183,371
Dividend declared in respect of the previous year	8	—	—	(268,102)	(268,102)
Appropriation to statutory reserve		—	8,346	(8,346)	—
At 30 June 2009		<u>122,471</u>	<u>65,182</u>	<u>121,717</u>	<u>309,370</u>

The accompanying notes form part of the Financial Information.

5. Combined cash flow statements

	<i>Section C Note</i>	Year ended 31 December			Six months ended 30 June	
		2006 <i>RMB'000</i>	2007 <i>RMB'000</i>	2008 <i>RMB'000</i>	2008 <i>RMB'000</i>	2009 <i>RMB'000</i>
					<i>(unaudited)</i>	
Operating activities						
Profit before taxation		116,305	195,833	309,206	120,876	243,626
Adjustments for:						
— Depreciation	4(c)	8,421	8,339	8,596	4,411	4,290
— Amortisation						
— Intangible assets	4(c)	11	11	5,920	852	5,071
— Lease prepayments	4(c)	22	48	48	24	24
— Foreign exchange gain		(696)	(681)	—	(1,317)	(5)
— Loss on disposal of property, plant and equipment	3	105	26	22	6	2
— Finance costs	4(a)	4,453	2,483	1,922	1,072	754
— Interest income	3	(352)	(509)	(1,342)	(658)	(538)
— Impairment losses on trade and other receivables	4(c)	—	4,848	—	—	3,276
Changes in working capital:						
(Increase)/decrease in inventories		(42,570)	(43,585)	62,038	(6,173)	(12,273)
(Increase)/decrease in trade and other receivables		(43,459)	(132,647)	(25,207)	20,137	113,858
Decrease in amount due from shareholder		1,672	442	792	761	15
Increase/(decrease) in trade and other payables		10,676	46,340	(2,000)	28,339	49,043
(Decrease)/increase in amount due to shareholder		(2,964)	19	(19)	(19)	—
Cash generated from operations		51,624	80,967	359,976	168,311	407,143
Income tax paid		(13,539)	(20,823)	(51,366)	(18,884)	(41,905)
Net cash generated from operating activities		38,085	60,144	308,610	149,427	365,238

<i>Section C</i>	Year ended 31 December			Six months ended		
	<i>Note</i>	2006 RMB'000	2007 RMB'000	2008 RMB'000	2008 RMB'000	2009 RMB'000
				<i>(unaudited)</i>		
Investing activities						
		(16,502)	(7,986)	(2,406)	(1,156)	(2,580)
		(1,229)	—	(2,624)	(2,624)	(313)
		1,572	25	32	12	5,118
		—	(51)	(136)	(72)	(6)
		352	509	1,342	658	538
	27	—	—	63,080	63,080	—
Net cash (used in)/ generated from investing activities		<u>(15,807)</u>	<u>(7,503)</u>	<u>59,288</u>	<u>59,898</u>	<u>2,757</u>
Financing activities						
		56,618	62,156	30,119	5,000	16,516
		(61,097)	(58,147)	(41,907)	(14,500)	(13,500)
		—	—	(46,424)	—	—
		(4,453)	(2,483)	(1,922)	(1,072)	(754)
		—	—	(221,044)	—	(308,228)
Net cash (used in)/ generated from financing activities		<u>(8,932)</u>	<u>1,526</u>	<u>(281,178)</u>	<u>(10,572)</u>	<u>(305,966)</u>
Net increase in cash and cash equivalents		13,346	54,167	86,720	198,753	62,029
Cash and cash equivalents at beginning of year/period		<u>21,662</u>	<u>35,008</u>	<u>89,175</u>	<u>89,175</u>	<u>175,895</u>
Cash and cash equivalents at end of year/period		18 <u>35,008</u>	<u>89,175</u>	<u>175,895</u>	<u>287,928</u>	<u>237,924</u>

Major non-cash transactions

- (a) On 31 May 2008, the Group acquired the entire equity interests in Shishi Maigen Dress Co., Ltd. (Section C note 27) for a cash consideration of RMB140,000,000 and such amount was paid by the Group's shareholder.
- (b) During the years ended 31 December 2006 and 2007, the equity shareholders of the Group injected capital totalling RMB4,962,000 and RMB18,000,000 respectively to the Group, which was satisfied by the reinvestment of dividends declared in 2005 and 2007.

The accompanying notes form part of the Financial Information.

C. NOTES TO THE FINANCIAL INFORMATION**1. SIGNIFICANT ACCOUNTING POLICIES****(a) Statement of compliance**

The Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes Hong Kong Accounting Standards and related interpretations, promulgated by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Further details of the significant accounting policies adopted by the Group are set out in the remainder of this Section C.

The Group did not prepare combined financial information previously. This is the Group's first HKFRS combined Financial Information and HKFRS 1 "First-time adoption of Hong Kong Financial Reporting Standards" has been applied.

The HKICPA has issued certain new and revised HKFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised HKFRSs applicable to the Relevant Period, except for any new standards or interpretations that are effective for accounting periods beginning on or after 1 July 2009. The 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.

This Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

(b) Basis of combination

The Financial Information comprises the Company and its subsidiaries and has been prepared using the merger basis of accounting as if the Group had always been in existence as further explained in Section A.

(c) Basis of measurement

The Financial Information is presented in Renminbi ("RMB"), rounded to the nearest thousand. It is prepared on the historical cost basis.

(d) Use of estimates and judgments

The preparation of Financial Information in conformity with HKFRSs requires management 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 management in the application of HKFRSs that have a significant effect on the Financial Information and estimates with a significant risk of material adjustment in future accounting periods are discussed in note 29.

(e) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. Financial statements of a subsidiary are included in the Financial Information from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

(f) Business combinations involving entities under common control

Merger accounting has been adopted for common control combinations in which all of the combining entities or businesses were ultimately controlled by the same party or parties both before and after the business combination, and that control was not transitory.

The combined Financial Information incorporates the financial information of the combining entities or businesses in which the common control combination occurred as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses have been combined using the existing book values from the controlling parties' perspective. No amount has been recognised in respect of goodwill or the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost at the time of the common control combination, to the extent of the continuation of the controlling interest.

The combined income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the combined Financial Information are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

(g) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(m)).

On disposal of a cash generating unit during the period, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(h) Property, plant and equipment

Property, plant and equipment is stated in the combined balance sheets at cost less accumulated depreciation and impairment losses (see note 1(m)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, borrowing costs, the initial 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.

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.

Depreciation is calculated 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 annually.

(i) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 1(m)). Cost comprises all direct costs of construction and borrowing costs. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are completed. No depreciation is provided in respect of construction in progress until it is substantially ready for its intended use.

(j) Lease prepayments

Lease prepayments represent the cost of acquiring land use rights paid to PRC government authorities. Land use rights are carried at cost less accumulated amortisation and impairment losses (see note 1(m)). Amortisation is charged to profit or loss on a straight-line basis over the respective periods of the rights which are for a term of 50 years.

(k) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated in the combined balance sheets at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(m)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

— patents	5–10 years
— software	5 years
— customer relationships	7 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(l) Operating lease charges

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

(m) Impairment of assets*(i) Impairment of trade and other receivables*

Trade and other receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group 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;
- it becoming probable that the debtor will enter 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. Further 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 shall 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 the Group is 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.

(n) 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 inventories to their 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.

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 reversal occurs.

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(m)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(m)).

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(q) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(s) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(t) Income tax

Income tax for the year/period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year/period using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in

subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(v) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) *Sale of goods*

Revenue is recognised when 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.

(ii) *Interest income*

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

(iii) *Processing income*

Processing income is recognised when the related service is rendered.

(iv) *Government grants*

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attached to them. Grants that compensate the Group 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 the Group 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.

(w) Translation of foreign currencies

Foreign currency transactions during the year/period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations outside the PRC are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation outside the PRC, the cumulative amount of the exchange differences relating to that operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(x) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowings costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

(y) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(z) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2. TURNOVER

The principal activities of the Group are the manufacturing and wholesaling of fabrics, casual and sportswear and branded leisure clothing in the PRC. Turnover represents the sales value of goods sold less returns, discounts, value added taxes ("VAT") and other sales taxes.

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Fabric sales	548,476	769,841	888,984	431,213	511,537
Casual and sportswear OEM sales	104,904	162,635	154,381	72,912	60,091
Branded leisure clothing sales	—	—	222,685	17,658	245,677
	<u>653,380</u>	<u>932,476</u>	<u>1,266,050</u>	<u>521,783</u>	<u>817,305</u>

3. OTHER REVENUE AND NET INCOME

Other revenue

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Interest income	352	509	1,342	658	538
Processing income	1,568	1,955	151	95	45
Sales of scraps	277	208	200	144	104
Government grants	78	265	45	40	341
Others	480	506	626	293	298
	<u>2,755</u>	<u>3,443</u>	<u>2,364</u>	<u>1,230</u>	<u>1,326</u>

Other net income

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Net foreign exchange gain	293	459	2,609	2,599	196
Net loss on disposal of property, plant and equipment	(105)	(26)	(22)	(6)	(2)
	<u>188</u>	<u>433</u>	<u>2,587</u>	<u>2,593</u>	<u>194</u>

4. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
(a) Finance costs:					
Interest on bank borrowings wholly repayable within five years	2,780	2,483	1,922	1,072	754
Other interest expense	<u>1,673</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>4,453</u>	<u>2,483</u>	<u>1,922</u>	<u>1,072</u>	<u>754</u>
(b) Staff costs:					
Contributions to defined contribution retirement plans	470	600	3,095	1,133	1,423
Salaries, wages and other benefits	<u>32,506</u>	<u>36,408</u>	<u>40,671</u>	<u>18,075</u>	<u>18,493</u>
	<u>32,976</u>	<u>37,008</u>	<u>43,766</u>	<u>19,208</u>	<u>19,916</u>
(c) Other items:					
Amortisation					
— intangible assets	11	11	5,920	852	5,071
— lease prepayments	22	48	48	24	24
Depreciation	8,421	8,339	8,596	4,411	4,290
Impairment losses on trade and other receivables	—	4,848	—	—	3,276
Auditors' remuneration	43	39	42	20	20
Operating lease charges in respect of rental of office premises	—	—	13	—	363
Research and development (<i>note(i)</i>)	1,221	1,217	1,508	535	559
Cost of inventories (<i>notes (ii) and 16(b)</i>)	<u>502,275</u>	<u>697,969</u>	<u>911,631</u>	<u>385,687</u>	<u>538,602</u>

Notes:

- (i) During the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, research and development includes RMB648,000, RMB723,000, RMB871,000, RMB401,000 and RMB400,000 respectively relating to staff costs and depreciation, amounts of which are also included in the respective total amounts disclosed separately above for each of these types of expenses.
- (ii) During the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, cost of inventories includes RMB15,711,000, RMB15,948,000, RMB16,994,000, RMB7,839,000 and RMB8,041,000 respectively relating to staff costs and depreciation, amounts of which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

5. INCOME TAX IN THE COMBINED INCOME STATEMENTS

- (a) Income tax in the combined income statements represents:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Current tax					
Provision for PRC corporate income tax for the year/period	13,809	25,646	58,883	21,887	51,986
Deferred tax					
Origination and reversal of temporary differences (<i>note 22(b)</i>)	—	(274)	7,984	4,163	8,269
	<u>13,809</u>	<u>25,372</u>	<u>66,867</u>	<u>26,050</u>	<u>60,255</u>

Notes:

- (i) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.
- (ii) No provision has been made for Hong Kong Profits Tax as the Group did not earn any income subject to Hong Kong Profits Tax during the Relevant Period.
- (iii) Prior to 1 January 2008, PRC entities were, in general, subject to a statutory income tax rate of 33%, consisting of 30% state tax and 3% local tax, on their assessable profits.

Being foreign investment enterprises engaged in manufacturing activities in Fujian economic development zone, Fuqing Hong Liong Textile Tech Co., Ltd. ("Fuqing Hong Liong") and Fuqing Ecotex Hi-Tech Outdoor Product Co., Ltd. ("Fuqing Ecotex") were granted a preferential tax rate of 15%. Fuqing Ecotex was also entitled to a tax holiday of a two-year full exemption followed by a three-year 50% exemption commencing from the first profit-making year after offsetting accumulated tax losses ("2+3 tax holiday"). Fuqing Ecotex commenced its 2+3 tax holiday in 2006. Accordingly, Fuqing Ecotex's applicable tax rate for 2006 and 2007 was 0%.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the *Corporate Income Tax Law of the PRC* ("the new CIT Law"), which unified the income tax rate to 25% for all enterprises. The new CIT law was effective on 1 January 2008. The State Council of the PRC issued the *Implementation Rules of the Corporate Income Tax Law* ("Implementation Rules") on 6 December 2007 and GuoFa [2007] No. 39 *Notice on the Implementation of the Transitional Preferential Corporate Income Tax Law Policies* ("Circular 39") on 26 December 2007. The new CIT Law, its Implementation Rules and Circular 39 provide a five-year transitional period from 1 January 2008 for those enterprises which were established before 16 March 2007 and which were entitled to a preferential lower tax rate under the then

effective tax laws and regulations, as well as grandfathering for the 2+3 tax holidays. Consequently, Fuqing Hong Liong is subject to tax rates of 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 onwards, respectively. Further, Fuqing Ecotex is subject to tax rates of 9%, 10%, 11%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 onwards, respectively.

Fuzhou Aike Garment Co., Ltd. ("Fuzhou Aike") and Shishi Maigen Dress Co., Ltd. ("Shishi Maigen") are subject to a tax rate of 25% from 2008 onwards.

- (iv) Under the new CIT Law and its Implementation Rules, dividends receivable by non-PRC resident enterprises from PRC resident enterprises are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. Under the *Arrangement between the Mainland of China and Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion*, or Mainland China/HKSAR DTA, Hong Kong tax residents which hold 25% or more of a PRC enterprise are entitled to a reduced dividend withholding tax rate of 5%. Pursuant to CaiShui [2008] No. 1 *Notice on Certain Preferential Enterprise Income Tax Policies*, undistributed profits generated prior to 1 January 2008 are exempt from such withholding tax. Accordingly, dividends receivable by the Group's Hong Kong investment holding companies from the PRC subsidiaries comprising the Group in respect of profits earned since 1 January 2008 will be subject to 5% withholding tax. Deferred tax liabilities have been recognised for undistributed retained profits of the Group's PRC subsidiaries earned since 1 January 2008 to the extent that the profits are likely to be distributed in the foreseeable future.

- (b) Reconciliation between income tax and profit before taxation at applicable tax rates:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Profit before taxation	<u>116,305</u>	<u>195,833</u>	<u>309,206</u>	<u>120,876</u>	<u>243,626</u>
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-deductible expenses	—	—	114	44	73
Withholding tax on undistributed profits of PRC subsidiaries	—	—	12,004	5,138	9,905
Effect of tax concessions	<u>(3,637)</u>	<u>(4,003)</u>	<u>(4,455)</u>	<u>(1,380)</u>	<u>(2,459)</u>
Actual income tax	<u>13,809</u>	<u>25,372</u>	<u>66,867</u>	<u>26,050</u>	<u>60,255</u>

6. DIRECTORS' REMUNERATION

Details of directors' remuneration are set out below:

Year ended 31 December 2006

	Fees <i>RMB'000</i>	Basic salaries, allowances and other benefits <i>RMB'000</i>	Contributions to retirement benefit scheme <i>RMB'000</i>	Discretionary bonuses <i>RMB'000</i>	Total <i>RMB'000</i>
<i>Executive directors</i>					
Tseng Chung-Cheng	—	20	—	—	20
Shao Ten-Po	—	—	—	—	—
Liao Chin-Yi	—	178	—	—	178
Hu Chin-Shu	—	—	—	—	—
Liao Min-Chiang	—	—	—	—	—
<i>Non-executive directors</i>					
Wang Shih-Ting	—	—	—	—	—
Lu Chien-An	—	—	—	—	—
Chang Chuan-Fang	—	—	—	—	—
Chen Fang-Kun	—	—	—	—	—
Total	—	198	—	—	198

Year ended 31 December 2007

	Fees <i>RMB'000</i>	Basic salaries, allowances and other benefits <i>RMB'000</i>	Contributions to retirement benefit scheme <i>RMB'000</i>	Discretionary bonuses <i>RMB'000</i>	Total <i>RMB'000</i>
<i>Executive directors</i>					
Tseng Chung-Cheng	—	20	—	—	20
Shao Ten-Po	—	—	—	—	—
Liao Chin-Yi	—	178	—	—	178
Hu Chin-Shu	—	—	—	—	—
Liao Min-Chiang	—	—	—	—	—
<i>Non-executive directors</i>					
Wang Shih-Ting	—	—	—	—	—
Lu Chien-An	—	—	—	—	—
Chang Chuan-Fang	—	—	—	—	—
Chen Fang-Kun	—	—	—	—	—
Total	—	198	—	—	198

Year ended 31 December 2008

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Discretionary bonuses RMB'000	Total RMB'000
<i>Executive directors</i>					
Tseng Chung-Cheng	—	20	—	—	20
Shao Ten-Po	—	—	—	—	—
Liao Chin-Yi	—	178	—	—	178
Hu Chin-Shu	—	—	—	—	—
Liao Min-Chiang	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<i>Non-executive directors</i>					
Wang Shih-Ting	—	—	—	—	—
Lu Chien-An	—	—	—	—	—
Chang Chuan-Fang	—	—	—	—	—
Chen Fang-Kun	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u>—</u>	<u>198</u>	<u>—</u>	<u>—</u>	<u>198</u>

Six months ended 30 June 2008 (unaudited)

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Discretionary bonuses RMB'000	Total RMB'000
<i>Executive directors</i>					
Tseng Chung-Cheng	—	10	—	—	10
Shao Ten-Po	—	—	—	—	—
Liao Chin-Yi	—	89	—	—	89
Hu Chin-Shu	—	—	—	—	—
Liao Min-Chiang	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<i>Non-executive directors</i>					
Wang Shih-Ting	—	—	—	—	—
Lu Chien-An	—	—	—	—	—
Chang Chuan-Fang	—	—	—	—	—
Chen Fang-Kun	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u>—</u>	<u>99</u>	<u>—</u>	<u>—</u>	<u>99</u>

Six months ended 30 June 2009

	Fees <i>RMB'000</i>	Basic salaries, allowances and other benefits <i>RMB'000</i>	Contributions to retirement benefit scheme <i>RMB'000</i>	Discretionary bonuses <i>RMB'000</i>	Total <i>RMB'000</i>
<i>Executive directors</i>					
Tseng Chung-Cheng	—	59	—	—	59
Shao Ten-Po	—	—	—	—	—
Liao Chin-Yi	—	89	—	—	89
Hu Chin-Shu	—	—	—	—	—
Liao Min-Chiang	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<i>Non-executive directors</i>					
Wang Shih-Ting	—	—	—	—	—
Lu Chien-An	—	—	—	—	—
Chang Chuan-Fang	—	—	—	—	—
Chen Fang-Kun	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u>—</u>	<u>148</u>	<u>—</u>	<u>—</u>	<u>148</u>

During the Relevant Period, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 7 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

7. INDIVIDUAL WITH HIGHEST EMOLUMENTS

During the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, one of the five highest paid individuals was also director of the Company.

The remuneration of the remaining four individuals is as follows:

	Year ended 31 December			Six months ended 30 June	
	2006 <i>RMB'000</i>	2007 <i>RMB'000</i>	2008 <i>RMB'000</i>	2008 <i>RMB'000</i>	2009 <i>RMB'000</i>
Salaries and other emoluments	683	687	703	348	363
Discretionary bonuses	702	353	392	139	164
Contributions to retirement benefit scheme	1	1	1	1	1
	<u>1,386</u>	<u>1,041</u>	<u>1,096</u>	<u>488</u>	<u>528</u>

The emoluments of these remaining individuals with the highest emoluments are within the band Nil to RMB1,000,000 for the Relevant Period.

8. DIVIDENDS

Dividends declared to equity shareholders of the Group during the Relevant Period:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Dividends declared during the year/period	—	18,000	261,170	223,837	268,102

Dividends payable of Nil, Nil and RMB40,126,000 and Nil as at 31 December 2006, 2007 and 2008 and 30 June 2009 are disclosed in note 20.

Dividends presented during the Relevant Period represent dividends declared by Fuqing Hong Liong and Fuqing Ecotex to their then shareholders before they became subsidiaries of the Company. The rate of dividend per share is not presented as it is not indicative of the rate at which future dividends will be declared.

9. EARNINGS PER SHARE

The calculation of basic earnings per share for the Relevant Period is based on the net profit attributable to equity shareholders of the Company for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, and on the assumption that 1,560,000,000 shares of the Company are in issue and issuable, comprising 10,000 shares in issue at the date of the Prospectus and 1,559,990,000 shares to be issued pursuant to the Capitalisation Issue as set out in Appendix VII to the Prospectus as if the shares were outstanding throughout the entire Relevant Period.

There were no dilutive potential ordinary shares during the Relevant Period and, therefore, diluted earnings per share are equivalent to basic earnings per share.

10. SEGMENT REPORTING

The Group manages its businesses by entities, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Fabrics manufacturing segment which mainly represents the manufacturing and trading of fabrics to casual and sportswear manufacturers in the PRC.
- Casual and sportswear OEM segment which mainly represents the manufacturing and trading of casual and sportswear to brand owners in the PRC.
- Branded leisure clothing segment which mainly represents the distribution of children's wear, uniforms, jeans and other clothes to franchise distributors and franchise stores in the PRC.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all property, plant and equipment, construction in progress, intangible assets, lease prepayments and current assets with the exception of deferred tax assets and other corporate assets. Segment liabilities include all trade and other payables attributable to the manufacturing and sales activities of the individual segments and bank loans managed directly by the segments and current liabilities with the exception of deferred tax liabilities and other corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation and amortisation of assets attributable to those segments. However, other than reporting inter-segment sales of fabrics and casual and sportswear, assistance provided by one segment to another, including the sharing of assets and technical know-how, is not measured.

The measure used for reporting segment profit is "profit from operations". To arrive at "profit from operations", the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as head office or corporate administration costs.

In addition to receiving segment information concerning profit from operations, management is provided with segment information concerning revenue (including inter-segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

	Fabrics <i>RMB'000</i>	Casual and sportswear OEM <i>RMB'000</i>	Branded leisure clothing <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2006				
Revenue from external customers (note 2)	548,476	104,904	—	653,380
Inter-segment revenue	<u>43,137</u>	<u>477</u>	<u>—</u>	<u>43,614</u>
Reportable segment revenue	<u>591,613</u>	<u>105,381</u>	<u>—</u>	<u>696,994</u>
Reportable segment profit from operations	<u>98,229</u>	<u>23,879</u>	<u>—</u>	<u>122,108</u>
Interest income from bank deposits	326	26	—	352
Interest expense	4,453	—	—	4,453
Depreciation and amortisation for the year	<u>8,048</u>	<u>406</u>	<u>—</u>	<u>8,454</u>
Reportable segment assets	<u>359,760</u>	<u>50,602</u>	<u>—</u>	<u>410,362</u>
Additions to non-current segment assets during the year	<u>16,791</u>	<u>940</u>	<u>—</u>	<u>17,731</u>
Reportable segment liabilities	<u>148,219</u>	<u>18,016</u>	<u>—</u>	<u>166,235</u>
Year ended 31 December 2007				
Revenue from external customers (note 2)	769,841	162,635	—	932,476
Inter-segment revenue	<u>87,452</u>	<u>73</u>	<u>—</u>	<u>87,525</u>
Reportable segment revenue	<u>857,293</u>	<u>162,708</u>	<u>—</u>	<u>1,020,001</u>
Reportable segment profit from operations	<u>175,232</u>	<u>24,474</u>	<u>—</u>	<u>199,706</u>
Interest income from bank deposits	398	111	—	509
Interest expense	2,482	1	—	2,483
Depreciation and amortisation for the year	7,889	509	—	8,398
Impairment losses on trade and other receivables	<u>4,848</u>	<u>—</u>	<u>—</u>	<u>4,848</u>
Reportable segment assets	<u>555,303</u>	<u>76,527</u>	<u>5,306</u>	<u>637,136</u>
Additions to non-current segment assets during the year	<u>7,748</u>	<u>238</u>	<u>51</u>	<u>8,037</u>

	Fabrics RMB'000	Casual and sportswear OEM RMB'000	Branded leisure clothing RMB'000	Total RMB'000
Reportable segment liabilities	<u>201,890</u>	<u>19,466</u>	<u>57</u>	<u>221,413</u>
Year ended 31 December 2008				
Revenue from external customers (note 2)	888,984	154,381	222,685	1,266,050
Inter-segment revenue	<u>90,073</u>	<u>57,078</u>	<u>—</u>	<u>147,151</u>
Reportable segment revenue	<u>979,057</u>	<u>211,459</u>	<u>222,685</u>	<u>1,413,201</u>
Reportable segment profit from operations	<u>208,274</u>	<u>49,102</u>	<u>52,626</u>	<u>310,002</u>
Interest income from bank deposits	721	272	349	1,342
Interest expense	1,922	—	—	1,922
Depreciation and amortisation for the year	<u>8,032</u>	<u>593</u>	<u>5,939</u>	<u>14,564</u>
Reportable segment assets	<u>521,437</u>	<u>105,574</u>	<u>187,728</u>	<u>814,739</u>
Additions to non-current segment assets during the year	<u>3,923</u>	<u>1,199</u>	<u>76,136</u>	<u>81,258</u>
Reportable segment liabilities	<u>222,807</u>	<u>41,166</u>	<u>30,645</u>	<u>294,618</u>
Six months ended 30 June 2008 (unaudited)				
Revenue from external customers (note 2)	431,213	72,912	17,658	521,783
Inter-segment revenue	<u>43,904</u>	<u>6,224</u>	<u>—</u>	<u>50,128</u>
Reportable segment revenue	<u>475,117</u>	<u>79,136</u>	<u>17,658</u>	<u>571,911</u>
Reportable segment profit from operations	<u>109,645</u>	<u>10,397</u>	<u>3,337</u>	<u>123,379</u>
Interest income from bank deposits	414	132	112	658
Interest expense	1,072	—	—	1,072
Depreciation and amortisation for the period	<u>4,150</u>	<u>286</u>	<u>851</u>	<u>5,287</u>
Six months ended 30 June 2009				
Revenue from external customers (note 2)	511,537	60,091	245,677	817,305
Inter-segment revenue	<u>27,779</u>	<u>25,448</u>	<u>—</u>	<u>53,227</u>
Reportable segment revenue	<u>539,316</u>	<u>85,539</u>	<u>245,677</u>	<u>870,532</u>
Reportable segment profit from operations	<u>144,188</u>	<u>22,603</u>	<u>78,114</u>	<u>244,905</u>
Interest income from bank deposits	277	82	179	538
Interest expense	754	—	—	754
Depreciation and amortisation for the period	<u>3,954</u>	<u>340</u>	<u>5,091</u>	<u>9,385</u>
Reportable segment assets	<u>511,203</u>	<u>66,906</u>	<u>178,157</u>	<u>756,266</u>
Additions to non-current segment assets during the period	<u>2,349</u>	<u>495</u>	<u>55</u>	<u>2,899</u>
Reportable segment liabilities	<u>248,550</u>	<u>26,835</u>	<u>36,698</u>	<u>312,083</u>

(b) Reconciliations of reportable segment revenues, profits, assets and liabilities

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Revenue					
Reportable segment revenue	696,994	1,020,001	1,413,201	571,911	870,532
Elimination of inter-segment revenue	<u>(43,614)</u>	<u>(87,525)</u>	<u>(147,151)</u>	<u>(50,128)</u>	<u>(53,227)</u>
Combined turnover	<u>653,380</u>	<u>932,476</u>	<u>1,266,050</u>	<u>521,783</u>	<u>817,305</u>
Profit					
Reportable segment profit from operations	122,108	199,706	310,002	123,379	244,905
Finance costs	(4,453)	(2,483)	(1,922)	(1,072)	(754)
Elimination of inter-segment profits	<u>(1,350)</u>	<u>(1,390)</u>	<u>1,126</u>	<u>(1,431)</u>	<u>(525)</u>
Combined profit before taxation	<u>116,305</u>	<u>195,833</u>	<u>309,206</u>	<u>120,876</u>	<u>243,626</u>
				As at	30 June
				2006	2009
				<i>RMB'000</i>	<i>RMB'000</i>
Assets					
Reportable segment assets		410,362	637,136	814,739	756,266
Elimination of inter-segment receivables		(9,902)	(10,589)	(27,295)	(22,751)
Elimination of inter-segment inventories		<u>(1,656)</u>	<u>(3,046)</u>	<u>(1,922)</u>	<u>(2,446)</u>
		398,804	623,501	785,522	731,069
Deferred tax assets		<u>—</u>	<u>274</u>	<u>209</u>	<u>359</u>
Combined total assets		<u>398,904</u>	<u>623,775</u>	<u>785,731</u>	<u>731,428</u>
Liabilities					
Reportable segment liabilities		166,235	221,413	294,618	312,083
Elimination of inter-segment payables		<u>(9,902)</u>	<u>(10,589)</u>	<u>(27,295)</u>	<u>(22,751)</u>
		156,333	210,824	267,323	289,332
Deferred tax liabilities		<u>—</u>	<u>—</u>	<u>30,731</u>	<u>39,150</u>
Unallocated head office and corporate liabilities		<u>—</u>	<u>19</u>	<u>93,576</u>	<u>93,576</u>
Combined total liabilities		<u>156,333</u>	<u>210,843</u>	<u>391,630</u>	<u>422,058</u>

(c) Geographic information

As the Group and its external customers operate mainly in the PRC, no geographical segment information is presented.

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Computer equipment RMB'000	Other equipment RMB'000	Total RMB'000
Cost:						
At 1 January 2006	31,214	105,462	3,700	3,101	1,662	145,139
Additions	12,197	3,596	212	273	224	16,502
Transfer from construction in progress (note 12)	1,512	66	—	—	—	1,578
Disposals	—	(5,841)	(352)	(26)	(6)	(6,225)
At 31 December 2006	<u>44,923</u>	<u>103,283</u>	<u>3,560</u>	<u>3,348</u>	<u>1,880</u>	<u>156,994</u>
At 1 January 2007	44,923	103,283	3,560	3,348	1,880	156,994
Additions	43	7,447	—	302	194	7,986
Transfer from construction in progress (note 12)	363	8,537	—	140	—	9,040
Disposals	—	—	(501)	—	—	(501)
At 31 December 2007	<u>45,329</u>	<u>119,267</u>	<u>3,059</u>	<u>3,790</u>	<u>2,074</u>	<u>173,519</u>
At 1 January 2008	45,329	119,267	3,059	3,790	2,074	173,519
Additions	43	1,984	—	314	65	2,406
Acquisition of subsidiary (note 27)	—	128	244	132	—	504
Transfer from construction in progress (note 12)	—	2,624	—	—	—	2,624
Disposals	—	(7)	(510)	(29)	—	(546)
At 31 December 2008	<u>45,372</u>	<u>123,996</u>	<u>2,793</u>	<u>4,207</u>	<u>2,139</u>	<u>178,507</u>
At 1 January 2009	45,372	123,996	2,793	4,207	2,139	178,507
Additions	—	2,485	—	93	2	2,580
Disposals	—	(15,975)	(750)	(6)	(5)	(16,736)
At 30 June 2009	<u>45,372</u>	<u>110,506</u>	<u>2,043</u>	<u>4,294</u>	<u>2,136</u>	<u>164,351</u>
Accumulated depreciation:						
At 1 January 2006	(11,312)	(65,779)	(2,327)	(2,037)	(1,312)	(82,767)
Charge for the year	(1,706)	(6,011)	(354)	(277)	(73)	(8,421)
Written back on disposals	—	4,305	214	23	5	4,547
At 31 December 2006	<u>(13,018)</u>	<u>(67,485)</u>	<u>(2,467)</u>	<u>(2,291)</u>	<u>(1,380)</u>	<u>(86,641)</u>
At 1 January 2007	(13,018)	(67,485)	(2,467)	(2,291)	(1,380)	(86,641)
Charge for the year	(2,016)	(5,614)	(319)	(301)	(89)	(8,339)
Written back on disposals	—	—	450	—	—	450
At 31 December 2007	<u>(15,034)</u>	<u>(73,099)</u>	<u>(2,336)</u>	<u>(2,592)</u>	<u>(1,469)</u>	<u>(94,530)</u>
At 1 January 2008	(15,034)	(73,099)	(2,336)	(2,592)	(1,469)	(94,530)
Charge for the year	(2,033)	(5,895)	(230)	(329)	(109)	(8,596)
Acquisition of subsidiary (note 27)	—	(86)	(19)	(84)	—	(189)
Written back on disposals	—	7	459	26	—	492
At 31 December 2008	<u>(17,067)</u>	<u>(79,073)</u>	<u>(2,126)</u>	<u>(2,979)</u>	<u>(1,578)</u>	<u>(102,823)</u>

	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Computer equipment <i>RMB'000</i>	Other equipment <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2009	(17,067)	(79,073)	(2,126)	(2,979)	(1,578)	(102,823)
Charge for the period	(1,017)	(2,963)	(89)	(166)	(55)	(4,290)
Written back on disposals	—	10,992	616	6	2	11,616
At 30 June 2009	<u>(18,084)</u>	<u>(71,044)</u>	<u>(1,599)</u>	<u>(3,139)</u>	<u>(1,631)</u>	<u>(95,497)</u>
Net book value:						
At 31 December 2006	<u>31,905</u>	<u>35,798</u>	<u>1,093</u>	<u>1,057</u>	<u>500</u>	<u>70,353</u>
At 31 December 2007	<u>30,295</u>	<u>46,168</u>	<u>723</u>	<u>1,198</u>	<u>605</u>	<u>78,989</u>
At 31 December 2008	<u>28,305</u>	<u>44,923</u>	<u>667</u>	<u>1,228</u>	<u>561</u>	<u>75,684</u>
At 30 June 2009	<u>27,288</u>	<u>39,462</u>	<u>444</u>	<u>1,155</u>	<u>505</u>	<u>68,854</u>

Property, plant and equipment with aggregate net book value of RMB28,975,000, RMB45,582,000 and RMB39,942,000 and RMB33,067,000 as at 31 December 2006, 2007 and 2008 and 30 June 2009 respectively was pledged as security for certain bank loans (note 19) granted to the Group.

12. CONSTRUCTION IN PROGRESS

	As at 31 December			As at
	2006	2007	2008	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	9,389	9,040	—	—
Additions	1,229	—	2,624	313
Transfer to property, plant and equipment (<i>note 11</i>)	<u>(1,578)</u>	<u>(9,040)</u>	<u>(2,624)</u>	<u>—</u>
At 31 December/30 June	<u>9,040</u>	<u>—</u>	<u>—</u>	<u>313</u>

Construction in progress comprises costs incurred on buildings and plant and machinery not yet completed at the respective balance sheet dates.

13. INTANGIBLE ASSETS

	Patents RMB'000	Software RMB'000	Customer relationships RMB'000	Trademark RMB'000	Total RMB'000
Cost:					
At 1 January 2006 and 31 December 2006	<u>112</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>112</u>
At 1 January 2007	112	—	—	—	112
Additions	<u>—</u>	<u>51</u>	<u>—</u>	<u>—</u>	<u>51</u>
At 31 December 2007	<u>112</u>	<u>51</u>	<u>—</u>	<u>—</u>	<u>163</u>
At 1 January 2008	112	51	—	—	163
Additions	<u>—</u>	<u>136</u>	<u>—</u>	<u>—</u>	<u>136</u>
Acquisition of subsidiary (note 27)	<u>—</u>	<u>—</u>	<u>70,666</u>	<u>4,978</u>	<u>75,644</u>
At 31 December 2008	<u>112</u>	<u>187</u>	<u>70,666</u>	<u>4,978</u>	<u>75,943</u>
At 1 January 2009	112	187	70,666	4,978	75,943
Addition	<u>—</u>	<u>6</u>	<u>—</u>	<u>—</u>	<u>6</u>
At 30 June 2009	<u>112</u>	<u>193</u>	<u>70,666</u>	<u>4,978</u>	<u>75,949</u>
Accumulated amortisation:					
At 1 January 2006	54	—	—	—	54
Charge for the year	<u>11</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>11</u>
At 31 December 2006	<u>65</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>65</u>
At 1 January 2007	65	—	—	—	65
Charge for the year	<u>11</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>11</u>
At 31 December 2007	<u>76</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>76</u>
At 1 January 2008	76	—	—	—	76
Charge for the year	<u>11</u>	<u>20</u>	<u>5,889</u>	<u>—</u>	<u>5,920</u>
At 31 December 2008	<u>87</u>	<u>20</u>	<u>5,889</u>	<u>—</u>	<u>5,996</u>
At 1 January 2009	87	20	5,889	—	5,996
Charge for the period	<u>6</u>	<u>17</u>	<u>5,048</u>	<u>—</u>	<u>5,071</u>
At 30 June 2009	<u>93</u>	<u>37</u>	<u>10,937</u>	<u>—</u>	<u>11,067</u>
Net book value:					
At 31 December 2006	<u>47</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>47</u>
At 31 December 2007	<u>36</u>	<u>51</u>	<u>—</u>	<u>—</u>	<u>87</u>
At 31 December 2008	<u>25</u>	<u>167</u>	<u>64,777</u>	<u>4,978</u>	<u>69,947</u>
At 30 June 2009	<u>19</u>	<u>156</u>	<u>59,729</u>	<u>4,978</u>	<u>64,882</u>

The amortisation charge for the Relevant Period is included in "Other operating expenses" in the combined income statements.

14. GOODWILL

	As at 31 December			As at
	2006	2007	2008	30 June
	RMB'000	RMB'000	RMB'000	2009
At 1 January	—	—	—	133
Acquisition of a subsidiary (note 27)	—	—	133	—
At 31 December/30 June	<u>—</u>	<u>—</u>	<u>133</u>	<u>133</u>

Impairment tests for cash-generating units containing goodwill

Goodwill acquired has been allocated to the cash generating unit ("CGU") of the branded leisure clothing segment.

The recoverable amount of the CGU is determined based on value-in-use calculation. This calculation uses cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 5% (31 December 2008: 5%). The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. The cash flows are discounted using a discount rate of 19% (31 December 2008: 19%). This discount rate is pre-tax and reflects specific risks relating to the branded leisure clothing segment.

The recoverable amount of the CGU is higher than its carrying amount based on value-in-use calculations. Accordingly, no impairment loss on goodwill is recognised.

15. LEASE PREPAYMENTS

	As at 31 December			As at
	2006	2007	2008	30 June
	RMB'000	RMB'000	RMB'000	2009
Cost:				
At 1 January and 31 December/30 June	<u>2,382</u>	<u>2,382</u>	<u>2,382</u>	<u>2,382</u>
Accumulated amortisation:				
At 1 January	602	624	672	720
Charge for the year/period	<u>22</u>	<u>48</u>	<u>48</u>	<u>24</u>
At 31 December/30 June	<u>624</u>	<u>672</u>	<u>720</u>	<u>744</u>
Net book value:				
At 31 December/30 June	<u>1,758</u>	<u>1,710</u>	<u>1,662</u>	<u>1,638</u>

Notes:

- Lease prepayments represent the Group's land use rights for leasehold land located in the PRC which will expire in 2045.
- The above lease prepayments are pledged as security for certain bank loans (note 19) granted to the Group.

16. INVENTORIES

(a) Inventories in the combined balance sheets comprise:

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

(b) An analysis of the amount of inventories recognised as an expense is as follows:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost of inventories sold	<u>502,275</u>	<u>697,969</u>	<u>911,631</u>	<u>385,687</u>	<u>538,602</u>

(unaudited)

17. TRADE AND OTHER RECEIVABLES

	As at 31 December			As at
	2006	2007	2008	30 June
	RMB'000	RMB'000	RMB'000	2009
Trade receivables	125,460	231,156	258,201	205,080
Less: allowance for doubtful debts (<i>note 17(b)</i>)	<u>—</u>	<u>(4,848)</u>	<u>(4,848)</u>	<u>(8,124)</u>
	125,460	226,308	253,353	196,956
Prepayments, deposits and other receivables	<u>55,180</u>	<u>82,131</u>	<u>88,754</u>	<u>28,017</u>
	<u>180,640</u>	<u>308,439</u>	<u>342,107</u>	<u>224,973</u>

All of the trade and other receivables are expected to be recovered within one year.

Included in the above trade and other receivables are amounts due from related parties, details of which are set out in note 28(d).

(a) Ageing analysis

An ageing analysis of the trade receivables (net of allowance for doubtful debts) is as follows:

	As at 31 December			As at
	2006	2007	2008	30 June
	RMB'000	RMB'000	RMB'000	2009
				RMB'000
Current	<u>95,338</u>	<u>190,904</u>	<u>246,704</u>	<u>188,357</u>
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	<u>5,356</u>	<u>6,929</u>	<u>4,562</u>	<u>469</u>
Amount past due	<u>30,122</u>	<u>35,404</u>	<u>6,649</u>	<u>8,599</u>
	<u>125,460</u>	<u>226,308</u>	<u>253,353</u>	<u>196,956</u>

Trade receivables are due within 30 to 60 days from the date of billing. Further details on the Group's credit policy are set out in note 25(a).

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 1(m)(i)).

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

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

As at 31 December 2007 and 2008 and 30 June 2009, trade receivables of the Group totalling RMB4,848,000, RMB4,848,000 and RMB8,124,000 respectively were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that the receivables were not recoverable. Consequently, specific allowances for doubtful debts were recognised as at 31 December 2007 and 2008 and 30 June 2009. The Group does not hold any collateral over these balances.

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is set out in note 17(a).

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

18. CASH AND CASH EQUIVALENTS

	As at 31 December			As at
	2006	2007	2008	30 June
	RMB'000	RMB'000	RMB'000	2009
Cash at bank	34,879	89,111	175,448	237,449
Cash on hand	<u>129</u>	<u>64</u>	<u>447</u>	<u>475</u>
Cash and cash equivalents in the combined cash flow statements	<u>35,008</u>	<u>89,175</u>	<u>175,895</u>	<u>237,924</u>

Cash at bank was placed with banks in the PRC and remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

19. BANK LOANS

As at 31 December 2006, 2007 and 2008 and 30 June 2009, the bank loans were repayable as follows:

	As at 31 December			As at
	2006	2007	2008	30 June
	RMB'000	RMB'000	RMB'000	2009
Within one year or on demand	<u>33,579</u>	<u>36,907</u>	<u>25,119</u>	<u>28,130</u>

The amount of banking facilities and the utilisation at each balance sheet date are set out as follows:

	As at 31 December			As at
	2006	2007	2008	30 June
	RMB'000	RMB'000	RMB'000	2009
Facility amount	<u>66,388</u>	<u>70,407</u>	<u>44,619</u>	<u>38,130</u>
Utilised facility amount at the balance sheet date in respect of:				
— Bank loans	33,579	36,907	25,119	28,130
— Bills payable (note 20)	<u>5,000</u>	<u>13,500</u>	<u>10,000</u>	<u>10,000</u>
	<u>38,579</u>	<u>50,407</u>	<u>35,119</u>	<u>38,130</u>

As at 31 December 2006, 2007 and 2008 and 30 June 2009, the above bank loans and banking facilities were secured by property, plant and equipment (note 11) and lease prepayments (note 15) of the Group.

20. TRADE AND OTHER PAYABLES

	As at 31 December			As at
	2006	2007	2008	30 June
	RMB'000	RMB'000	RMB'000	2009
Trade payables	84,055	107,988	127,471	184,294
Bills payable	5,000	13,500	10,000	10,000
	89,055	121,488	137,471	194,294
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
	119,905	166,245	223,882	232,799

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

Included in trade and other payables are trade payables and bills payable with the following ageing analysis as of each balance sheet date. The credit periods granted by various suppliers generally range from 30 days to 60 days:

	As at 31 December			As at
	2006	2007	2008	30 June
	RMB'000	RMB'000	RMB'000	2009
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
	89,055	121,488	137,471	194,294

21. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries now comprising the Group participate in a defined contribution retirement benefit scheme (the "Scheme") organised by the PRC municipal government authority in the Fujian Province whereby the Group is required to make contributions to the Scheme at the rate of 18% of the eligible employees' salaries to the Scheme. The Group has accrued for the required pension fund contributions, which are remitted to the respective social security offices when the contributions become due. The social security offices are responsible for making the benefit payments to the retired employee covered under the Scheme.

The Group has no other material obligation for the payment of pension benefits associated with the Scheme beyond the annual contributions described above.

22. INCOME TAX IN THE COMBINED BALANCE SHEETS

(a) Current tax payable in the combined balance sheets represents:

	As at 31 December			As at
	2006	2007	2008	30 June
	RMB'000	RMB'000	RMB'000	2009
At beginning of the year/period	2,579	2,849	7,672	18,322
Provision for PRC corporate income tax for the year/period	13,809	25,646	58,883	51,986
Current tax payable assumed upon acquisition of a subsidiary (note 27)	—	—	3,133	—
PRC corporate income tax paid	<u>(13,539)</u>	<u>(20,823)</u>	<u>(51,366)</u>	<u>(41,905)</u>
PRC corporate income tax payable	<u>2,849</u>	<u>7,672</u>	<u>18,322</u>	<u>28,403</u>

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax assets/(liabilities) recognised in the combined balance sheets and the movements during the Relevant Period are as follows:

Deferred tax assets/(liabilities) arising from:	Inventory: unrealised profits RMB'000	Withholding tax on undistributed profits of PRC subsidiaries RMB'000	Fair value adjustments upon acquisition of a subsidiary RMB'000	Total RMB'000
At 1 January 2006, 31 December 2006 and 1 January 2007	—	—	—	—
Credited to combined income statements (note 5(a))	<u>274</u>	<u>—</u>	<u>—</u>	<u>274</u>
At 31 December 2007	<u>274</u>	<u>—</u>	<u>—</u>	<u>274</u>
At 1 January 2008	274	—	—	274
Acquisition of a subsidiary (note 27) (Charged)/credited to combined income statement (note 5(a))	<u>(65)</u>	<u>(12,004)</u>	<u>4,085</u>	<u>(7,984)</u>
At 31 December 2008	<u>209</u>	<u>(13,068)</u>	<u>(17,663)</u>	<u>(30,522)</u>
At 1 January 2009	209	(13,068)	(17,663)	(30,522)
Credited/(charged) to combined income statement (note 5(a))	<u>150</u>	<u>(9,905)</u>	<u>1,486</u>	<u>(8,269)</u>
At 30 June 2009	<u>359</u>	<u>(22,973)</u>	<u>(16,177)</u>	<u>(38,791)</u>

	As at 31 December			As at
	2006	2007	2008	30 June
	RMB'000	RMB'000	RMB'000	2009
Classification in the combined balance sheets:				RMB'000
Deferred tax assets	—	274	209	359
Deferred tax liabilities	—	—	(30,731)	(39,150)
	<u>—</u>	<u>274</u>	<u>(30,522)</u>	<u>(38,791)</u>

23. PAID-IN CAPITAL

- (a) For the purpose of this report, paid-in capital as at 31 December 2006, 2007 and 2008 and 30 June 2009 represents the aggregate amount of paid-in capital of the companies comprising the Group at those dates, except for Shishi Maigen which was eliminated against the cost of investment.
- (b) During the years ended 31 December 2006 and 2007, the equity shareholders of the Group injected capital totalling RMB4,962,000 and RMB18,000,000 respectively to the Group, which was satisfied by the reinvestment of dividends declared in 2005 and 2007.
- (c) The Company was incorporated on 14 July 2009 with an authorised share capital of HK\$380,000 comprising 3,800,000 shares of HK\$0.1 each. 1 share was issued and fully paid for in cash at par on the date of incorporation.

24. RESERVES

(a) Statutory reserve

Pursuant to applicable PRC regulations, the Company's subsidiaries established and operating in the PRC are required to appropriate 10% of their after-tax-profit (after offsetting prior year losses) as determined in accordance with the PRC accounting rules and regulations, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity shareholders. The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase the registered capital of the subsidiaries, provided that the balance after such issue is not less than 25% of the registered capital.

(b) Distributable reserves

The Company was incorporated on 14 July 2009. Accordingly, there were no reserves available for distribution to shareholders as at 30 June 2009.

On the basis set out in Section A above, the aggregate amount of distributable reserves as at 31 December 2006, 2007 and 2008 and 30 June 2009 of the companies comprising the Group were RMB124,297,000, RMB259,075,000, RMB214,794,000 and RMB121,717,000 respectively.

(c) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a debt-to-adjusted capital ratio. This ratio is calculated as debt divided by adjusted capital. The Group defines debt as interest-bearing bank loans and bills payable. Adjusted capital comprises all components of equity and includes amount due to shareholder of the Company.

The debt-to-adjusted capital ratio as at 31 December 2006, 2007 and 2008 and 30 June 2009 were as follows:

	Note	As at 31 December			As at
		2006	2007	2008	30 June
		RMB'000	RMB'000	RMB'000	2009
					RMB'000
Bank loans	19	33,579	36,907	25,119	28,130
Bills payable	20	<u>5,000</u>	<u>13,500</u>	<u>10,000</u>	<u>10,000</u>
Total debt		<u><u>38,579</u></u>	<u><u>50,407</u></u>	<u><u>35,119</u></u>	<u><u>38,130</u></u>
Equity		242,471	412,932	394,101	309,370
Add: Amount due to shareholder		<u>—</u>	<u>19</u>	<u>93,576</u>	<u>93,576</u>
Total adjusted equity		<u><u>242,471</u></u>	<u><u>412,951</u></u>	<u><u>487,677</u></u>	<u><u>402,946</u></u>
Debt-to-adjusted capital ratio		<u><u>16%</u></u>	<u><u>12%</u></u>	<u><u>7%</u></u>	<u><u>9%</u></u>

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Exposure to credit, liquidity, interest rate, commodity price and foreign currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to cash and bank deposits, amount due from shareholder and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group's cash and bank deposits are placed with major financial institutions.

Amount due from shareholder is regularly reviewed and settled unless the amount is specifically intended to be long-term in nature.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations 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. These receivables are due within 30 to 60 days from the date of billing. Normally, the Group does not obtain collateral from customers.

At the balance sheet dates, the Group has a certain concentration of credit risk as the trade receivables from the five largest customers as at 31 December 2006, 2007 and 2008 and 30 June 2009 represented 32%, 28%, 18% and 17% of the total trade receivables respectively, while 9%, 8%, 6% and 4% of the total trade receivables were due from the largest single customer respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the combined balance sheets. The Group does not provide any guarantees which would expose the Group to credit risk.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowing exceeds certain predetermined levels of authority. The Group's policy is to regularly

monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the balance sheet dates of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet dates) and the earliest date the Group can be required to pay.

<i>As at 31 December 2006</i>			
<i>Contractual undiscounted cash outflow</i>			
	Within one year or on demand	Total	Balance sheet carrying amount
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans	34,810	34,810	33,579
Trade and other payables	119,905	119,905	119,905
	<u>154,715</u>	<u>154,715</u>	<u>153,484</u>
<i>As at 31 December 2007</i>			
<i>Contractual undiscounted cash outflow</i>			
	Within one year or on demand	Total	Balance sheet carrying amount
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans	38,068	38,068	36,907
Trade and other payables	166,245	166,245	166,245
Amount due to shareholder	19	19	19
	<u>204,332</u>	<u>204,332</u>	<u>203,171</u>
<i>As at 31 December 2008</i>			
<i>Contractual undiscounted cash outflow</i>			
	Within one year or on demand	Total	Balance sheet carrying amount
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans	26,385	26,385	25,119
Trade and other payables	223,882	223,882	223,882
Amount due to shareholder	93,576	93,576	93,576
	<u>343,843</u>	<u>343,843</u>	<u>342,577</u>

	<i>As at 30 June 2009</i>		
	<i>Contractual undiscounted cash outflow</i>		
	Within one year or on demand	Total	Balance sheet carrying amount
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans	28,415	28,415	28,130
Trade and other payables	232,799	232,799	232,799
Amount due to shareholder	<u>93,576</u>	<u>93,576</u>	<u>93,576</u>
	<u>354,790</u>	<u>354,790</u>	<u>354,505</u>

(c) **Interest rate risk**(i) *Interest rate profile*

The Group's interest rate risk arises primarily from bank loans and cash and cash equivalents.

The following table details the interest rate profile of the Group's interest-generating financial assets and interest-bearing financial liabilities at the balance sheet dates:

	<i>As at 31 December</i>		<i>As at 30 June</i>	
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
	<i>Effective interest rate</i>	<i>Effective interest rate</i>	<i>Effective interest rate</i>	<i>Effective interest rate</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Fixed rate borrowings				
Bank loans	5.83% <u>16,400</u>	7.24% <u>20,500</u>	7.47% <u>13,500</u>	4.37% <u>16,516</u>
Net variable rate instruments				
Bank loans	6.55% 17,179	6.17% 16,407	6.83% 11,619	6.04% 11,614
Cash and cash equivalents	0.72% <u>(35,008)</u>	0.72% <u>(89,175)</u>	0.36% <u>(175,895)</u>	0.36% <u>(237,924)</u>
	<u>(17,829)</u>	<u>(72,768)</u>	<u>(164,276)</u>	<u>(226,310)</u>
	<u>(1,429)</u>	<u>(52,268)</u>	<u>(150,776)</u>	<u>(209,794)</u>

(ii) *Sensitivity analysis*

As at 31 December 2006, 2007 and 2008 and 30 June 2009, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit for the year/period and retained profits by approximately RMB152,000, RMB619,000, RMB1,347,000 and RMB1,810,000 respectively. Other components of equity would not have been affected by the changes in interest rates.

The sensitivity analysis above indicates the impact on the Group's profit for the year/period and retained profits that would have arisen assuming that there is an annualised impact on interest income and expense by a change in interest rates. The analysis has been performed on the same basis throughout the Relevant Period.

(d) Commodity risk

The major raw materials used in the production of the Group's products include yarn and dye. The Group is exposed to fluctuations in the prices of these raw materials which are influenced by global as well as regional supply and demand conditions. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

As at 31 December 2006, 2007 and 2008 and 30 June 2009, it is estimated that a general increase/decrease of 1% in prices of raw materials, will all other variables held constant, would have decreased/increased the Group's profit for the year/period by approximately 2%, 2%, 2% and 2% respectively.

The sensitivity analysis above indicates the impact on the Group's profit for the year/period that would have arisen assuming that there is an annualised impact on cost of sales by a change in prices of raw materials. The analysis has been performed on the same basis throughout the Relevant Period.

(e) Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales, purchases and bank borrowings that are denominated in United States dollars.

The Group ensures 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, by buying or selling foreign currencies at spot rates where necessary to address short term imbalances.

(i) Exposure to foreign currency risk

The following table details the Group's major exposure at the balance sheet dates to foreign currency risk arising from recognised assets or liabilities denominated in United States dollars. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rates at balance sheet dates.

	As at 31 December			As at
	2006	2007	2008	30 June
	RMB'000	RMB'000	RMB'000	2009
				RMB'000
Trade and other receivables	31,357	19,078	12,683	18,528
Amount due from shareholder	9,893	9,451	8,659	8,644
Cash and cash equivalents	2,796	309	2,445	1,919
Bank loans	(17,179)	(16,070)	(11,619)	(11,614)
Trade and other payables	(42,108)	(42,825)	(35,024)	(42,571)
	<u>(15,241)</u>	<u>(30,057)</u>	<u>(22,856)</u>	<u>(25,094)</u>

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit for the year/period and retained profits that would have arisen if foreign exchange rates to which the Group has significant exposure at the balance sheet dates had changed at those dates, assuming all other risk variables remained constant.

	2006		As at 31 December		2008		As at 30 June	
	Increase/ (decrease) in foreign exchange rates	RMB'000						
United States dollars	1%	(129)	5%	(1,277)	5%	(937)	1%	(201)
	(1)%	129	(5)%	1,277	(5)%	937	(1)%	201

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet dates. The analysis has been performed on the same basis for throughout the Relevant Period.

(f) Fair values

All financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2006, 2007 and 2008 and 30 June 2009, except for the amounts due from/to related parties and shareholder which have no fixed repayment terms. Given these terms, it is not meaningful to disclose the fair value of such balances.

(g) Business risk

The Group's primary business is the manufacturing and wholesaling of fabrics, causal and sportswear, and branded leisure clothing. The Group's financial results are influenced by the rapidity with which designs are copied by competitors and reproduced at much lower prices, as well as by the Group's ability to continue to create new products that find favour in the market place, maintain a larger network of distributors and retailers, manufacture sufficient quantities to meet fashionable sales and dispose of excess inventories without excessive losses. Based on these factors, the Group may experience significant fluctuations in its future financial results.

(h) Environmental risk

The Group's operations are regulated by various laws and regulations. Laws and regulations protecting the environment have generally become more stringent in recent years and could become more stringent in the future. Some of these laws and regulations could impose significant costs, expenses, penalties and liabilities on the Group for violations of existing conditions attached to the licences whether or not caused or known by the Group. The financial position of the Group may be adversely affected by any environmental liabilities which may be imposed under such new environmental laws and regulations. The directors are not aware of any environmental liabilities as at 30 June 2009. The directors are also not aware of any violation of the above laws and regulations or any penalties which may be imposed upon the Group in connection with such laws and regulations.

26. COMMITMENTS**Operating lease commitments**

At each of the balance sheet dates, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December			As at
	2006	2007	2008	30 June
	RMB'000	RMB'000	RMB'000	2009
				RMB'000
Within one year	—	—	350	—

27. ACQUISITION OF A SUBSIDIARY

Pursuant to an agreement dated 26 May 2008, the Group acquired the entire equity interests in Shishi Maigen for a cash consideration of RMB140,000,000 and such amount was paid by the Group's shareholder. The fair value of Shishi Maigen's net assets at the date that the Group obtained control on 31 May 2008 was RMB139,867,000.

Shishi Maigen contributed aggregate turnover of RMB202,343,000 and aggregate profit attributable to equity shareholders of RMB35,717,000 during the period from 31 May 2008 to 31 December 2008. The aggregate turnover and profit attributable to equity shareholders of the Group as if the acquisition for the business combination effected during the year ended 31 December 2008 had been at the beginning of the year are RMB1,337,585,000 and RMB260,466,000 respectively.

The details of assets acquired and liabilities assumed as at the acquisition date are as follows:

	Pre-acquisition carrying amount	Fair value adjustments	Recognised values on acquisition
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Fixed assets	315	—	315
Intangible assets	—	75,644	75,644
Inventories	26,476	11,347	37,823
Trade and other receivables	8,461	—	8,461
Cash and cash equivalents	63,080	—	63,080
Trade and other payables	(19,511)	—	(19,511)
Current tax payable	(3,133)	—	(3,133)
Deferred tax liabilities	—	(22,812)	(22,812)
	75,688	64,179	139,867
Share of net identifiable assets and liabilities			140,000
Consideration paid by the Company's shareholder			133
Goodwill			133

Net inflow of cash and cash equivalents in connection with the acquisition of a subsidiary:

Cash and cash equivalents of the subsidiary acquired	63,080
--	--------

Pre-acquisition carrying amounts were determined based on applicable HKFRSs immediately before the acquisition. The values of assets and liabilities recognised on acquisition are their estimated fair values. In determining the fair value of intangible assets acquired, the Group applied a discount rate of 19% to the estimated future cash flows.

The goodwill recognised on the acquisition is attributable mainly to the skills and technical talent of the acquired business' work force, and the synergies expected to be achieved from integrating the company into the Group's existing business.

The above intangible assets and goodwill are allocated to the segment assets of branded leisure clothing segment as disclosed in note 10.

28. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed in notes 8 and 20 in the Financial Information, the Group entered into the following material related party transactions.

During the Relevant Period, the directors are of the view that the following companies were related parties of the Group:

Name of party	Note	Relationship
ZhongShan Hong Liong Tech Textile Co., Ltd. (中山洪良化織有限公司)	(a), (b) and (d)(iii)	Effectively owned by one of the shareholders of the Company
Poly Luck Enterprise Limited (寶瑞企業有限公司)	(b), (d)(iii) and (d)(iv)	Effectively owned by one of the directors of the Company
Vicko Enterprises Ltd. (維高企業有限公司)	(b) and (d)(iv)	Effectively owned by one of the directors of the Company
Keytrack Development Inc.	(b) and (d)(iii)	Effectively owned by one of the directors of the Company
Sum Vision Company Corp.	(b), (d)(iii) and (d)(iv)	Effectively owned by one of the directors of the Company
Hong Kong Hong Liong Textile Company Limited (香港洪良染織有限公司)	(c), (d)(i) and (d)(ii)	Shareholder

Note: The English translation of the company names is for reference only. The official names of the companies are in Chinese.

- (a) During the six months ended 30 June 2009, the Group sold certain plant and machineries to ZhongShan Hong Liong Tech Textile Co., Ltd. at carrying value for a consideration of RMB5 million.

The directors of the Company have confirmed that the above transactions will not be continued upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

- (b) During the Relevant Period, the aggregate amounts of purchases of raw materials and machineries from the above related parties were as follows:

	Year ended 31 December			Six months ended
	2006	2007	2008	30 June 2009
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials				
ZhongShan Hong Liong Tech Textile Co., Ltd.	—	—	—	1,508
Poly Luck Enterprise Limited	23,686	10,132	978	123
Vicko Enterprises Ltd.	7,530	5,682	2,975	176
Keytrack Development Inc.	4,881	1,696	679	—
Sum Vision Company Corp.	1,074	7,252	5,342	3,204
	37,171	24,762	9,974	5,011
Machineries				
Vicko Enterprises Ltd.	413	946	4,652	1,987
	37,584	25,708	14,626	6,998

The directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms and were priced with reference to prevailing market prices and in the ordinary course of business.

Except for the transactions with ZhongShan Hong Liong Tech Textile Co., Ltd. and purchase of machineries from Vicko Enterprises Ltd., the directors of the Company expect the above transactions will be continued upon listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

- (c) During the years ended 31 December 2006, 2007 and 2008, Fuqing Hong Liong borrowed RMB12 million, RMB14 million and RMB7 million respectively from the shareholder. Except for the borrowings in 2006 which were subject to an interest rate of 5% with interest payable of RMB1.7 million, all other borrowings were interest-free. These borrowings were settled before each balance sheet date.

The directors of the Company have confirmed that the above transactions will not be continued upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

- (d) Balances with related parties

		As at 31 December			As at
		2006	2007	2008	30 June
	Note	RMB'000	RMB'000	RMB'000	2009
					RMB'000
Amount due from shareholder	(i)	<u>9,893</u>	<u>9,451</u>	<u>8,659</u>	<u>8,644</u>
Amount due to shareholder	(ii)	<u>—</u>	<u>19</u>	<u>93,576</u>	<u>93,576</u>
Amounts due from related parties	(iii)	<u>43,629</u>	<u>67,360</u>	<u>78,949</u>	<u>15,771</u>
Amounts due to related parties	(iv)	<u>28,379</u>	<u>29,865</u>	<u>23,045</u>	<u>28,272</u>

- (i) The amount due from shareholder represents prepayments for raw materials. The amount is unsecured, interest free and has no fixed repayment terms. No provision was made against the amount due from shareholder during the Relevant Period.

The directors of the Company have confirmed that the amount due from shareholder would be settled and the relevant transactions will not be continued prior to the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

- (ii) The amount due to shareholder as at 31 December 2008 and 30 June 2009 represents the consideration of RMB140 million for the acquisition of Shishi Maigen paid on behalf of the Group by the shareholder, part of which was settled by the distribution of pre-acquisition profit. The outstanding amount is unsecured, interest free and has no fixed repayment terms.

The directors of the Company have confirmed that the amount due to shareholder will be settled by way of shares issued by the Company prior to the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

- (iii) Included in trade and other receivables are amounts due from ZhongShan Hong Liong Tech Textile Co., Ltd., Poly Luck Enterprise Limited, Sum Vision Company Corp. and Keytrack Development Inc., representing prepayments for raw materials and other services made by the Company. The amounts are unsecured, interest free and have no fixed repayment terms. No provision was made against the amounts due from related parties during the Relevant Period.
- (iv) Included in trade and other payables are amounts due to Poly Luck Enterprise Limited, Vicko Enterprises Ltd. and Sum Vision Company Corp., representing outstanding payables for the purchases of raw materials and machinery. The amounts are unsecured, interest free and repayable on demand.

(e) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 6 and certain of the highest paid employees as disclosed in note 7, is as follows:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Short-term employee benefits	703	707	723	358	422
Discretionary bonuses	702	353	392	139	164
Contributions to contribution retirement benefit scheme	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
	<u>1,406</u>	<u>1,061</u>	<u>1,116</u>	<u>498</u>	<u>587</u>

Total remuneration is included in "staff costs" (see note 4(b)).

29. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the Financial Information. The principal accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the Financial Information.

(a) Depreciation

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

(b) Impairment

If circumstances indicate that the carrying amount of property, plant and equipment and intangible assets, except for goodwill, may not be recoverable, these assets may be considered "impaired" and impairment losses may be recognised in profit or loss. The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. For goodwill, the recoverable amount is estimated annually to assess if the carrying amounts may not be recoverable whether or not there is any indication of impairment. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, the expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of sales volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, sales revenue, amount of operating costs and discount rate.

(c) Impairment of bad and doubtful debts

The Group estimates allowance for impairment of doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the ageing of the trade receivable balances, customer credit-worthiness and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

(d) Income taxes

Determining income tax provisions involves judgement of the future tax treatment of certain transactions and the interpretation of tax rules. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

(e) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature.

The net realisable value of inventories could change significantly as a result of changes in customer preferences and competitor actions in response to severe industry cycles. Management reassesses these estimates at each balance sheet date.

(f) Fair value of assets acquired and liabilities assumed upon acquisition of subsidiary

In connection with 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 management's 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.

30. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIOD

Up to the date of issue of this Financial Information, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective in respect of the financial periods included in the Relevant Period and which have not been adopted in this Financial Information.

		Effective for accounting periods beginning on or after
HKFRS 3 (Revised)	Business combinations	1 July 2009
Amendments to HKAS 27	Consolidated and separate financial statements	1 July 2009
Amendments to HKAS 39	Financial instruments: Recognition and measurement — Eligible hedged items	1 July 2009
HK(IFRIC) 17	Distributions of non-cash assets to owners	1 July 2009
Improvements to HKFRSs 2009		1 July 2009 or 1 January 2010

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

D. SUBSEQUENT EVENTS

The following significant events took place subsequent to 30 June 2009:

(a) Information of the Company

The Company was incorporated in the Cayman Islands on 14 July 2009 with an authorised capital of HK\$380,000 divided into 3,800,000 shares with par value of HK\$0.1 each. Upon incorporation, the Company issued 1 share at HK\$0.1 to the Group's existing beneficial owner.

On 27 November 2009, authorised share capital of the Company increased to HK\$500,000,000 by the creation of 4,996,200,000 shares pursuant to a shareholders resolution passed on that date.

Save for the above, the Company has not carried out any business operations since its incorporation.

(b) Group reorganisation

On 27 November 2009, the Group completed the Reorganisation to rationalise the Group's structure in preparing for the listing of the Company's shares on the Stock Exchange. Further details of the Reorganisation are set out in the Section headed "Group reorganisation" in Appendix VII to the Prospectus. As a result of the Reorganisation, the Company became the holding company of the Group.

(c) Share option scheme

Pursuant to the written resolution of the shareholders of the Company passed on 27 November 2009, the Company has conditionally adopted the share option scheme. The principal terms of the share option scheme are set out in section headed "Share Option Scheme" in Appendix VII to the Prospectus. No option was granted as at the date of this report.

E. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2009.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

14 December 2009

The Board of Directors
Hontex International Holdings Company Limited
Mega Capital (Asia) Company Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Shishi Maigen Dress Co., Ltd (the "Company"), including the income statements, the statements of comprehensive income, the statements of changes in equity and the cash flow statements of the Company for each of the years ended 31 December 2006 and 2007 and the five months ended 31 May 2008 (the "Relevant Period") and the balance sheets of the Company as at 31 December 2006 and 2007 and 31 May 2008, together with the notes thereto (the "Financial Information"), for inclusion in the prospectus of Hontex International Holdings Company Limited dated 14 December 2009 (the "Prospectus").

The Company's statutory financial statements for the years ended 31 December 2006 and 2007, which were prepared in accordance with the relevant accounting rules and regulations applicable to the enterprise in the PRC were audited by Fujian Dongfang Certified Public Accountants Co., Ltd.¹ (福建東方會計師事務所有限公司) and Fu Jian Jin Rui Certified Public Accountants Co., Ltd.¹ (福建金瑞會計師事務所有限公司) respectively.

BASIS OF PREPARATION

The Financial Information has been prepared by the director of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the Company after making such adjustments as are appropriate. Adjustments have been made, for the purpose of this report, to restate these financial statements to conform with the accounting policies referred to in Section B, which are in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") promulgated by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). HKFRSs include Hong Kong Accounting Standards and interpretations.

¹ The English translation of the names of the statutory auditors is for reference only. The official name of the statutory auditors are in Chinese.

RESPECTIVE RESPONSIBILITIES OF DIRECTOR AND REPORTING ACCOUNTANTS

The director of the Company is responsible for the preparation and the true and fair presentation of the Financial Information in accordance with HKFRSs, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our audit procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Relevant Period in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform our work to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the director, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have not audited any financial statements of the Company in respect of any period subsequent to 31 May 2008.

OPINION

In our opinion, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information, which has been prepared in accordance with the accounting policies set out in Section B below, gives a true and fair view of the Company's results and cash flows for the Relevant Period and the state of affairs of the Company as at 31 December 2006, 2007 and 31 May 2008.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Company comprising the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the five months ended 31 May 2007, together with the notes thereon (the "Corresponding Financial Information"), for which the director is responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A. FINANCIAL INFORMATION

1. Income statements

	<i>Section B Note</i>	Year ended 31 December		Five months ended 31 May	
		2006 <i>RMB'000</i>	2007 <i>RMB'000</i>	2007 <i>RMB'000</i>	2008 <i>RMB'000</i>
				<i>(unaudited)</i>	
Turnover	2	72,173	140,254	51,779	86,556
Cost of sales	10(b)	<u>(49,016)</u>	<u>(94,683)</u>	<u>(34,540)</u>	<u>(54,475)</u>
Gross profit		23,157	45,571	17,239	32,081
Other revenue	3	25	130	16	73
Selling expenses		(2,669)	(3,267)	(1,543)	(3,063)
Administrative expenses		<u>(1,659)</u>	<u>(1,378)</u>	<u>(558)</u>	<u>(769)</u>
Profit before taxation	4	18,854	41,056	15,154	28,322
Income tax	5(a)	<u>(2,262)</u>	<u>(4,927)</u>	<u>(1,803)</u>	<u>(7,041)</u>
Profit attributable to equity shareholders		<u>16,592</u>	<u>36,129</u>	<u>13,351</u>	<u>21,281</u>
Earnings per share	8				
Basic and diluted		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

The accompanying notes form part of the Financial Information.

2. Statements of comprehensive income

	Year ended 31 December		Five months ended 31 May	
	2006 <i>RMB'000</i>	2007 <i>RMB'000</i>	2007 <i>RMB'000</i> <i>(unaudited)</i>	2008 <i>RMB'000</i>
Profit for the year/period	<u>16,592</u>	<u>36,129</u>	<u>13,351</u>	<u>21,281</u>
Total comprehensive income for the year/period	<u><u>16,592</u></u>	<u><u>36,129</u></u>	<u><u>13,351</u></u>	<u><u>21,281</u></u>

3. Balance sheets

		As at 31 December		As at
	Section B	2006	2007	31 May
	Note	RMB'000	RMB'000	2008
				RMB'000
Non-current assets				
Property, plant and equipment	9	<u>133</u>	<u>337</u>	<u>315</u>
Current assets				
Inventories	10	23,596	23,091	26,476
Trade and other receivables	11	10,328	10,742	8,461
Cash and cash equivalents	12	<u>9,712</u>	<u>37,236</u>	<u>63,080</u>
Total current assets		<u>43,636</u>	<u>71,069</u>	<u>98,017</u>
Current liabilities				
Trade and other payables	13	24,281	15,237	19,511
Current tax payable	15	<u>1,210</u>	<u>1,762</u>	<u>3,133</u>
Total current liabilities		<u>25,491</u>	<u>16,999</u>	<u>22,644</u>
Net current assets		<u>18,145</u>	<u>54,070</u>	<u>75,373</u>
NET ASSETS		<u>18,278</u>	<u>54,407</u>	<u>75,688</u>
CAPITAL AND RESERVES				
Paid-in capital	16	1,653	1,653	1,653
Reserves	17	<u>16,625</u>	<u>52,754</u>	<u>74,035</u>
TOTAL EQUITY		<u>18,278</u>	<u>54,407</u>	<u>75,688</u>

The accompanying notes form part of the Financial Information.

4. Statements of changes in equity

	Attributable to equity shareholders of the Company			Total equity RMB'000
	Paid-in capital RMB'000 (Note 16)	Statutory reserve RMB'000 (Note 17(a))	Retained profits RMB'000	
At 1 January 2006	1,653	—	33	1,686
Total comprehensive income for the year	—	—	16,592	16,592
Appropriation to statutory reserve	—	826	(826)	—
At 31 December 2006	<u>1,653</u>	<u>826</u>	<u>15,799</u>	<u>18,278</u>
At 1 January 2007	1,653	826	15,799	18,278
Total comprehensive income for the year	—	—	36,129	36,129
At 31 December 2007	<u>1,653</u>	<u>826</u>	<u>51,928</u>	<u>54,407</u>
At 1 January 2007	1,653	826	15,799	18,278
Total comprehensive income for the period	—	—	13,351	13,351
At 31 May 2007	<u>1,653</u>	<u>826</u>	<u>29,150</u>	<u>31,629</u>
At 1 January 2008	1,653	826	51,928	54,407
Total comprehensive income for the period	—	—	21,281	21,281
At 31 May 2008	<u>1,653</u>	<u>826</u>	<u>73,209</u>	<u>75,688</u>

The accompanying notes form part of the Financial Information.

5. CASH FLOW STATEMENTS

	<i>Section B Note</i>	Year ended 31 December		Five months ended 31 May	
		2006 RMB'000	2007 RMB'000	2007 RMB'000	2008 RMB'000
				(unaudited)	
Operating activities					
Profit before taxation		18,854	41,056	15,154	28,322
Adjustments for:					
— Depreciation		31	34	13	24
— Interest income	3	(25)	(130)	(16)	(73)
Changes in working capital:					
(Increase)/decrease in inventories		(22,286)	505	(2,139)	(3,385)
(Increase)/decrease in trade and other receivables		(9,008)	(414)	4,364	2,281
Increase/(decrease) in trade and other payables		<u>23,173</u>	<u>(9,044)</u>	<u>(6,630)</u>	<u>4,274</u>
Cash generated from operations		10,739	32,007	10,746	31,443
Income tax paid		<u>(1,062)</u>	<u>(4,375)</u>	<u>(2,253)</u>	<u>(5,670)</u>
Net cash generated from operating activities		<u>9,677</u>	<u>27,632</u>	<u>8,493</u>	<u>25,773</u>
Investing activities					
Payments for the purchase of property, plant and equipment		(8)	(238)	—	(2)
Interest received		<u>25</u>	<u>130</u>	<u>16</u>	<u>73</u>
Net cash generated from/ (used in) investing activities		<u>17</u>	<u>(108)</u>	<u>16</u>	<u>71</u>
Net increase in cash and cash equivalents		9,694	27,524	8,509	25,844
Cash and cash equivalents at beginning of year/period		<u>18</u>	<u>9,712</u>	<u>9,712</u>	<u>37,236</u>
Cash and cash equivalents at end of year/period	12	<u>9,712</u>	<u>37,236</u>	<u>18,221</u>	<u>63,080</u>

The accompanying notes form part of the Financial Information.

B. NOTES TO THE FINANCIAL INFORMATION**1. SIGNIFICANT ACCOUNTING POLICIES****(a) Statement of compliance**

The Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes Hong Kong Accounting Standards and related interpretations, promulgated by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Further details of the significant accounting policies adopted by the Company are set below.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, the Company has adopted all of these new and revised HKFRSs except for any new standards or interpretations that are not yet effective for the accounting periods beginning on or after 1 January 2009. The revised and new accounting standards and interpretations issued but not yet effective for the accounting periods beginning on or after 1 January 2009 are set out in note 22.

This Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

(b) Basis of measurement

The Financial Information is presented in Renminbi ("RMB"), rounded to the nearest thousand. It is prepared on the historical cost basis.

(c) Use of estimates and judgments

The preparation of Financial Information in conformity with HKFRSs requires management 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 management 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 future accounting periods are discussed in note 21.

(d) Property, plant and equipment

Property, plant and equipment is stated in the balance sheets at cost less accumulated depreciation and impairment losses (see note 1(f)).

Depreciation is calculated 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:

— Plant and machinery	5–10 years
— Motor vehicles	5–10 years
— Computer equipment	5–10 years

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

(e) Operating lease charges

Leases which do not transfer substantially all the risks and rewards of ownership to the Company are classified as operating leases. Where the Company has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

(f) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Company 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;
- it becoming probable that the debtor will enter 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, any 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 shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior periods.

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 the Company is 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 by the Company to identify indications that property, plant and equipment may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

If any such indication exists, the asset's recoverable amount is estimated.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its 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 whenever 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 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*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. 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.

(g) 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 inventories to their 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.

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 reversal occurs.

(h) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(f)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(f)).

(i) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(k) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(l) Income tax

Income tax for the year/period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to other comprehensive income or items recognised directly in equity, in which case they are recognised in other comprehensive income or directly in equity respectively.

Current tax is the expected tax payable on the taxable income for the year/period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in

subsidiaries to the extent that, in the case of taxable differences, the Company controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) *Sale of goods*

Revenue is recognised when 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.

(ii) *Interest income*

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

(o) Translation of foreign currencies

Foreign currency transactions during the period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

(p) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Company if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Company or exercise significant influence over the Company in making financial and operating policy decisions, or has joint control over the Company;
- (ii) the Company and the party are subject to common control;
- (iii) the party is an associate of the Company or a joint venture in which the Company is a venturer.
- (iv) the party is a member of key management personnel of the Company or the Company's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Company or of any entity that is a related party of the Company.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(q) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Company's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Company's various lines of business and geographical locations.

The Company operates in a single operating segment, wholesaling of branded leisure clothing in the PRC. Accordingly, no segmental analysis is presented.

2. TURNOVER

The principal activity of the Company is the wholesaling of branded leisure clothing in the PRC. Turnover represents the sales value of goods sold less returns, discounts, value added taxes ("VAT") and other sales taxes.

3. OTHER REVENUE

	Year ended 31 December		Five months ended 31 May	
	2006	2007	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
			(unaudited)	
Interest income	25	130	16	73

4. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Year ended 31 December		Five months ended 31 May	
	2006	2007	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
	<i>(unaudited)</i>			
(a) Staff costs:				
Contributions to defined contribution retirement plans	111	189	76	135
Salaries, wages and other benefits	<u>1,044</u>	<u>1,443</u>	<u>586</u>	<u>697</u>
	<u>1,155</u>	<u>1,632</u>	<u>662</u>	<u>832</u>
(b) Other items:				
Auditors' remuneration	2	2	1	1
Depreciation	31	34	13	24
Operating lease charges in respect of rental of office premises <i>(note)</i>	245	124	52	—
Cost of inventories <i>(note 10(b))</i>	<u>49,016</u>	<u>94,683</u>	<u>34,540</u>	<u>54,475</u>

Note: During the year ended 31 December 2007 and the five months ended 31 May 2008, certain operating lease charges of RMB239,000 and RMB146,000 were borne by the Company's shareholders respectively and were not recharged to the Company.

5. INCOME TAX IN THE INCOME STATEMENTS

(a) Income tax in the income statements represents:

	Year ended 31 December		Five months ended 31 May	
	2006	2007	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
	<i>(unaudited)</i>			
Current tax				
Provision for PRC corporate income tax for the year/period	<u>2,262</u>	<u>4,927</u>	<u>1,803</u>	<u>7,041</u>

Prior to 1 January 2008, PRC entities were, in general, subject to a statutory income tax rate of 33%, consisting of 30% state tax and 3% local tax, on their assessable profits. Being a foreign investment enterprise located in the coastal open region, the Company was granted a preferential tax rate of 24%. The Company was also entitled to a tax holiday of a two-year full exemption followed by a three-year 50% exemption commencing from the first profit-making year after offsetting accumulated tax losses ("2+3 tax holiday"). The Company commenced its 2+3 tax holiday in 2003. Accordingly, the applicable tax rate for 2006 and 2007 was 12%.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the *Corporate Income Tax Law of the PRC* ("the new CIT Law"), which unified the income tax rate to 25% for all enterprises. The new CIT Law was effective on 1 January 2008. Consequently, the Company is subject to a tax rate of 25% from 2008 onwards.

(b) Reconciliation between income tax and profit before taxation at applicable tax rates:

	Year ended 31 December		Five months ended 31 May	
	2006 RMB'000	2007 RMB'000	2007 RMB'000 (unaudited)	2008 RMB'000
Profit before taxation	<u>18,854</u>	<u>41,056</u>	<u>15,154</u>	<u>28,322</u>
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdiction concerned	4,525	9,853	3,637	7,081
Effect of tax concessions	(2,263)	(4,926)	(1,818)	—
Others	<u>—</u>	<u>—</u>	<u>(16)</u>	<u>(40)</u>
Actual income tax	<u>2,262</u>	<u>4,927</u>	<u>1,803</u>	<u>7,041</u>

6. DIRECTOR'S REMUNERATION

Details of director's remuneration of the Company are set out below:

Year ended 31 December 2006

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Discretionary bonuses RMB'000	Total RMB'000
<i>Executive director</i>					
Huang Zong Ji	<u>—</u>	<u>84</u>	<u>—</u>	<u>—</u>	<u>84</u>

Year ended 31 December 2007

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Discretionary bonuses RMB'000	Total RMB'000
<i>Executive director</i>					
Huang Zong Ji	<u>—</u>	<u>84</u>	<u>—</u>	<u>—</u>	<u>84</u>

Five months ended 31 May 2007 (unaudited)

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Discretionary bonuses RMB'000	Total RMB'000
<i>Executive director</i>					
Huang Zong Ji	<u>—</u>	<u>35</u>	<u>—</u>	<u>—</u>	<u>35</u>

Five months ended 31 May 2008

	Fees <i>RMB'000</i>	Basic salaries, allowances and other benefits <i>RMB'000</i>	Contributions to retirement benefit scheme <i>RMB'000</i>	Discretionary bonuses <i>RMB'000</i>	Total <i>RMB'000</i>
<i>Executive director</i>					
Huang Zong Ji	—	50	—	—	50

During the Relevant Period, no amount was paid or payable by the Company to any director or any of the five highest paid individuals set out in note 7 below as an inducement to join or upon joining the Company or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

7. INDIVIDUALS WITH THE HIGHEST EMOLUMENTS

During the Relevant Period, one of the five highest paid individuals was also director of the Company.

The remuneration of the remaining individuals is as follows:

	Year ended 31 December		Five months ended 31 May	
	2006 <i>RMB'000</i>	2007 <i>RMB'000</i>	2007 <i>RMB'000</i> <i>(unaudited)</i>	2008 <i>RMB'000</i>
Salaries and other emoluments	328	337	141	145
Contributions to defined contributions retirement scheme	5	5	3	1
	<u>333</u>	<u>342</u>	<u>144</u>	<u>146</u>

8. EARNINGS PER SHARE

No earnings per share information is presented as the Company's paid-in capital is not divided into ordinary shares.

9. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Computer equipment <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:				
At 1 January 2006	127	6	121	254
Additions	<u>—</u>	<u>—</u>	<u>8</u>	<u>8</u>
At 31 December 2006	<u>127</u>	<u>6</u>	<u>129</u>	<u>262</u>
At 1 January 2007	127	6	129	262
Additions	<u>—</u>	<u>238</u>	<u>—</u>	<u>238</u>
At 31 December 2007	<u>127</u>	<u>244</u>	<u>129</u>	<u>500</u>
At 1 January 2008	127	244	129	500
Additions	<u>—</u>	<u>—</u>	<u>2</u>	<u>2</u>
At 31 May 2008	<u>127</u>	<u>244</u>	<u>131</u>	<u>502</u>
Accumulated depreciation:				
At 1 January 2006	50	2	46	98
Charge for the year	<u>15</u>	<u>1</u>	<u>15</u>	<u>31</u>
At 31 December 2006	<u>65</u>	<u>3</u>	<u>61</u>	<u>129</u>
At 1 January 2007	65	3	61	129
Charge for the year	<u>15</u>	<u>3</u>	<u>16</u>	<u>34</u>
At 31 December 2007	<u>80</u>	<u>6</u>	<u>77</u>	<u>163</u>
At 1 January 2008	80	6	77	163
Charge for the period	<u>6</u>	<u>11</u>	<u>7</u>	<u>24</u>
At 31 May 2008	<u>86</u>	<u>17</u>	<u>84</u>	<u>187</u>
Net book value:				
At 31 December 2006	<u>62</u>	<u>3</u>	<u>68</u>	<u>133</u>
At 31 December 2007	<u>47</u>	<u>238</u>	<u>52</u>	<u>337</u>
At 31 May 2008	<u>41</u>	<u>227</u>	<u>47</u>	<u>315</u>

10. INVENTORIES

(a) Inventories in the balance sheets comprise:

	As at 31 December		As at 31 May
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Finished goods	23,497	22,986	26,476
Packaging materials	99	105	—
	<u>23,596</u>	<u>23,091</u>	<u>26,476</u>

(b) An analysis of the amount of inventories recognised as an expense is as follows:

	Year ended 31 December		Five months ended 31 May	
	2006	2007	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
			(unaudited)	
Cost of inventory sold	48,966	94,683	34,540	54,475
Write-down of inventories	50	—	—	—
	<u>49,016</u>	<u>94,683</u>	<u>34,540</u>	<u>54,475</u>

11. TRADE AND OTHER RECEIVABLES

	As at 31 December		As at 31 May
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Trade receivables	9,176	10,742	8,371
VAT recoverable	1,152	—	85
Other receivables	—	—	5
	<u>10,328</u>	<u>10,742</u>	<u>8,461</u>

All of the trade and other receivables are expected to be recovered within one year.

(a) Ageing analysis

An ageing analysis of the trade receivables is as follows:

	As at 31 December		As at 31 May
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Current	<u>9,176</u>	<u>10,742</u>	<u>8,371</u>

Trade receivables are due within 30 days from the date of billing. Further details on the Company's credit policy are set out in note 18(a).

(b) Impairment of trade receivables

No allowance for impairment of doubtful debts has been provided as at 31 December 2006 and 2007 and 31 May 2008. During the years ended 31 December 2006 and 2007 and the five months ended 31 May 2007 and 2008, no uncollectible amount was written off against trade receivables.

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is set out in note 11(a).

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

12. CASH AND CASH EQUIVALENTS

	As at 31 December		As at 31 May
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Cash at bank	9,615	37,106	62,907
Cash on hand	<u>97</u>	<u>130</u>	<u>173</u>
Cash and cash equivalents in the cash flow statements	<u>9,712</u>	<u>37,236</u>	<u>63,080</u>

Cash at bank was placed with banks in the PRC and remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

13. TRADE AND OTHER PAYABLES

	As at 31 December		As at 31 May
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Trade payables	23,024	11,274	16,931
Deposits from customers	1,000	1,670	2,270
Accrued salaries and wages	101	107	135
VAT payable	—	2,104	—
Other payables and accruals	<u>156</u>	<u>82</u>	<u>175</u>
	<u>24,281</u>	<u>15,237</u>	<u>19,511</u>

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

Included in trade and other payables are trade payables with the following ageing analysis as of each balance sheet date. The credit periods granted by various suppliers generally range from 30 days to 60 days:

	As at 31 December		As at 31 May
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Due within one month or on demand	11,248	5,703	15,134
Due after one month but within three months	<u>11,776</u>	<u>5,571</u>	<u>1,797</u>
	<u>23,024</u>	<u>11,274</u>	<u>16,931</u>

14. EMPLOYEE RETIREMENT BENEFITS**Defined contribution retirement plans**

Pursuant to the relevant labour rules and regulations in the PRC, the Company participates in a defined contribution retirement benefit scheme (the "Scheme") organised by the PRC municipal government authority in the Fujian Province whereby the Company is required to make contributions to the Scheme at the rate of 18% of the eligible employees' salaries to the Scheme. The Company remits all pension fund contributions to respective social security offices, which are responsible for the payment and liabilities relating to the pension funds.

The Company has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

15. INCOME TAX IN THE BALANCE SHEETS

(a) Current tax payable in the balance sheets represents:

	As at 31 December		As at 31 May
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
At beginning of the year/period	10	1,210	1,762
Provision for PRC corporate income tax for the year/period	2,262	4,927	7,041
PRC corporate income tax paid	<u>(1,062)</u>	<u>(4,375)</u>	<u>(5,670)</u>
PRC corporate income tax payable	<u>1,210</u>	<u>1,762</u>	<u>3,133</u>

(b) Deferred taxation:

As at 31 December 2006 and 2007 and 31 May 2008, the Company does not have any material deferred tax assets and liabilities.

16. PAID-IN CAPITAL

The Company was incorporated on 20 June 2002 with registered and paid-in capital of US\$280,000 and US\$200,000 respectively.

There were no movements in the registered capital of the Company during the Relevant Period.

17. RESERVES

(a) **Statutory reserve**

Pursuant to applicable PRC regulations, the Company is required to appropriate 10% of the after-tax-profit (after offsetting prior year losses) as determined in accordance with the PRC accounting rules and regulations, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity shareholders. The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase the registered capital, provided that the balance after such issue is not less than 25% of the registered capital.

Up to 31 December 2006, the balance of statutory reserve reached 50% of the registered capital and no appropriate was made from the after-tax-profit since 1 January 2007.

(b) **Distributable reserves**

The aggregate amount of distributable reserves at 31 December 2006 and 2007 and 31 May 2008 were RMB15,799,000, RMB51,928,000 and RMB73,209,000 respectively.

(c) Capital management

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Company defines "capital" as all components of equity less unaccrued proposed dividends. On this basis the amount of capital employed as at 31 December 2006 and 2007 and 31 May 2008 was RMB18,278,000, RMB54,407,000 and RMB75,688,000.

The Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. The results of the director's review of the Company's capital structure are used as a basis for determination of the level of dividends, if any, that are declared.

The Company is not subject to externally imposed capital requirements.

18. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Exposure to credit, liquidity and interest rate risks arises in the normal course of the Company's business. The Company's exposure to these risks and the financial risk management policies and practices used by the Company to manage these risks are described below.

(a) Credit risk

The Company's credit risk is primarily attributable to cash and bank deposits and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Company's cash and bank deposits are placed with major financial institutions. At the balance sheet dates, the Company has a certain concentration of credit risk as the Company only maintains cash and bank deposits in two state-owned commercial banks in the PRC.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations 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. These receivables are due within 30 days from the date of billing. Normally, the Company does not obtain collateral from customers.

At the balance sheet dates, the Company has a certain concentration of credit risk as the trade receivables from the five largest customers as at 31 December 2006 and 2007 and 31 May 2008 represented 13%, 18% and 21% of the total trade receivables respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheets. The Company does not provide any guarantees which would expose the Company to credit risk.

(b) Liquidity risk

The Company is responsible for its own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowing exceeds certain predetermined levels of authority. The Company's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, if any, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The carrying amounts and total contractual undiscounted cash flows of all financial liabilities are disclosed in the balance sheets and they are expected to be settled within one year.

(c) Interest rate risk**(i) Interest rate profile**

The Company's interest rate risk arises primarily from cash and cash equivalents.

The following table details the interest rate profile of the Company's interest-generating financial assets at the balance sheet dates:

	As at 31 December				As at 31 May	
	2006		2007		2008	
	<i>Effective interest rate</i>	<i>RMB'000</i>	<i>Effective interest rate</i>	<i>RMB'000</i>	<i>Effective interest rate</i>	<i>RMB'000</i>
Cash and cash equivalents	0.72%	<u>9,712</u>	0.72%	<u>37,236</u>	0.72%	<u>63,080</u>

(ii) Sensitivity analysis

As at 31 December 2006 and 2007 and 31 May 2008, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Company's profit for the year/period and retained profits by approximately RMB85,000, RMB328,000 and RMB473,000 respectively. Other components of equity would not be affected by the changes in interest rates.

The sensitivity analysis above indicates the impact on the Company's profit for the year/period and retained profits that would arise assuming that there is an annualised impact on interest income by a change in interest rates. The analysis has been performed on the same basis throughout the Relevant Period.

(d) Fair values

All financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2006 and 2007 and 31 May 2008.

(e) Business risk

The Company's primary business is the wholesaling of branded leisure clothing. The Company's financial results are influenced by the rapidity with which designs are copied by competitors and reproduced at much lower prices, as well as by the Company's ability to continue to create new products that find favour in the market place, maintain a larger network of distributors and retailers and dispose of excess inventories without excessive losses. Based on these factors, the Company may experience significant fluctuations in its future financial results.

19. COMMITMENTS**Operating lease commitments**

At each of the balance sheet dates, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December		As at 31 May
	2006	2007	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	239	18	350
Within two to five years	<u>18</u>	<u>—</u>	<u>204</u>
	<u>257</u>	<u>18</u>	<u>554</u>

The Company is the lessee in respect of certain properties held under operating leases. The leases typically run for an initial period of two years, with an option to renew the lease upon expiry when all terms are renegotiated. None of the leases includes contingent rentals.

20. MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Company, including amounts paid to the Company's director as disclosed in note 6 and certain of the highest paid employees as disclosed in note 7, is as follows:

	Year ended 31 December		Five months ended 31 May	
	2006	2007	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Salaries and other emoluments	412	421	176	195
Contributions to defined contribution retirement scheme	5	5	3	1
	<u>417</u>	<u>426</u>	<u>179</u>	<u>196</u>

Total remuneration is included in "staff costs" (see note 4(a)).

(b) During the Relevant Period, the Company's director considered that there were no other material related party transactions.

21. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the Financial Information. The principal accounting policies are set forth in note 1. The Company believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the Financial Information.

(a) Depreciation

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

(b) Impairment for bad and doubtful debts

The Company estimates the allowance for impairment of doubtful debts resulting from the inability of the customers to make the required payments. The Company bases the estimates on the ageing of the trade receivable balances, customer credit-worthiness and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

(c) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions and interpretation of tax rules. The Company carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on the current market conditions and the historical experience of manufacturing and selling products of similar nature.

The net realisable value of inventories could change significantly as a result of changes in customer preferences and competitor actions in response to severe industry cycles. Management reassesses these estimates at each balance sheet date.

22. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIOD

Up to the date of issue of this Financial Information, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective in respect of the financial periods included in the Relevant Period and which have not been adopted in the Financial Information.

		Effective for accounting periods beginning on or after
HKFRS 3 (Revised)	Business combinations	1 July 2009
Amendments to HKAS 27	Consolidated and separate financial statements	1 July 2009
Amendments to HKAS 39	Financial instruments: Recognition and measurement — Eligible hedged items	1 July 2009
HK(IFRIC) 17	Distributions of non-cash assets to owners	1 July 2009
Improvements to HKFRSs 2009		1 July 2009 or 1 January 2010

The Company is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

C. SUBSEQUENT EVENTS

There are no significant events took place subsequent to 31 May 2008.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company in respect of any period subsequent to 31 December 2008.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

For illustrative purpose only, the unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is set forth below to provide the prospective investors with further information on how the proposed listing might have affected the financial position of the Group after the completion of the Offering and how the proposed listing might have affected the unaudited pro forma forecast earnings per share.

The unaudited pro forma financial information is derived according to a number of adjustments. Although reasonable care has been exercised in preparing such information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the actual financial performance and condition of the Group during the Track Record Period or any further date.

The information set forth in this appendix does not form part of the accountants' reports prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendices I and II of this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the accountants' reports set forth in Appendices I and II of this prospectus.

(A) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is the statement of unaudited pro forma adjusted net tangible assets per Share of the Company and its subsidiaries (the "Group") which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Offering as if the Offering had been completed on 30 June 2009. It is based on the net tangible assets of the Group attributable to the equity shareholders of the Company as at 30 June 2009 as shown in Appendix I to this prospectus. The statement has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the Group's financial condition on the completion of the Offering.

	Net tangible assets of the Group attributable to the equity shareholders of the Company <i>RMB'000</i> <i>(note (1))</i>	Estimated net proceeds from the Offering <i>RMB'000</i> <i>(note (2))</i>	Unaudited pro forma adjusted net tangible assets <i>RMB'000</i>	Unaudited pro forma adjusted net tangible assets per Share <i>RMB</i> <i>(note (3))</i>	Unaudited pro forma adjusted net tangible assets per Share <i>HK\$</i>
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)	<u>244,355</u>	<u>1,017,994</u>	<u>1,262,349</u>	<u>0.63</u>	<u>0.71</u>

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 Group's 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 the Group's properties interest as at 31 October 2009 are set out in Appendix V to this prospectus. The Group will not incorporate the revaluation surplus or deficit in its financial statements for the year ending 31 December 2009. It is the Group's accounting policy to state its 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 the Company as at 31 October 2009 did not indicate the need to recognise any impairment loss for its interests in leasehold land held for own use under operating leases and property, plant and equipment. With reference to the valuation of the Group's property interests as set out in Appendix V to this prospectus, there was a revaluation surplus of the Group's properties of approximately RMB55.46 million as extracted from the section. If the revaluation surplus was incorporated in the Group's financial statements for the year ending 31 December 2009, additional depreciation of approximately RMB3.64 million per annum would have been incurred.

(B) UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast basic earnings per Share for the year ending 31 December 2009 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Offering as if it had taken place on 1 January 2009. The unaudited pro forma forecast basic earnings per Share has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial results of the Group following the Offering.

Unaudited forecast combined profit attributable to the equity shareholders of the Company for the year ending 31 December 2009 (<i>note (1)</i>)	Not less than RMB421 million
Unaudited pro forma forecast basic earnings per Share (<i>note (2)</i>)	Not less than RMB0.211

Notes:

1. The unaudited forecast combined profit attributable to equity shareholders of the Company for the year ending 31 December 2009 is extracted from the section headed "Financial Information — Profit Forecast". The basis and assumptions on which the unaudited profit forecast has been prepared are set out in Appendix IV to this prospectus.
2. The calculation of the unaudited pro forma forecast basic earnings per Share is based on the unaudited forecast combined profits attributable to equity shareholders of the Company for the year ending 31 December 2009 assuming that the Company had been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 1 January 2009 and a total of 2,000,000,000 shares had been in issue during that financial year, but does not take into account 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 options 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.

(C) COMFORT LETTER ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the sole purpose of inclusion in this prospectus, received from the reporting accountants of the Company, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's unaudited pro forma financial information:



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

14 December 2009

The Board of Directors
Hontex International Holdings Company Limited

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of the Company and its subsidiaries ("the Group") set out in Parts A and B of Appendix III of the prospectus dated 14 December 2009 ("the Prospectus"), which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the offering of the Company's shares might have affected the financial information presented. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Parts A and B of Appendix III of the Prospectus.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by Paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements ("HKSIR") 300 "Accountants' Report on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial

information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Company and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 30 June 2009 or any future date; or
- the earnings per share of the Group for the year ending 31 December 2009 or any future periods.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "Future Plans and Use of Proceeds" set out in of the Prospectus.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Company; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

The forecast combined profit attributable to equity shareholders of the Company for the year ending 31 December 2009 is set out in the section headed “Financial Information — Profit Forecast” in this prospectus.

A. BASES

The Directors have prepared the forecast of combined profit attributable to equity holders of the Company for the year ending 31 December 2009 on the basis of the audited combined results of the Group for the six months ended 30 June 2009, the unaudited combined results of the Group for the three months ended 30 September 2009 and a forecast of the combined results of the Group for the remaining three months ending 31 December 2009. The forecast has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by the Group as summarised in Appendix I to the prospectus.

B. PRINCIPAL ASSUMPTIONS

The forecast has been prepared based on the following principal assumptions:

- there will be no material change in existing political, legal, fiscal, market or economic conditions in the PRC or any other country or territory in which the Group currently operates or which are otherwise material to the Group’s business;
- there will be no changes in legislation, regulations or rules in the PRC or any other country or territory in which the Group operates or with which the Group has arrangements or agreements, which materially adversely affect its business;
- there will be no material change in the bases or rates of taxation in the PRC or any other country or territory in which the Group operates;
- there will be no material changes in inflation rates, interest rates or foreign currency exchange rates from those currently prevailing;
- our operations will not be materially affected or interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the Directors, including but not limited to the occurrence of natural disasters, epidemics or serious accidents; and
- the Group’s operations, results, and financial position will not be adversely affected by the risk factors described under the “Risk Factors” section of the Prospectus.

C. LETTER FROM THE REPORTING ACCOUNTANTS



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

14 December 2009

The Board of Directors
Hontex International Holdings Company Limited
Mega Capital (Asia) Company Limited

Dear Sirs

We have reviewed, in accordance with the Auditing Guideline 3.341 "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants, the accounting policies adopted and calculations made in arriving at the forecast of the combined profit attributable to equity shareholders of Hontex International Holdings Company Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") for the year ending 31 December 2009 ("the Profit Forecast"), for which the directors of the Company are solely responsible, as set forth in the section headed "Financial Information" in the prospectus of the Company dated 14 December 2009 ("the Prospectus").

The Profit Forecast has been prepared by the directors of the Company based on the audited combined results of the Group for the six months ended 30 June 2009, the unaudited combined results of the Group for the three months ended 30 September 2009 and a forecast of the combined results of the Group for the remaining three months ending 31 December 2009.

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Forecast has been properly compiled in accordance with the assumptions made by the directors as set out in Appendix IV of the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report dated 14 December 2009, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

D. LETTER FROM THE SOLE SPONSOR

The following is the text of a letter, prepared for the purpose of incorporation in this prospectus, received from Mega Capital (Asia) Company Limited, the Sole Sponsor, in respect of the combined profit forecast for the year ending 31 December 2009.



Units 2213–2214,
22nd Floor, Cosco Tower
183 Queen’s Road Central
Sheung Wan,
Hong Kong

14 December 2009

The Board of Directors
Hontex International Holdings Company Limited

Dear Sirs,

We refer to the forecast of the combined profit attributable to equity shareholders of Hontex International Holdings Company Limited (the “Company”) and its subsidiaries (together the “Group”) for the year ending 31 December 2009 (the “Profit Forecast”) as set out in the section headed “Financial Information — Profit Forecast” in the prospectus of the Company dated 14 December 2009.

The Profit Forecast, for which the directors of the Company are solely responsible, has been prepared by them based on the audited combined results of the Group for the six months ended 30 June 2009, the unaudited combined results of the Group for the three months ended 30 September 2009 and a forecast of the combined results of the Group for the remaining three months ending 31 December 2009.

We have discussed with you the bases and assumptions upon which the Profit Forecast has been made. We have also considered the letter dated 14 December 2009 addressed to you and us from KPMG regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the information comprising the Profit Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by KPMG, we are of the opinion that the Profit Forecast, for which you as the directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
Mega Capital (Asia) Company Limited
Terence Hong/ Alfred Wong
Managing Director/ Executive director

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at 31 October 2009 of the property interests of the Group.



Jones Lang LaSalle Sallmanns Limited
17/F Dorset House Taikoo Place
979 King's Road Quarry Bay Hong Kong
tel +852 2169 6000 fax +852 2169 6001
Licence No: C-030171

14 December 2009

The Board of Directors

Hontex International Holdings Company Limited

Dear Sirs,

In accordance with your instructions to value the properties in which Hontex International Holdings Company Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC") and Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31 October 2009 (the "date of valuation").

Our valuation of the property interests represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

We have valued the interest of property no. 2 in Group I by direct comparison approach assuming sale of the property in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

Where, due to the nature of the buildings and structures of property no. 1 in Group I and the particular location in which it is situated, there are unlikely to be relevant market comparable sales readily available and the property interest has therefore been valued on the basis of its depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimisation." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

We have attributed no commercial value to the property interests in Group II and Group III, which are leased by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards (6th Edition) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been provided with a tenancy agreement relating to the property interest in Group III and have caused searches to be made at the Hong Kong Land Registries. However, we have not searched the original documents to verify the ownership or to ascertain any amendment.

We have been shown copies of various title documents including a State-owned Land Use Rights Certificate, Building Ownership Certificates, Real Estate Title Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers — Jingtian & Gongcheng Attorneys at Law, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarised below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Sallmanns Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 26 years' experience in the valuation of properties in the PRC and 29 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

Group I — Property interests held and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at 31 October 2009 <i>RMB</i>	Interest attributable to the Group	Capital value attributable to the Group as at 31 October 2009 <i>RMB</i>
1.	A parcel of land, 18 buildings and various structures located at Hongkuan Industrial Village Yangxia Town Fuqing City Fujian Province The PRC	57,726,000	100%	57,726,000
2.	Units 5A and 5B of Yinglong Mansion No. 1358 Yan'an West Road Changning District Shanghai The PRC	25,971,000	100%	25,971,000
	Sub-total:	<u>83,697,000</u>		<u>83,697,000</u>

Group II — Property interest leased and occupied by the Group in the PRC

No. Property	Capital value in existing state as at 31 October 2009 <i>RMB</i>	Interest attributable to the Group	Capital value attributable to the Group as at 31 October 2009 <i>RMB</i>
3. An office unit on Level 1 and a warehouse on Level 2 of Building No. 8, a dormitory on Level 3 of Building No. 7 and 4 retail shops on Level 1 of a 7-storey commercial building located at the Hi-Tech Park Baogai Town Shishi City Fujian Province The PRC	No commercial value	100%	No commercial value
Sub-total:	<u>Nil</u>		<u>Nil</u>

Group III — Property interest leased and occupied by the Group in Hong Kong

No. Property	Capital value in existing state as at 31 October 2009 <i>RMB</i>	Interest attributable to the Group	Capital value attributable to the Group as at 31 October 2009 <i>RMB</i>
4. Unit 1601 on 16/F of High Block (Cosco Tower) Grand Millennium Plaza No. 183 Queen's Road Central and No. 33 Wing Lok Street Hong Kong	No commercial value	100%	No commercial value
Sub-total:	<u>Nil</u>		<u>Nil</u>
Grand total:	<u>83,697,000</u>		<u>83,697,000</u>

VALUATION CERTIFICATE

Group I — Property interests held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2009 RMB																					
1.	A parcel of land, 18 buildings and various structures located at Hongkuan Industrial Village Yangxia Town Fuqing City Fujian Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 111,960 sq.m. and 18 buildings and various ancillary structures erected thereon which were completed in various stages between 1994 and 2008.</p> <p>The buildings have a total gross floor area of approximately 31,756.75 sq.m. and the details of uses and their respective gross floor areas are set out as follows:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;">Use</th> <th style="text-align: center;">No. of Item</th> <th style="text-align: center;">Gross Floor Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Production</td> <td style="text-align: center;">2</td> <td style="text-align: right;">17,811.81</td> </tr> <tr> <td>Storage</td> <td style="text-align: center;">5</td> <td style="text-align: right;">6,187.16</td> </tr> <tr> <td>Office</td> <td style="text-align: center;">2</td> <td style="text-align: right;">1,163.01</td> </tr> <tr> <td>Residential</td> <td style="text-align: center;">2</td> <td style="text-align: right;">5,224.10</td> </tr> <tr> <td>Ancillary</td> <td style="text-align: center;"><u>7</u></td> <td style="text-align: right;"><u>1,370.67</u></td> </tr> <tr> <td>Total</td> <td style="text-align: center;"><u>18</u></td> <td style="text-align: right;"><u>31,756.75</u></td> </tr> </tbody> </table> <p>The structures mainly include road, sewage tanks, bleaching basins, sedimentation basin, swimming pool, boiler shelves, waterproof shelves and water container tower.</p> <p>The land use rights of the property have been granted for a term of 50 years expiring on 27 February 2045 for industrial use.</p>	Use	No. of Item	Gross Floor Area (sq.m.)	Production	2	17,811.81	Storage	5	6,187.16	Office	2	1,163.01	Residential	2	5,224.10	Ancillary	<u>7</u>	<u>1,370.67</u>	Total	<u>18</u>	<u>31,756.75</u>	The property is currently occupied by the Group for production, storage, office, residential and ancillary facilities purposes.	57,726,000 100% interest attributable to the Group: RMB57,726,000
Use	No. of Item	Gross Floor Area (sq.m.)																							
Production	2	17,811.81																							
Storage	5	6,187.16																							
Office	2	1,163.01																							
Residential	2	5,224.10																							
Ancillary	<u>7</u>	<u>1,370.67</u>																							
Total	<u>18</u>	<u>31,756.75</u>																							

Notes:

- Pursuant to a State-owned Land Use Rights Certificate — Rong Yang Xia Guo Yong (2007) Di No. 00908 dated 30 July 2007 and issued by the People's Government of Fuqing City, the land use rights of a parcel of land with a site area of approximately 111,960 sq.m. have been granted to Fuqing Hong Liong Textile Tech Co., Ltd. (福清洪良染織科技有限公司, "Fuqing Hong Liong"), an indirectly wholly-owned subsidiary of the Company, for a term of 50 years expiring on 27 February 2045 for industrial use.
- Pursuant to 5 Building Ownership Certificates (the "BOCs") — Rong Fang Quan Zheng R Zi Di Nos. 073906 to 073910 dated 4 July 2007 and issued by the Construction Bureau of Fuqing City, 14 buildings of the property with a total gross floor area of approximately 27,794.75 are owned by Fuqing Hong Liong.

3. For the remaining 4 buildings of the property with a total gross floor area of approximately 3,962 sq.m., we have not been provided with any title certificates.

As advised by the Group, Fuqing Hong Liong is applying for the relevant title certificates of such buildings and the applications have been submitted in September 2009, the relevant title certificates are expected to be obtained in January 2010 following the normal approval procedures.

4. Pursuant to a Tenancy Agreement entered into between Fuqing Hong Liong and Fuqing Ecotex Hi-tech Outdoor Product Co., Ltd. (福清洪宇運動休閒用品有限公司, “Fuqing Ecotex”), an indirectly wholly-owned subsidiary of the Company, a portion of an industrial building of the property named as Hongyu Mansion under the BOC — Rong Fang Quan Zheng R Zi Di Nos. 073906 with a gross floor area of approximately 480 sq.m. is rented to Fuqing Ecotex from 1 December 2006 for a term of 17 years expiring on 30 November 2023 for production purpose at a monthly rent of RMB15,660. As advised by the Group, the rent is exclusive of water and electricity charges and all other outgoings. (“Lease A”)
5. Pursuant to a Tenancy Agreement entered into between Fuqing Hong Liong and Fuzhou Aike Garment Co., Ltd. (福州艾克服飾有限公司, “Fuzhou Aike”), an indirectly wholly-owned subsidiary of the Company, a portion of a building of the property named as Hongyu Warehouse with a gross floor area of approximately 235 sq.m. is rented to Fuzhou Aike from 20 June 2007 for a term of 30 years expiring on 20 June 2037 at a monthly rent of RMB1,057.5. As advised by the Group, the rent is exclusive of water and electricity charges and all other outgoings. (“Lease B”)
6. Pursuant to a Mortgage Contract of Maximum Amount — 2009 Nian Jian Min Dong Fu Gao Di Zi No. 19, the land use rights of the property and 12 buildings with a total gross floor area of approximately 27,045.49 sq.m. under the BOCs — Rong Fang Quan Zheng R Zi Di Nos. 073906 to 073909 are mortgaged to China Construction Bank Corporation Fuqing Sub-branch.
7. In the valuation of this property, we have attributed no commercial value to the buildings as mentioned in note 3 which have not obtained any proper title certificate. However, for reference purpose, we are of the opinion that the aggregate sum of depreciated replacement cost of the buildings (excluding the land) as at the date of valuation would be RMB3,284,000 assuming all relevant title certificates have been obtained and the buildings could be freely transferred.
8. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. The Group is legally in possession of the land use rights of the property and has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land use rights of the property in accordance with the PRC laws without obtaining any consent or permit from the government authorities or paying any extra land premium or cost;
 - b. The Group legally and validity holds the ownership rights of the buildings mentioned in note 2 and has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of such buildings without obtaining any consent or permit from the government authorities;
 - c. For the buildings mentioned in note 3, the Group will have the rights to occupy and use such buildings in accordance with their prescribed uses on the condition that the relevant title certificates of the buildings have been obtained;
 - d. For the buildings and land use rights mentioned in note 6 which are subject to a mortgage, the Group should obtain the written consent from the mortgagee when transferring, leasing, remortgaging or otherwise disposing of such buildings and land use rights in accordance with the relevant regulations of the PRC laws and stipulations in the Mortgage Contract of Maximum Amount;
 - e. The Tenancy Agreement with respect to Lease A is legal, valid and enforceable;

- f. The validity of the Tenancy Agreement with respect to Lease B is uncertain; there is a risk that the lessee should return the portion of the building under the Tenancy Agreement to the lessor in case that the Tenancy Agreement is invalid. However, the force of independent terms for solving controversies as stipulated in the Tenancy Agreement will not be affected;
- g. The prescribed use of the portion of the building under the Tenancy Agreement of Lease B cannot be confirmed, there is a risk that the Tenancy Agreement might be deemed as invalid in case that the agreed use of the property is not consistent with its prescribed use;
- h. The agreed use of the building under Lease A is consistent with its prescribed use; and
- i. Lease A and Lease B should be registered with the relevant government authorities in accordance with the PRC laws and regulations; however, the legal validity of the Tenancy Agreements would not be affected by the absence of registration.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2009 RMB
2.	Units 5A and 5B of Yinglong Mansion No. 1358 Yan'an West Road Changning District Shanghai The PRC	<p>The property comprises 2 office units on Level 5 of a 25-storey office building (exclusive of a 2-storey basement) known as Yinglong Mansion which was completed in about 2004.</p> <p>The property has a total gross floor area of approximately 1,109.83 sq.m.</p> <p>The land use rights of the property have been granted for a term of 50 years commencing from 4 January 2002 and expiring on 3 January 2052 for office use.</p>	<p>Portions of the property with a total gross floor area of approximately 178 sq.m. are leased to two independent third parties for office use, whilst, the remaining portion of the property is currently occupied by the Group for office purpose.</p>	<p>25,971,000</p> <p>100% interest attributable to the Group: RMB25,971,000</p>

Notes:

1. Pursuant to 2 Real Estate Title Certificates — Hu Fang Di Chang Zi (2007) Di Nos. 014155 and 014156 dated 2 March 2007 and issued by Shanghai Municipal Housing and Land Resources Administration Bureau (上海市房屋土地资源管理局), 2 office units with a total gross floor area of approximately 1,109.83 sq.m. are owned by Fuqing Hong Liong Textile Tech Co., Ltd. (“Fuqing Hong Liong”), an indirectly wholly-owned subsidiary of the Company. The relevant land use rights of the property have been granted to Fuqing Hong Liong for a term of 50 years commencing from 4 January 2002 and expiring on 3 January 2052 for office use.
2. Pursuant to a Tenancy Agreement entered into between Fuqing Hong Liong and Dongcai Printing and Packing Co., Ltd. (東彩印刷包裝有限公司, “Dongcai Printing and Packing”), an independent third party, a portion of Unit 5A of the property with a gross floor area of approximately 178 sq.m. is rented to Dongcai Printing and Packing for a term of 3 years commencing from 12 April 2008 and expiring on 11 April 2011 at a monthly rent of RMB19,491, exclusive of management fee, water and electricity charges.
3. Pursuant to a Tenancy Agreement entered into between Fuqing Hong Liong and Shanghai Qingjia Glasses Trade Co., Ltd. (上海青嘉眼鏡商貿有限公司, “Qingjia Glasses Trade”), an independent third party, a portion of Unit 5B of the property with a gross floor area of approximately 270 sq.m. is rented to Qingjia Glasses Trade for a term of 3 years commencing from 18 November 2009 and expiring on 17 November 2012 at a monthly rent of RMB26,000, exclusive of management fee, water and electricity charges.
4. Pursuant to a Mortgage Contract of Maximum Amount — 2009 Nian Jian Min Dong Fu Gao Di Zi No. 20, the property is mortgaged to China Construction Bank Corporation Fuqing Sub-branch.
5. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. The Group legally and validly owns the property and has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the property without obtaining any consent or permit from the government authorities; and
 - b. The Group should obtain the written consent from the mortgagee when transferring, leasing, remortgaging or otherwise disposing of the property in accordance with the relevant regulations of the PRC laws and stipulations in the Mortgage Contract of Maximum Amount.

VALUATION CERTIFICATE

Group II — Property interest leased and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2009 RMB																		
3.	An office unit on Level 1 and a warehouse on Level 2 of Building No. 8, a dormitory on Level 3 of Building No. 7 and 4 retail shops on Level 1 of a 7-storey commercial building located at the Hi-Tech Park Baogai Town Shishi City Fujian Province The PRC	<p>The property comprises an office unit on Level 1 and a warehouse on Level 2 of a 3-storey composite building, a dormitory on Level 3 of a 4-storey residential building and 4 retail shops on Level 1 of a 7-storey commercial building, which were completed in various stages between 2001 and 2003.</p> <p>The property has a total lettable area of approximately 3,504.68 sq.m. The details of uses and their respective lettable areas are set out as follows:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;">Use</th> <th style="text-align: center;">No. of Item</th> <th style="text-align: center;">Lettable Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Office</td> <td style="text-align: center;">1</td> <td style="text-align: center;">405.00</td> </tr> <tr> <td>Warehouse</td> <td style="text-align: center;">1</td> <td style="text-align: center;">2,019.15</td> </tr> <tr> <td>Dormitory</td> <td style="text-align: center;">1</td> <td style="text-align: center;">938.53</td> </tr> <tr> <td>Retail Shop</td> <td style="text-align: center;">4</td> <td style="text-align: center;">142.00</td> </tr> <tr> <td>Total</td> <td style="text-align: center;">7</td> <td style="text-align: center;">3,504.68</td> </tr> </tbody> </table>	Use	No. of Item	Lettable Area (sq.m.)	Office	1	405.00	Warehouse	1	2,019.15	Dormitory	1	938.53	Retail Shop	4	142.00	Total	7	3,504.68	The property is currently occupied by the Group for office, storage, retail, and residential purposes.	No commercial value
Use	No. of Item	Lettable Area (sq.m.)																				
Office	1	405.00																				
Warehouse	1	2,019.15																				
Dormitory	1	938.53																				
Retail Shop	4	142.00																				
Total	7	3,504.68																				
		<p>The property is leased to Shishi Maigen Dress Co., Ltd. (“Shishi Maigen”) from Fujian Shishi The Great Group Limited (福建省石獅市大帝集團公司, the “Lessor”) for a term of one year commencing from 1 January 2009 and expiring on 31 December 2009 at an annual rent of RMB325,728, exclusive of management fee, water and electricity charges and all other outgoings.</p>																				

Notes:

- Pursuant to a Tenancy Agreement entered into between Shishi Maigen and the Lessor, the property is leased to Shishi Maigen (an indirectly wholly-owned subsidiary of the Company) from the Lessor (an independent third party) for a term of one year commencing from 1 January 2009 and expiring on 31 December 2009 at an annual rent of RMB325,728. As advised by the Group, the rent is exclusive of management fee, water and electricity charges and all other outgoings and Shishi Maigen will renew the Tenancy Agreement upon its expiration.

2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. The Lessor has not provided to the Group with any title certificate and therefore whether the Lessor is the legal owner of the property and whether there are any security interests being imposed on the property cannot be verified;
 - b. The validity of the Tenancy Agreement with respect to the property is uncertain; there is a risk that the Group should return the property to the Lessor in case that the Tenancy Agreement is invalid. However, the force of independent terms for solving controversies as stipulated in the Tenancy Agreement will not be affected;
 - c. The prescribed use of the property cannot be confirmed, there is a risk that the Tenancy Agreement might be deemed as invalid in case that the agreed use of the property is not consistent with its prescribed use; and
 - d. The lease with respect to the property should be registered with the relevant government authorities in accordance with the PRC laws and regulations; however, the legal validity of the Tenancy Agreement will not be affected due to the absence of registration.

VALUATION CERTIFICATE

Group III — Property interest leased and occupied by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2009 RMB
4.	Unit 1601 on 16/F of High Block (Cosco Tower) Grand Millennium Plaza No. 183 Queen's Road Central and No. 33 Wing Lok Street Hong Kong	<p>The property comprises a unit on the 16th floor of a 53-storey office building completed in about 1997.</p> <p>The unit has a lettable area of approximately 1,429 sq.ft. (i.e. 132.76 sq.m.).</p> <p>Pursuant to a Tenancy Agreement entered into between the Company, as Tenant, and Joy Wisdom Investment Limited as Landlord (an independent third party), the property is leased by the Group for a term commencing from 16 November 2009 and expiring on 15 December 2011 (with a rent-free period of one month from 16 November 2009 to 15 December 2009) at a monthly rent of HKD45,728 exclusive of government rent, rates, air-conditioning and management charges and all other outgoings.</p>	The property is currently occupied by the Group for office purpose.	No commercial value

Note:

1. The registered owner of the property is Joy Wisdom Investment Limited (慧欣投資有限公司) vide Memorial No. 08072301550019 dated 23 July 2008.
2. The property is subject to a Legal Charge and Assignment of Rental in favour of The Bank of East Asia, Limited vide Memorial Nos. 0807230155022 and 08072301550036 on 2 July 2008.

Set out below is a summary of certain provisions of the memorandum of association of the Company (the “Memorandum”), the Articles and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 14 July, 2009 under the Companies Law. The Memorandum and the Articles comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 27 November 2009. The following is a summary of certain provisions of the Articles:

(a) Directors

- (i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the

board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include

any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) *Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or

- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14)

clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the

board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of

the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of

such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company’s memorandum or articles of

association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 21 July 2009.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up compulsorily by order of the Court; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept

an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting

shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VIII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE COMPANY AND ITS SUBSIDIARIES**1. Incorporation**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 14 July 2009. The Company has established a place of business in Hong Kong at Unit 1601, 16/F, Cosco Tower, 183 Queen's Road Central, Hong Kong and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance on 30 November 2009. Ms. Ko Ming Wai, the company secretary of our Company has been appointed as the authorised representative of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong.

As the Company is incorporated in the Cayman Islands, it operates subject to the Companies Law and to its constitution comprising a memorandum of association and the Articles. A summary of certain provisions of its constitution and relevant aspects of the Companies Law is set out in Appendix VI to this prospectus.

2. Change in share capital

The authorised share capital of the Company as at the date of its incorporation was HK\$380,000 divided into 3,800,000 shares of HK\$0.10 each.

On 14 July 2009, one nil-paid subscriber Share was allotted and issued to the initial subscriber and such nil-paid share was transferred to Mr. Liao Chin-Yi on the same date.

In November 2009, 2,096 Shares, 1,035 Shares, 337 Shares, 449 Shares, 208 Shares and 5,874 Shares, all credited as fully-paid, were allotted and issued to More Will, Joyous King, Sunny Beauty, Speedy Grand, Forever Art and Head Pearl, respectively. On the same day, Mr. Liao Chin-Yi transferred the nil paid Share to Head Pearl. Such nil-paid Share was credited as fully paid Share as part of the consideration for Easy Venture, our Company's wholly owned subsidiary, to acquire 100% interest in Fuqing Hong Liong.

Pursuant to the resolutions in writing of all of the Shareholders passed on 27 November 2009 referred to below, the share capital of the Company was altered.

Immediately following the completion of the Global Offering and the Capitalisation Issue but not taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme, the issued share capital of the Company will be HK\$200,000,000 divided into 2,000,000,000 Shares, all fully paid or credited as fully paid.

Other than pursuant to the exercise of the Over-allotment Option and the exercise of any options which may be granted under the Share Option Scheme, there is no intention to issue any of the authorised but unissued share capital of the Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save for the aforesaid and as mentioned in the paragraph headed “Resolutions in writing of all of the Shareholders passed on 27 November 2009” below, there has been no alteration in the share capital of the Company since its incorporation.

3. Resolutions in writing of all of the Shareholders passed on 27 November 2009

Pursuant to the written resolutions passed by all of the Shareholders on 27 November 2009:

- (a) the Company approved and adopted the Articles;
- (b) the authorised share capital of the Company was increased from HK\$380,000 to HK\$500,000,000 by the creation of 4,996,200,000 additional Shares;
- (c) conditional on (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering and the Capitalisation Issue (including any additional Shares which may be issued pursuant to the exercise of the Overallotment Option or options which may be granted under the Share Option Scheme); (ii) the entering into of the agreement on the Offer Price between the Sole Lead Manager and the Company on the Price Determination Date; and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:
 - (i) the Global Offering was approved and the Directors were authorised to allot and issue the Shares pursuant to the Global Offering;
 - (ii) the Over-allotment Option was approved and the Directors were authorised to effect the same and to allot and issue the Over-allotment Shares upon the exercise of the Over-allotment Option;
 - (iii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “Share Option Scheme” under the section headed “Other information” in this Appendix, were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme; and
 - (iv) conditional on the share premium account of the Company being credited as a result of the issue of the Shares by the Company pursuant to the Global Offering, the Directors were authorised to capitalise an amount of HK\$155,999,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 1,559,990,000 Shares. Such Shares to be allotted and issued to the Shareholders whose names appear on the register of members of the Company on the date of the written resolutions on a pro rata basis.
- (d) a general unconditional mandate was given to the Directors to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than pursuant to a rights issue or pursuant

to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or pursuant to the grant of options under the Share Option Scheme or other similar arrangement or pursuant to a specific authority granted by the Shareholders in general meeting, unissued Shares with a total nominal value not exceeding 20% of the aggregate nominal value of the share capital of the Company in issue immediately following the completion of the Global Offering and the Capitalisation Issue (but taking no account of any Shares which may be issued pursuant to the Over-allotment Option or the options under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of the Company, or the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable laws to be held, or until revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever occurs first;

- (e) a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase Shares on the Stock Exchange or on any other approved stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Listing Rules or equivalent rules or regulations of any other stock exchanges as amended from time to time, and such number of Shares will represent up to 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Global Offering and the Capitalisation Issue (but taking no account of any Shares which may be issued and allotted pursuant to the exercise of the Over-allotment Option or the options under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of the Company, or the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable laws to be held, or until revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever occurs first; and
- (f) the general unconditional mandate mentioned in paragraph (d) above was extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted and issued by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (e) above provided that such extended amount shall not exceed 10% of the total nominal value of the share capital of the Company in issue immediately following complete of the Global Offering (without taking into account any Shares falling to be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme).

4. Corporate reorganisation

The companies comprising the Group underwent the Reorganisation in preparation for the listing of the Shares on the Stock Exchange. The Reorganisation involved the following:

Incorporation of our Company

- (a) on 14 July 2009, our Company was incorporated in the Cayman Islands as an exempted company with limited liability. Upon incorporation, one nil-paid Share was held by Mr. Liao Chin-Yi, representing the entire issued share capital of the Company, which was subsequently transferred to Head Pearl on 27 November 2009;

Incorporation of More Will, Joyous King, Sunny Beauty, Speedy Grand, Head Pearl and Forever Art

- (b) More Will was incorporated in the BVI on 23 January 2008, with an issued share capital of US\$1 representing 1 share of US\$1 and is wholly owned by Shao Ten-Po;
- (c) Joyous King was incorporated in the BVI on 22 April 2008, with an issued share capital of US\$1 representing 1 share of US\$1 and is wholly owned by Hsu Chieh-Jung;
- (d) Sunny Beauty was incorporated in the BVI on 29 May 2009, with an issued share capital of US\$1 representing 1 share of US\$1 and is wholly owned by Tseng Chung-Cheng;
- (e) Speedy Grand was incorporated in the BVI on 8 August 2008, with an issued share capital of US\$1 representing 1 share of US\$1 and is wholly owned by Liao Chin-Yi;
- (f) Head Pearl was incorporated in the BVI on 7 February 2008, with an issued share capital of US\$10,000 divided into 10,000 shares of US\$1 each and is held as to 53.53% by Mr. Shao Ten-Po, 26.43% by Mr. Hsu Chieh-Jung, 8.6% by Mr. Tseng Chung-Cheng and 11.44% by Mr. Liao Chin-Yi, respectively;
- (g) Forever Art was incorporated in the BVI on 28 April 2008, with an issued share capital of US\$1 divided into 1 share of US\$1 each and is wholly owned by Hu Chin-Shu;

Incorporation of Easy Era

- (h) Easy Era was incorporated in the BVI on 6 February 2008, with an issued share capital of US\$1 representing 1 share of US\$1 and is wholly owned by the Company;

Incorporation of the Hong Kong Holding Companies

- (i) Easy Venture was incorporated in Hong Kong on 23 February 2009, with an issued share capital of HK\$1 representing 1 share of HK\$1, and is wholly owned by Easy Era;
- (j) Prospen Advance was incorporated in Hong Kong on 30 March 2009, with an issued share capital of HK\$1 representing 1 share of HK\$1, and is wholly owned by Easy Era;

- (k) First Heritage was incorporated in Hong Kong on 22 June 2009, with an issued share capital of HK\$1 representing 1 share of HK\$1, and is wholly owned by Easy Era;
- (l) Star Guide was incorporated in Hong Kong on 22 June 2009, with an issued share capital of HK\$1 representing 1 share of HK\$1, and is wholly owned by Easy Era;

Transfer of equity interest in each of Fuqing Hong Liong, Fuzhou Aike, Shishi Maigen and Fuqing Ecotex

- (m) On 24 November 2009, the entire equity interest in Fuqing Hong Liong was transferred to Easy Venture from Hong Liong Textile as part of our reorganisation in preparation for the Listing at a consideration equivalent to RMB249,310,000 in shares of Easy Venture which was determined based on its net asset value as at 30 June 2009 and was settled by the allotment and issue of 1,500 Shares, 720 Shares, 112 Shares and 3,999 Shares, all credited as fully-paid, to More Will, Joyous King, Speedy Grand and Head Pearl, respectively, at the direction of Hong Liong Textile and the one nil-paid Share held by Head Pearl being credited as a fully paid Share;
- (n) On 24 November 2009, the entire equity interest in Fuzhou Aike was transferred to Star Guide from Hong Liong Textile as part of our reorganisation in preparation for the Listing at a consideration equivalent to RMB6,555,000 in shares of Star Guide which was determined based on its net asset value as at 30 June 2009 and was settled by the allotment and issue of 40 Shares, 20 Shares and 118 Shares, all credited as fully-paid, to More Will, Joyous King and Head Pearl, respectively, at the direction of Hong Liong Textile;
- (o) On 24 November 2009, the entire equity interest in Shishi Maigen was transferred to Prosper Advance from Hong Liong Textile as part of our reorganisation in preparation for the Listing at a consideration equivalent to RMB93,576,000 in shares of Prosper Advance which was determined based on the investment costs incurred by Hong Liong Textile in the acquisition of Shishi Maigen in 2008, and was settled by the allotment and issue of 556 Shares, 295 Shares and 1,757 Shares, all credited as fully-paid, to More Will, Joyous King and Head Pearl, respectively, at the direction of Hong Liong Textile; and
- (p) in 24 November 2009, in preparation of the Reorganisation for the Listing, Chen Li-Chuan, Huang Sze-Ching, Hsu Fu-Mei and Hsueh Hui-Chen transferred their shares in Lucky Dragon (i.e. the investment holding company holding 100% interest in Fuqing Ecotex before the Reorganisation), representing approximately 64% of Lucky Dragon, to Tseng Chung-Cheng and Liao Chin-Yi at a consideration of RMB9,000,000 determined with reference to the annual compound growth rate of 3.8% from the amount of their initial registered capital of US\$1,024,000 made, as agreed upon between 1) Chen Li-Chuan, Huang Sze-Ching, Hsu Fu-Mei and Hsueh Hui-Chen, and 2) Tseng Chung-Cheng and Liao Chin-Yi. Upon such transfer, Fuqing Ecotex was owned as to 16% by Hu Chin-Shu, 42% by Tseng Chung-Cheng and 42% by Liao Chin-Yi; and
- (q) On 24 November 2009, the entire equity interest in Fuqing Ecotex was transferred to First Heritage from Lucky Dragon as part of our reorganisation in preparation for the Listing at a consideration equivalent to RMB35,324,000 in shares of First Heritage which was determined

based on its net asset value as at 30 June 2009 and was settled by the allotment and issue of 337 Shares, 337 Shares and 208 Shares, all credited as fully-paid, to Sunny Beauty, Speedy Grand and Forever Art, respectively, at the direction of Lucky Dragon.

5. Changes in share capital of subsidiaries

The Company's subsidiaries are referred to in the Accountants' Report, the text of which is set out in Appendix I to this prospectus. The following sets out the changes in the share capital of the subsidiaries of the Company during the two years preceding the date of this prospectus:

- (a) On 20 November 2007, the registered capital of Fuqing Hong Liong was increased from US\$11,600,000 to US\$13,300,000 which was fully paid.

Save as set out above, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

6. Particulars of the PRC subsidiaries of the Group

The Group has interests in a number of PRC subsidiaries. Set out below is a summary of the corporate information of these PRC subsidiaries:

(a) Fuqing Hong Liong

Date of Establishment	:	16 April 1993
Place of Establishment	:	PRC
Nature	:	Wholly foreign-owned enterprise
Registered Capital	:	US\$13,300,000
Shareholder	:	Easy Venture (100%)

(b) Fuqing Ecotex

Date of Establishment	:	16 July 2002
Place of Establishment	:	PRC
Nature	:	Wholly foreign-owned enterprise
Registered Capital	:	US\$1,600,000
Shareholder	:	First Heritage (100%)

(c) Fuzhou Aike

Date of Establishment	:	26 July 2007
Place of Establishment	:	PRC
Nature	:	Wholly foreign-owned enterprise
Registered Capital	:	US\$700,000
Shareholder	:	Star Guide (100%)

(d) Shishi Maigen

Date of Establishment	:	20 June 2002
Place of Establishment	:	PRC
Nature	:	Wholly foreign-owned enterprise
Registered Capital	:	US\$200,000
Shareholder	:	Prosper Advance (100%)

The registered capital of each of the PRC subsidiaries of the Group has been fully paid up.

7. Repurchase by the Company of Shares

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies whose primary listings are on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) *Shareholders' approval*

All proposed repurchases of securities on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to resolution passed by all of the Shareholders on 27 November 2009, a general unconditional mandate (the "Buyback Mandate") was granted to the Directors authorising the repurchase by the Company on the Stock Exchange, or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued as mentioned herein (but take no account of any Shares which may be issued and allotted pursuant to the exercise of the Over-allotment Option or the options as may be granted under the Share Option Scheme), at any time until the conclusion of the next annual general meeting of the Company, the expiration of the period within

which the next annual general meeting of the Company is required by an applicable law or the Articles to be held or when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever is the earliest.

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles and the laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(b) *Reasons for repurchases*

The Directors believe that it is in the best interests of the Company and its Shareholders for the Directors to have a general authority from shareholders to enable the Company to repurchase Shares in the market. Repurchases of Shares will only be made when the Directors believe that such repurchases will benefit the Company and its members. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Company and its assets and/or its earnings per Share.

(c) *Funding of repurchases*

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with the Articles and the applicable laws of the Cayman Islands.

It is presently proposed that any repurchase of Shares would be made out of profits of the Company or out of a fresh issue of Shares made for the purpose of the repurchase or, subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of the profits of the Company or from sums standing the credit of the share premium account of the Company or, subject to the Companies Law, out of capital.

The Directors do not propose to exercise the Buyback Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or its gearing levels which, in the opinion of the Directors, are from time to time appropriate for the Company.

(d) *Share capital*

Exercise in full of the Buyback Mandate, on the basis of 2,000,000,000 Shares in issue immediately after the listing of the Shares and the Capitalisation Issue (taking no account of the Over-allotment Shares that may be issued pursuant to the exercise of the Over-allotment Option), could accordingly result in up to 200,000,000 Shares being repurchased by the Company during the period until:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles to be held; or

- (iii) the date on which the Buyback Mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever occurs first.

(e) *General*

None of the Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules), has any present intention to sell any Shares to the Company or its subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

No repurchases of Shares has been made by the Company since its incorporation.

No connected person (as defined in the Listing Rules) has notified the Company that he or it has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Buyback Mandate is exercised.

If as a result of a securities repurchase pursuant to the Buyback Mandate, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Code"). Accordingly, a Shareholder, or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Code as a result of any such increase. The Directors are not aware of any consequences which may arise under the Code if the Buyback Mandate is exercised.

If the Buyback Mandate is fully exercised immediately following the completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and which may fall to be allotted and issued pursuant to the exercise of the any options which may be granted under the Share Option Scheme), the total number of Share which will be repurchased pursuant to the Buyback Mandate shall be 200,000,000 Shares (being 10% of the issued share capital of the Company based on the aforesaid assumptions). The percentage shareholding on Controlling Shareholders will be increased to approximately 83.3% of the issued share capital of the Company immediately following the exercise of the Buyback Mandate in full, which would result in the public shareholding of the Company to fall below the minimum public float requirement under Rule 8.08(1) of the Listing Rules. Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than the prescribed percentage of the Shares then in issue could only be implemented with the approval of the Stock Exchange to waive the public float requirement under Rule 8.08(1) of the Listing Rules. However, the Directors do not propose to exercise the Buyback Mandate to such an extent that, in the circumstances, there is insufficient public float as prescribed under Rule 8.08(1) of the Listing Rules.

B. FURTHER INFORMATION ABOUT THE BUSINESS**1. Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) the Non-compete, Confidentiality and Intellectual Property Rights Agreement dated 21 October 2009 entered into between Chen, Pin-Chou, Kuo, Yuan-Li, Su, Ming-Che and Chen, Li-Nuan (the “Sellers”), Hong Liong Textile and Shishi Maigen pursuant to which the Sellers have agreed to undertake with Hong Liong Textile and Shishi Maigen not to engage in any competing business and provide certain confidentiality undertakings and undertakings in respect of certain intellectual property rights with respect to Shishi Maigen for a consideration of RMB138,600,400;
- (b) the share transfer agreement dated 24 November 2009 between Hong Liong Textile and Prosper Advance in relation to the transfer of the entire share capital in Shishi Maigen from Hong Liong Textile to Prosper Advance for a consideration equivalent to RMB93,576,000 in shares of Prosper Advance;
- (c) the share transfer agreement dated 24 November 2009 between Hong Liong Textile and Star Guide in relation to the transfer of the entire share capital in Fuzhou Aike from Hong Liong Textile to Star Guide for a consideration equivalent to RMB6,555,000 in shares of Star Guide;
- (d) the share transfer agreement dated 24 November 2009 between Hong Liong Textile and Easy Venture in relation to the transfer of the entire share capital in Fuqing Hong Liong from Hong Liong Textile to Easy Venture for a consideration equivalent to RMB249,310,000 in shares of Easy Venture;
- (e) the share transfer agreement dated 24 November 2009 between Lucky Dragon and First Heritage in relation to the transfer of the entire equity interest in Fuqing Ecotex from Lucky Dragon to First Heritage for a consideration equivalent to RMB35,324,000 in shares of First Heritage;
- (f) the deed of indemnity dated 27 November 2009 given by the Controlling Shareholders in favour of the Company and our subsidiaries in respect of, among others, taxation referred to in the sub-section entitled “Estate duty, tax and property indemnity” in this Appendix;
- (g) Deed of Non-Competition; and
- (h) the Underwriting Agreement.

2. Intellectual property rights of the Group

(a) Trade mark

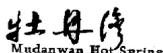
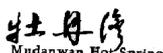
As at the Latest Practicable Date, the Group is the registered proprietor and beneficial owner of the following trade marks:

Trade Mark	Place of Registration	Registration number	Class	Effective period
	Hong Kong	199811010	24	19/11/1997 to 19/11/2014
	Hong Kong	199811011	24	19/11/1997 to 19/11/2014
	Hong Kong	199901235	22	19/11/1997 to 19/11/2014
	PRC	1275728	24	21/5/2009 to 20/5/2019
	PRC	1285721	24	21/6/1999 to 20/6/2019
HO-COOLING	PRC	1621085	24	21/8/2001 to 20/8/2011
	PRC	3096267	25	7/7/2004 to 6/7/2014
	PRC	3096268	24	21/6/2003 to 20/6/2013
	PRC	3339819	25	28/6/2004 to 27/6/2014
	PRC	3339820	25	28/7/2004 to 27/7/2014
	PRC	3339821	25	7/6/2004 to 6/6/2014
	PRC	3339822	25	7/6/2004 to 6/6/2014
	PRC	3339823	25	7/6/2004 to 6/6/2014
	PRC	3339824	25	7/6/2004 to 6/6/2014
	PRC	3732772	35	21/1/2006 to 20/1/2016

Trade Mark	Place of Registration	Registration number	Class	Effective period
	PRC	3732773	40	7/11/2005 to 6/11/2015
	PRC	4197951	24	14/3/2008 to 13/3/2018
	PRC	4197952	24	14/3/2008 to 13/3/2018
	PRC	4197961	24	14/3/2008 to 13/3/2018
	PRC	4544495	24	28/11/2008 to 27/11/2018
	PRC	4901846	35	14/7/2009 to 13/7/2019
	Japan, United Kingdom	790797	25	5/8/2002 to 5/8/2012
	United States of America	830283	35, 40	9/3/2004 to 9/3/2014
	France, Germany, United Kingdom	916964	25	22/2/2007 to 22/2/2017
	Portugal, Switzerland, Seden	917891	25	21/3/2007 to 21/3/2017
	Denmark, Singapore, United Kingdom	980796	24	22/8/2008 to 22/8/2018
	PRC	1525214	25	21/2/2001 to 20/2/2011

Trade Mark	Place of Registration	Registration number	Class	Effective period
	PRC	3311494	25	7/7/2004 to 6/7/2014
	PRC	3311648	25	14/4/2004 to 13/4/2014

As at the Latest Practicable Date, the Group has applied for registration of the following trade marks:

Trade Mark	Place of Application	Application number	Class	Date of Application
	PRC	5873933	25	29/1/2007
	PRC	6193216	44	30/7/2007
	PRC	6193217	43	30/7/2007
	PRC	6193218	41	30/7/2007
	PRC	6193219	39	30/7/2007
	PRC	6193220	35	30/7/2007
	PRC	6288858	25	24/9/2007
	PRC	6288859	18	24/9/2007
	PRC	6374068	40	12/11/2007
	PRC	6374069	35	12/11/2007
	PRC	6374070	28	12/11/2007
	PRC	6374071	25	12/11/2007
	PRC	6374072	18	12/11/2007
	PRC	6374073	40	12/11/2007
	PRC	6374074	35	12/11/2007
	PRC	6374075	25	12/11/2007

Trade Mark	Place of Application	Application number	Class	Date of Application
	PRC	6374076	18	12/11/2007
	PRC	6680349	24	24/4/2008
	PRC	5487962	25	19/7/2006
	PRC	6354744	25	12/12/2007
麦根	PRC	7457441	25	9/6/2009
	PRC	7489456	18	22/6/2009

(b) *Patent*

As at the Latest Practicable Date, the Group has applied for registration of the following invention patent:

Invention Patent	Name of Applicant	Place of Application	Application number	Date of Application
A type of imitation of woven and knitted fabrics and manufacturing methods	Fuqing Hong Liong	PRC	2008101701982	10 October 2008

(c) *Domain Name*

As at the Latest Practicable Date, the Group is the registered proprietor of the following domain name in the PRC:

Domain Name	Name of the Proprietor	Place of Registration	Effective Period
hontex.cn	Fuqing Hong Liong	PRC	23/6/2003 to 23/6/2013
mxn.com.cn	Shishi Maigen	PRC	24/2/2002 to 24/2/2011

C. FURTHER INFORMATION ABOUT DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Directors

(a) *Disclosure of interest — interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations*

Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised) and the Capitalisation Issue, the interest or short position of Directors or chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to Model Code for Securities Transactions by Directors of Listed Companies, once the Shares are listed are as follows:

(i) *Long and short positions in the Shares*

Name of Director	Capacity in which interests are held	Number of Shares	Approximate percentage
Shao Ten-Po	Interest of controlled corporation	1,184,724,000 ⁽¹⁾	59.24%
Liao Chin-Yi	Interest of controlled corporation	70,044,000 ⁽²⁾	3.50%
	Interest of controlled corporation	857,748,000 ⁽³⁾	42.89%
Tseng Chung-Cheng	Interest of controlled corporation	52,572,000 ⁽⁴⁾	2.63%
	Interest of controlled corporation	857,748,000 ⁽³⁾	42.89%
Hu Chin-Shu	Interest of controlled corporation	31,200,000 ⁽⁵⁾	1.56%

Notes:

1. Shao Ten-Po is interested in the entire issued share capital of More Will and 53.35% of Head Pearl, he is deemed to be interested in all the Shares held by Head Pearl by virtue of the SFO.
2. Liao Chin-Yi is interested in the entire issued share capital of Speedy Grand.
3. Head Pearl is interested in 857,748,000 Shares and is owned as to 53.53% by Shao Ten-Po, as to 26.43% by Hsu Chieh-Jung, who is not a Director, as to 11.44% by Liao Chin-Yi and as to 8.60% by Tseng Chung-Cheng.
4. Tseng Chung-Cheng is interested in the entire issued share capital of Sunny Beauty.
5. Hu Chin-Shu is interested in the entire issued share capital of Forever Art.

(ii) *Long position in the shares of associated corporation*

Name of Director	Associated Corporation	Nature of interest	Number of shares	Approximate percentage of shareholding
Mr. Shao Ten-Po	Head Pearl	Beneficial interest	5,353	53.53%
Mr. Tseng Chung-Cheng	Head Pearl	Beneficial interest	860	8.60%
Mr. Liao Chin-Yi	Head Pearl	Beneficial interest	1,144	11.44%

(b) *Particulars of service contracts*

Each of the executive Directors has entered into a service contract with the Company for a term of 3 years commencing from the Listing Date unless and until terminated by not less than 3 months' notice in writing served by either party on the other.

(c) *Directors' remuneration*

During the Track Record Period, Mr. Shao Ten-Po, Mr. Hsu Chieh-Jung, Mr. Liao Chin-Yi and Mr. Tseng Chung-Cheng acted in the capacity of both a director and a founder of our Group and they have chosen to receive dividend income in lieu of directors' remuneration. All these directors agreed to waive any emoluments in full or receive a low remuneration during the Track Record Period.

Upon and after Listing, each of the executive Directors is entitled to a director's fee. on the basis of 12 months in a year. In addition, each of the executive Directors is also entitled to a discretionary bonus. An executive Director may not vote on any resolution of our Directors regarding the amount of the bonus payable to him. Under the arrangement currently in force, the aggregate amount of emoluments, excluding the discretionary bonus, if any, payable by the Group to our Directors for the year ending December 31, 2009 will be approximately HK\$3,000,000.

The non-executive Director and independent non-executive Directors have been appointed for a term of one year. Our Company intends to pay an aggregate director's fee of RMB400,000 per annum to the non-executive Director and independent non-executive Directors.

2. Substantial Shareholders

So far as the Directors are aware, immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised) and the Capitalisation Issue, the following persons (other than the Directors) will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Capacity in which interests are held	Number of Shares	Approximate percentage
Head Pearl	Beneficial owner	857,748,000 ⁽¹⁾	42.89%
More Will	Beneficial owner	326,976,000 ⁽¹⁾	16.35%
Joyous King	Beneficial owner	161,460,000 ⁽²⁾	8.07%

Notes:

1. Shao Ten-Po is interested in the entire issued share capital of More Will and 53.35% of Head Pearl, he is deemed to be interested in all the Shares held by Head Pearl by virtue of the SFO.
2. Hsu Chieh-Jung is interested in the entire issued share capital of Joyous King.
3. More Will, Joyous King, Sunny Beauty, Speedy Grand, Forever Art, Shao Ten-Po, Hsu Chieh-Jung, Tseng Chung-Cheng, Liao Chin-Yi and Hu Chin-Shu, who together hold 75% interest in our Company, are considered parties acting in concert under the Hong Kong Takeovers Code and entitled to exercise or control the exercise of more than 30% of the voting power at general meetings of the Company, they are regarded as the controlling shareholders of our Company. Details of the concert party arrangements are set out in the section headed "Reorganisation and Group Structure — Concert Party Arrangement in connection with Fuqing Hong Liong, Fuzhou Aike and Shishi Maigen, and Voting Arrangement in Relation to Fuqing Ecotex" of this prospectus.

3. Agency fees or commissions received

Save as disclosed in this prospectus, no commissions, discounts, brokerages or other special terms were granted within the two years preceding the date of this prospectus in connection with the issue or sale of any capital of any member of the Group.

4. Disclaimers

Save as disclosed herein:

- (a) none of the Directors or chief executive of the Company has any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to

therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Companies once the Shares are listed;

- (b) none of the Directors or experts referred to under the heading “Consents of experts” in this Appendix has any direct or indirect interest in the promotion of the Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (c) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;
- (d) none of the Directors has any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (e) taking no account of Shares which may be taken up under the Global Offering and the Capitalisation Issue, none of the Directors knows of any person (not being a Director or chief executive of the Company) who will, immediately the following completion of the Global Offering and the Capitalisation Issue, have an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group;
- (f) none of the experts referred to under the heading “Consents of experts” in this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (g) none of the Directors, their respective associates (as defined under the Listing Rules) or Shareholders who are interested in more than 5% of the issued share capital of the Company has any interests in the five largest customers or the five largest suppliers of the Group.

D. OTHER INFORMATION

1. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the written resolutions of the Shareholders passed on 27 November 2009.

(a) Purpose

The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants (as defined in paragraph (b) below) had or may have made to the Group.

(b) *Who may join*

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (f) below to:

- (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;
- (ii) any directors (including non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries;
- (iii) any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries; and
- (iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to the Group.

(c) *Acceptance of an offer of options to subscribe for Shares granted pursuant to the Share Option Scheme (“Options”)*

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptances of the options duly signed by the grantee, together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof, is received by the Company on or before the relevant acceptance date. Such payment shall in no circumstances be refundable. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

Subject to paragraphs (l), (m), (n), (o) and (p), an Option shall be exercised in whole or in part and, other than where it is exercised to the full extent outstanding, shall be exercised in integral multiples of such number of Shares as shall represent one board lot for dealing in Shares on the Stock Exchange for the time being, by the grantee by giving notice in writing to the Company stating that the Option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the exercise price for the Shares in respect of which the notice is given. Within 21 days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate by the auditors to the Company or the approved independent financial adviser as the case may be pursuant to paragraph (r), the Company shall allot and issue the relevant number of Shares to the grantee credited as fully paid and issue to the Grantee certificates in respect of the Shares so allotted.

The exercise of any Option shall be subject to the Shareholders in general meeting approving any necessary increase in the authorised share capital of the Company.

(d) *Maximum number of Shares*

The maximum number of Shares in respect of which options may be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue on the Listing Date (but taking no account of any Shares which may be issued under the exercise of the Over-allotment Option), being 200,000,000 Shares (the “**Scheme Limit**”), excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company). Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

- (i) renew this limit at any time to 10% of the Shares in issue (the “**New Scheme Limit**”) as at the date of the approval by the Shareholders in general meeting; and/or
- (ii) grant options beyond the Scheme Limit to Eligible Participants specifically identified by the Board. The circular issued by the Company to the Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the Shares in issue from time to time (the “**Maximum Limit**”). No options shall be granted under any schemes of the Company (including the Share Option Scheme) if this will result in the Maximum Limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of the Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of the Company in accordance with paragraph (r) below whether by way of capitalisation issue, rights issue, open offer (if there is a price-dilutive element), consolidation, sub-division of shares or reduction of the share capital of the Company but in no event shall exceed the limit prescribed in this paragraph.

(e) *Maximum number of options to any one individual*

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised, outstanding options and Shares which were the subject of options which have been granted and accepted under the Share Option Scheme or any other

scheme of the Company) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of Options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by the Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant), the information as required under Rules 17.02(2)(d) and the disclaimer required under 17.02(4) of the Listing Rules; and
- (ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his associates (as defined in the Listing Rules) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before the Shareholders' approval and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of the Shares. The Board shall forward to such Eligible Participant an offer document in such form as the Board may from time to time determine (or, alternatively, documents accompanying the offer document which state), among others:
 - (aa) the Eligible Participant's name, address and occupation;
 - (bb) the date on which an Option is offered to an Eligible Participant which must be a date on which the Stock Exchange is open for the business of dealing in securities;
 - (cc) the date upon which an offer for an Option must be accepted;
 - (dd) the date upon which an Option is deemed to be granted and accepted in accordance with paragraph (c);
 - (ee) the number of Shares in respect of which the Option is offered;
 - (ff) the exercise price and the manner of payment of such price for the Shares on and in consequence of the exercise of the Option;
 - (gg) the date of the notice given by the grantee in respect of the exercise of the Option;
 - (hh) the method of acceptance of the Option which shall, unless the Board otherwise determines, be as set out in paragraph (c); and
- (iii) such other terms and conditions (including, without limitation, any minimum period for which an Option must be held before it can be exercised and/or any performance targets which must be achieved before the Option can be exercised) relating to the offer of the Option which in the opinion of the Board are fair and reasonable but not being inconsistent with the Share Option Scheme and the Listing Rules.

(f) *Price of Shares*

The exercise price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

(g) *Granting options to connected persons*

Any grant of options to a director, chief executive or substantial shareholder (as defined in the Listing Rules) of the Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options). If the Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue or such other percentage as may be from time to time provided under the Listing Rules; and
- (ii) having an aggregate value in excess of HK\$5,000,000 or such other sum as may be from time to time provided under the Listing Rules, based on the closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange at the date of each grant,

such further grant of options will be subject to the approval of the independent non-executive Directors as referred to in this paragraph, the issue of a circular by the Company and the approval of the Shareholders in general meeting on a poll at which all connected persons (as defined in the Listing Rules) of the Company shall abstain from voting in favour, and/or such other requirements prescribed under the Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by the Company to the Shareholders pursuant to the above paragraph shall contain the following information:

- (i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant which must be fixed before the Shareholders' meeting and the date of Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;
 - (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent Shareholders as to voting;
 - (iii) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
 - (iv) the information required under Rule 2.17 of the Listing Rules.
- (h) *Restrictions on the times of grant of Options*

A grant of options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date to first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for the Company to publish an announcement of the results for any year, or half-year, or quarterly or other interim period (whether or not required under the Listing Rules),

and ending on the date of actual publication of such results announcement, and where an option is granted to a Director:

- (iii) no options shall be granted during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
- (iv) during the period of 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

(i) *Rights are personal to grantee*

An option is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option or attempt so to do (save that the grantee may nominate a nominee in whose name the Shares issued pursuant to the Share Option Scheme may be registered). Any breach of the foregoing shall entitle the Company to cancel any outstanding options or any part thereof granted to such Grantee.

(j) *Time of exercise of Option and duration of the Share Option Scheme*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the Option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme by the sole shareholder of the Company (the “**Adoption Date**”). Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the Adoption Date.

(k) *Performance target*

A grantee may be required to achieve any performance targets as the Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

(l) *Rights on ceasing employment/death*

If the grantee of an option ceases to be an Eligible Participant:

- (i) by any reason other than death, ill-health, injury, disability or termination of his relationship with the Company and/or any of its subsidiaries on one or more of the grounds specified in paragraph (m) below, the grantee may exercise the option up to the entitlement of the grantee as at the date of cessation (to the extent not already exercised) within a period of one month (or such longer period as the Board may determine) from such cessation which date shall be the last actual working day with the Company or the relevant subsidiary whether salary is paid in lieu of notice or not, failing which it will lapse (or such longer period as the Company may determine); or
- (ii) by reason of death, ill-health, injury or disability (all evidenced to the satisfaction of the Board) and none of the events which would be a ground for termination of his relationship with the Company and/or any of its subsidiaries under paragraph (m) has occurred, the grantee or his personal representative(s) may exercise the option within a period of 12 months (or such longer period as the Board may determine) from the date of cessation of being an Eligible Participant or death to exercise the Options in full (to the extent not already exercised).

(m) *Rights on dismissal*

If the grantee of an Option ceases to be an Eligible Participant on the grounds that he has been guilty of serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty, or in relation to an employee of the Group (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with the Group, his Option will lapse and not be exercisable after the date of termination of his employment.

(n) *Rights on takeover*

If a general offer is made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Takeovers Codes)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(o) *Rights on winding-up*

In the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of the Company referred to above by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid and register the grantee as holder thereof.

(p) *Rights on compromise or arrangement between the Company and its members or creditors*

If a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of the Company or its amalgamation with any other companies pursuant to the laws of jurisdictions in which the Company was incorporated, the Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a scheme or arrangement and any grantee may by notice in writing to the Company accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given (such notice to be received by the Company not later than two business days prior to the proposed meeting), exercise the option to its full extent or to the extent specified in the notice and the Company shall as soon as possible in any event no later than 12:00 noon

(Hong Kong time) on the business day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise of the option credited as fully paid and register the grantee as holder thereof.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full but only upon the extent not already exercised and shall become exercisable.

(q) *Ranking of Shares*

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank *pari passu* and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the other fully-paid Shares in issue on the date of exercise, save that they will not rank for any dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date falling on or before the date of issue.

(r) *Effect of alterations to capital*

In the event of any alteration in the capital structure of the Company whilst any option may become or remains exercisable, whether by way of capitalisation issue, rights issue, open offer (if there is a price-dilutive element), consolidation, subdivision or reduction of share capital of the Company, or otherwise howsoever, such corresponding alterations (if any) shall be made in the number of Shares subject to any outstanding options and/or the exercise price per Share of each outstanding option, the New Scheme Limit and the Maximum Limit as the auditors of the Company or an independent financial adviser shall certify in writing to the Board to be in their/his opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issues relating to share option schemes and any future and interpretation of the Listing Rules issued by the Stock Exchange from time to time and the note thereto. The capacity of the auditors of the Company or the approved independent financial adviser, as the case may be, in this paragraph is that of experts and not arbitrators and their certificate shall, in the absence of manifest error, be final and conclusive and binding on the Company and the grantees.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the equity capital of the Company (as interpreted in accordance with the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issues relating to share option schemes) for which any grantee of an option is entitled to subscribe pursuant to the options held by him before such alteration provided that no such alteration shall be made if the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

(s) *Expiry of option*

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by the Board;
- (ii) the expiry of any of the periods referred to in paragraphs (l), (m), (n) or (o);
- (iii) the date on which the scheme of arrangement of the Company referred to in paragraph (p) becomes effective;
- (iv) subject to paragraph (o), the date of commencement of the winding-up of the Company;
- (v) the date on which the grantee ceases to be an Eligible Participant by reason of such grantee's resignation from the employment of the Company or any of its subsidiaries or the termination of his or her employment or contract on the grounds that he or she has been guilty of serious misconduct, or has committed any act of bankruptcy or is unable to pay his or her debts or has become insolvent or has made any arrangement or has compromised with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or has been in breach of contract. A resolution of the Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or
- (vi) the date on which the Board shall exercise the Company's right to cancel the option at any time after the grantee commits a breach of paragraph (i) above or the options are cancelled in accordance with paragraph (u) below.

(t) *Alteration of the Share Option Scheme*

The Share Option Scheme may be altered in any respect by resolution of the Board except that:

- (i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules; and
- (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted,

shall first be approved by the Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Share Option Scheme. The amended terms of the Share Option Scheme shall still comply with Chapter 17 of the Listing Rules and any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must be approved by Shareholders in general meeting.

(u) *Cancellation of Options*

Any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing. For the avoidance of doubt, such approval is not required in the event any Option is cancelled pursuant to paragraph (i).

(v) *Termination of the Share Option Scheme*

The Company may by resolution in general meeting or the Board at any time terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(w) *Administration of the Board*

The Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

(x) *Condition of the Share Option Scheme*

The Share Option Scheme is conditional on:

- (i) the Listing Committee of the Stock Exchange granting for the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of options to be granted under the Share Option Scheme;
- (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as result of the waiver of any such condition(s) by the Sole Lead Manager (on behalf of the Underwriters)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise; and
- (iii) the commencement of dealings in the Shares on the Stock Exchange.

If the conditions in paragraph (x) above are not satisfied within two calendar months from the Adoption Date:

- (i) the Share Option Scheme shall forthwith determine;
- (ii) any option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect; and
- (iii) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme or any option granted thereunder.

(y) *Disclosure in annual and interim reports*

The Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/ interim reports in accordance with the Listing Rules in force from time to time.

(z) *Present status of the Share Option Scheme*

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme, being 200,000,000 Shares in total.

2. Estate duty, tax and property indemnity

Each of the Controlling Shareholder, pursuant to the deed of indemnity referred to in the paragraph headed “Summary of material contracts” of this Appendix, has given joint and several indemnities in respect of, among other things (a) any liability for Hong Kong estate duty which might be incurred by any member of the Group by virtue of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) to any member of the Group prior to the date on which The Revenue (Abolition Estate Duty) Ordinance 2005 came into effect, being 11 February 2006, and (b) any tax liabilities which might be payable by any member of the Group resulting from or by reference to any income, profits or gains earned, accrued or received on or before the date on which the Global Offering becomes unconditional (the “**Effective Date**”) or any event or transaction entered into or occurring on or before the Effective Date whether alone or in conjunction with any circumstances whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company, save to the extent:

- (a) provision has been made for such taxation in the audited accounts of the Companies or any of them, for each of three years ended 31 December 2008 and the half year ended 30 June 2009; or
- (b) falling on any of member of the Group on or after the Effective Date except liability for such taxation would not have arisen as a result of some act or omission of, or transaction voluntarily effected by, any of member of the Group or any of them (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers other than any such act, omission or transaction:
 - (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before the Effective Date; or
 - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before the Effective Date; or

- (iii) consisting of any of member of the Group ceasing, or being deemed to cease, to be a member of any group of companies or being associated with any other company for the purposes of any matter of such taxation; or
- (c) to the extent of any provisions or reserve made for such taxation in the audited accounts of any member of the Group or any of them for each of the three years ended 31 December 2008 and the half year ended 30 June 2009 which is finally established to be an over-provision or an excessive reserve provided that the amount of any such provision or reserve applied pursuant to the deed of indemnity to reduce the Indemnifiers' liability in respect of such taxation shall not be available in respect of any such liability arising thereafter; or
- (d) that such claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or practice coming into force after the Effective Date or to the extent that such claim arises or is increased by an increase in rates of taxation after the Effective Date with retrospective effect.

In addition, pursuant to the deed of indemnity, the Indemnifiers have also given indemnity in connect with some properties owned by the Group (the “**Affected Properties**”) and certain lease agreements (the “**Lease Agreements**”) in respect of the lease properties currently used by the Group (the “**Leased Properties**”). Each of the Indemnifiers has jointly and severally undertaken to indemnify and to keep each of the member of the Group fully indemnified in respect of any loss, damages, liability, relocation cost and disruption in operation suffered and all costs and expenses incurred by any member of the Group as a result of or otherwise arising from, whether directly or indirectly, any property claim in relation to the properties of the Group including, without limitation the forfeiture of the tenancy under any of the Lease Agreements due to any failure of any of the lessors (the “**Lessors**”) of the Leased Properties under the Lease Agreements and/or any of the Lessors or the Group does not have the building ownership right or land use right in respect of the Leased Properties and/or the Affected Properties or has not obtained the required land use right certificate and building ownership certificate in respect thereof, or otherwise does not have the right, authority or capacity to grant the tenancy of the Leased Properties under the Lease Agreements or the actual use of any of the Leased Properties and/or the Affected Properties does not comply with the permitted use under the relevant land use right certificate and building ownership certificate.

Furthermore, each of the Indemnifiers has also jointly and severally undertaken to indemnify and keep each of the Group members fully indemnified against all claims (including but not limited to any taxation claim issued or action taken by any statutory or governmental authority whatsoever in Hong Kong, Taiwan and the PRC or any part of the world), actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses, fines and of whatever nature suffered or incurred by any member of the Group directly or indirectly as a result of or in connection with any of the following:

- (a) the Concert Party Arrangement as referred to in the sub-section headed “Concert Party Arrangement in Connection with Fuqing Hong Liang, Fuzhou Aike and Shishi Maigen, and voting arrangement in relation to Fuqing Ecotex” under the section headed “Corporate Reorganisation and Group Structure” in this prospectus; and
- (b) the cross strait investment as referred to in the sub-section headed “Cross Strait Investment” under the section headed “Regulations” in this prospectus.

3. Litigation

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

4. Sponsor

The Sponsor has made an application on behalf of the Company to the Listing Committee of the Stock Exchange for a listing of, and permission to deal in, all the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option and any options as may be granted under the Share Option Scheme).

5. Preliminary expenses

The preliminary expenses of the Company are estimated to be approximately HK\$185,000 and are payable by the Company.

6. Promoter

The Company does not have any promoter. Within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to such promoter in connection with the Global Offering and the related transactions described in this prospectus.

7. Taxation of holders of Shares

(a) *Hong Kong*

The sale, purchase and transfer of Shares registered with the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration of, if higher, of the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax. The Shares are Hong Kong property for the purposes of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong). The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for a grant of representation in respect of holders of the Shares whose death occurs on or after 11 February 2006.

(b) *Cayman Islands*

Under present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfers of Shares.

(c) *Consultation with professional advisers*

Intending holders of Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasised that none of the Company, the Directors or the other parties

involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercise any rights attaching to them.

8. Qualification of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualifications
Mega Capital	Licensed corporation to conduct type 1 and 6 regulated activities under the SFO
KPMG	Certified public accountants
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Jones Lang LaSalle Sallmanns Limited	Professional property surveyors and valuers
Jingtian & Gongcheng Attorneys at Law	Qualified PRC lawyers
Chien Yeh Law Offices	Qualified Taiwan lawyers

9. Consents of experts

Each of Mega Capital, KPMG, Conyers Dill & Pearman, Jones Lang LaSalle Sallmanns Limited, Jingtian & Gongcheng Attorneys at Law and Chien Yeh Law Offices has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references to its name included herein in the form and context in which it is respectively included.

10. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance so far as applicable.

11. Miscellaneous

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;

- (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;
 - (iv) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in the Company or any of its subsidiaries;
- (b) there are no founder, management or deferred shares nor any debentures in the Company or any of its subsidiaries;
 - (c) none of the persons named in the sub-paragraph headed “Consents of experts” in this Appendix is interested beneficially or otherwise in any shares of any member of the Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of the Group;
 - (d) the Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since 30 June 2009 (being the date to which the latest audited financial statements of the Group were made up);
 - (e) there has not been any interruption in the business of the Group which may have or has had a significant effect on the financial position of the Group in the 12 months preceding the date of this prospectus;
 - (f) the principal register of members of the Company will be maintained in the Cayman Islands by Butterfield Fulcrum Group (Cayman) Limited and a branch register of members of the Company will be maintained in Hong Kong by Tricor Investor Services Limited. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by the Company’s share register in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted to CCASS;
 - (g) no company within the Group is presently listed on any stock exchange or traded on any trading system;
 - (h) the Directors have been advised that, under the Companies Law, the use of a Chinese name by the Company for identification purposes only does not contravene the Companies Law; and
 - (i) the English text of this prospectus shall prevail over the Chinese text.

12. Particulars of the Selling Shareholders

Particulars of the Selling Shareholders are as follows:

- | | | |
|-----------------------|---|---|
| (1) Name | : | Head Pearl International Limited |
| Description | : | Corporation |
| Address | : | P.O. Box 957, Offshore Incorporations Centre
Road Town, Tortola, British Virgin Islands |
| Shareholders | : | Shao Ten-Po — 53.53%
Hsu Chieh-Jung — 26.43%
Tseng Chung-Cheng — 8.60%
Liao Chin-Yi — 11.44% |
| Number of Sale Shares | : | 58,752,000 Shares |
| | | |
| (2) Name | : | Forever Art Holdings Limited |
| Description | : | Corporation |
| Address | : | P.O. Box 957, Offshore Incorporations Centre
Road Town, Tortola, British Virgin Islands |
| Shareholders | : | Hu Chin-Shu — 100% |
| Number of Sale Shares | : | 1,248,000 Shares |

Note: Shao Ten-Po, Hsu Chieh-Jung, Tseng Chung-Cheng and Liao Chin-Yi collectively own the entire issued share capital of Head Pearl. Each of Shao Ten-Po, Tseng Chung-Cheng and Liao Chin-Yi is a Director of the Company. Hu Chin-Shu, who is the sole shareholder of Forever Art, is a Director of the Company.

13. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by Section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE**, **YELLOW** and **GREEN** application forms, the written consents referred to in the paragraph headed “Consents of experts” in Appendix VII to this prospectus, copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix VII to this prospectus, the statement of adjustments to the Accountants’ Report, a statement of the names, descriptions and addresses of the Selling Shareholders referred to in the section headed “Appendix VII — Statutory and General Information — Particulars of the Selling Shareholders” in this prospectus and other information as required by section 342C(3) of the Companies Ordinance.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Sidley Austin at 39th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the memorandum of association and the Articles of our Company;
- (b) the accountants’ report of our Group, the text of which is set out in Appendix I to this prospectus;
- (c) the accountants’ report of Shishi Maigen, the text of which is set out in Appendix II to this prospectus;
- (d) the statements of adjustments made in arriving at the figures shown in the accountants’ reports of our Group and giving the reasons thereto;
- (e) the letter from KPMG relating to unaudited pro forma financial information of our Group, the text of which is set out in Appendix III to this prospectus;
- (f) the letters relating to the profit forecast of our Group, the texts of which are set out in Appendix IV to this prospectus;
- (g) the audited financial statements of Fuqing Hong Liong, Fuqing Ecotex, Fuzhou Aike and Shishi Maigen for each of the three years ended 31 December 2008;
- (h) the rules of the Share Option Scheme;
- (i) the service contracts referred to in the paragraph headed “Particulars of service contracts” in Appendix VII to this prospectus;
- (j) the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix VII to this prospectus;
- (k) the written consents referred to in the paragraph headed “Consents of experts” in Appendix VII to this prospectus;

- (l) the letter of advice dated the date of this prospectus and prepared by Conyers Dill & Pearman summarising certain aspects of Cayman Islands company law as referred to in Appendix VI to this prospectus;
- (m) the Companies Law;
- (n) the legal opinion issued by Jingtian & Gongcheng, the legal advisers to the Company as to PRC law in respect of, among other things, general corporate matters and property matters of our Group;
- (o) the legal opinion issued by Chien Yeh Law Offices, the legal advisers to the Company as to Taiwan law in respect of certain issues relating to the Reorganisation under the Taiwan law;
- (p) the letter, summary of values and valuation certificates relating to the property interests of our Group prepared by Jones Lang LaSalle Sallmanns Limited, the text of which is set out in Appendix V to this prospectus; and
- (q) the statement of particulars of the Selling Shareholders including their respective names, addresses and descriptions.

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