

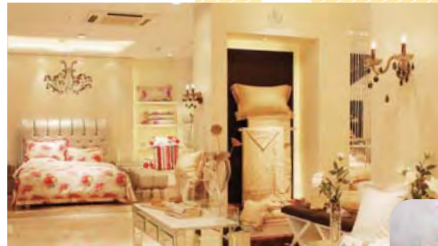


International Taifeng Holdings Limited 國際泰豐控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 873

GLOBAL OFFERING



Sole Sponsor



CIMB Securities (HK) Limited

Sole Global Coordinator



Daiwa Capital Markets Hong Kong Limited

Joint Bookrunners



Daiwa Capital Markets Hong Kong Limited



Joint Lead Managers



Daiwa Capital Markets Hong Kong Limited



IMPORTANT

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



TAIFENG

INTERNATIONAL TAIFENG HOLDINGS LIMITED

國際泰豐控股有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering : 280,000,000 Shares comprising 250,000,000 New Shares to be offered by us and 30,000,000 existing Shares to be offered by the Selling Shareholder (subject to the Over-allotment Option)

Number of Public Offer Shares : 28,000,000 New Shares (subject to adjustment)

Number of International Offer Shares : 252,000,000 Shares comprising 222,000,000 New Shares and 30,000,000 Sale Shares (subject to adjustment and the Over-allotment Option)

Offer Price : not more than HK\$3.09 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\$2.06 per Offer Share

Nominal Value : HK\$0.10 per Share

Stock Code : 873

Sole Sponsor



CIMB Securities (HK) Limited

Sole Global Coordinator

Daiwa

Capital Markets

Daiwa Capital Markets Hong Kong Limited

Joint Bookrunners

Daiwa

Capital Markets

Daiwa Capital Markets Hong Kong Limited

Joint Lead Managers

Daiwa

Capital Markets

Daiwa Capital Markets Hong Kong Limited

 招商證券(香港)有限公司
China Merchants Securities (HK) CO., LTD.

 招商證券(香港)有限公司
China Merchants Securities (HK) CO., LTD.

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

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

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator, on behalf of the Underwriters, and our Company (for itself and on behalf of the Selling Shareholder) on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, 4 June 2010 and, in any event, not later than 12:00 noon on Saturday, 5 June 2010. The Offer Price will be not more than HK\$3.09 and is currently expected to be not less than HK\$2.06 unless otherwise announced. Applicants for Public Offer Shares are required to pay, on application, the maximum Offer Price of HK\$3.09 for each Share together with a 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 as finally determined should be lower than HK\$3.09.

The Sole Global Coordinator, on behalf of the Underwriters, may, with our (and on behalf of the Selling Shareholder's) consent, reduce the number of Offer Shares in the Global Offering and/or the indicative Offer Price range below that stated in this prospectus (which is HK\$2.06 to HK\$3.09 per Share) at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Offer Shares in the Global Offering 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 day which is the last day for lodging applications under the Hong Kong Public Offering. If applications for Public Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, then even if the number of Offer Shares in the Global Offering and/or the indicative Offer Price range is so reduced, such applications cannot be subsequently withdrawn. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator, on behalf of the Underwriters, and the Company (for ourselves and on behalf of the Selling Shareholder), the Global Offering (including the Hong Kong Public Offering) will lapse and will not proceed. 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.

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

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, the Public Offer Shares, are subject to termination by the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in the Offer Shares commences on the Stock Exchange. Such grounds are set out in "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the US Securities Act or any state securities laws in the United States, and may not be offered, sold, pledged or transferred, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in accordance with any applicable U.S. state securities laws. The Offer Shares are being offered and sold only outside of the United States in offshore transactions in reliance on Regulation S.

31 May 2010

EXPECTED TIMETABLE

2010
(Note 1)

Application lists open (Note 2)	11:45 a.m. on Thursday, 3 June
Latest time to complete electronic applications under White Form eIPO service through the designated website www.eipo.com.hk (Note 3)	11:30 a.m. on Thursday, 3 June
Latest time to complete payment of White Form eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Thursday, 3 June
Latest time to give electronic application instructions to HKSCC (Note 4)	12:00 noon on Thursday, 3 June
Latest time to lodge WHITE and YELLOW Application Forms	12:00 noon on Thursday, 3 June
Application lists close	12:00 noon on Thursday, 3 June
Expected Price Determination Date (Note 5)	Friday, 4 June
Announcement of the final Offer Price, indication of the levels of interest in the International Offering, the basis of allotment and the results of applications in the Hong Kong Public Offering to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before	Thursday, 10 June
Announcement of results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels including our website at www.taifeng.cc and the website of the Stock Exchange at www.hkex.com.hk (for further details, please see "How to apply for the Public Offer Shares — 9. Results of Allocations" in this prospectus) from.	Thursday, 10 June
Results of allocations in the Hong Kong Public Offering will be available at www.iporesults.com.hk with a "search by ID Number/Business Registration Number" function	Thursday, 10 June
Despatch/Collection of White Form e-Refund payment instructions/ refund cheques in respect of wholly or partially successful applications if the final Offer Price is less than the price payable on application (if applicable) and wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before (Notes 6 to 8)	Thursday, 10 June

EXPECTED TIMETABLE

Despatch/Collection of Share certificates on or before Thursday, 10 June

Dealings in the Shares on the Stock Exchange expected to
commence on. 9:30 a.m. on Friday, 11 June

Notes:

1. All times and dates 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 “**black**” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 3 June 2010, the application lists will not open on that day. For further details, please see “How to Apply for the Public Offer Shares — 5. When to Apply for the Public Offer Shares — (e) Effect of bad weather conditions on the opening of the application lists” in this prospectus.
3. You will not be permitted to submit your application through the designated website at www.eipo.com.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 for Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to “How to apply for the Public Offer Shares — 8. How to Apply by Giving Electronic Application Instructions to HKSCC” in this prospectus.
5. The Price Determination Date is expected to be on or around Friday, 4 June 2010. If, for any reason, the Offer Price is not agreed by 12:00 noon on Saturday, 5 June 2010 between our Company (for itself and on behalf of the Selling Shareholder) and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Global Offering will not proceed and will lapse accordingly.
6. Share certificates for the Offer Shares are expected to be issued on or before Thursday, 10 June 2010 but will only become valid certificates of title at 8:00 a.m. on Friday, 11 June 2010 provided that (i) the Global Offering has become unconditional in all respects; and (ii) none of the Underwriting Agreements has been terminated in accordance with its terms.
7. Applicants for 1,000,000 Public Offer Shares or more on **WHITE** Application Forms who have indicated in their Application Forms that they wish to collect their refund cheques (where relevant) and/or Share certificates (where relevant) personally may collect refund cheques (where relevant) and/or Share certificates (where relevant) from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited from 9:00 a.m. to 1:00 p.m. on Thursday, 10 June 2010 or any other day that we publish in the newspaper as the date of despatch of Share certificates/e-Refund payment instructions/refund cheques.

Individuals who opt for personal collection must not authorise any other person(s) to make collection on their behalf. Corporate applicants which opt for personal collection must attend by their authorised representative(s) bearing a letter of authorisation from such corporation(s) stamped with the corporation’s chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Share Registrar. Applicants for 1,000,000 Public Offer Shares or more on **YELLOW** Application Forms may collect their refund cheques, if any, in person but may not elect to collect their Share certificates personally, which will be deposited into CCASS for the credit of their designated CCASS Participants’ stock accounts or CCASS Investor Participants’ stock accounts, as appropriated. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who apply through the **White Form eIPO** service and paid their applications monies through single bank account may have refund monies (if any) dispatched to their application payment bank account, in the form of e-Refund payment instructions; Applicants who apply through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions to the White Form eIPO Service Provider, in the form of refund cheques, by ordinary post at their own risk.

EXPECTED TIMETABLE

Uncollected Share certificates and refund cheques (if any) will be despatched by ordinary post at the applicant's own risk to the address specified in the relevant Application Form. For further information, applicants should refer to "How to Apply for the Public Offer Shares — 14. Despatch/Collection of Share Certificates/e-Refund payment instructions/Refund Cheques" in this prospectus.

8. Refund cheques/e-Refund payment instructions will be despatched in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the maximum Offer Price of HK\$3.09 per Offer Share.

For details of the structure of the Global Offering, including conditions of the Global Offering, applicants should refer to the section headed "Structure and Conditions of the Global Offering" in this prospectus.

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You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Neither our Company nor the Selling Shareholder has authorised anyone to provide you with information that is different from what is contained in this prospectus and the Application Forms. Any information or representation not made in this prospectus and the Application Forms must not be relied on by you as having been authorised by us, the Selling Shareholder, our Directors, the Sole Global Coordinator, the Sole Sponsor, the Underwriters, any of their respective directors or any other persons or parties involved in the Global Offering.

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SUMMARY

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

OVERVIEW

We are engaged in the manufacturing and distribution of quality cotton yarns and bedding products in China. Although historically we focused on the cotton yarns business, which accounted for 84.0% of our revenue and 96.9% of our reportable segment profit before taxation for the year ended 31 December 2007, we have successfully developed and expanded our bedding products business, which accounted for 45.6% of our revenue and 78.8% of our reportable segment profit before taxation for the year ended 31 December 2009, whilst our cotton yarn business continued to provide steady cash flow and net profit to our business overall.

According to market research conducted by Euromonitor, for the year of 2009, the top 5 companies ranking in the fine-count and high-count yarns industry accounted for 2.6% of the total market share, with the highest ranking company accounting for 1.3% of the total market share while we ranked as the fourth largest yarns manufacturer in terms of sales value of fine-count and high-count yarns in the PRC, accounting for 0.2% of the total market share. According to two confirmations dated 11 May 2009 and 15 October 2009 issued by the China Cotton Textile Association, we are one of the top 10 cotton yarn manufacturers in China in terms of production scale. We are also one of the few sizeable manufacturers capable of producing high-count cotton yarns in China. The General Administration of Quality Supervision, Inspection and Quarantine of the PRC granted our “TAIFENG” branded combed cotton yarns the status of China Famous Brand Products in September 2007.

We focus on fine-count and high-count cotton yarns (i.e. yarn count from 29 to 60 and over 60, respectively) in our cotton yarn production. Fine-count cotton yarn is most commonly used in the cotton textile industry while high-count cotton yarn is usually used to produce better quality cotton textile products. As the living standards continue to improve in China, we believe that demand for cotton yarns with higher yarn count will increase. We currently have over 450,000 spindles for our cotton yarn production. For the year ended 31 December 2009, over 90% of our cotton yarn revenue was generated from the sales of fine-count and high-count cotton yarns. We offer more than 120 varieties of cotton yarn products. In addition to yarn count, we distinguish our cotton yarn products from other cotton yarn products in the market by characteristics such as fibre-blended, combed and knotless. We sell our cotton yarns to fabric manufacturers in China and overseas.

We commenced our bedding product business as a distributor of bedding products in 2003. For the year of 2009, the top 5 bedding products enterprises have in terms of retail sales value in the PRC bedding products market accounted for about 6.8% of the total market share, with the highest ranking enterprise accounting for 1.8% of the total market share while we ranked as the eighth largest bedding product manufacturer, accounting for 0.4% of the total market share, according to market research conducted by Euromonitor. According to a certification dated 7 November 2008, the China Home Textile Association recognised us as one of the leading manufacturers of home textile products in China

SUMMARY

in 2007. Our “TAIFENG” brand was also recognised by the Trademark Bureau of the PRC State Administration for Industry and Commerce as a Well-known Trademark with respect to our bedding products in April 2009.

A large portion of our bedding products are sold as branded bedding products in China under our “TAIFENG” brand and a smaller portion are sold as OEM bedding products and are consumed overseas. We also sell a small portion of our bedding products under the “IBENA” brand after we obtained the relevant license in July 2008. For further details, please see “Business — Sales and Marketing — Bedding products — “IBENA” brand” in this prospectus. Starting from 2008, to strengthen our position in the bedding products market in China, we have been focusing on domestic sales of our branded bedding products in China. A majority of our branded bedding products are sold in the PRC through distributors. Our Directors believe that our major distributors sell our products mainly on a bulk basis to their corporate customers. We do not own or directly manage the sales network, including the retail stores and counters, of our bedding product distributors. We also market our branded bedding products at retail stores and counters we directly operate. We strategically select well-known chain stores and department stores, including Walmart, INZONE Department Store, Liquin Group and RT-Mart to open our directly-operated counters.

We entered into a cooperation agreement with Combest, a renowned PRC healthy bedding product chain management company with over 2,000 franchised stores in China in later December 2009. Pursuant to the cooperation agreement, (1) we intend to send our “Taifeng” branded bedding products in 100 designated Combest stores for trial operation by the second quarter of 2010 which will be increased to 300 stores by the third quarter of the same year, and eventually in all the stores of the franchised network of Combest by 2011, (2) we will be designated manufacturer and supplier of the non-functional parts of the healthy bedding products series of Combest, and (3) we and Combest will jointly develop new products and new brand name for the bedding product market and jointly enjoy the resulting benefits of the newly developed brand names and relevant trademarks. Our Directors believe that the cooperation with Combest will benefit our brand building and development by leveraging on the sales network of Combest and support demand for our bedding products through designated production for Combest stores.

As at the Latest Practicable Date, our sales network consisted of 47 distributors and 18 retail stores or counters some of our distributors operate, as well as 4 retail stores and 115 counters at chain stores and department stores we directly operate. As far as our Directors are aware, our bedding product distributors are domestic entities engaged in trading and distribution of home textile products in the PRC and overseas. Our Directors believe that our major distributors sell our products mainly on a bulk basis to their corporate customers. Our extensive sales network covers 19 provinces and municipalities in China. In addition, a number of renowned overseas home textile retailers procure our OEM bedding products from our overseas distributor customers. For direct export sales of our cotton yarns and bedding products with our overseas customers, our Directors confirm that (i) it is our responsibility to ensure compliance with the relevant export laws and regulations in the PRC and (ii) our customers arrange for customs clearance in overseas countries and hence their obligation to ensure compliance with the relevant import laws and regulations in the overseas countries. Our PRC legal advisers opined that they are not aware of any violation of applicable PRC import and export laws and regulations by Shandong Taifeng.

SUMMARY

In order to develop and strengthen our domestic bedding product sales, in December 2009, we engaged a PRC marketing consultancy company to provide consultancy services on our sales and marketing in various aspects including brand strategy planning and promotion, optimisation of our product structure, market analysis, promotion of store image, strengthening distributorship management, and training in sales and marketing. The term of the consultancy service agreement is from 18 December 2009 until 31 December 2012.

To meet the demand for our bedding products, we currently have over 400 sewing machines and produced more than one million pieces/sets of bedding products each year during the Track Record Period. We offer more than 1,000 assortments of bedding products which are classified in terms of product functionalities, types, colours, styles and sizes etc. Our expertise in yarn spinning enables us to meet the changing consumer demand for bedding products utilising new fabrics produced by cotton yarns blended with special materials (e.g. Tencel[®] and modal fibres) possessing different functional properties to increase the functional properties of our bedding products. Our strong research and development capability in the production of cotton yarns and bedding products, coupled with our stable and extensive network of supplies, enables us to establish a comprehensive business chain which brings us synergies and distinguishes us from our competitors.

We are strategically located in Shandong Province, one of the largest cotton producing provinces and a major cotton textile producing area in the PRC. Our strategic location allows us to procure raw materials and sell our finished products in a timely and cost effective manner. Situated in Laiwu City of Shandong Province, our production base occupies a total gross floor area of over 230,000 sq.m. and houses six cotton yarn workshops and one bedding product workshop.

We enjoyed significant growth in revenue and profitability in recent years. Our revenue increased from RMB934.3 million for the year ended 31 December 2007 to RMB1,354.1 million for the year ended 31 December 2009, representing a CAGR of 20.4%. During the same periods, our profit before taxation increased from RMB123.8 million for the year ended 31 December 2007 to RMB307.1 million for the year ended 31 December 2009, representing a CAGR of 57.5%.

The following table sets out our revenue by products during the Track Record Period:

	For the year ended 31 December					
	2007		2008		2009	
	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%
Cotton Yarns	785,226	84.0	785,862	74.3	736,938	54.4
Bedding Products						
OEM bedding products	135,425	14.5	65,195	6.2	96,614	7.2
Branded bedding products	<u>13,647</u>	<u>1.5</u>	<u>206,467</u>	<u>19.5</u>	<u>520,516</u>	<u>38.4</u>
Sub-total	<u>149,072</u>	<u>16.0</u>	<u>271,662</u>	<u>25.7</u>	<u>617,130</u>	<u>45.6</u>
Total revenue	<u><u>934,298</u></u>	<u><u>100.0</u></u>	<u><u>1,057,524</u></u>	<u><u>100.0</u></u>	<u><u>1,354,068</u></u>	<u><u>100.0</u></u>

SUMMARY

In 2008, we shifted the focus of our bedding products business from OEM bedding products to branded bedding products, and our sales of branded bedding products increased by 152.1% for the year ended 31 December 2009, which was driven principally by a 105.9% increase in their sales volume, reflecting primarily the successful expansion of the geographical coverage of our distribution channels from 6 distributors in 3 provinces and municipalities as of 31 December 2007 to 45 distributors and 16 retail stores or counters some of our distributors operate, as well as 4 retail stores and 78 retail counters at chain stores and department stores we directly operates in 15 provinces and municipalities as of 31 December 2009 and a 22.4% increase in the average selling price of our branded bedding products. For OEM bedding products, the increased sales were driven principally by a 44.3% increase in their sales volume reflecting the increase in the market demand for our OEM bedding products. For further details regarding the changes in financial performance during the Track Record Period, please see the section headed “Financial Information” in this prospectus.

COMPETITIVE STRENGTHS

We believe we possess the following competitive strengths to capitalise on significant opportunities to grow our business:

- Extensive distribution network to increase the sales of our bedding products in China;
- A scaled business capable of producing quality products that enjoys synergies from economies of scale;
- Comprehensive product portfolio with strategic focus on high value-added products;
- Strong research and development capabilities and production expertise;
- Well-established brand name with a strong customer base; and
- Experienced, stable and committed management team.

BUSINESS STRATEGIES

Our principal strategies and future plans are:

- Enhancing sales operations and strengthening brand building for bedding products;
- Enhancing product design and quality control capabilities; and
- Expanding and upgrading production capacity with a focus on high value-added products.

SUMMARY

SUMMARY HISTORICAL FINANCIAL INFORMATION

The following table summarises the consolidated statement of comprehensive income data from our consolidated financial statements during the Track Record Period (the “Financial Statements”), details of which are set out in the Accountants’ Report in Appendix I to this prospectus. The Accountants’ Report has been prepared in accordance with HKFRS. Investors should read these selected consolidated financial data together with Appendix I to this prospectus and the discussion under the section headed “Financial Information” in this prospectus.

	Year ended 31 December		
	2007	2008	2009
	<i>(RMB'000)</i>		
Revenue	934,298	1,057,524	1,354,068
Cost of sales	(769,323)	(870,556)	(957,737)
Gross profit	164,975	186,968	396,331
Other income	12,186	11,414	11,031
Distribution and selling expenses	(11,590)	(14,470)	(21,609)
Administrative expenses	(16,820)	(23,228)	(33,702)
Listing expenses	(5,465)	—	(26,012)
Finance costs	(19,473)	(28,788)	(18,950)
Profit before taxation	123,813	131,896	307,089
Income tax expense	—	(24,962)	(58,801)
Profit for the year	123,813	106,934	248,288

OFFER STATISTICS

Unless otherwise stated, the preparation of the Global Offering statistics assumes the Over-allotment Option is not exercised. The Offer Price range of HK\$2.06 to HK\$3.09 per Share takes no account of brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%.

	Based on an Offer Price of HK\$2.06 per Share	Based on an Offer Price of HK\$3.09 per Share
Market capitalisation of the Shares ⁽¹⁾	HK\$2,060 million	HK\$3,090 million
Historic price/earnings multiple ⁽²⁾	7.30 times	10.96 times
Unaudited pro forma adjusted net tangible asset value per Share ⁽³⁾⁽⁴⁾	HK\$1.245	HK\$1.483

SUMMARY

Notes:

- (1) The calculation of market capitalisation is based on the assumption that 1,000,000,000 Shares will be in issue immediately following the completion of the Global Offering and the Capitalisation Issue.
- (2) The calculation of historic price/earnings multiple is based on the audited earnings per Share for the year ended 31 December 2009 of HK28.2 cents on a pro forma basis at the respective Offer Price.
- (3) Unaudited pro forma adjusted net tangible asset value per Share is based on the assumption that 1,000,000,000 Shares will be in issue immediately following the completion of the Global Offering and the Capitalisation Issue and an Offer Price of HK\$2.06 and HK\$3.09 respectively.
- (4) The unaudited pro forma net tangible assets of the Group attributable to the equity holders of the Company does not take into account the special dividend of RMB80.0 million declared by the Board on 25 January 2010, which was paid to the then eligible Shareholders on 20 May 2010. The unaudited pro forma net tangible assets per share would have been reduced to HK\$1.155 and HK\$1.392 per share based on the Offer Price of HK\$2.06 and HK\$3.09 respectively, after taking into account the payment of the special dividend in the sum of RMB80.0 million.

DIVIDEND POLICY

Our Company declared a special dividend of RMB50.0 million on 28 November 2009 payable to our then eligible Shareholders. Our Company also declared a special dividend of RMB80.0 million on 25 January 2010 payable to the then holders of our Shares whose names appeared on our register of members on 28 November 2009. As advised by our PRC legal advisers, according to the articles of Shandong Taifeng and the applicable PRC laws and regulations, the principal procedures for the payment of special dividends of RMB50.0 million and RMB80.0 million by Shandong Taifeng to its offshore shareholder, namely Ever Link, are (i) passing of board resolutions by Shandong Taifeng for the declaration of dividends, (ii) obtaining relevant taxation certificates from the responsible taxation authorities, and (iii) completing the approval procedures for offshore remittance with the relevant designated remitting banks. Shandong Taifeng had passed relevant board resolutions for the declaration of the special dividends on 28 November 2009 and 25 January 2010 and made applications to the local taxation authorities for the issue of the necessary taxation certificates. The said applications had been accepted by the local taxation authorities and Shandong Taifeng had applied for the approval of offshore remittances with the designated remitting banks once the taxation certificates were issued. The special dividends were paid to the eligible Shareholders in 20 May 2010, after the approval for offshore remittances had been obtained. Investors should pay attention to the possible impact on our cashflow and working capital as a result of the payment of the special dividend. Shandong Taifeng, our key operating subsidiary, declared dividends of RMB21.2 million in the financial year of 2006, which were fully paid in the financial year of 2007. Save as disclosed above, no other dividend was paid by us or any of our subsidiaries during the Track Record Period. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

Our Directors may declare dividends in the future after taking into account our operating results, financial conditions, capital requirements, cash requirements including capital expenditure, restrictions under the terms of our credit facilities (if any), our development plans and other factors deemed relevant by our Directors. Cash dividends on the Shares, if any, will be paid in Hong Kong dollars.

SUMMARY

Any declaration and payment as well as the amount of dividends will be subject to our Company's constitutional documents and the Cayman Islands Companies Law. Our Shareholders in general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Directors. In addition, our Directors may from time to time pay such interim dividends as appear to be justified by our Group's profits, or special dividends of such amounts and on such dates as they think fit. No dividend shall be declared or payable except out of our Group's profits and reserves lawfully available for distribution.

Future declarations of dividends may or may not reflect our Group's historical declarations of dividends and will be at the absolute discretion of our Directors. Future dividend payments by our Company will also depend upon the availability of dividends received from its subsidiary in China. PRC laws require that dividends be paid only out of net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require foreign-invested enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our Group's subsidiaries may also be restricted if they incur debt or losses, or in accordance with any restrictive covenants in bank credit facilities or other agreements that our Company or its subsidiaries and associated companies may enter into in the future.

Subject to the above-mentioned, beginning on our financial year ending 31 December 2010, our Directors currently intend to declare a dividend in an amount equivalent to not less than 20.0% of the consolidated profit attributable to equity holders of our Company for each financial year.

FUTURE PLANS AND USE OF PROCEEDS FROM THE NEW ISSUE

We estimate that the aggregate net proceeds from the New Issue (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering) will be approximately HK\$565.3 million (or HK\$669.5 million assuming the Over-allotment Option is exercised in full), assuming an Offer Price of HK\$2.575 per Share, which is the mid-point of the indicative Offer Price range of HK\$2.06 to HK\$3.09 per Share.

We currently intend to apply the net proceeds from the New Issue as follows:

- approximately HK\$345.5 million (or RMB304.0 million) (approximately 61.1% of the estimated net proceeds from the New Issue based on an assumed Offer Price of HK\$2.575 per Share, being the mid-point of the indicative Offer Price range, assuming the Over-allotment Option is not exercised) for sales operation enhancement and brand building in our bedding products business, in which,
 - approximately HK\$169.4 million (or RMB149.0 million) will be used for establishment of new retail stores and counters as follows:
 - (i) approximately HK\$14.0 million (or RMB12.3 million) will be used for the set up of 11 directly-operated retail stores by the end of 2011, providing for the renovation cost, rental of retail stores and sales staff payroll of the retail stores;

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- (ii) approximately HK\$33.3 million (or RMB29.3 million) will be used for the set up of 189 directly-operated retail counters by the end of 2011, providing for the renovation cost, sales staff payroll and retail counter entrance fee and promotional expenses to be paid to the chain stores or department stores;
- (iii) approximately HK\$20.5 million (or RMB18.0 million) will be used to subsidise the distributors by one-off subsidies for the set up of about 300 distributor-operated retail stores or retail counters by the end of 2011;
- (iv) approximately HK\$101.6 million (or RMB89.4 million) will be used for the establishment of new retail stores and counters between 2012 and 2014;
- approximately HK\$113.2 million (or RMB99.6 million) will be used for advertisements and promotion as follows:
 - (i) approximately HK\$78.2 million (or RMB68.8 million) will be used as advertising expenses on television commercial on central and provincial television channels;
 - (ii) approximately HK\$1.4 million (or RMB1.2 million) will be used for advertisement in newspaper and magazine;
 - (iii) approximately HK\$2.3 million (or RMB2.0 million) will be used for new product pronouncement function;
 - (iv) approximately HK\$3.4 million (or RMB3.0 million) will be used for outdoor billboard advertisement;
 - (v) approximately HK\$1.8 million (or RMB1.6 million) will be used for participation in exhibitions or trade fairs;
 - (vi) approximately HK\$26.1 million (or RMB23.0 million) will be used as branding ambassador fee;
- approximately HK\$56.8 million (or RMB50.0 million) will be used for acquiring and/or development of new brand name; and
- approximately HK\$6.1 million (or RMB5.4 million) will be used for implementation of information system for our sales network.
- approximately HK\$170.5 million (or RMB150.0 million) (approximately 30.1% of the estimated net proceeds from the New Issue based on an assumed Offer Price of HK\$2.575 per Share, being the mid-point of the indicative Offer Price range, assuming the Over-allotment Option is not exercised) for the expansion and upgrade of our production capacity, in which,

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- approximately HK\$39.8 million (or RMB35.0 million) will be used for acquisition of new production line to enhance the production capacity of bedding products through land acquisition, construction of plant building and the acquisition of about 500 new sewing machines which we intend to purchase the new production facilities from relevant third party equipment and machinery providers;
- approximately HK\$73.9 million (or RMB65.0 million) will be used for acquiring land and buildings for production purposes. The relevant land and buildings which we intend to acquire is part of the lands and buildings situated at both sides of Panlonghe Street and western side of Yuntaishan Road, Economic and High-technology Development Zone, Laiwu City, Shandong Province, the PRC (i.e. the property no. 3 referred to in Appendix IV to this prospectus) with State-owned Land Use Rights Certificate (Lai Wu Shi Guo Yong 920070 Di No. 0359) and have a total site area of 46,475 sq.m. and a total gross floor area of 35,069 sq.m. We currently leased the relevant land and buildings from TTG and occupied the same pursuant to a tenancy agreement dated 22 May 2009 as supplemented by a supplemental agreement dated 16 November 2009. We have an option under the said tenancy agreement to purchase the relevant property at any time during the tenure. For further details, please refer to “Business — Properties — Leased properties” in this prospectus. The Stock Exchange has exercised its discretion under Rule 14A.06 of the Listing Rules to deem TTG as a connected person (as defined in the Listing Rules) of our Company until the 7 TTG Shareholders have fully settled the considerations for the TTG Transfer. As such, if we purchase the relevant property from TTG, the transaction will be subject to, among other things, the connected transactions requirements under the Listing Rules. We will comply with the Listing Rules in this regard and make further announcements as and when appropriate; and
- approximately HK\$56.8 million (or RMB50.0 million) will be used for upgrading our existing lines to enhance the compact spinning production capacity in relation to our cotton yarn production by upgrading our 400 spinning machines to achieve compact spinning.
- approximately HK\$22.9 million (or RMB20.2 million) (approximately 4.1% of the estimated net proceeds from the New Issue based on an assumed Offer Price of HK\$2.575 per Share, being the mid-point of the indicative Offer Price range, assuming the Over-allotment Option is not exercised) for the enhancement of our product design and quality control capabilities, in which,
 - approximately HK\$19.4 million (or RMB17.1 million) will be used for acquisition of new testing and assessment equipment for our bedding products; and
 - approximately HK\$3.5 million (or RMB3.1 million) will be used for improvement of product design of bedding products.
- approximately HK\$26.4 million (or RMB23.3 million) (approximately 4.7% of the estimated net proceeds from the New Issue based on an assumed Offer Price of HK\$2.575 per Share, being the mid-point of the indicative Offer Price Range, assuming the Over-allotment Option is not exercised) for working capital and general corporate purposes.

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We will not receive any of the proceeds from the sale of Sale Shares by the Selling Shareholder. In the event the Offer Price is finally determined at the high or low end of the indicative Offer Price range, assuming the Over-allotment Option is not exercised, the Selling Shareholder will receive approximately HK\$81.9 million and HK\$53.4 million respectively after deduction of underwriting commission and estimated expenses payable by the Selling Shareholder.

In the event the Offer Price is finally determined at the high or low end of the indicative Offer Price range and assuming the Over-allotment Option is exercised in full, the net proceeds of the New Issue that we estimate we would receive from subscriptions for additional Shares would increase by approximately HK\$241.0 million or decrease by approximately HK\$36.3 million respectively, as compared with the amount described above (which is based on the mid-point of the indicative Offer Price range). In the event the Offer Price is finally determined at the high end, assuming the Over-allotment Option is exercised in full, we currently intend to allocate approximately HK\$187.3 million of the net proceeds for brand building in our bedding products and/or approximately HK\$53.8 million of the net proceeds for working capital and general corporate purposes. In the event the Offer Price is finally determined at the low end, assuming the Over-allotment Option is exercised in full, we currently intend to reduce the net proceeds applied for brand building in our bedding products by approximately HK\$14.8 million and/or for working capital and general corporate purposes by approximately HK\$21.5 million.

In the event the Offer Price is finally determined at the high or low end of the indicative Offer Price range, the net proceeds from the New Issue (assuming the Over-allotment Option is not exercised) would increase by approximately HK\$117.2 million or decrease by approximately HK\$120.2 million respectively, as compared with the amount described above (which is based on the mid-point of the indicative Offer Price range). If the Offer Price is finally determined at the high end of the indicative Offer Price range, we currently intend to use the additional net proceeds of HK\$117.2 million as follows:

- (i) HK\$33.9 million for the establishment of additional new retail stores and counters between 2012 and 2014;
- (ii) HK\$67.7 for advertisements and promotion and/or;
- (iii) HK\$15.6 million for working capital and general corporate purposes.

If the Offer Price is finally determined at the low end of the indicative Offer Price range, we currently intend to reduce the net proceeds from the New Issue applied for brand building in our bedding products by HK\$116.4 million and/or for working capital and general corporate purposes by HK\$3.8 million.

To the extent the net proceeds from the New Issue 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 external sources of financing. We currently believe that the net proceeds from the New Issue, when combined with such external sources of financing, are sufficient for the uses set forth above. To the extent that the net proceeds from the New Issue are not immediately applied for the above purposes, we intend to deposit the net proceeds from the New Issue into interest-bearing accounts with banks or other financial institutions. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

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RISK FACTORS

Our Directors believe that there are certain risks involved in our business operations and the investment in the Global Offering. A detailed discussion of the risk factors is set out in the section headed “Risk Factors” in this prospectus. These risks can be categorized as follows:

Risks relating to our business

- We rely on the sales of cotton yarns to generate a majority of our revenue.
- We have a limited operating history in the sales of our branded bedding products through third-party distributors.
- We may not be able to develop commercially successful products.
- The gross profit margins of most of our cotton yarn products fluctuated significantly during the Track Record Period and may continue to fluctuate with our changing operating environment.
- We rely on a few major customers for a significant portion of our revenue.
- We do not have a comprehensive credit checking policy.
- We generally do not enter into long-term contracts with our customers.
- We depend on third-party distributors for the sales of our bedding products and promotion of our brands in the PRC but we may not have sufficient control over them.
- We rely on our distributors for the expansion of our retail sales network but they may not be willing to accommodate the needs of our business plans.
- Our operating results may be adversely affected by fluctuations in prices and supplies of raw cotton and fabrics.
- We rely on a small number of suppliers of raw cotton and fabrics for a significant portion of our raw material purchases.
- We need additional capital to fund the expansion of our operations and growth in the future, which we may not be able to obtain on acceptable terms, or at all.
- We may not be able to fully realise our intended expansion plan or open the targeted number of new stores and counters.
- Significant exchange of our bedding products by our distributors may result in impairment losses, which would increase our operating expenses and adversely affect our profitability.
- We may not be able to accurately track the inventory level at our distributors.

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- Our cooperation with Combest is still at preliminary stage and future performance of the cooperation agreement with Combest might not be guaranteed.
- Non-compliance with the social insurances and housing fund contribution regulations in the PRC could lead to imposition of penalties or other liabilities.
- We have extensive transactions with TTG.
- Certain of our production facilities are situated on leasehold properties.
- Our success and continued growth are dependent on our key management team.
- Our licence for the use of “IBENA” brand in the PRC may be subject to termination.
- We rely on a stable supply of labour at reasonable cost.
- We may face disruptions in our production process.
- We have limited insurance coverage.
- We may not be able to adequately protect our intellectual property rights or may inadvertently infringe upon third party intellectual property rights.
- We are subject to foreign exchange risks.
- The preferential tax treatment we currently enjoy may be changed or discontinued.
- We may incur additional costs or liquidated damages in the event of product recalls, defects or claims.
- We are exposed to credit risks of our customers.
- Our policies in respect of management of financial risks may not be sufficient and effective.
- Investors may experience difficulty in effecting service of legal process and enforcing judgments against us and our management.
- Investors may experience difficulties in enforcing their shareholder rights as our Company is incorporated in the Cayman Islands, and Cayman Islands laws for protection of minority shareholders may be different from those under the laws of Hong Kong and other jurisdictions.
- Dividends paid in the past may not be indicative of the amount of future dividend payments or our future dividend policy.

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Risks relating to the industry

- We operate in a highly competitive industry and we may lose our market share if we do not compete successfully.
- Import quotas, higher tariffs or other trade barriers imposed by the United States, the European Union or other WTO member nations on the textile industry may have a material adverse impact on our results of operations.
- The demand for our products could be adversely affected by the availability of non-cotton substitutes.
- Our Controlling Shareholders may exert substantial influence over our Group and may not act in the best interest of the other Shareholders.

Risks relating to the PRC

- The current global market fluctuations and economic downturn could materially adversely affect our business, financial condition and results of operations.
- Changes in political and economic policies may have a negative impact on our operations.
- Introduction of new laws or changes to existing laws by the PRC government may adversely affect our business.
- PRC foreign exchange control may limit our ability to utilise our revenue effectively and affect our ability to receive dividends and other payments from our PRC subsidiaries.
- The implementation of the new Employment Contract Law and increase in labour costs in the PRC may adversely affect our business and profitability.

Risks relating to the Global Offering

- The trading volume and price of our Shares may fluctuate.
- There has been no prior public market for our Shares and an active trading market may not develop.
- Investors will experience dilution of pro forma adjusted net tangible asset value because the Offer Price is higher than our net tangible book value per Share and may also experience dilution if we issue additional Shares in the future.
- Future sales of a substantial number of our Shares in the public market could materially adversely affect the prevailing market price of our Shares.
- The current market conditions may not be reflected in the statistical information provided in this prospectus.

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- Investors should not place undue reliance on industry and market information and statistics from official government publications contained in this prospectus.
- Investors should not place undue reliance on information derived from research reports contained in this prospectus.
- Forward-looking statements contained in this prospectus are subject to risks and uncertainties.

RELATIONSHIP WITH TTG

TTG was incorporated in the PRC on 27 December 2001. It is currently principally engaged in the manufacturing and sales of cotton fabrics and property development.

There had been common shareholders and directors between TTG and Shandong Taifeng since the date of incorporation of TTG. On 26 June 2008, the 7 Individual Shareholders transferred all their respective interest in TTG to the 7 TTG Shareholders, and since then, TTG and Shandong Taifeng no longer have common shareholder. On 7 July 2009, the resignation of Mr. Liu Qingping from his position as non-executive chairman of TTG was registered with the relevant PRC authority, and since then, TTG and Shandong Taifeng no longer have any common director.

As at the Latest Practicable Date, none of our Directors held any directorate or supervisory position in TTG. To the best knowledge of our Directors, as at the Latest Practicable Date, TTG were owned as to 99.09% by the ESU-TTG and 0.91% by 13 Independent Third Parties (other than the 7 TTG Shareholders).

We had extensive transactions with TTG during the Track Record Period. These transactions were recorded as related party transactions during the Track Record Period which related to purchases of raw cotton, fabrics and other materials, sales of cotton yarns, bedding products and other materials, supply of electricity and steam, leasing of properties, and provision of financial assistance. Certain of these transactions are expected to continue after Listing. The Stock Exchange has exercised its discretion under Rule 14A.06 of the Listing Rules to deem TTG as a connected person of our Company until such time when the 7 TTG Shareholders fully settled the consideration for the TTG Transfer shareholdings in June 2008. For further details of the related party transactions during the Track Record Period, please refer to Note 29 to the Accountants' Report set out in Appendix I to this prospectus. Please also refer to sub-sections headed "Customers", "Suppliers", "Fuel and utilities" and "Properties" in the "Business" section, and the "Financial Information" section of this prospectus for further details of the transactions with TTG.

We had extensive transactions with TTG due to our long business relationship with TTG and its predecessor, Laiwu City Textile Factory, the more established supplies and sales networks of TTG in the past and its geographical proximity to our Group.

TTG was our largest customer in terms of sales of cotton yarns, bedding products and other materials for the years ended 31 December 2007, 2008 and 2009, which together accounted for 39.0%, 22.1% and 16.0% of our total revenue during the same periods. TTG was also our largest supplier in

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terms of purchases of raw cotton, fabric and other materials for the years ended 31 December 2007, 2008 and 2009, which together accounted for 39.3%, 37.1% and 29.3% of our total raw material purchases during the same periods.

Through years of development, we have developed our supplies and sales networks and diversified our supplier and customer bases, and hence our procurement from and sales to TTG have gradually decreased during the Track Record Period. We have also gradually developed direct business relationship with the ultimate suppliers of raw cotton and the ultimate customers of cotton yarns and bedding products of TTG. Therefore, the scale of transactions with TTG has been continuously decreasing during the Track Record Period. While our Directors expect that the scale of transactions with TTG will continue to reduce after Listing, whether and to what extent we will continue to have transactions with TTG will depend on the commercial terms TTG and other customers and suppliers can offer subject to the caps for the continuing connected transactions.

For further details, please see “Relationship with TTG and Laiwu Runfeng — TTG” in this prospectus.

DEFINITIONS

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

“7 Individual Shareholders”	Mr. Liu Qingping, Mr. Li Dengxiang, Ms. Qi Tongli, Mr. Liu Chunwei, Mr. Zou Shengzhong, Mr. Meng Qingli and Mr. Huang Qige
“7 TTG Shareholders”	Mr. Liu Jian, Mr. Guo Yangang, Mr. Shen Liying, Mr. Sun Yanshen, Ms. Wang Jianyun, Mr. Duan Lunzhen and Mr. Zhang Xinjun
“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 conditionally adopted on 18 November 2009 to take effect on the Listing Date, a summary of which is contained in Appendix V to this prospectus
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“business day”	a day (other than a Saturday, a Sunday or a public holiday in Hong Kong) on which banks in Hong Kong are open for normal banking business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalisation Issue”	the issue of 749,999,000 new Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in the paragraph headed “1. Further Information about the Company and its subsidiaries — C. Resolutions in writing of the Shareholders of the Company passed on 18 November 2009 and 21 April 2010” in Appendix VII to this prospectus
“Cayman Islands Companies Law”	the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant

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“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant or CCASS Custodian Participant or CCASS Investor Participant
“chief executive”	the chief executive (as defined in the SFO) of the Company
“China” or “PRC”	the People’s Republic of China. Except where the context requires, references in this prospectus to the PRC or China do not include Hong Kong, the Macau Special Administration Region or Taiwan
“China Taifeng”	China Taifeng International Private Limited, formerly known as International Taifeng Holdings Pte, Ltd., a company incorporated under the laws of Singapore on 17 August 2006. The principal activity of China Taifeng is investment holding
“China Merchants Securities”	China Merchants Securities (HK) Co., Limited, a licensed corporation under the SFO, authorised to conduct types 1, 2, 4, 6 and 9 regulated activities under the SFO, being one of the Joint Bookrunners and the Joint Lead Managers
“CIMB” or “Sole Sponsor”	CIMB Securities (HK) Limited, a licensed corporation under the SFO, authorised to conduct types 1, 4 and 6 regulated activities under the SFO
“Combest”	Guangdong Combest Healthy Bedding Products Chain Management Company* (廣東康佰健康臥室連鎖管理有限公司)
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	International Taifeng Holdings Limited (國際泰豐控股有限公司) (formerly known as Taifeng Holdings Limited (泰豐控股有限公司)), an exempted company incorporated with limited liability in the Cayman Islands on 21 May 2009
“connected person(s)”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules, and in the context of our Company, means the 7 Individual Shareholders, Harvest Sun and Fu Sun, details of their shareholdings are set forth in the section headed “History, Reorganisation and Group Structure — Reorganisation and sale of shares by the 7 Individual Shareholders — (III) Our shareholding structure after the Global Offering”
“Daiwa” or “Sole Global Coordinator”	Daiwa Capital Markets Hong Kong Limited, a licensed corporation under the SFO, authorised to conduct types 1, 2, 4 and 6 regulated activities under the SFO
“Director(s)”	one or all of our directors
“EIT”	enterprise income tax
“ESU-TTG”	the employee shareholders union of TTG
“Euromonitor”	Euromonitor International Plc, an Independent Third Party, which engages in the provision of international market intelligence including consumer products, services and lifestyles
“Ever Link”	Ever Link Creation Limited (永興創建有限公司), a company incorporated in Hong Kong with limited liability on 9 October 2008. The principal activity of Ever Link is investment holding. Ever Link is an indirect wholly owned subsidiary of our Company
“Fu Sun”	Fu Sun Development Limited (富生發展有限公司), a company incorporated in the BVI with limited liability on 2 January 2009. The principal activity of Fu Sun is investment holding. It is wholly owned by Mr. Liu Qingping
“GEM”	the Growth Enterprise Market of the Stock Exchange
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Green Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group”, “our Group”, “we” or “us”	our Company and its subsidiaries or, where the context otherwise requires, in respect of the period before our Company becoming the holding company of its present subsidiaries, such subsidiaries and the business carried on by them or (as the case may be) their predecessors

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“Harvest Sun”	Harvest Sun Enterprises Limited (富盈企業有限公司), a company incorporated in the BVI with limited liability on 2 January 2009. The principal activity of Harvest Sun is investment holding. It is wholly owned by the 7 Individual Shareholders
“HKAS”	Hong Kong Accounting Standards
“HKFRS”	Hong Kong Financial Reporting Standards issued by HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“Holistic”	Holistic Development Ltd (全方位發展有限公司), a company incorporated in the BVI with limited liability on 4 July 2006. The principal activity of Holistic is investment holding
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Public Offering”	the offer of the Public Offer Shares by our Company for subscription by members of the public in Hong Kong (subject to adjustment as described in the section headed “Structure and Conditions of the Global Offering” in this prospectus) for cash at the Offer Price, payable in full on application, and subject to the terms and conditions stated herein and in the Application Forms
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 28 May 2010 relating to the Hong Kong Public Offering entered into between, amongst others, our Company, our executive Directors, our Controlling Shareholders, the Sole Global Coordinator and the Hong Kong Underwriters, particulars of which are set forth in the section headed “Underwriting” in this prospectus
“IBENA Licensing Agreement”	the strategic cooperation agreement and its supplemental agreement between us and IBENA Shanghai in respect of the licence of the use of the “IBENA” brand dated 7 May 2008 and 2 July 2009, respectively

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“IBENA Shanghai”	IBENA Shanghai Technical Textiles Co., Ltd* (上海伊貝納紡織品有限公司), the licensor of the “IBENA” brand to our Group pursuant to the IBENA Licensing Agreement
“Independent Third Party(ies)”	party(ies) which are independent of and not connected with any director, chief executive or substantial shareholder of our Company or any of its subsidiaries or any of their respective associates within the meaning of the Listing Rules
“International Offer Shares”	the 222,000,000 New Shares being offered by our Company for subscription and the 30,000,000 Sale Shares being offered by the Selling Shareholder for purchase under the International Offering subject to adjustment and together, where relevant, with any additional Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option as further described in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“International Offering”	the conditional placing of the International Offer Shares by the International Underwriters on behalf of our Company and the Selling Shareholder, at the Offer Price outside the United States (including to professional, institutional and corporate investors and excluding retail investors in Hong Kong) in reliance on Regulation S as further described in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“International Placing Agreement”	the conditional underwriting agreement expected to be entered into on or about the Price Determination Date, between, amongst others, our Company, the Selling Shareholder, our executive Directors, our Controlling Shareholders, the Sole Global Coordinator and the International Underwriters in respect of the International Offering, particulars of which are set forth in the section headed “Underwriting” in this prospectus
“International Underwriters”	the underwriters of the International Offering whose names are set forth in the section headed “Underwriting — International Underwriters” in this prospectus
“Issuing Mandate”	the general unconditional mandate given to our Directors by our Shareholders relating to the issue of new Shares, particulars of which are set forth in the paragraph headed “1. Further Information about the Company and its subsidiaries — C. Resolutions in writing of the shareholders of our Company passed on 18 November 2009 and 21 April 2010” in Appendix VII to this prospectus
“Joint Bookrunners”	Daiwa and China Merchants Securities

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“Joint Lead Managers”	Daiwa and China Merchants Securities
“Laiwu Runfeng”	Laiwu Runfeng Textile Co. Ltd.* (萊蕪市潤豐紡織有限公司), a company established in the PRC on 11 July 2000. It is a wholly-owned subsidiary of Holistic
“Latest Practicable Date” or “LPD”	24 May 2010, being the latest practicable date for ascertaining certain information in this prospectus prior to its printing
“Listing”	the listing of our Shares on the Main Board
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about 11 June 2010, on which our Shares are listed on the Main Board
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of the GEM (excluding the options market) and which continues to be operated by the Stock Exchange in parallel with GEM
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company, as amended from time to time, a summary of which is contained in Appendix V to this prospectus
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部) or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外貿易經濟合作部)
“municipality”	cities administered directly under the central government in the PRC
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“New Issue”	the issue of 250,000,000 New Shares under the Global Offering by our Company for subscription at the final Offer Price
“New Shares”	the 250,000,000 new Shares initially being offered at the final Offer Price by our Company under the Global Offering and, where relevant, any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option

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“New EIT Law”	the new PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) promulgated by the National People’s Congress on 16 March 2007 and became effective on 1 January 2008
“Offer Price”	the final price per Share in Hong Kong dollars (exclusive of the brokerage fee, SFC transaction levy and Stock Exchange trading fee) at which our Shares are to be subscribed for and issued pursuant to the Hong Kong Public Offering, to be determined in the manner further described in “Structure and Conditions of the Global Offering — Pricing of the Global Offering” in this prospectus
“Offer Shares”	the Public Offer Shares and the International Offer Shares together, where relevant, with any additional Shares issued pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option to be granted by us to the Sole Global Coordinator, exercisable by it on behalf of the International Underwriters pursuant to the International Placing Agreement
“PBOC”	The People’s Bank of China (中國人民銀行), the central bank of the PRC
“PBOC Rate”	the exchange rate for foreign exchange transactions set daily by the PBOC based on the previous day’s China interbank foreign exchange market rate and with reference to current exchange rates on the world financial markets
“People’s Congress”	the legislative apparatus of the PRC, including the National People’s Congress and all the local people’s congresses (including provincial, municipal and other regional or local people’s congresses) as the context may require, or any of them (人民代表大會)
“PRC GAAP”	the generally accepted accounting principles of the PRC
“PRC Government” or “State”	the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them
“Price Determination Date”	the date on which the final Offer Price is to be determined by our Company (for itself and on behalf of the Selling Shareholder) and the Sole Global Coordinator (for itself and on behalf of the other Underwriters), which is expected to be on or about 4 June 2010 and in any event not later than 12:00 noon on 5 June 2010

DEFINITIONS

“Public Offer Shares”	the 28,000,000 newly issued Shares offered by us for subscription under the Hong Kong Public Offering, representing 10% of the initial number of the Offer Shares subject to adjustment as described in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“Regulation S”	Regulation S under the US Securities Act
“Reorganisation”	the reorganisation of the group of companies now comprising our Group, as more particularly described in the section headed “History, Reorganisation and Corporate Structure” in this prospectus and the paragraph headed “2. Corporate Reorganisation” in Appendix VII to this prospectus
“Repurchase Mandate”	the general unconditional mandate to repurchase Shares given to our Directors by our Shareholders, particulars of which are set forth in the paragraph headed “5. Repurchase by the Company of its own Securities” in Appendix VII to this prospectus
“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of the PRC
“SAFE”	the PRC State Administration of Foreign Exchange (中華人民共和國國家外匯管理局)
“SAIC”	the PRC State Administration for Industry and Commerce (中華人民共和國國家工商行政管理總局)
“Sale Shares”	the 30,000,000 existing Shares being offered for sale by the Selling Shareholder at the final Offer Price under the International Offering
“Selling Shareholder”	Harvest Sun, the Selling Shareholder’s particulars appear in the paragraph headed “8. Other information — I. Particulars of the Selling Shareholder” in Appendix VII to this prospectus
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shandong Taifeng”	Shandong Taifeng Textile Co., Ltd* (山東泰豐紡織有限公司), an indirect wholly-owned subsidiary of our Company established in the PRC on 9 January 2001
“Shanghai Taifeng”	Shanghai Taifeng Home Textile Co., Ltd* (上海泰豐家紡有限公司), an indirect wholly-owned subsidiary of our Company established in the PRC on 2 July 2008

DEFINITIONS

“Shareholder(s)”	holder(s) of Shares
“Shareholder’s Loan”	the sum of Singapore Dollars 40,972,501.00 owing from Ever Link to Harvest Sun arising from steps (e) and (i) of the Reorganisation, details of which are set out in the paragraph headed “2. Corporate Reorganisation” in Appendix VII to this prospectus
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of our Company
“Singapore”	Republic of Singapore
“sq.m.”	square metre(s)
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Borrowing Agreement”	a stock borrowing agreement to be entered into on or around the Price Determination Date between the Sole Global Coordinator and Harvest Sun
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it in section 2 of the Companies Ordinance
“Substantial Shareholder”	has the meaning ascribed to it under the Listing Rules
“Superior Delight”	Superior Delight Limited (佳喜有限公司), a company incorporated in the BVI with limited liability on 2 January 2009. The principal activity of Superior Delight is investment holding. Its sole shareholder and sole director is Mr. Huang Quan. Mr. Huang is a businessman and is the executive chairman of Chinasing Investment Holdings Limited (Stock code: C16), a company listed on the Singapore Exchange Securities Trading Limited. Save for their shareholdings in our Company, both Superior Delight and Mr. Huang Quan are Independent Third Parties
“Taifeng Home Textile”	Laiwu Taifeng Home Textile Co. Ltd.* (萊蕪泰豐家紡有限公司), a company incorporated in the PRC on 22 April 2002
“Taifeng Properties”	Shandong Taifeng Properties Company Limited* (山東泰豐置業有限公司), a company incorporated in the PRC on 23 September 2005 and a subsidiary of TTG

DEFINITIONS

“Taishan Paper”	Shandong Taishan Paper Manufacturing Limited* (山東泰山造紙有限責任公司), a company incorporated in the PRC on 31 December 2003 and an Independent Third Party
“Track Record Period”	means the years ended 31 December 2007, 2008 and 2009
“TTG”	Taifeng Textile Group Co., Ltd* (泰豐紡織集團有限公司), a company incorporated in the PRC on 27 December 2001
“TTG Transfer”	as defined under the section headed “Relationship with TTG and Laiwu Runfeng” in this prospectus
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Placing Agreement
“United States” or “U.S.” or “US”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“USD” or “US\$” or “U.S. dollars”	United States dollars, the lawful currency of the United States
“VAT”	value-added tax
“WFOE”	wholly foreign-owned enterprise
“White Form eIPO”	the application for Public Offer Shares to be issued in the applicant’s own name, submitted online through the designated website of the White Form eIPO Service Provider, www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“WTO”	World Trade Organisation
“Yong Xin”	Yong Xin Development Limited (信發展有限公司), a company incorporated in the BVI with limited liability on 23 January 2008. The principal activity of Yong Xin is investment holding. Yong Xin is a direct wholly-owned subsidiary of our Company
“%”	percent

DEFINITIONS

For illustration purposes only and unless otherwise specified in this prospectus, amounts denominated in RMB and USD have been translated into HK\$ at the rate of RMB0.8809 = HK\$1.00 and USD1.00 = HK\$7.7500, respectively. No representation is made that the RMB and USD amounts could have been, or could be, converted into HK\$ at such rates or at any other rate on such date or on any other date.

Unless expressly stated or the context requires otherwise:

- all percentages and figures, including share ownership and operating data, have been rounded, and accordingly, totals of rows or columns of numbers in tables may not be equal to the apparent total of the individual items;
- where information is presented in thousands or millions of units, amounts may have been rounded up or down; and
- all references to any shareholdings in our Company assume no exercise of the Over-allotment Option unless otherwise specified.

For ease of reference, the names of the PRC established companies or entities have been included in this prospectus in both the Chinese and English languages. The name in Chinese language is the official name of each such company or entity, while that in English language is only an unofficial translation, and in the event of any inconsistency, the Chinese version shall prevail.

* *For identification purpose only*

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations of certain terms used in this prospectus as they relate to us and as they are used in this prospectus in connection with us and our business. These terms and their given meanings may not correspond to standard industry definitions.

“bedding product(s)”	single pieces of bed covers, flat sheets, pillows, pillow cases, bed sheets, quilts and quilt covers, as well as combination sets of such bedding products
“combed cotton yarn(s)”	a stronger, finer and smoother yarn, the production of which requires an additional process known as combing which further straightens the cotton fibres and extracts foreign matters
“compact spinning”	a system of spinning which is performed by adding a condenser unit between the drafting zone and the yarn formation zone that uses air flow to group the fibre strands horizontally thereby producing better yarns than the ordinary combed cotton yarns. Compact yarns can reduce the hairiness, increase the efficiency of weaving machines and save dyes and sizing and desizing costs, making the fabrics more environmentally friendly. Siro-spinning is a type of compact spinning performed by Siro-spinning machines
“cotton yarn(s)”	cotton thread used in knitting and weaving which is produced from cotton that has been put through a spinning process
“cotton blend yarn(s)”	the combination of cotton yarns with two or more types of staple fibres and/or colours in one yarn
“fibre-blended yarn(s)”	cotton blend yarn consisting of cotton and other non-cotton fibres such as dacron, silk, bamboo and soybeans fibre etc
“GB”	GuoBiao (國標), a collective term for the mandatory national standard character encodings of China; a GB standard for a particular application usually corresponds to a relevant international standard in the same application
“GB/T398-93”	GB standard for quality of original-coloured cotton yarn products
“ISO”	International Organisation for Standardisation, a worldwide federation of national standards bodies from all over the world
“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 of which: ISO9001:2000 was released in December 2000
“jacquard cloth”	a fabric with large, intricate designs woven into it by jacquard equipment

GLOSSARY OF TECHNICAL TERMS

“jet spinning”	a system of spinning which is performed by feeding a wet yarn or a dry yarn plus a small amount of water into a high-speed jet of air. Yarns textured in such a process contain a large number of very fine filaments
“knotless cotton yarn(s)”	cotton yarn that is made by two or more yarn threads twisted or rubbed together without knots
“modal cotton yarn(s)”	a kind of natural environment-friendly cotton yarn made from cotton and reconstituted cellulose from beech trees, which is harmless to humans. Modal cotton yarn has a higher level of hygroscopicity or water absorbency than that of normal cotton, is resistant to shrinkage and is soft and shiny. Knitted fabrics and surface fabrics made from it feel like silk
“OEM”	abbreviation of “original equipment manufacturer”, which refers to a manufacturer that supplies a product to its customers, who sell them in their own brands
“ring spinning”	a system of spinning which spins yarns by twisting a strand of fibres with a revolving spindle
“sewing machine”	a type of machine used to fasten or tack fabric pieces together to produce clothing or household furnishings. Common sewing machines include lockstitch machines, double-needled sewing machines and quilting machines
“sliver”	an untwisted strand rope of textile fibre produced by a carding or combing machine and ready for drawing, roving, or spinning
“spindle”	an upright, slender and rotating rod which holds a bobbin on an spinning machine. When the spindle is rotated at high speed, the bobbin placed on the spindle receives the yarn. Spinning capacity is largely determined by the quantity and speed of spindles
“spinning machine”	a type of machine used to convert fibers into yarns. The traditional and commonly-used spinning system in cotton textile industry is ring-spinning. Other spinning systems used include jet spinning and compact spinning

GLOSSARY OF TECHNICAL TERMS

- “Tencel[®]” Tencel[®] is the brand name for a fibre called Tencel[®], and a trademark of Lenzing Inc. Tencel[®] is a cellulosic fibre made from wood pulp cellulose through a proprietary Tencel[®] production process. This fibre is twisted or spun into yarn which has different characteristics from normal cotton yarn, and which is woven or knitted into fabrics and garments. Tencel[®] is a man-made fibre but natural in origin. This means that it is very comfortable to wear because it is breathable and absorbent, like other natural fibres. Tencel[®] is durable and fabrics made from it are long lasting
- “Uster Standards” benchmarks commonly used as the basis for the trading of textile products at assured levels of quality across global markets, and set out in the USTER[®] *STATISTICS* as published Uster Technologies AG. The benchmarks cover the entire textile production process, from the raw textile fibre, such as cotton, to the final finished fabric. The USTER[®] *STATISTICS 2007*, which is the current version of the USTER[®] *STATISTICS*, represents a long series of fibre, yarn, roving and sliver tests. The assessments conducted by Uster Technologies AG for the USTER[®] *STATISTICS 2007* began in 2001 and concluded in 2006
- “winding machine” a type of machine used to combine two or more cotton yarn threads into a single thread of cotton yarn and also for further processing and shaping to make cotton yarn more shiny and even. Cotton yarn after processing by a winding machine becomes a finished product
- “yarn count” thickness of a yarn which is based on the relation between length and weight of the yarn and can be represented by the number of fixed lengths of yarn per standard weight

RISK FACTORS

You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our Shares in the Global Offering. You should pay particular attention to the fact that our business is located largely in China, where we are governed by a legal and regulatory environment that differs in many respects from that which prevails in other countries. Our business could be materially and adversely affected by any of the risks and uncertainties described below. The trading price of our Shares could decline due to any of these risks and uncertainties and you may lose all or part of your investment. This prospectus contains certain forward-looking statements regarding our Director's or our Group's plans, objectives, expectations and intentions which involve risks and uncertainties.

RISKS RELATING TO OUR BUSINESS

We rely on the sales of cotton yarns to generate a majority of our revenue.

We derive a significant proportion of our revenue from the manufacture and sale of cotton yarns during the Track Record Period. Sales of cotton yarns accounted for 84.0%, 74.3% and 54.4% of our revenue and 96.9%, 55.8% and 21.2% of our reportable segment profit before taxation for the years ended 31 December 2007, 2008 and 2009, respectively. For our cotton yarns business segment, our customers are primarily textile product manufacturers and wholesalers in the PRC and overseas countries. Our revenue is therefore dependent on the demand and supply of the textile markets in which we sell our products.

The demand for, and the price of, our cotton yarns in the textile markets are subject to fluctuations and uncertainties. Our revenue is also affected by trade barriers imposed by countries importing textile products manufactured in the PRC, which may adversely affect the export performance of textile manufacturers in the PRC. In addition, any Renminbi appreciation would also make exports of the PRC textile manufacturers less competitive. Further, any significant downturn in the textile industry is also likely to affect the demand for our cotton yarn products, which in turn will have an adverse impact on our business and results of operations.

In 2003, to diversify our revenue sources, we began our bedding products business. There is no assurance that we can successfully broaden our revenue sources or, even if we can, such additional revenue sources could generate revenue for us at a level comparable to that from the sale of cotton yarns. In the event that there is any material change in the market demand for and/or price of our cotton yarns, and we are unable to develop alternative revenue sources, we would be forced to rely exclusively on the sales of cotton yarns as our only source of revenue and our business, financial condition, results of operations and prospects could be materially adversely affected.

We have a limited operating history in the sales of our branded bedding products through third-party distributors.

We began our bedding products business in 2003 as a distributor of bedding products. We acquired the bedding products manufacturing business of Taifeng Home Textile in 2006. A large portion of our bedding products are sold as branded bedding products in China under our "TAIFENG" brand and a smaller portion are sold as OEM bedding products and are consumed overseas. We also sell a small portion of our bedding products under the "IBENA" brand after we obtained the relevant license in July

RISK FACTORS

2008. Starting from 2008, we began focusing on the sales of our branded bedding products in the PRC. Sales of our branded bedding products amounted to RMB13.6 million, RMB206.5 million and RMB520.5 million for the years ended 31 December 2007, 2008 and 2009, which accounted for 1.5%, 19.5% and 38.4% of our revenue, respectively, during the same periods. The significant increase in our sales of branded bedding products in 2008 and 2009 was mainly attributable to the increase in the sales through third-party distributors mainly on a bulk basis to their corporate customers. Sales of our branded bedding products, particularly through third-party distributors, is relatively new to our overall operations, and of which we have little experience. There is no assurance that we can apply, or benefit from, our experience and know-how in the cotton yarns business or the sales of bedding products on an OEM basis when we develop and operate our branded bedding product business. If we are unable to effectively manage our sales network including our distributors in the sales of our branded bedding products, our business, financial condition, results of operations and prospects could be adversely affected. In addition, we believe that brand image is one of the key factors in consumers' decision in purchasing bedding products. In view of the relatively short history of "TAIFENG" and "IBENA" branded bedding products, failure to promote and position our brands accordingly may adversely affect the sales of our branded bedding products.

We may not be able to develop commercially successful products.

The success of our business is dependent upon our ability to continuously develop new products through research and development to meet our customers' requirements, diversify revenue streams and introduce new product designs to cater to customers' preferences. Product design and research and development require investments in time, resources and capital expenditure. If our development efforts do not lead to introduction of new products that meet market demand on a timely basis or manufacture of products that are innovative or superior to those of our competitors or are well accepted by the market, our profitability and prospects may be adversely affected.

The gross profit margins of most of our cotton yarn products fluctuated significantly during the Track Record Period and may continue to fluctuate with our changing operating environment.

We produce cotton yarns with a wide range of yarn count and characteristics such as fibre-blended (like Tencel[®] and modal cotton yarns), combed and knotless. The success of our cotton yarns business depends on the profitability of our various cotton yarn products, especially our fine-count and high-count cotton yarns, which were the focus of our cotton yarns segment during the Track Record Period. Although we have been constantly adjusting our product mix of cotton yarns during the Track Record Period with a view to increase profitability, the weighted average gross profit margin of our cotton yarns segment fluctuated during the Track Record Period, being 20.3%, 13.8% and 12.3% for the years ended 31 December 2007, 2008 and 2009, respectively. These fluctuations were principally driven by the fluctuation in the average selling prices of various cotton yarn products, reflecting the changes in the market demand as a result of the volatile macroeconomic conditions, especially the global economic downturn and the related slowdown of the PRC cotton yarn industry.

Specifically, although the gross profit margins of our medium-count increased in certain periods, the gross profit margins of the remaining categories decreased throughout the Track Record Period. For instance, the gross profit margins of our coarse-count, medium-count, fine-count and high-count cotton yarns decreased to 8.4%, 0.3%, 11.1% and 22.5%, respectively, for the year ended 31 December 2008 from 13.7%, 9.1% and 12.4% and 36.9%, respectively, for the year ended 31 December 2007. The

RISK FACTORS

decrease in the gross profit margin of our coarse-count cotton yarns was mainly driven by the decrease in the average selling price from RMB13,568 per tonne for the year ended 31 December 2007 to RMB13,443 per tonne for the year ended 31 December 2008, as a result of the intense competition in the coarse-count cotton yarn market in 2008. The decreases in the gross profit margins of our medium-count and fine-count cotton yarns were mainly due to an increase in the average unit cost of sales of these cotton yarn products, reflecting primarily the higher depreciation expenses allocated for the cost of sales of these products resulting from our utilisation of the new production facilities acquired from TTG in December 2006 for some of the production of such cotton yarn products. Similarly, the gross profit margins of our coarse-count, medium-count, fine-count and high-count cotton yarns decreased to 8.4%, 0.3%, 11.1% and 22.5%, respectively, for the year ended 31 December 2008, and the gross profit margins of our coarse-count, fine-count and high-count cotton yarns further decreased to 5.4%, 9.7% and 15.5%, respectively, despite an increase to 9.8% for medium-count cotton yarns, for the year ended 31 December 2009. Such decreases were principally driven by the fluctuation in the average selling prices of most of our cotton yarn products, reflecting the changes in the market demand as a result of the global economic downturn and the related slowdown of the PRC cotton yarn industry.

There can be no assurance that the gross profit margins of our various cotton yarn products will increase in the future and any future volatile macroeconomic conditions or slowdowns of the PRC cotton yarns industry may affect the gross profit margins of our various cotton yarn products, and our business, financial conditions and results of operations may be materially adversely affected.

We rely on a few major customers for a significant portion of our revenue.

For the years ended 31 December 2007, 2008 and 2009, sales to our five largest cotton yarns customers accounted for 43.6%, 28.7% and 21.2% of our total revenue, and sales to our largest cotton yarns customer accounted for 29.2%, 18.6% and 15.7% of our total revenue, respectively.

For the years ended 31 December 2007, 2008 and 2009, sales to our five largest bedding products customers accounted for 14.1%, 17.8% and 34.9% of our total revenue, and sales to our largest bedding products customer accounted for 9.6%, 5.5% and 13.2% of our total revenue, respectively.

TTG was our largest cotton yarns customer for the years ended 31 December 2007, 2008 and 2009 and our largest bedding products customer for the year ended 31 December 2007 (but not 2008 and 2009), sales to which together accounted for 38.7%, 18.6% and 15.9% of our total revenue for the years ended 31 December 2007, 2008 and 2009.

Any failure to maintain good relationships with our large customers or any significant reduction in the volume of business with any of these customers or any significant restriction in the pricing terms for these customers would have a material adverse effect on our operating results and profitability.

We do not have a comprehensive credit checking policy.

We rely on the businesses generated by our customers (including distributors). However, we do not have a comprehensive credit checking policy on our customers (including distributors). Some of our customers (including distributors) have been established for a relatively short period of time and some have only had a short business history with us. These may give rise to concerns over whether all of our customers (including distributors) will in future continue to maintain or enhance their respective current business levels with us. The complete financial and operational information of our customers (including

RISK FACTORS

our distributors) is not always available to our Directors, and our Directors are not in any position to obtain such information. If any of our major customers (including distributors) experiences any financial difficulties, our business with such customers and settlement of outstanding amounts owing to us may be adversely affected notwithstanding that we have conducted our ongoing credit analysis of our customers including relying on factors such as the length of business relationships, third party or governmental referral or introduction, our experience in dealing with such customers, market reputation, our business judgement and the settlement history in assessing our customers (including distributors) and monitoring our business and credit risks. However, any deterioration of the financial status of our customers (including distributors) may cause reduction in their orders for our products and/or expose us to higher credit risks in terms of their timeliness of payments which may in turn adversely affect our results of operations and profitability. Despite the possible risks that may arise from the lack of comprehensive credit checking policy on our customers (including distributors), we have so far not been subject to any material loss or bad debt resulting from the same.

We generally do not enter into long-term contracts with our customers.

We generate our revenues primarily from purchase orders our customers place with us and we generally do not enter into any long-term contracts with our customers. Some of our bedding products are also sold directly to consumers through our directly-operated retail stores and counters in China. Our customers may cancel, reduce or defer purchase orders at any time. Accordingly, the volume of our customers' purchase orders and the type of products sold may vary significantly from period to period. Therefore, it is difficult for us to forecast the quantities and trends of future orders. There is no assurance that any of our customers will continue to place purchase orders with us in the future at the same quantity and pricing level as in the current or prior periods, or at all. Furthermore, the actual volume of our customers' purchase orders may not be the same as our expectations at the time we make our future production and development plan. Accordingly, our results of operations may vary from period to period and may fluctuate significantly in the future.

We depend on third-party distributors for the sales of our bedding products and promotion of our brands in the PRC but we may not have sufficient control over them.

The sales of our bedding products and the promotion of our "TAIFENG" brand in the PRC are, to a large extent, dependent on our distributors, some of whom also sell some of our products through their retail stores and counters. As at the Latest Practicable Date, we had 47 bedding products distributors and a total of 18 retail stores and counters some of our distributors operate in China. As far as our Directors are aware, our bedding product distributors are domestic entities engaged in trading and distribution of home textile products in the PRC and overseas. Our Directors believe that our major distributors sell our products mainly on a bulk basis to their corporate customers. We do not own or directly manage the sales network, including the retail stores and counters, of our bedding product distributors. We commenced transactions with most of these distributors in 2008 and revenues from sales to them accounted for approximately 0.3%, 19.0% and 37.6% of our total revenue for the years 31 December 2007, 2008 and 2009, respectively. As we rely on and will continue to rely on our distributors as well as their established sales network for a substantial portion of our sales of bedding products, our future success in this business segment, particularly in the PRC, is dependent on the growth of the number of our distributors, their sales performance and their ability to grow their sales network.

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We enter into cooperation agreements with our bedding product distributors. If any of them terminates or does not renew its cooperation agreement with us, we may not be able to locate a replacement distributor in a timely manner. In addition, the replacement distributor(s) may not be able to manage a sales network of similar scale. In either case, our financial condition and results of operations may be materially adversely affected.

Pursuant to the cooperation agreements, we give our distributors the right to sell our products on an exclusive basis in the territories assigned to them and our distributors are required to provide their sales reports for our market analysis upon request, sell our branded bedding products at the same price in the PRC and obtain our prior approval for opening additional stores and counters. Notwithstanding the cooperation agreements, we may not have sufficient control over the sales operations of our distributors to ensure the success of, or to prevent negative market perception about, our brands. Our sales may be represented by accumulating inventory at the level of our distributors instead of actual sales growth. Despite our uniform pricing policy, in practice, our Directors believe certain of our distributors including the top five distributors make adjustments to the suggested standard prices and fix their own prices in their sales operations which may in turn inflict damage to our brand value. Material deviations from our policies by a substantial number of our distributors could result in, among others, erosion of goodwill, decrease in the market value of our brands and an unfavourable public perception about the quality of our products, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We rely on our distributors for the expansion of our retail sales network but they may not be willing to accommodate the needs of our business plans.

We sell a majority of our branded bedding products in China through our distributors. We rely on our existing and new distributors to assist us in exploring new markets for our products and identifying potential locations for new stores. As at the Latest Practicable Date, we had 47 distributors and a total of 18 retail stores and counters some of our distributors operated in China. As far as our Directors are aware, our bedding product distributors are domestic entities engaged in trading and distribution of home textile products in the PRC and overseas. Our Directors believe that our major distributors sell our products mainly on a bulk basis to their corporate customers. Although our distributors are required to sell our products on an exclusive basis at the retail stores and counters operated by some of our distributors in the territories assigned to them, some of our distributors could distribute other branded bedding products, including our competitors' brands. If this occurs, there can be no assurance that they will always provide favorable retail store locations and marketing resources to us or that their expansion would be timely or sufficient in scope to satisfy the needs of our business plans.

Our operating results may be adversely affected by fluctuations in prices and supplies of raw cotton and fabrics.

Our raw materials are raw cotton and fabrics. We use raw cotton to produce our cotton yarns and fabrics to produce our bedding products. For the years ended 31 December 2007, 2008 and 2009, raw cotton accounted for 79.0%, 74.8% and 60.4% of our total cost of raw materials, respectively. During the same periods, fabrics accounted for the remaining 21.0%, 25.2% and 39.6% of our total cost of raw materials, respectively. Our cost of raw materials accounted for 76.9%, 74.4% and 75.4% of our cost of sales for the years ended 31 December 2007, 2008 and 2009, respectively. Because cotton is an agricultural product, its supplies and quality are vulnerable to many factors beyond our control,

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including weather, infestations and other forces of nature that can result in shortage in supplies and an increase in cotton price. Because cotton yarn is a principal raw material used in the production of fabrics, fluctuations in cotton prices and supplies also affect the prices and supplies of fabrics.

We purchase our raw materials from third party suppliers. To meet our production and delivery schedules, we must obtain sufficient quantities of raw materials on a timely basis at commercially reasonable terms. During the Track Record Period, we did not experience any disruption in our production due to shortage of raw materials supplies or significant increases in raw material prices. For the years ended 31 December 2007, 2008 and 2009, our unit costs of raw cotton were RMB14,306.6 per tonne, RMB13,208.6 per tonne and RMB11,514.0 per tonne, respectively. For the same periods, our unit cost of fabrics were RMB22.5 per metre, RMB20.6 per metre and RMB19.0 per metre, respectively. Any shortage of supplies of raw cotton and fabrics may cause disruption to our production. If there is a significant increase in the prices of raw materials in the future, our profitability would be materially adversely affected if we are unable to pass on the increased cost of raw materials to customers.

We rely on a small number of suppliers of raw cotton and fabrics for a significant portion of our raw material purchases.

We use raw cotton for the production of our cotton yarns and fabrics for the production of our bedding products. We source raw cotton mainly from Shandong Province and Xinjiang Autonomous Region in China and overseas mainly from the United States and Australia. We source fabrics mainly from Jiangsu Province and Shandong Province in China. For the years ended 31 December 2007, 2008 and 2009, our purchases of raw cotton from our five largest raw cotton suppliers accounted for 42.9%, 59.6% and 44.1% of our total purchases, respectively, and our purchases of raw cotton from our largest raw cotton supplier accounted for 24.3%, 30.8% and 27.3% of our total raw material purchases, respectively. During the same periods, our purchases of fabrics from our five largest fabrics suppliers accounted for 17.9%, 18.9% and 29.7% of our total purchases, respectively, and our purchases of fabrics from our largest fabric supplier accounted for 15.0%, 5.6% and 9.9% of our total raw material purchases, respectively. TTG was our largest raw cotton supplier for the years ended 31 December 2007, 2008 and 2009 and our largest fabric supplier for the years ended 31 December 2007 and 2008 (but not 2009), together accounting for 39.3%, 36.4% and 29.3% of our raw material purchase during the same periods.

In addition, except for framework supply agreements with several global cotton suppliers signed recently, we do not enter into long-term contracts with our raw material suppliers for constant supply of raw cotton and fabrics. The ability to source such raw materials at competitive prices in a timely manner is crucial to our success. Such ability allows us to meet our production requirements while managing our costs. Any failure to maintain good relationships with any of our major raw material suppliers could cause disruption in our raw material supplies necessary for our production requirements. If we are unable to locate alternative source of raw materials on time or at commercially reasonable terms, we could experience material production delays and materially increase our production costs, which could materially adversely affect our profit margin.

RISK FACTORS

We need additional capital to fund the expansion of our operations and growth in the future, which we may not be able to obtain on acceptable terms, or at all.

We need additional capital to fund our capital expenditure associated with expansion of our production capacity through the acquisition of new production machinery and technology upgrades in the future. There is no assurance that we will generate sufficient cash flow from operating activities for our intended expansion plans. In the event we do not have such operating cash flow, we will need to obtain alternative financing.

There is no assurance that we will be able to obtain adequate financing on acceptable terms, or at all. Our ability to obtain additional capital on acceptable terms will be subject to a variety of uncertainties, including:

- investor perceptions of and appetite for securities of companies engaged in the production and distribution of cotton yarns and bedding products;
- conditions in the capital and financial markets in which we may seek to raise funds;
- our future results of operations, financial condition and cash flows;
- Chinese governmental regulation of foreign investment in companies engaged in the production and distribution of cotton yarns and bedding products;
- economic, political and other conditions in China and the rest of the world;
- the amount of capital that other Chinese entities may seek to raise in the foreign capital markets; and
- Chinese governmental policies relating to foreign currency borrowings.

We may be required to scale back our planned capital expenditures, which may adversely affect our ability to achieve economies of scale and implement our planned growth strategy. The terms of any future debt facilities may also impose restrictive covenants that may restrict our business and operations. In the event that we breach any of these covenants, we may not be able to obtain waivers from our lenders. Our inability to raise additional funds in a timely manner and on terms favorable to us, or at all, may have a material adverse effect on our business, prospects, financial condition and results of operations.

We may not be able to fully realise our intended expansion plan or open the targeted number of new stores and counters.

Our expansion plan in relation to our sales network, including the implementation of a management information system, may not materialise according to plan. Our intended expansion plan may not generate significant revenues in the near term. In addition, the actual number of new stores and counters that can be opened by the end of 2010 may differ from the targeted number, which will depend on a number of factors such as the negotiations with individual landlords and distributors on terms acceptable to our Company.

RISK FACTORS

Our inability to realise our intended expansion plan or open the targeted number of new stores and counters may have a material adverse effect on our business, prospects, financial condition and results of operations.

Significant exchange of our bedding products by our distributors may result in impairment losses, which would increase our operating expenses and adversely affect our profitability.

To promote sales and to increase the competitiveness of our contract terms with our distributors, we allow retail stores and counters operated by our distributors to exchange, but not return, for a maximum of 50% of the initial purchase amount within three months of delivery and a maximum of 15% of the initial purchase amounts after three months of delivery. For each exchange, the value of the exchanged products is the same as the value of the products initially purchased by the distributors. There was no exchange of goods in 2007, and the amounts of goods exchanged for the years ended 31 December 2008 and 2009 were RMB213,000 and RMB47,000 which amounted to 0.1% and less than 0.1% of our sales to distributors during the same periods. However, if the amounts of exchange by our distributors increase in the future and we are unable to sell the products exchanged by the distributors to other customers for more than one year due to change of trends, customer preferences or for any other reason, we would need to record impairment loss for our bedding product inventory aged for one year or more. If the amount of such impairment increases significantly, our operating expenses would increase and our profitability would be materially adversely affected.

We may not be able to accurately track the inventory level at our distributors.

Our distributors have to provide sales information for our market analysis upon request according to their cooperation agreements with us. We also carry out random interviews with our distributors and/or on-site inspections of their retail stores and counters. The purpose of such interviews and/or inspections is to allow us to gather sufficient information regarding the market acceptance of our bedding products for us to adjust our marketing strategy. However, the implementation of the policy requires the cooperation of the distributors by accurately and timely reporting and submitting the relevant information to us, and we may not be able to verify the accuracy of the information provided by our distributors. As such, we may not be able to accurately track the inventory levels of our distributors, or to identify or prevent any excessive inventory built-up at their ends.

Our cooperation with Combest is still at preliminary stage and future performance of the cooperation agreement with Combest might not be guaranteed.

We entered into a cooperation agreement with Combest, a renowned PRC healthy bedding product chain management company with over 2,000 franchised stores in China, in late December 2009. Pursuant to the cooperation agreement, (1) we intend to send our “Taifeng” branded bedding products in 100 designated Combest stores for trial operation by the second quarter of 2010 which will be increased to 300 stores by the third quarter of the same year, and eventually in all the stores of the franchised network of Combest by 2011, (2) we will be designated manufacturer and supplier of the non-functional parts of the healthy bedding products series of Combest, and (3) we and Combest will jointly develop new products and new brand name for the bedding product market and jointly enjoy the resulting benefits of the newly developed brand names and relevant trademarks. For further details of our cooperation with Combest, please refer to “Business — Products — bedding products” in this prospectus.

RISK FACTORS

The cooperation agreement between Combest and us signifies a framework of our cooperation plans. We are in the process of completing further agreements with Combest containing specific agreement clauses pursuant to our cooperation agreement. We cannot guarantee the future performance of the cooperation agreement with Combest. In the event that we could not reach further agreements with Combest, we might be unable to realise part or all of our development plans with respect to the cooperation agreement with Combest, and our business might be adversely affected.

Non-compliance with the social insurances and housing fund contribution regulations in the PRC could lead to imposition of penalties or other liabilities.

Shandong Taifeng, our primary operating subsidiary in China, is required to make social insurance and housing fund contributions for the benefit of its own employees under relevant PRC laws and regulations. In addition, Shandong Taifeng is required to make work-related injury insurance contribution for the workforce it sourced from local labour stations pursuant to the labour employment agreements with such local labour stations and confirmations issued by such local labour stations. Due to differences in local regulations, the inconsistent implementation of regulations by local authorities in the PRC and different levels of acceptance of the social insurance and housing fund system by employees, Shandong Taifeng has not made social insurances contribution, including work-related injury insurance contribution, and housing fund contribution for its own employees and the workforce it sourced from local labour stations as and/or when required. As at 31 December 2009, Shandong Taifeng's outstanding amounts of social insurance and housing fund contributions amounted to RMB11.52 million and RMB1.0 million, respectively.

Shandong Taifeng made an inquiry with the local social insurance bureau as well as the local housing fund management centre on how Shandong Taifeng could make relevant contributions. On 2 February 2010, the local social insurance bureau issued a letter confirming that Shandong Taifeng (i) was permitted to make outstanding social insurance contributions in installments starting from 31 December 2009 of which we expect to make all the outstanding social insurance contributions by the end of June 2011, through 6 separate instalments to be paid at the end of each quarter; (ii) would not be subject to any penalties; and (iii) had complied with the relevant social insurance laws and regulations prior to 31 December 2006. On 1 February 2010, the local housing fund management centre issued a letter confirming that (i) Shandong Taifeng had made the housing fund registration with Laiwu Housing Fund Management Centre in October 2009 and had been making housing fund contribution starting from 1 October 2009; (ii) Laiwu Housing Fund Management Centre had waived the right to seek outstanding housing fund contributions, including any penalties, payable prior to 1 October 2009; and (iii) save for the above, Shandong Taifeng had complied with the relevant national and local housing fund laws and regulations and no penalty had been imposed on Shandong Taifeng due to the outstanding housing fund contributions.

The Controlling Shareholders have agreed to indemnify us against all losses suffered or incurred by us as a result of or in connection with the social insurance, housing fund and work-related injury contributions due to or payable for employees of our Group that any member of our Group has failed to make prior to Listing. In addition, save as disclosed above, Shandong Taifeng has complied with and will continue to comply with applicable laws and regulations and the requirement of the local social insurance bureau to make relevant contributions in the future. In addition, Shandong Taifeng has made a provision for the outstanding social insurance premiums for the years ended 31 December 2007, 2008 and 2009.

RISK FACTORS

However, if higher authorities of the local social insurance bureau and the local housing fund management center and the central government in the PRC take a position different from the confirmation letters as mentioned above in the future and the Controlling Shareholders fail to indemnify Shandong Taifeng against such losses, we could be ordered to make the outstanding contributions and be subject to penalties for late payment. The penalties for failure to make social insurance contributions are calculated at 0.2% per day of the outstanding amount and the penalties for failure to make housing fund contribution are not less than RMB10,000 and not more than RMB50,000. Based on the above, assuming that we did not pay the relevant social insurances and housing fund contributions within the prescribed time limits required by the labour insurance administrative department and the local housing fund management centre, the maximum possible penalties that might be imposed on the Group in relation to the social insurance contribution would be RMB7.3 million as at 31 December 2009, and the maximum possible penalties that might be imposed on the Group in relation to the housing fund contribution would be RMB50,000 as at 31 December 2009. Moreover, if Shandong Taifeng continues to fail to make contributions for social insurance, it may be found liable to pay medical expenses and other compensation for personal injuries. Payment of significant contributions, penalties and other liabilities could have an adverse effect on our reputation, cash flow and results of operation.

We have extensive transactions with TTG.

We had extensive transactions with TTG during the Track Record Period. These transactions were recorded as related party transactions during the Track Record Period which related to purchases of raw cotton, fabrics and other materials, sales of cotton yarns, bedding products and other materials, supply of electricity and steam, leasing of properties, and provision of financial assistance. Certain of these transactions are expected to continue after Listing. The Stock Exchange has exercised its discretion under Rule 14A.06 of the Listing Rules to deem TTG as a connected person of our Company until such time when the 7 TTG Shareholders fully settled the consideration for the transfer of the TTG shareholdings in June 2008. For further details of the related party transactions during the Track Record Period, please refer to Note 30 to the Accountants' Report set out in Appendix I to this prospectus. Please also refer to sub-sections headed "Customers", "Suppliers", "Fuel and utilities" and "Properties" in the "Business" section, the "Connected Transactions and Waivers" section, and the "Financial Information" section of this prospectus for further details of the transactions with TTG.

TTG was our largest raw cotton supplier and cotton yarn customer for the three years ended 31 December 2007, 2008 and 2009, our largest fabric supplier for the two years ended 31 December 2007 and 2008, and our largest bedding product customer for the year ended 31 December 2007 (but not 2008 and 2009).

Through years of development, we have developed our supplies and sales networks and diversified our supplier and customer bases, and hence our procurement from and sales to TTG have gradually decreased during the Track Record Period. We have also gradually developed direct business relationship with the ultimate suppliers of raw cotton and the ultimate customers of cotton yarns and bedding products of TTG. Therefore, the scale of transactions with TTG has decreased during the Track Record Period. The percentage of sales which include cotton yarns, bedding products and other materials, to TTG decreased from 39.0% of our total revenue for the year ended 31 December 2007 to 16.0% of our total revenue for the year ended 31 December 2009 and the percentage of purchases, which include raw cotton, fabrics and other materials, from TTG decreased from 39.3% of our raw material purchase for the year ended 31 December 2007 to 29.3% of our raw material purchase for the

RISK FACTORS

year ended 31 December 2009. While our Directors expect that the scale of transactions with TTG will continue to reduce after Listing, whether and to what extent we will continue to have transactions with TTG will depend on the commercial terms TTG and other customers and suppliers can offer subject to the caps for the continuing connected transactions.

Since we do not enter into long-term contracts with TTG, any failure to maintain good relationship with TTG, any significant reduction in the sales to or supplies from TTG, any significant restriction in the pricing terms with TTG, and/or any failure to locate comparable alternative customers/suppliers in a timely manner would have a material adverse effect on our operating results and profitability.

Certain of our production facilities are situated on leasehold properties.

We leased from TTG two properties which comprise four parcels of land with an aggregate site area of 204,066 sq.m. on which various buildings and structures are constructed with an aggregate leasable floor area of 155,547 sq.m. The properties are occupied by Shandong Taifeng for production and ancillary purposes. Pursuant to the two tenancy agreements both dated 22 May 2009, the properties are leased for a term of 20 years commencing from 22 May 2009 and expiring on 21 May 2029 at a monthly rent of RMB350,000 and RMB775,000, respectively. The rents might be adjusted after three years of the leases based on the market rent level, and we have the priority to renew the leases upon expiration of the relevant tenancy agreements. Moreover, we have an option to purchase the properties at any time during the lease term.

There is no assurance that TTG will honour its obligations to sell us the land when we exercise our option to purchase the land. In addition, in the event of an early termination by TTG of the lease agreements for any reason, we would be required to find alternative location for our production facilities, which could cause disruption to our operations. Moreover, there is no assurance that we would be able to secure alternative locations or negotiate lease agreements on commercially reasonable terms in a timely manner, or at all. If we were required to enter into new lease agreements at terms that are significantly more stringent to us, our business, financial position and future growth potential could be materially adversely affected.

Our success and continued growth are dependent on our key management team.

We believe that our success is, to a certain extent, attributable to the expertise and experience of our key management team, which includes Mr. Liu Qingping, Mr. Li Dengxiang, Mr. Liu Chunwei, Ms. Qi Tongli, Mr. Zou Shengzhong, Mr. Huang Qige, Mr. Yang Yuguo, Mr. Zou Shengcheng, Mr. Geng Zhensheng and Ms. Geng Yanling. The details of our management team, including their relevant areas of expertise, are set forth in “Directors, Senior Management and Employees”. Our management members possess in-depth know-how in their respective area of expertise, have made significant contribution to our business development and are responsible for implementing our business strategies. Our continued success is dependent, to a large extent, on the ability to attract and retain the services of the key management team. Accordingly, the loss of services of any of our key management without suitable and timely replacements may lead to disruption in our operations, loss or deterioration of important business relations and have a material adverse effect on our business operations and prospects.

RISK FACTORS

Our licence for the use of “IBENA” brand in the PRC may be subject to termination.

We licensed our “IBENA” brand from IBENA Shanghai for a term of five years since 1 July 2008. IBENA Shanghai was authorised by IBENA TEXTILWERKE GMBH (“German IBENA”), a German company and the registered holder of the “IBENA” brand, to licence the “IBENA” brand to us. Pursuant to the IBENA Licensing Agreement, we are granted the exclusive rights to use the “IBENA” brand for our bedding products in the PRC (including Hong Kong and Macau). For the years ended 31 December 2007, 2008 and 2009, the sales of “IBENA” branded products accounted for approximately nil, 0.1% and 0.3% of the annual sales of our bedding products, respectively. We launched the “IBENA” brand as a brand for high-end bedding products as part of our policy of brand diversification to differentiate our markets with different target consumers. For further details of the IBENA Licensing Agreement, please see “Business — Sales and Marketing — Bedding products — “IBENA” brand” in this prospectus.

IBENA Shanghai has the right to unilaterally terminate the IBENA Licensing Agreement upon the occurrence of certain events of default, as provided in the IBENA Licensing Agreement, which may or may not be within our control. The occurrence of any such event of default may lead to termination of the IBENA Licensing Agreement and payment of compensation. In addition, if IBENA Shanghai were to cease to have the right over the “IBENA” brand because its authority to licence to us was revoked by German IBENA for any reason, IBENA Shanghai would not be able to license the “IBENA” brand to us. If IBENA Shanghai were to terminate the IBENA Licensing Agreement upon occurrence of certain events of default and enter into a licensing agreement for the “IBENA” brand with our competitors or if IBENA Shanghai were to cease to have the right over the “IBENA” brand, our policy of brand management would be adversely affected and we will cease to generate any revenue from the sales of “IBENA” branded products, which would affect our business, branding strategy and prospects.

Moreover, while we have the pre-emptive rights of renewal on the same terms upon prior notice to IBENA Shanghai, there is no assurance that we will be able to renew the IBENA Licensing Agreement upon expiration. If we are unable to renew the IBENA Licensing Agreement upon expiration, our business, branding strategy and prospects of our bedding product business might be adversely affected.

We rely on a stable supply of labour at reasonable cost.

Our production remains highly labour-intensive. As at 31 December 2009, we had 4,559 employees in our production team and 102 staff in our research and development and product design team, out of our total 4,908 employees. Wages of our production and research and development and product design staff amounted to RMB45.5 million, RMB50.7 million and RMB62.5 million, which accounted for 5.9%, 5.8% and 6.5% of our cost of sales for the years ended 31 December 2007, 2008 and 2009, respectively.

There is no guarantee that our supply of labour and average labour cost will continue to be stable. If we fail to retain our existing labour and/or recruit sufficient labour in a timely manner, we may not be able to cope with sudden increase in demand for our products or our expansion plans. If we are not able to manufacture and deliver our products on schedule or if we are unable to implement our expansion plans, our business, financial condition, results of operations and prospects would be materially adversely affected. Moreover, if there is a significant increase in labour cost, the cost of our business operation would increase and our profitability would be adversely affected.

RISK FACTORS

We may face disruptions in our production process.

Our revenue is dependent on the continued operation of our production facilities. Our production process is subject to risks beyond our control including, amongst others, fire, breakdown, failure or sub-standard performance of our equipment, power shortage, labour strikes, natural disasters and any interruption in our operations as a result of any failure to comply with all applicable laws, regulations and standards in the PRC. Frequent or prolonged occurrence of any of the aforesaid events may have a material adverse effect on our business, financial condition and results of operation.

We have limited insurance coverage.

We maintain insurance policies covering risks in respect of properties and vehicles and goods in transit. There is no assurance that our insurance coverage would be sufficient to cover all our potential losses. For further details on the insurance policies we maintain, please see “Business — Insurance” in this prospectus. In the event that our insurance policies cannot sufficiently compensate for our losses sustained as a result of damage to items covered or howsoever incurred, we would have to pay for the difference ourselves and our cash flow and liquidity could be adversely affected.

We may not be able to adequately protect our intellectual property rights or may inadvertently infringe upon third party intellectual property rights.

We rely on a combination of registration and contractual rights to protect our intellectual property rights. For further details of our intellectual property rights, please see “Statutory and General Information — Further information about the business — B. Intellectual property rights of our Group” in Appendix VII to this prospectus. In addition to registration of our intellectual property rights, we have taken other appropriate measures such as signing of non-disclosure and confidentiality agreements to protect our intellectual property rights. There is no assurance that any of the above measures will be sufficient to prevent any misappropriation of our intellectual property. In the event that third parties infringe our intellectual property rights, we may face considerable difficulties and time consuming and costly litigation in order to enforce our intellectual property rights. If we are not able to effectively protect our intellectual property rights, our business, results of operations and financial condition could be adversely affected.

Similarly, there is no assurance that we will not be involved in intellectual property disputes. It is possible that we may inadvertently infringe the intellectual property rights of others and face liabilities for such infringements during the course of our business. We may, in the future, receive allegations from third parties asserting the infringement of their intellectual property rights in relation to our business and operations. Actions brought against us for infringement of third party intellectual property rights may adversely affect our reputation and business operations. In the event of an infringement claim, we may be required to spend significant resources to defend and/or to develop a non-infringing alternative and/or to obtain appropriate licences. We may not be successful in developing the alternative or obtaining the licences on reasonable terms, or at all. Any litigation, including frivolous litigation, can also result in significant costs and diversion of resources and may adversely affect our business and operating results.

RISK FACTORS

We are subject to foreign exchange risks.

Our domestic sales and purchases and operating expenses are denominated in RMB while our overseas sales and purchases are mainly denominated in U.S. dollars. Our foreign currency exchange risk arises mainly from a mismatch between the currency of our sales, purchases and operating expenses. To the extent that our sales, purchases and operating expenses are not denominated in the same currency, and to the extent that there are timing differences between invoicing, payment and collections, we will be exposed to foreign currency exchange gains and losses arising from transactions in currencies other than RMB. As a result, our earnings may be materially adversely affected. We recorded foreign exchange gains of RMB1.6 million for the year ended 31 December 2007. However, we recorded foreign exchange loss of RMB981,000 and RMB398,000 for the years ended 31 December 2008 and 2009.

Currently, we do not have any hedging policy with respect to our foreign exchange exposure. In view of the nature of our business, foreign exchange risks will continue to be an integral aspect of our risk profile in the future. We will continue to monitor our foreign exchange exposure in the future and will consider hedging any material foreign exchange exposure should the need arise.

The preferential tax treatment we currently enjoy may be changed or discontinued.

The PRC government provides tax incentive schemes to foreign-owned enterprises. Under PRC tax laws, a WFOE is entitled to a two-year income tax exemption period commencing from the first profit making year and a 50% reduction in EIT for the next three years. Our PRC operating subsidiary, Shandong Taifeng, is a foreign-invested manufacturing enterprise, pursuant to the approval of the relevant PRC tax authorities. In addition, Shandong Taifeng started making profits in the year ended 31 December 2006. As a result, Shandong Taifeng was entitled to EIT exemption for the period from 25 August 2006 to 31 December 2006 and in 2007 following its qualification as a foreign invested manufacturing company on 25 August 2006 and a 50% reduction in EIT in 2008, 2009 and 2010. Starting from 1 January 2011, Shandong Taifeng will be subject to the uniform tax rate of 25% after our tax benefits expire on 31 December 2010.

Additionally, the New EIT Law was promulgated by the National People's Congress on 16 March 2007 and became effective on 1 January 2008. The new law imposes a uniform income tax rate of 25% on both domestic and foreign invested enterprises. It also contemplates various transition periods for existing preferential tax treatments. According to the "Notice of the State Council on the Implementation of the Transitional Preferential Policies in respect of Enterprise Income Tax" (《國務院關於實施企業所得稅過渡優惠政策的通知》) ("Notice") promulgated by the PRC State Council and effective from 26 December 2007, enterprises entitled to preferential tax treatments prior to the new EIT law came into effect must gradually apply the uniform tax rate of 25% within five years from 1 January 2008. Enterprises entitled to preferential tax treatment prior to the new EIT law came into effect are able to continue to enjoy the relevant preferential treatments after the implementation of the New EIT Law until they expire.

There is no assurance that the PRC policies on preferential tax treatment will not change or that the current preferential tax treatment we enjoy will not be cancelled. If such changes and cancellation occur, the resulting increase in our tax liability would have a material adverse effect on our net profits and cash flow.

RISK FACTORS

We may incur additional costs or liquidated damages in the event of product recalls, defects or claims.

We may encounter disputes with our customers in relation to defects in workmanship, materials used and non-compliance with product specifications. Disputes and claims could result in undue delays in payment by our customers or protracted litigation, which will have a negative impact on our profits and financial position. In addition, we may face negative publicity with respect to our products, and will incur costs if we are required to undertake a massive recall of our products in the event of defects in workmanship, materials used and non-compliance with product specifications. Such additional costs will have an adverse effect on our financial condition and results of operation.

We are exposed to credit risks of our customers.

For the years ended 31 December 2007, 2008 and 2009, our average trade receivables turnover periods were 21 days, 31 days and 40 days, and the amounts of trade receivables written off as uncollectible amounted to RMB95,000, RMB349,000 and RMB411,000, respectively. We may have to relax our existing credit policies to enhance our market position when competition intensifies. We also face uncertainties over the timeliness of our customers' payments and their ability to pay. There is no assurance that we will be able to collect our trade debts on a timely basis or at all. Our financial position would be adversely affected if the rate of recovery of our trade receivables deteriorates. A material increase in bad and doubtful debts will adversely affect our financial performance.

Our policies in respect of management of financial risks may not be sufficient and effective.

Our principal financial instruments comprised trade and other receivables, amounts due from/to related companies, pledged bank deposits, bank balances, trade and other payables, amount due to a shareholder, and bank and other borrowings. The main risks associated with certain of these financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. We do not hold or issue derivative financial instruments either for hedging or for trading purposes. Our policies for financial risk management may not be sufficient. Further, there is a lack of hedging tools against financial risks in the PRC. If we fail to maintain effective risk management policies in respect of any of the financial risks in the future, our business, financial condition and results of operation may be materially adversely affected.

Investors may experience difficulty in effecting service of legal process and enforcing judgments against us and our management.

Almost all of our assets are located in the PRC. In addition, most of our Directors and officers reside within the PRC, and their respective assets may also be located within the PRC. It may be difficult to serve process on our Directors and officers in the PRC. In addition, a judgment of a court of another jurisdiction may only be recognized or enforced if the jurisdiction has a treaty with the PRC or as a matter of reciprocity, subject to satisfaction of other requirements. However, the PRC does not have treaties providing for the reciprocal enforcement of judgments of courts with major countries such as Japan, the United Kingdom, the United States and most other western countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in the PRC or Hong Kong of judgments of a court in these jurisdictions is subject to uncertainties.

RISK FACTORS

Investors may experience difficulties in enforcing their shareholder rights as our Company is incorporated in the Cayman Islands, and Cayman Islands laws for protection of minority shareholders may be different from those under the laws of Hong Kong and other jurisdictions.

Our corporate affairs are governed by, amongst other things, the Articles of Association, Cayman Islands Companies Law and common law of the Cayman Islands. The law of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in Hong Kong and other jurisdictions. The remedies available to the minority Shareholders may be limited compared to the laws of Hong Kong or other jurisdictions. For example, the Cayman Islands Companies Law does not contain an express provision which is equivalent to section 168A of the Companies Ordinance which provides a remedy for shareholders who have been unfairly prejudiced by the conduct of the company's affairs. For further business, please see "Summary of the constitution of the Company and Cayman Islands Companies Law" in Appendix V to this prospectus.

Dividends paid in the past may not be indicative of the amount of future dividend payments or our future dividend policy.

Our Company declared a special dividend of RMB50.0 million on 28 November 2009 payable to our then eligible Shareholders. Our Company also declared a special dividend of RMB80.0 million on 25 January 2010 payable to the then holders of our Shares whose names appeared on our register members on 28 November 2009. As advised by our PRC legal advisers, according to the articles of Shandong Taifeng and the applicable PRC laws and regulations, the principal procedures for the payment of special dividends of RMB50.0 million and RMB80.0 million by Shandong Taifeng to its offshore shareholder, namely Ever Link, are (i) passing of board resolutions by Shandong Taifeng for the declaration of dividends, (ii) obtaining relevant taxation certificates from the responsible taxation authorities, and (iii) completing the approval procedures for offshore remittance with the relevant designated remitting banks. Shandong Taifeng had passed relevant board resolutions for the declaration of the special dividends on 28 November 2009 and 25 January 2010 and made applications to the local taxation authorities for the issue of the necessary taxation certificates. The said applications had been accepted by the local taxation authorities and Shandong Taifeng had applied for the approval of offshore remittances with the designated remitting banks once the taxation certificates were issued. The special dividends were paid to the eligible Shareholders on 20 May 2010, after the approval for offshore remittances had been obtained. Investors should pay attention to the possible impact on our cashflow and working capital as a result of the payment of the special dividend. Shandong Taifeng, our key operating subsidiary, declared dividends of approximately RMB21.2 million which were fully paid in the financial year of 2007. We financed the payment of such dividends with our internal resources. Save as disclosed above, no other dividend was paid by us or any of our subsidiaries during the Track Record Period. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future. In the future, our dividend payment will be subject to our results of operations, cash flows, financial conditions and future prospects and other factors considered relevant by our Directors. Potential investors should note that the dividend payments in the past should not be used as a reference for the determination of our future dividend policy.

RISK FACTORS

RISKS RELATING TO THE INDUSTRY

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

The cotton yarns and bedding products manufacturing business is highly competitive. We compete with large, vertically-integrated cotton yarns and bedding products manufacturers and numerous smaller manufacturers. For domestic sales of cotton yarns and bedding products, we mainly face direct competition from major players in the industry in the PRC. For bedding products exported to overseas markets, we face competition from both domestic and foreign manufacturers, which include many companies that are larger in size and have greater financial resources than us.

The principal competitive factors that influence our customers' purchasing choices include product variety, product quality and price. The importance of these factors is determined by the needs of particular customers and the characteristics of particular products. If our competitors are able to offer more variety of products of comparable quality at lower prices, our sales and market share could be materially adversely affected. Moreover, overall decline in demand for our products could exert a downward pressure on our prices and erode our profit margins.

We are exposed to the risk that companies, whether smaller, more specialized manufacturers or multinationals with greater financial resources, may enter our market in the future. There may also be consolidation in the industry resulting in larger and integrated players with significantly increased market share. Furthermore, in order to gain market share, our competitors may price 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 adversely affect our results of operations.

Import quotas, higher tariffs or other trade barriers imposed by the United States, the European Union or other WTO member nations on the textile industry may have a material adverse impact on our results of operations.

After the phase-out of the Agreement on Textiles and Clothing (紡織品與服裝協議) as of 1 January 2005, which imposed import quotas on textiles and garments from developing countries, the United States and the European Union imposed import restrictions on textiles from China to reduce the impact of an influx of Chinese textiles imports according to the relevant provisions of the special safeguards on importing textiles from China stipulated under the paragraph 242 of the Report of the Working Party on the Accession of China to the WTO (中國加入世貿組織工作組報告書). The PRC government settled the trade disputes with both the United States and European Union through separate memoranda of understanding that prescribed annual quotas and caps on annual increases of quotas on 21 categories and 10 categories of Chinese textiles imports into the United States and European Union, respectively. The memoranda of understanding entered into between the European Union and China as well as between United States and China had expired on 31 December 2008. The special safeguards on importing textiles from China as provided for under paragraph 242 of the Report of the Working Party on the Accession of China to the WTO also had expired on 31 December 2008.

In September 2006, the PRC Ministry of Commerce promulgated the Measures for the Administration of the Export of Textiles (Provisional). Under this system, effective on 18 September 2006, China-based textile manufacturers exporting to countries or regions that have imposed restrictions

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on Chinese textile exports or entered into bilateral agreements with China regarding temporary arrangements relating to the quantity of their imports of China-made textiles, are required to apply for a license in order to export the affected categories of textiles products to these markets. The rules apply to the then effective memorandum of understanding entered into between the European Union and China as well as between United States and China.

For the years ended 31 December 2007, 2008 and 2009, export sales accounted for 10.2%, 13.7% and 7.3%, respectively, of our total revenue. Our Directors confirm that currently our products are not subject to any import restrictions by any of our overseas markets. However, under current WTO rules, the United States, the European Union or other WTO member nations may impose import quotas, higher tariffs or other trade barriers on specific categories of textiles from China to prevent domestic market disruptions. If the countries to which we export were to impose quota restrictions or any other forms of trade restrictions such as annual growth limits on imports, technical regulations and standards on imports and environmental protection requirements against textile products from the PRC, our financial condition and results of operation may be adversely affected by the imposition of any such trade barriers.

The demand for our products could be adversely affected by the availability of non-cotton substitutes.

Currently, our products are mainly cotton-based products. There are a variety of non-cotton and synthetic materials which can be used as substitutes for cotton in the manufacture of textile products. Accordingly, the demand for cotton-based textile products may be adversely affected by an increase in the demand or ease of availability of non cotton-based substitute products. In the event that there is a decrease in market demand for cotton-based textile products, and we are unable to adapt our operations to produce non cotton-based textile products, our business and financial results may be adversely affected.

Our Controlling Shareholders may exert substantial influence over our Group and may not act in the best interest of the other Shareholders.

Upon completion of the Global Offering, our Controlling Shareholders and their associates will collectively own approximately 55.5% of our issued share capital. Our Controlling Shareholders may be able to significantly influence our corporate actions such as mergers or takeover attempts in a manner that could conflict with the interests of other Shareholders.

RISKS RELATING TO THE PRC

The current global market fluctuations and economic downturn could materially adversely affect our business, financial condition and results of operations.

The global capital and credit markets have been experiencing extreme volatility and disruption since 2008. Concerns over inflation, energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market and the state of the residential real estate market in the U.S. and elsewhere have contributed to unprecedented levels of market volatility and weak investor sentiment for the global economy and the capital and consumer markets in the future. These factors, combined with volatile oil prices, declining business activities and consumer confidence and increased unemployment, have precipitated an economic slowdown and a possible prolonged global recession. These events have led to

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a slowdown in the Chinese economy. As a result, consumer demand for our products may significantly decrease, thereby materially adversely affected our business, financial condition and results of operations. For example, the decrease in the gross profit margin of our high-count cotton yarns to 22.5% for the year ended 31 December 2008 from 36.9% for the year ended 31 December 2007 was primarily due to the decrease in the average selling price of our high-count cotton yarns to RMB43,093 per tonne for the year ended 31 December 2008 from RMB50,681 per tonne for the year ended 31 December 2007, reflecting primarily the decrease in the market demand for high-count cotton yarns as a result of the global economic downturn in 2008.

In addition, we have experienced pricing pressure on our cotton yarns and bedding products and anticipate slower growth of demand. Moreover, many banks have been tightening credit, which may increase our financing costs. Banks may also reduce the amount of or discontinue the banking facilities currently available to us. If this economic downturn continues, our business, results of operations and financial conditions could be materially adversely affected.

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 portion of our revenue is generated from sales 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 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 promulgated various reforms of its economic systems. Such reforms have resulted in economic growth for the PRC in the last three decades. However, many of the reforms are unprecedented or experimental, and are expected to be refined and modified from time to time. Other political, economic and social factors may also lead to further readjustment of the reform measures. 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 or changes in laws, regulations or the interpretation or implementation thereof.

Introduction of new laws or changes to existing laws by the PRC government may adversely affect our business.

Our business and operations in the PRC are governed by the legal system of the PRC. The PRC legal system is a codified system with written laws, rules and regulations. The PRC government is still in the process of developing its legal system, so as to meet the needs of investors and to encourage foreign investment. As the PRC economy is undergoing development generally at a faster pace than its legal system, some degree of uncertainty exists in connection with whether and how existing laws and regulations will apply to certain events or circumstances. Some of the laws and regulations, and the interpretation, implementation and enforcement thereof, are still at an experimental stage and are

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therefore subject to policy changes. Further, prior court decisions may be cited for reference but have limited precedential value. Accordingly, the outcome of dispute resolution may not be as consistent or predictable as in the other more developed jurisdictions. Even after the relevant legislation has been enacted, it may be difficult to obtain swift and equitable enforcement of the laws in the PRC, or to obtain enforcement of a judgment by a court or another jurisdiction. Any introduction of new laws or amendments to existing laws by the PRC government which is detrimental to the business environment in which we operate will adversely affect our profitability.

PRC foreign exchange control may limit our ability to utilise our revenue effectively and affect our ability to receive dividends and other payments from our PRC subsidiaries.

Our PRC subsidiaries are subject to the PRC rules and regulations on currency conversion. In the PRC, SAFE regulates the conversion of the RMB into foreign currencies. Foreign investment enterprises (“FIEs”) are required to apply to SAFE for Foreign Exchange Registration Certificates. With such registration certifications (which need to be renewed annually), FIEs are allowed to open foreign currency accounts including the basic account and capital account. Currently, conversion within the scope of the basic account (such as remittance of foreign currencies for payment of dividends) does not require the approval of SAFE. However, conversion of currency in the capital account (such as for capital items such as direct investments, loans and securities) still requires the approval of SAFE.

We cannot assure you that the PRC regulatory authorities will not impose further restrictions on the convertibility of the RMB. As our subsidiaries in the PRC generate all of our revenue and these revenues are substantially denominated in RMB, any future restrictions on currency conversion may limit our ability to repatriate such revenues for the distribution of dividends to our Shareholders or for funding our other business activities outside the PRC.

The implementation of the new Employment Contract Law and increase in labour costs in the PRC may adversely affect our business and profitability.

The new Employment Contract Law became effective on 1 January 2008 in China. It imposes more stringent requirements on employers in relation to entry into fixed term employment contracts, hiring of temporary employees and dismissal of employees. In addition, under the newly promulgated “Regulations on Paid Annual Leave for Employees” (《職工帶薪年休假條例》), which became effective on 1 January 2008, employees who have worked continuously for more than one year are entitled to a paid vacation ranging from 5 to 15 days, depending on the length of the employees’ work time. Employees who waive such vacation time at the request of employers shall be compensated for three times their normal daily salaries for each vacation day being waived. As a result of the new law and regulations, our labour costs may increase. Our Directors cannot assure you that any disputes, work stoppages or strikes will not arise in the future. Increases in our labour costs and future disputes with our employees could adversely affect our business, financial condition or results of operations.

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RISKS RELATING TO THE GLOBAL OFFERING

The trading volume and price of our Shares may fluctuate.

The price and trading volume of our Shares may be highly volatile and subject to wide fluctuations. These fluctuations may be exaggerated if the trading volume of our Shares is low. Factors, some of which are beyond our control, such as variations of our operating results, changes in analysts' estimates of our financial performance, strategic alliances or acquisitions, additions or departures of our senior management, material changes or uncertainty in the political, economic and regulatory environment in the markets that we operate, involvement in litigation, fluctuations in the market prices for our products or raw materials, or other general economic and stock market conditions 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 adversely affect the market price of our Shares.

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

There has been no public market for our Shares prior to the Listing. The Offer Price will be the result of negotiations between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholder), and may differ from the market prices for our Shares after Listing. We have applied to the Stock Exchange for the listing of, and permission to deal in, our Shares. However, a listing on the Stock Exchange does not guarantee that an active market for our Shares will develop following the Global Offering or in the future. If an active market for our Shares does not develop after the Global Offering, the market price and liquidity of our Shares may be materially adversely affected. There can be no assurance as to the ability of our Shareholders to sell their Shares, or as to the prices at which our Shareholders would be able to sell their Shares. Consequently, our Shareholders may not be able to sell their Shares at prices equal to or greater than the price paid for their Shares in the Global Offering.

Investors will experience dilution of pro forma adjusted net tangible asset value because the Offer Price is higher than our net tangible book value per Share and may also experience dilution if we issue additional Shares in the future.

Because the Offer Price of our Shares is higher than the net tangible book value per Share of our Shares immediately prior to the Global Offering, purchasers of our Shares in the Global Offering will experience an immediate dilution in the pro forma net tangible asset value per Share. We may consider offering and issuing additional Shares in the future. Purchasers of our Shares may experience dilution in the net tangible asset value per share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible asset value per Share at that time.

Future sales of a substantial number of our Shares in the public market could materially adversely affect the prevailing market price of our Shares.

Future sales of a substantial number of our Shares, or the possibility of such sales, could negatively impact the market price of our Shares and our ability to raise equity capital in the future at a time and price that we deem appropriate. The Shares held by our Controlling Shareholders are subject to certain lock-up undertakings for periods ending six to twelve months after the date on which trading in our Shares commences on the Stock Exchange, details of which are set out in the section headed "Underwriting" in this prospectus. While we are not aware of any intention of our Controlling

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Shareholders to dispose of significant amounts of Shares after the completion of the lock-up periods, there is no assurance that any of them will not dispose of any Shares they now own or may own in the future.

The current market conditions may not be reflected in the statistical information provided in this prospectus.

The historical information provided in this prospectus relating to market conditions and valuation may not reflect the current market due to rapid changes in global and the PRC economy. In order to provide context to the industries in which we operate, and greater understanding of our market presence and performance, various statistics and facts have been provided throughout the prospectus. However, this information may not reflect current market conditions as the recent economic downturn may not be fully factored into these statistics. As such, any information relating to market value, sizes and growth, or performance in these markets and other similar industry data should be viewed as historical figures that are not indicative of future results.

Investors should not place undue reliance on industry and market information and statistics from official government publications contained in this prospectus.

This prospectus contains information and statistics derived from official government publications, including but not limited to information and statistics relating to the PRC, and the cotton yarn and home textile industries and markets. We cannot ensure the accuracy of such information and statistics and such information may not be consistent with other information publicly available or available from other sources. Prospective investors should not place undue reliance on any of such information and statistics contained in this prospectus.

Investors should not place undue reliance on information derived from research reports contained in this prospectus.

This prospectus contains information derived from research reports, including but not limited to information and statistics relating to the PRC and the cotton yarns and home textile industries and markets. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Sole Sponsor, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy. Prospective investors should not place undue reliance on any of such information contained in this prospectus.

Forward-looking statements contained in this prospectus are subject to risks and uncertainties.

This prospectus contains certain statements that are forward-looking, often indicated by the use of words such as “anticipate”, “believe”, “intend”, “consider”, “could”, “expect”, “may”, “ought to”, “should”, “will”, “might”, or similar terms. These forward-looking statements address, among other topics, our growth strategy and expectations concerning future operations, liquidity and capital resources. Prospective investors are cautioned that reliance on any forward-looking statements involves risks and uncertainties and that, any or all of the assumptions or judgments on which such statements are based could prove to be incorrect and as a result, the forward-looking statements could also be incorrect. In light of these and other uncertainties, the forward-looking statements in this prospectus should not be regarded as representations by us or our Directors that our plans, expectations or objectives will be achieved, and investors should not place undue reliance on such statements.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

(1) MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have sufficient management presence in Hong Kong and, in normal circumstances, at least two of the issuer's executive directors must be ordinarily resident in Hong Kong. Since the operations of our Group are managed and conducted principally in the PRC and no business activity is carried out or managed in Hong Kong, and our executive Directors ordinarily reside in the PRC, we consider that it would be practically difficult and commercially unnecessary for us to either relocate two executive Directors to Hong Kong or to appoint two additional executive Directors who are Hong Kong residents. We do not, and do not contemplate in the foreseeable future that we will, have sufficient management presence in Hong Kong for the purposes of satisfying the requirements under Rule 8.12 of the Listing Rules. Therefore, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 8.12 of the Listing Rules and the following arrangements have been made for maintaining regular and effective communication with the Stock Exchange:

- (i) our Company has appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange, they will have means for contacting all Directors promptly at all times as and when the Stock Exchange wishes to contact the Directors on any matter and they will ensure that our Company will comply with the Listing Rules at all times. The two authorised representatives are Ms. Qi Tongli (an executive Director) and Mr. Pang Wai Hong (the company secretary of our Company). Mr. Pang ordinarily resides in Hong Kong and has all relevant qualifications and experience required and he has a Hong Kong correspondence address and will have access to the Board and senior management of our Company at all times. The authorised representatives, in particular Mr. Pang, and their alternate authorised representative (Mr. Liu Chunwei, who is a member of the senior management) will be available to meet with the Stock Exchange on reasonable notice as and when required and will be able to contact our Directors promptly at all times by telephone, facsimile and email as and when the Stock Exchange wishes to contact our Directors on any matters;
- (ii) the contact details of the two authorised representatives of our Company will be provided to the Stock Exchange;
- (iii) all Directors will provide their mobile phone numbers, office phone numbers, residential phone numbers, facsimile numbers and email addresses to the Stock Exchange;
- (iv) each of the authorised representatives and their alternative authorised representative will provide his/her mobile phone number, residential phone number, facsimile number and email address to the Stock Exchange and they will be readily available by phone, email and fax to promptly address the enquiries of the Stock Exchange;
- (v) each of our Directors (including the independent non-executive Directors) who is not ordinarily resident in Hong Kong holds or can apply for valid travel documents such that he/she will be available to travel to Hong Kong to meet with the Stock Exchange within a reasonable time frame upon request of the Stock Exchange. He/she will provide his/her mobile phone numbers, office phone numbers, email addresses and fax numbers to the Exchange. He/she will be readily contactable by telephone, facsimile and email, and is authorised to communicate on our Company's behalf with the Stock Exchange;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (vi) our Company will appoint CIMB as compliance adviser pursuant to Rule 3A.19 of the Listing Rules, who will have access at all times to the authorised representatives and the alternate authorised representatives, our Directors and the other senior management of our Company, who will act as an additional channel of communication with the Stock Exchange. The compliance adviser will be appointed for a period commencing on the Listing Date and ending on the date on which our Company distributes the annual report for the first full financial year after the Listing Date in accordance with Rule 13.46 of the Listing Rules; and
- (vii) meetings between the Stock Exchange and our Directors could be arranged through the authorised representatives or the compliance adviser, or directly with our Directors within a reasonable time frame. Our Company will inform the Stock Exchange promptly in respect of any change in the authorised representatives, alternate authorised representatives and/or compliance adviser.

(2) CONTINUING CONNECTED TRANSACTIONS

We have applied for and the Stock Exchange has granted us waivers from compliance with announcement and/or independent shareholders' approval requirements for certain continuing connected transactions pursuant to Rule 14A.42(3) of the Listing Rules. For further details, please see "Connected Transactions and Waivers" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus contains particulars in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong (as amended) and the Listing Rules for the purpose of providing information to the public with regard to our Company. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief:

1. there are no other facts the omission of which would make any statement in this prospectus misleading;
2. the information contained in this prospectus is accurate and complete in all material aspects and is not misleading; and
3. all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company (for ourselves and on behalf of the Selling Shareholder) and the Sole Global Coordinator (for itself and on behalf of the Underwriters) agreeing on the Offer Price. The Global Offering is managed by the Sole Global Coordinator.

If, for any reason, the Offer Price is not agreed upon between our Company (for ourselves and on behalf of the Selling Shareholder) and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the Price Determination Date, the Global Offering will lapse and will not proceed. For further information about the Underwriters and the underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

RESTRICTIONS ON SALE OF OFFER SHARES

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

No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer

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Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

The Offer Shares are offered to the public in Hong Kong for subscription solely on the basis of the information contained and the representations made in this prospectus and the Application Forms. No person is authorised to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by the Company, the Selling Shareholder, the Sole Sponsor, the Underwriters, any of their respective directors or any other person involved in the Global Offering.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding and dealing in the Offer Shares. None of our Company, the Selling Shareholder, the Sole Global Coordinator, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of Offer Shares.

OVER-ALLOTMENT AND STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the market price of the securities below the offer price. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Sole Global Coordinator, as stabilizing manager, or its affiliates or any person(s) acting for it for the purpose of taking any stabilizing action, may over-allocate, make purchases or effect any other transactions with a view to stabilizing or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period on and after the commencement of trading in the Shares on the Stock Exchange. Such transactions may be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Sole Global Coordinator, its affiliates or any person acting for it to do this. Such stabilization, if commenced, will be conducted at the sole and absolute discretion of the Sole Global Coordinator, its affiliates or any person acting for it for the purpose of taking any stabilizing action and may be discontinued at any time, and must be brought to an end after a limited period.

The Sole Global Coordinator, its affiliates or any person acting for it for the purpose of taking any stabilizing action may take all or any of the following stabilizing actions in Hong Kong during the stabilization period:

- (i) purchase, or agree to purchase, any of the Shares or offer or attempt to do so for the sole purpose of preventing or minimizing any reduction in the market price of the Shares;

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- (ii) in connection with any action described in paragraph (i) above:
 - (A) (1) over-allocate the Offer Shares; or
 - (2) sell or agree to sell the Offer Shares so as to establish a short position in them, for the sole purpose of preventing or minimizing any reduction in the market price of the Shares;
 - (B) exercise the Over-allotment Option and/or purchase or agree to purchase the Offer Shares in order to close out any position established under paragraph (A) above;
 - (C) sell or agree to sell any of the Shares acquired by it in the course of the stabilizing action referred to in paragraph (i) above in order to liquidate any position that has been established by such action; or
 - (D) offer or attempt to do anything as described in paragraphs (ii)(A)(2), (ii)(B) or (ii)(C) above.

The Sole Global Coordinator, its affiliates or any person acting for it for the purpose of taking any stabilizing action may, in connection with the stabilizing action, maintain a long position in the Shares, and there is no certainty as to the extent to which and the time period for which it will maintain such a position. Investors should be warned of the possible impact of any liquidation of the long position by the Sole Global Coordinator, its affiliates or any person acting for it and selling in the open market, which may include a decline in the market price of the Shares.

Stabilization cannot be used to support the price of the Shares for longer than the stabilization period, which begins on the day on which trading of the Offer Shares commences on the Stock Exchange and ends on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering, which is expected to fall on 3 July 2010. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore their market price, could fall. A public announcement will be made within 7 days after the end of the stabilizing period in accordance with the Securities and Futures (Price Stabilizing) Rules of the SFO.

Any stabilizing action taken by the Sole Global Coordinator, its affiliates or any person acting for it for the purpose of taking any stabilizing action may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilization period. Stabilizing bids or market purchases effected in the course of the stabilization action may be made at any price at or below the Offer Price and can therefore be done at a price below the price the investor has paid in acquiring the Offer Shares.

In connection with the Global Offering, the Sole Global Coordinator may over-allocate up to and not more than an aggregate of 42,000,000 additional Shares and cover such overallocations through securities lending arrangements under the Stock Borrowing Agreement. Such borrowed Shares can be covered by exercising the Over-allotment Option or by purchases in the secondary market at prices that do not exceed the Offer Price or a combination of these means. Any such purchase will be made in compliance with all applicable laws, rules and regulatory requirements. The number of Shares that may

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

be over-allocated will not exceed the total number of Shares that may be issued and allotted by us upon exercise of the Over-allotment Option, being 42,000,000 Shares in aggregate, which is 15% of the number of Offer Shares initially available under the Global Offering.

In particular, for the purpose of covering such over-allocations, the Sole Global Coordinator may borrow up to 42,000,000 Shares from Harvest Sun, equivalent to the maximum number of Shares to be issued and allotted on a full exercise of the Over-allotment Option, under the Stock Borrowing Agreement. The terms of the Stock Borrowing Agreement will be in compliance of the requirements set out in Rule 10.07(3) of the Listing Rules and will therefore not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules. The major terms under the Stock Borrowing Agreement are set out as follows:

- (a) the securities lending arrangement under the Stock Borrowing Agreement will only be effected by the Sole Global Coordinator for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option in connection with the International Offering, if any;
- (b) the maximum number of Shares to be borrowed from Harvest Sun by the Sole Global Coordinator will be limited to the maximum number of Shares which may be issued and allotted by us upon full exercise of the Over-allotment Option;
- (c) the same number of Shares so borrowed from Harvest Sun will be returned to it or its nominee (as the case may be) no later than 3 business days following the earliest of (i) the last day on which the Over-allotment Option may be exercised; (ii) the date on which the Over-allotment Option is exercised in full; or (iii) such earlier time as may be agreed in writing between Harvest Sun and the Sole Global Coordinator;
- (d) the securities lending arrangement under the Stock Borrowing Agreement will be effected in compliance with all applicable laws, rules and other regulatory requirements; and
- (e) no payments in relation to the securities lending arrangement under the Stock Borrowing Agreement will be made to Harvest Sun by the Sole Global Coordinator.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedure for applying for the Public Offer Shares is set out in the sections headed “How to apply for the Public Offer Shares” in this prospectus and on the relevant Application Forms.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING
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DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. Liu Qingping	No. 101, Building No. 10 Courtyard No. 9 Huihe Street, Laicheng District Laiwu City, Shandong Province PRC	Chinese
Mr. Li Dengxiang	No. 102, Building No. 4 Courtyard No. 9 Huihe Street, Laicheng District Laiwu City, Shandong Province PRC	Chinese
Ms. Qi Tongli	No. 2, Building No. 15 Courtyard No. 9 Huihe Street, Laicheng District Laiwu City, Shandong Province PRC	Chinese
Mr. Liu Chunwei	No. 101, Building No. 20 Courtyard No. 9 Huihe Street, Laicheng District Laiwu City, Shandong Province PRC	Chinese
Mr. Zou Shengzhong	No. 102, Building No. 14 Courtyard No. 9 Huihe Street, Laicheng District Laiwu City, Shandong Province PRC	Chinese
<i>Independent non-executive Directors</i>		
Mr. Chan Kin Sang	Flat A, 23/F Block 8, Cavendish Heights Jardine's Lookout Hong Kong	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
Mr. Li Yuchun	Room 2505, No. 62 Xianggang Road Middle Shinan District Qingdao City, Shandong Province PRC	Chinese
Mr. Dai Shunlin	Room 302, Unit No.1 Building No. 3 Courtyard No. 3 Qinghou Courtyard Lixia District Jinan City, Shandong Province PRC	Chinese

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor	CIMB Securities (HK) Limited 25th Floor, Central Tower 28 Queen's Road Central Hong Kong
Sole Global Coordinator	Daiwa Capital Markets Hong Kong Limited Level 26, One Pacific Place 88 Queensway Hong Kong
Joint Bookrunners	Daiwa Capital Markets Hong Kong Limited Level 26, One Pacific Place 88 Queensway Hong Kong China Merchants Securities (HK) Co., Limited 48/F, One Exchange Square Central Hong Kong
Joint Lead Managers	Daiwa Capital Markets Hong Kong Limited Level 26, One Pacific Place 88 Queensway Hong Kong China Merchants Securities (HK) Co., Limited 48/F, One Exchange Square Central Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal advisers to the Company

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As to Cayman Islands law:
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Auditor and reporting accountant

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Certified Public Accountants
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Property valuer

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DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Receiving bankers

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20 Pedder Street
Central
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Standard Chartered Bank (Hong Kong) Limited
15th Floor, Standard Chartered Tower
388 Kwun Tong Road
Kowloon
Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principal place of business in the PRC	Economic and High-technology Development Zone Laiwu City, Shandong Province PRC
Principal place of business in Hong Kong	18th Floor, Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong
Website address	www.taifeng.cc <i>(information on the website does not form part of this prospectus)</i>
Company secretary	Mr. Pang Wai Hong, <i>FCCA</i>
Compliance adviser	CIMB Securities (HK) Limited
Authorised representatives	Mr. Pang Wai Hong Ms. Qi Tongli
Audit committee	Mr. Li Yuchun (<i>Chairman</i>) Mr. Chan Kin Sang Mr. Dai Shunlin
Remuneration committee	Mr. Dai Shunlin (<i>Chairman</i>) Mr. Li Yuchun Mr. Liu Qingping
Nomination committee	Mr. Chan Kin Sang (<i>Chairman</i>) Mr. Dai Shunlin Mr. Liu Qingping
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong

CORPORATE INFORMATION

Principal bankers

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Laiwu City, Shandong Province
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Industrial and Commercial Bank of China,
Laiwu Branch
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Laiwu City, Shandong Province
PRC

Laishang Bank
No. 137, Long Tan Dong Street,
Economic and High-technology Development Zone
Laiwu City, Shandong Province
PRC

INDUSTRY OVERVIEW

Certain facts, statistics and data presented in this section and elsewhere in this prospectus have been derived, in part, from various official government sources and research reports. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Sole Sponsor, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy. Prospective investors should not place undue reliance on any of such information contained in this prospectus.

SOURCES OF INFORMATION

China National Textile and Apparel Council

China National Textile and Apparel Council (中國紡織工業協會), an Independent Third Party, is a national industry organisation authorised by the PRC government providing business consultation, constructing of market intelligence system and facilitating market development for the textile industry in the PRC. Preparation of the China Textile Industry Development Report is not commissioned by our Company.

Euromonitor

In connection with the Global Offering, we have engaged Euromonitor to conduct detailed market analyses of, and provide reports on the yarns and bedding products markets in the PRC (the “Research Reports”). The aggregate contractual amount for the Research Reports and services provided by Euromonitor is US\$78,000, the payment of which was not contingent upon our successful Listing or on any of the results obtained from the Research Reports. The Research Reports, dated in July, November 2009 and March 2010 respectively, consists of, among others, historical data for the period from 2004 to 2009, and forecasts for the period from 2010 to 2012.

Euromonitor primarily undertook top-down central research with bottom-up intelligence to present a more comprehensive and accurate picture of bedding and yarns products market in the PRC. Euromonitor assessed relevant background information that is publicly available such as annual reports and accounts published by major manufacturers and reconciled these sources against any existing information and knowledge from our Company. Euromonitor also conducted trade interviews with multiple organisations for added perspective and accuracy. Multiple secondary and primary sources were also checked to validate all data and information collected with no reliance on any single-source. Furthermore, a test of each respondent’s information and views against those of others is applied to ensure reliability and to eliminate bias from these sources.

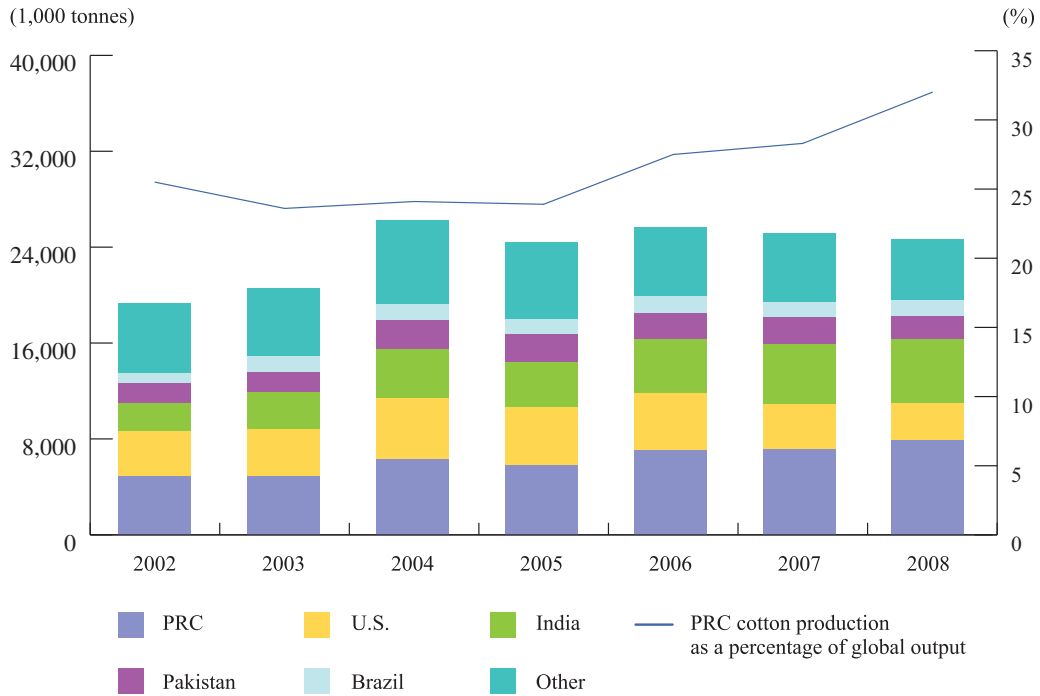
To ensure forecast accuracy, Euromonitor adopted its standard practice of both quantitative as well as qualitative forecasts. These forecasts allow Euromonitor to establish the terms of the market size, growth trends etc, on the basis of providing a comprehensive and in-depth review of the market development’s past and future, while simultaneously providing cross-checking with established government/industry figures, trade interviews, and statistical tools (e.g. regression analysis, time-series analysis, data modelling) where possible.

INDUSTRY OVERVIEW

COTTON TEXTILE INDUSTRY

Cotton production and market

Cotton is the principal raw material for producing cotton textile. The following chart shows the global cotton production from 2002 to 2008:

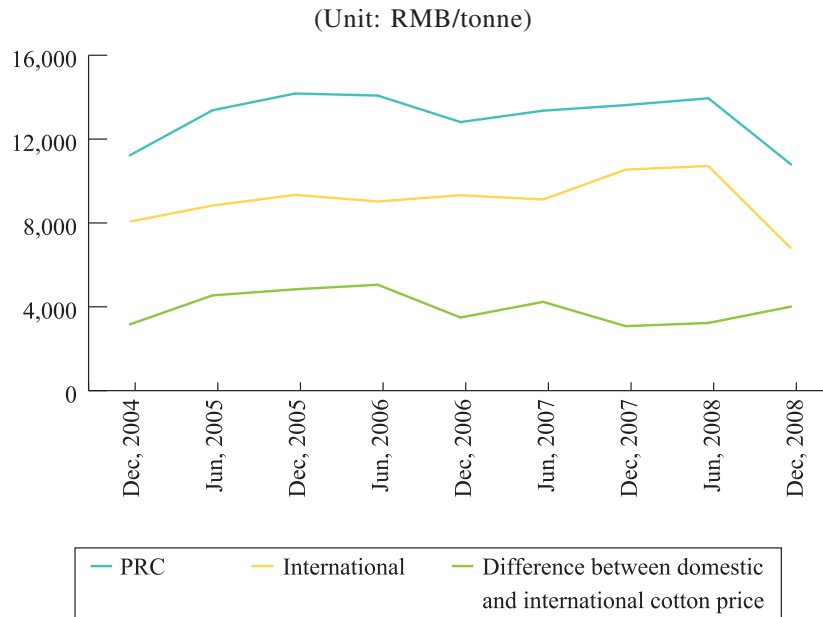


Source: China Textile Industry Development Report 2008/2009, China National Textile and Apparel Council

According to China Textile Industry Development Report 2008/2009, the PRC has been the world's largest cotton producing country from 2002 to 2008 with its production accounting for more than 20% of global output. Shandong Province, in which our Group is situated, produced about 13.9% of PRC domestic cotton in 2008 and is one of the largest cotton-growing provinces in the PRC.

INDUSTRY OVERVIEW

The following chart shows information relating to international and PRC cotton prices for the periods indicated:



Source: China National Textile and Apparel Council

International cotton price has been stable since the end of 2004 but decreased by 35.7% from US\$0.7 per pound (or RMB10,716 per tonne) in June 2008 to US\$0.45 per pound (or RMB6,781 per tonne) in December 2008. PRC cotton price demonstrated a trend roughly similar to the international cotton price, with a slight decrease in December 2006 and a more significant decrease of 22.6% from RMB13,946 per tonne in June 2008 to RMB10,790 per tonne in December 2008. The difference between domestic cotton price and international cotton price remained in the range of RMB3,000 per tonne to RMB5,500 per tonne between 2005 and 2008.

Cotton yarn production

According to Euromonitor, cotton yarns can be divided into the following categories according to yarn counts.

Types of cotton yarn	Description
Coarse-count cotton yarn (粗支紗)	Yarn count of 18 and below
Medium-count cotton yarn (中支紗)	Yarn count of 19 to 28
Fine-count cotton yarn (細支紗)	Yarn count of 29 to 60
High-count cotton yarn (高支紗)	Yarn count of 61 and above

INDUSTRY OVERVIEW

In 2008, the number of spindles in the PRC was 104 million which accounted for 43.3% of total spindles of 240 million worldwide, making it the largest cotton yarn producing country in the world. The PRC cotton yarn production increased from about 14.4 million tonnes in 2005 to about 21.5 million tonnes in 2008, with a CAGR of about 14.3%.

The following table sets out the production of the top five cotton yarn producing provinces in the PRC from 2005 to 2008:

	2005		2006		2007		2008	
	Production Amount (tonnes)	As a Percentage of PRC Production	Production Amount (tonnes)	As a Percentage of PRC Production	Production Amount (tonnes)	As a Percentage of PRC Production	Production Amount (tonnes)	As a Percentage of PRC Production
Shandong	3,677,700	26.0%	4,766,600	27.7%	5,609,600	28.1%	5,745,100	26.7%
Jiangsu	3,050,400	21.6%	3,505,600	20.4%	3,818,300	19.1%	2,767,800	12.9%
Henan	1,388,000	9.8%	1,883,600	10.9%	2,466,600	12.4%	2,928,900	13.6%
Zhejiang	964,100	6.8%	1,158,300	6.7%	1,467,100	7.4%	—	—
Hubei	898,200	6.3%	1,066,400	6.2%	1,221,200	6.1%	879,810	4.1%
Fujian	—	—	—	—	—	—	984,040	4.6%

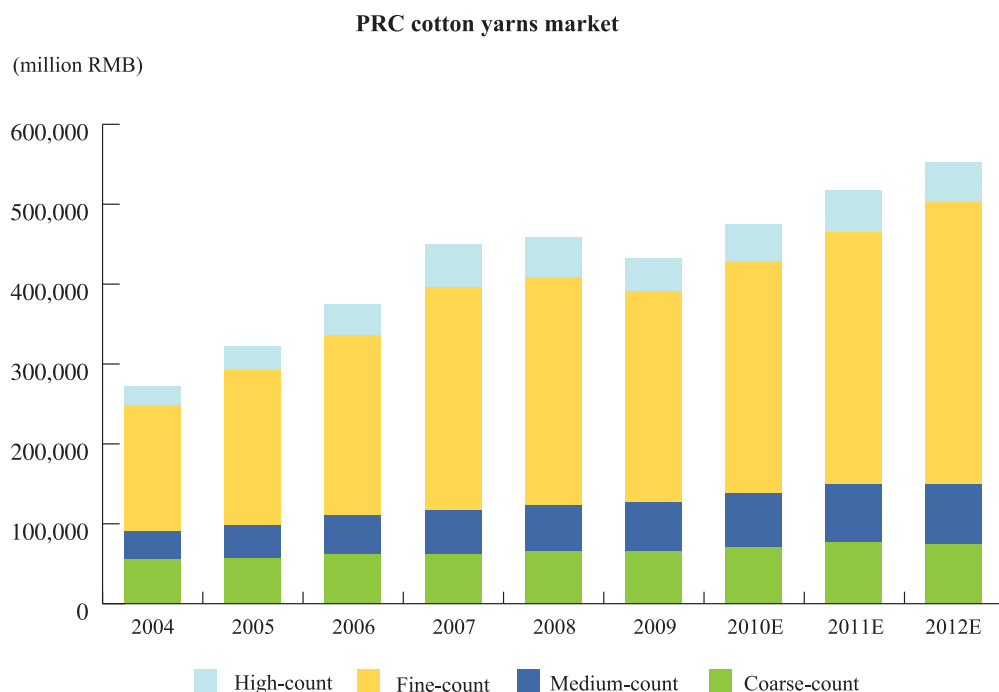
Source: China Textile Industry Development Report 2005/2006–2008/2009, China National Textile and Apparel Council

Eastern China, including Shandong Province, is the major cotton yarn producing centre in the PRC. The top five cotton yarn producing provinces of the PRC in 2008 are Shandong Province, Henan Province, Jiangsu Province, Fujian Province and Hubei Province, which in aggregate produced about 13.3 million tonnes of cotton yarns in 2008, and accounted for about 61.9% of the PRC cotton yarn production in the same year. Shandong Province is the largest cotton yarn producing province in the PRC. In 2008, production of cotton yarns in Shandong Province was about 5.7 million tonnes, accounting for about 26.7% of the total production in the PRC cotton yarn industry.

INDUSTRY OVERVIEW

Cotton yarns market size of the PRC

The table below shows the historical market size of yarn products in the PRC by value in terms of manufacturer sales prices from 2004 to 2009 and the projected market size of yarn products in the PRC by value in terms of manufacturer sales prices from 2010 to 2012.



Euromonitor report — China Yarns Market Analysis

The table below shows the historical CAGR market growth of yarn products in the PRC by value in terms of manufacturer sales prices from 2004 to 2008 and the projected CAGR market growth of yarn products in the PRC by value in terms of manufacturer sales prices from 2009 to 2011.

Product segment	Growth	
	2004–2009 CAGR	2010–2012 CAGR
Yarns products	9.4%	8.5%
— Coarse-count	3.6%	8.0%
— Medium-count	12.4%	8.4%
— Fine-count	10.3%	8.6%
— High-count	10.9%	8.7%

Euromonitor report — China Yarns Market Analysis

INDUSTRY OVERVIEW

According to market research conducted by Euromonitor, for the year of 2009, the top 5 companies ranking in the fine-count and high-count yarns industry accounted for 2.6% of the total market share, with the highest ranking company accounting for 1.3% of the total market share while we ranked as the fourth largest yarns manufacturer in terms of sales value of fine-count and high-count yarns in the PRC, accounting for 0.2% of the total market share.

Development trends of the cotton textile industry in the PRC

The two major leading objectives for current cotton textile industry are “scientific development” and “industry upgrade”, which emphasise improvement in equipment standard, reduction in labour costs and enhancement of productivity. The cotton yarn industry in the PRC is expected to have the following development trends:

Demand for fine-count and high-count yarn

Domestic consumption of cotton textiles, in particular high-end textile products, has been driven by the growth of economy and improvement in living standards in the PRC. Since the outbreak of the financial crisis in 2008, the market demand for fine-count and high-count yarns and cotton clothes made from those yarns has decreased, especially in the US market, resulting in a decrease in export for cotton textile products and cotton clothes. However, as the pace of urbanisation in China increases, the demand for high-count and premium high-count textile products from urban population is expected to gradually increase. Fine-count and high-count yarns is expected to experience further growth in the long run.

Increased use of compact spinning

Compact spinning is performed by adding a condenser unit between the drafting zone and the yarn formation zone that uses air flow to group the fibre strands horizontally. The yarns formed are less hairy, smoother, tighter, firmer and more balanced and stronger than the ordinarily combed cotton yarns. Compact yarns can increase the efficiency of weaving machines and save dyes and sizing and desizing costs, making the fabrics more environmentally friendly. Compact spinning is most suitable for producing high-count yarns and the yarns produced can be used for producing high grade dyed fabrics and knitted fabrics. High grade dyed fabrics are commonly used in luxury men shirts with significant growth prospects.

Development of blended spinning

Blended spinning is the future development trend in the yarn spinning industry, and is one of the highly recommended development directions for the cotton textile industry stipulated in the revitalization plan for textile industry proposed by the PRC government. The focus is expected to be development of fibre blended with different yarns and new materials to enhance the fabric’s functionalities.

The prosperity of the textile industry is crucial to domestic economic development, stimulate export, create job opportunities, increase the income of farmers and accelerate the pace of urbanisation. In order to further develop the textile industry, the central government has convened three meetings since 19 November 2008 and issued “Plan for Adjusting and Promoting Textile Device Manufacturing

INDUSTRY OVERVIEW

Industry” (《紡織和裝備製造業調整振興規劃》) on 4 February 2009 and “Notice on Adjusting the Export Tax Rebate” (《關於提高輕紡電子信息等商品出口退稅率的通知》(財稅[2009]43號)) on 25 March 2009, pursuant to which the PRC government is expected to implement the following measures:

- Stimulation of domestic demand and exploration of international market.
- Technological upgrade and development proprietary brands.
- Acceleration of replacement of outdated machinery.
- Focusing on production of high value-added productions with advanced technologies and lower consumption of resources.
- Providing the financial supports and tax incentives: effective from 1 April 2009, the rate of export tax rebate of certain textile products and clothing increased to 16%.

BEDDING INDUSTRY

Home textile market in the PRC

According to Euromonitor, home textile products include bedding and home furnishing products such as curtains, sofa/table covers and table runners.

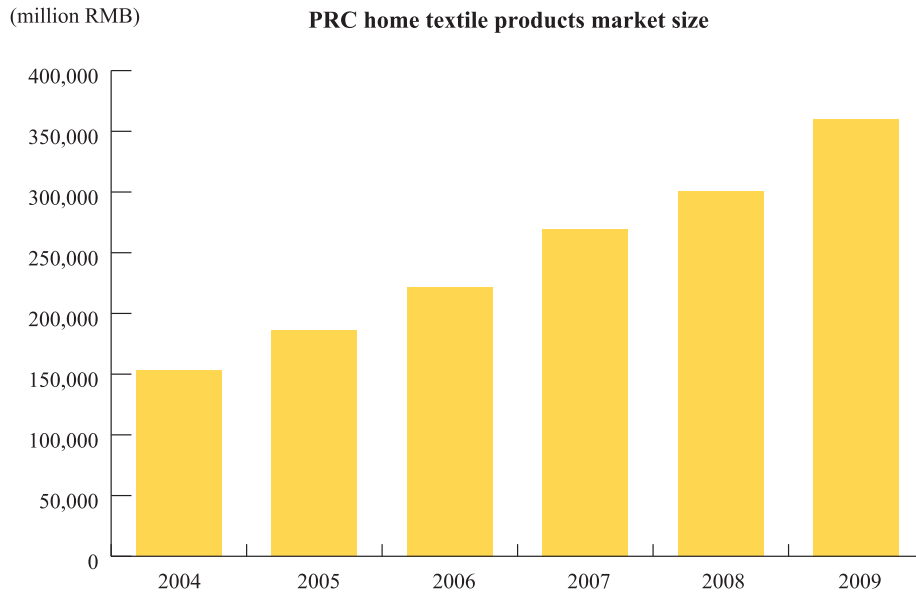
In recent years, the national income and living standards have improved steadily due to fast economic growth. As a result, the domestic home textile market has also steadily increased with an annual growth of approximately 20%. By 2008, the domestic retail value of the home textile industry had hit RMB300 billion. The future demand for home related textiles is robust, and its market capacity and potential is the most promising within the textile industry.

Despite the global financial crisis, the domestic bedding products market continued its strong growth in 2008 due to growing demand after the real estate market boom. Weaker import demand from overseas markets also forced many export oriented manufacturers to shift their focus to domestic markets, which contributed to the home textile market growth in China in late 2008.

In recent years the home textile market in China has shown significant development, benefitting from the rapid growth of the domestic real estate market and improvement in residential housing conditions and living standards. Booming tourism and strong demand overseas have also contributed to the growth of this industry. According to Euromonitor, it is widely believed by national experts that the Chinese home textile industry has much room for expansion and a huge market capacity.

INDUSTRY OVERVIEW

The chart below shows the retail market size of home textile products in the PRC from 2004 to 2009:



Euromonitor report — China Bedding and Home Textile Market Analysis

Overview of the PRC bedding products market

The bedding industry is a sub-sector of the home textile industry. With the reform of the housing system and the constant improvement of people's living standards and aesthetic consciousness, consumers are attaching greater importance to bedding products and pose higher requirements for product quality and materials. This urges the industry to constantly develop new products and establish identifiable brand images.

As soft interior decorations, bedding products have progressively become the focus of the textile industry and a field valued by consumers. The domestic bedding products market has made some outstanding progress in recent years, with the retail value of domestic bedding products soaring from RMB42 billion in 2004 to RMB106 billion in 2009, representing a CAGR of 20.2%.

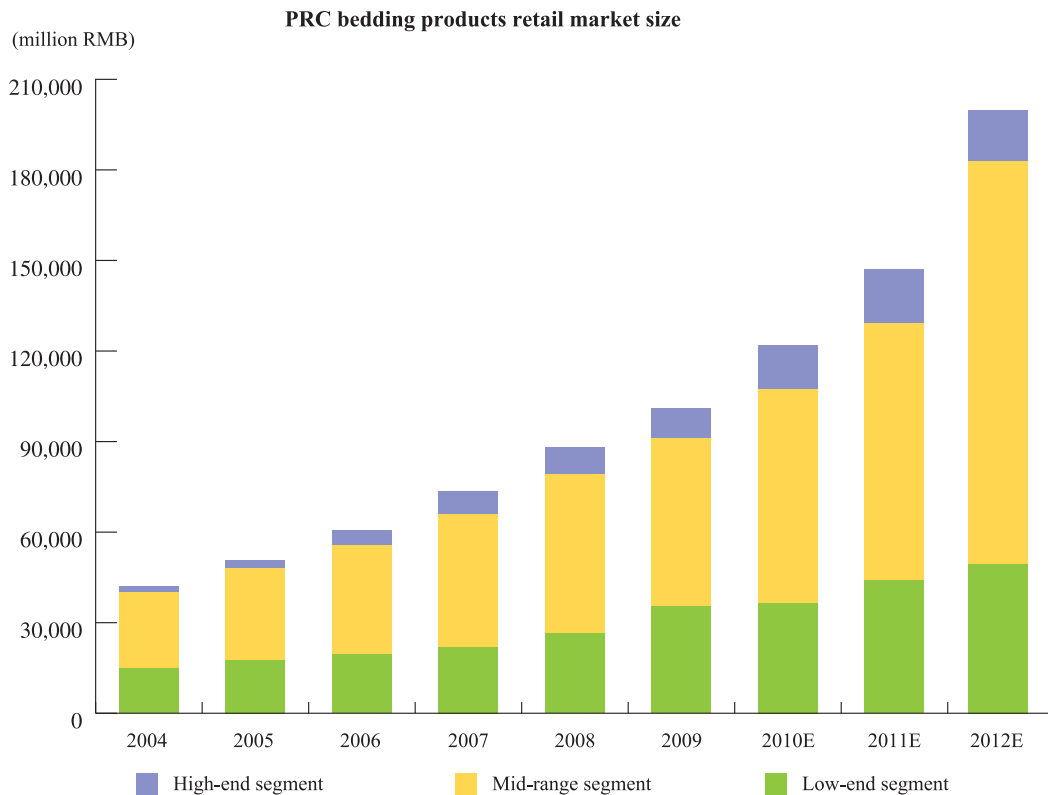
INDUSTRY OVERVIEW

Bedding products can roughly be divided into high-end, mid-range and low-end products by price, process and materials, and the table below shows the general classification of bedding products.

	Process	Materials
High-end	<ul style="list-style-type: none"> ● Transfer printing ● Flat screen printing 	<ul style="list-style-type: none"> ● Long-staple cotton ● Pure silk ● Cotton fiber ● Blends
Mid-range	<ul style="list-style-type: none"> ● Embroidery (chain stitch embroidery, full embroidery) ● Flower embroidery ● Printing 	<ul style="list-style-type: none"> ● Cotton ● Silk ● Blends
Low-end	<ul style="list-style-type: none"> ● Common printing and pattern 	<ul style="list-style-type: none"> ● Cotton ● Blends

Source: Euromonitor report — China Bedding Market Analysis

The table below shows the historical market size of bedding products in the PRC by retail sales value from 2004 to 2009 and the projected market size of bedding products in the PRC by retail sales value from 2010 to 2012.



Source: Euromonitor report — China Bedding Market Analysis

INDUSTRY OVERVIEW

The table below shows the historical CAGR market growth of bedding products in the PRC by retail sales value from 2004 to 2009 and the projected CAGR market growth of bedding products in the PRC by retail sales value from 2010 to 2012.

Product segment	Growth	
	2004–2009 CAGR	2010–2012 CAGR
Beddings products	20.2%	25%
— High-end segment	41%	27.7%
— Mid-range segment	20.2%	27.4%
— Low-end segment	16.7%	19.2%

Source: Euromonitor report — China Bedding Market Analysis

The majority of domestic bedding products are medium grade products. For most premium brands, the proportion of high-grade products, medium-grade products and medium & low-grade products are no more than 10% (high), 60% (medium) and 30% (low) respectively. For secondary brands, the proportions become no more than 5% (high), 60% (medium) and 35% (low) respectively. Tier 1 cities are the major contributors to the consumption of high-grade products, with tier 2 and tier 3 cities being the primary consumers of medium and low-grade products.

The consumption structure of bedding products has changed with the improvement of people's living standards. The consumption proportion of high-end products, mid-range products and low-end products changed from approximately 4%, 60% and 36% in 2004 to 8.9%, 60% and 31.1% in 2009. The proportion of high-end products is climbing, that of low-end products is falling, with mid-range products remaining dominant. The consumption of bedding products is becoming more and more inclined to mid-range and high-end. From 2010 to 2012, the CAGR retail sales of high-end, and low-end products are estimated to be 27.7%, 27.4% and 19.2% respectively.

Currently, bedding products featuring innovative designs are increasingly favored by consumers. Featured brand design, high quality, coziness and health (i.e. sleeping conditions) are the main trends of bedding products in the future. When two brands are equal in quality and coziness, the fine design and individuality of bedding products will decide which brand will gain the advantage in the market.

Emerging Western classical style design elements are recognised increasingly by Chinese families, and these bedding products are especially favored by young consumers as symbols of high quality and luxury. Apart from this European style design, which plays a considerable role in the domestic bedding products market, the new colors and new designs of domestic brands is growing swiftly. The industry considers design innovation and brand establishment as the major methods to keep a firm foothold in the market.

Changes in the consumption of bedding products are first reflected in the number and patterns of bedding products. Common varieties have increased from the traditional four pieces — quilt, mattress pad, quilt cover and pillow, to accessories like bed covers and skirt covers, and to the new flexible set of long and short pillow covers. Now, there are five-piece, six-piece, and even eight-piece and ten-piece sets. Consumers tend to like an elegant and natural design in their bedding product such as matching/complementary colors and coordination with the entire room. On the other hand, the major function of

INDUSTRY OVERVIEW

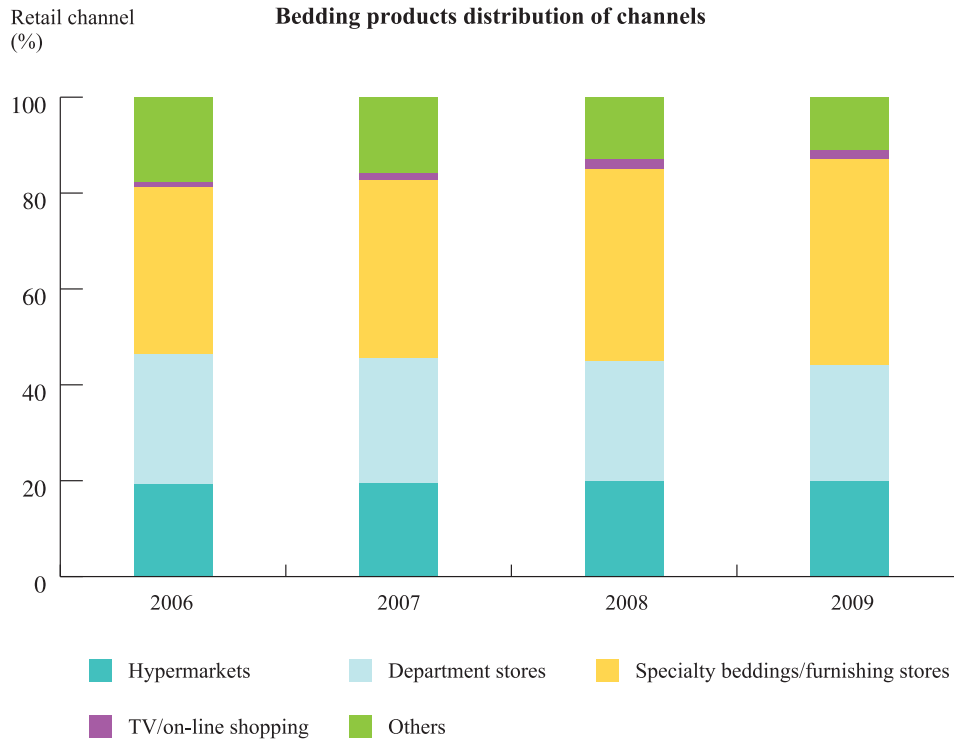
bedding products has shifted from preservation of warmth to health care. Functional products now swarm the market. Instead of the single sheet warmth preserving bedding products like duvet and dacron hollow cotton that have been snubbed recently, new bedding products with the function of health care use pure cotton fabrics, and most stuffing and fabrics are indicated to be antimicrobial and mitedispelling.

Competitive environment of the PRC bedding products market

Currently there are more than 1,000 enterprises specialised in the manufacturing of bedding products. They are mainly located in Guangdong, Shanghai, Shandong, Zhejiang and Jiangsu. The bedding product market is characterized by strong regionality, which means many brands are well known in certain regions or are locally dominant but are unknown in other areas. According to Euromonitor, the top 5 bedding products enterprises accounted for about 6.3%, 6.3%, 6.4% and 6.8% for 2006, 2007, 2008 and 2009 respectively in terms of retail sales value in the PRC bedding products market. For the year of 2009, our Company is ranked by Euromonitor as the eighth largest bedding products manufacturer in terms of retail sales value in the PRC bedding product market, accounting for 0.4% of the total market share.

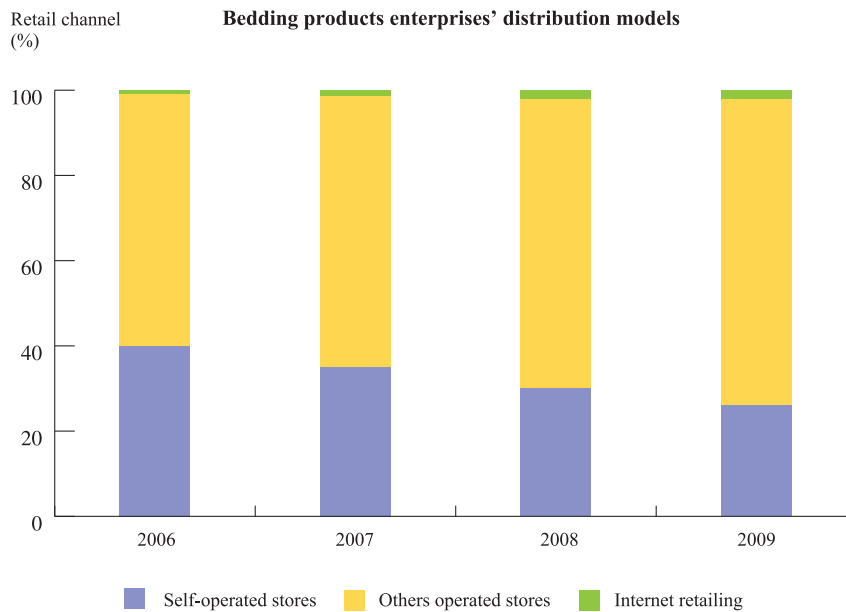
Large bedding products enterprises mainly adopt self-operation stores plus franchised outlets as their marketing channel, while the major distribution channels of bedding products still involve traditional retail channels such as hypermarkets, bedding product specialists, supermarkets and department stores where customers can test the products. Emerging retail channels like online shopping and TV shopping do not have the edge in bedding products sales in spite of their convenience. This is because consumers are not able to check the quality of the products, not to mention the fact that color variation exists between graphics displayed on the Internet and TV which do not always align with the coloration of the real products. The chart below illustrates the retail channel contribution of total bedding product sales value from 2006 to 2009.

INDUSTRY OVERVIEW



Euromonitor report — China Bedding and Home Textile Market Analysis

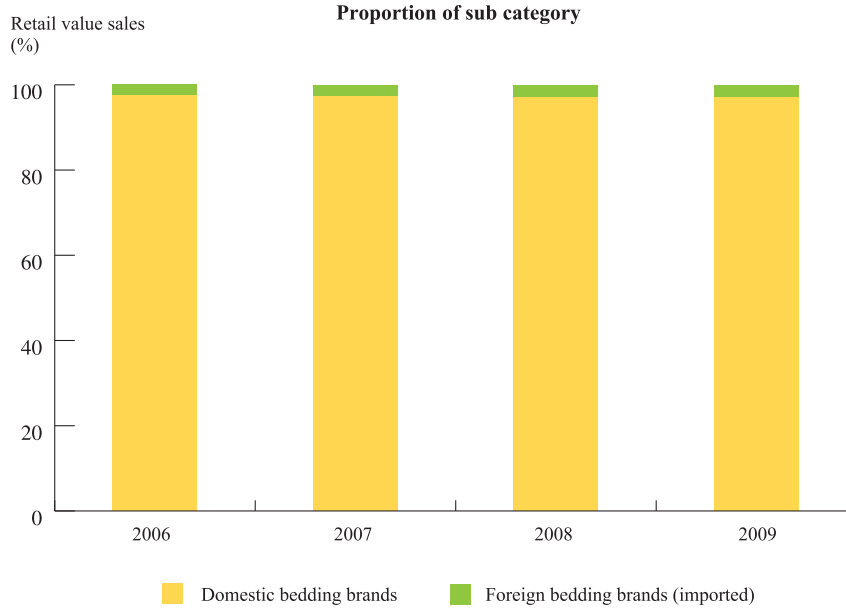
The chart below illustrates the contribution of bedding products distribution channels by retail sales value of bedding products manufacturers from 2006 to 2009.



Euromonitor report — China Bedding and Home Textile Market Analysis

INDUSTRY OVERVIEW

With decades of development, the PRC bedding products market has changed significantly. Some relatively strong domestic brands have emerged while foreign brands have started to enter the Chinese market, which mainly focus on high-end demographics. The chart below illustrates the market share of domestic bedding brands and foreign bedding brands by retail sales value from 2006 to 2009.

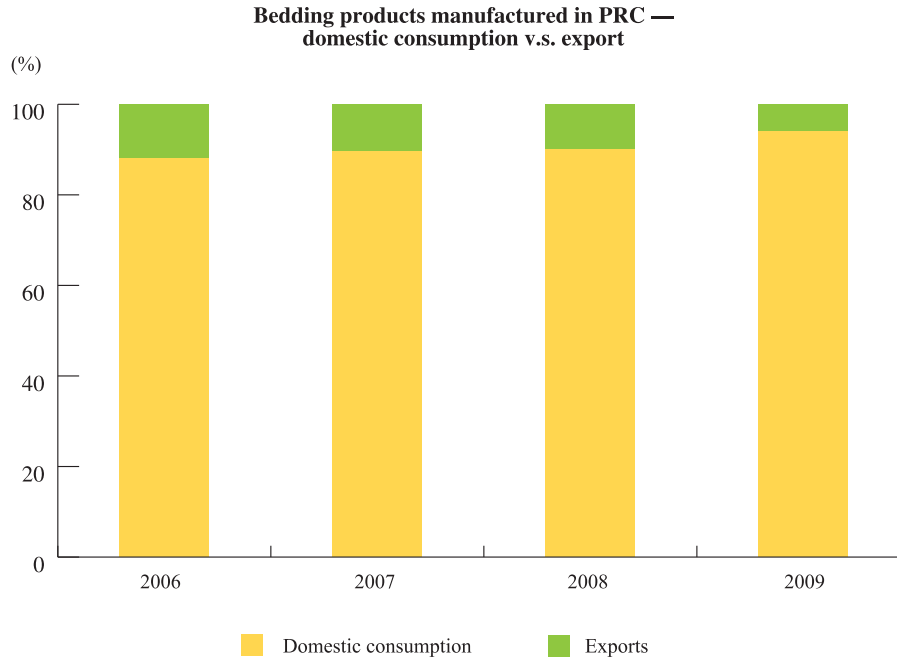


Euromonitor report — China Bedding and Home Textile Market Analysis

Compared with other industries, the PRC bedding products industry is still in a state of “large industry, but small enterprises” with a very fragmented market. Most famous brands still distribute their products regionally rather than nationwide. Some adequately funded enterprises have completed their preliminary layout of retail outlets across the country, aiming to achieve nationwide brand status and popularity. Other local brands have achieved strong sales results and are now striving to extend their markets to other provinces and municipalities.

INDUSTRY OVERVIEW

At present, the PRC bedding products retail industry has not been affected seriously by the financial crisis, and remains steady in spite of heavy export pressure. The chart below illustrates the proportion of bedding products produced in the PRC for domestic consumption and exports by sales value from 2006 to 2009.



Euromonitor report — China Bedding and Home Textile Market Analysis

HISTORY, REORGANISATION AND GROUP STRUCTURE

EARLY CORPORATE HISTORY OF SHANDONG TAIFENG

Our principal subsidiary, Shandong Taifeng, was established on 9 January 2001 in Laiwu City, Shandong Province, PRC as a joint stock limited company. The initial registered capital of RMB26 million was subscribed by Laiwu Runfeng, Laiwu Yinfeng Weaving Co. Ltd., Laiwu Huarui Textile Co. Ltd., Laiwu Yifeng Textile Co. Ltd., Ms. Qi Tongli, Mr. Zou Shengzhong, Mr. Duan Lunzhen and Mr. Zhang Yongli. As at the Latest Practicable Date, Ms. Qi Tongli and Mr. Zou Shengzhong were our Directors. Whereas Mr. Zhang Yongli and Mr. Duan Lunzhen were Shandong Taifeng's employees until January and December 2005 respectively. The table below sets out the shareholding percentage of each shareholder of Shandong Taifeng at the time of incorporation:

Shareholder	Approximate Shareholding Percentage
	(%)
Laiwu Runfeng ⁽¹⁾	50.00
Laiwu Huarui Textile Co. Ltd. ⁽²⁾	15.38
Ms. Qi Tongli	9.92
Mr. Zou Shengzhong	7.87
Laiwu Yinfeng Weaving Co. Ltd. ⁽³⁾	8.85
Mr. Duan Lunzhen	4.06
Mr. Zhang Yongli	3.15
Laiwu Yifeng Textile Co. Ltd. ⁽⁴⁾	0.77
TOTAL	100.00

Notes:

- (1) Laiwu Runfeng was established from the yarn spinning workshop of Laiwu City Textile Factory in 2000. It was owned as to approximately 11.23% by Mr. Liu Qingping, approximately 5.23% by Ms. Qi Tongli, approximately 3.46% by Mr. Li Dengxiang, approximately 3.08% by Mr. Liu Chunwei, approximately 2.92% by Mr. Zou Shengzhong, approximately 2.58% by Mr. Meng Qingli and approximately 1.62% by Mr. Huang Qige at the time Shandong Taifeng was established. Its other shareholders were its employee shareholders union and some individual employees. It had ceased operations since late 2008.
- (2) Laiwu Huarui Textile Co. Ltd. was a joint venture established in 1993 between Laiwu City Textile Factory as to 70% and a Swedish company, an Independent Third Party, as to 30%, which was deregistered since 2001.
- (3) Laiwu Yinfeng Weaving Co. Ltd was established from the yarn-dye fabric workshop of Laiwu City Textile Factory in 1999 and was owned as to approximately 4.38% by Mr. Li Dengxiang, approximately 4.38% by Ms. Qi Tongli, approximately 4.38% by Mr. Meng Qingli, approximately 4.38% by Mr. Zou Shengzhong, approximately 4.38% by Mr. Huang Qige and approximately 4.38% by Mr. Liu Chunwei at the time Shandong Taifeng was established. Its other shareholders were its employee shareholders union and some individual employees. Laiwu Yinfeng Weaving Co. Ltd had been dormant since early 2006 and was dissolved in May 2009.
- (4) Laiwu Yifeng Textile Co. Ltd. was a trading company established in 2000 by Mr. Zhang Xinjun as to 40%, Mr. Yang Yuguo as to 20%, Mr. Wu Maolong as to 20% and Mr. Zhang Zhengjian as to 20%, which had been dormant since 2001. Mr. Wu Maolong and Mr. Zhang Zhengjian are currently employees of Shandong Taifeng.

HISTORY, REORGANISATION AND GROUP STRUCTURE

On 29 January 2003, the registered capital of Shandong Taifeng was increased to RMB50 million in order to meet the then expansion in production capacity and business development. Mr. Zhang Xinjun, Mr. Liu Jian, Mr. Meng Qingli and Ms. Geng Yanling, all of them were employees of Shandong Taifeng at that time, joined as new shareholders of Shandong Taifeng. The table below sets out the shareholding structure of Shandong Taifeng after the first increase of registered capital:

Shareholder	Approximate Shareholding Percentage
	(%)
Laiwu Runfeng ⁽¹⁾	48.00
Laiwu Yinfeng Weaving Co. Ltd. ⁽²⁾	8.60
Laiwu Huarui Textile Co. Ltd. ⁽³⁾	8.00
Mr. Zhang Xinjun	7.60
Mr. Liu Jian	6.40
Ms. Qi Tongli	5.16
Mr. Meng Qingli	4.40
Mr. Zou Shengzhong	4.09
Ms. Geng Yanling	3.60
Mr. Duan Lunzhen	2.11
Mr. Zhang Yongli	1.64
Laiwu Yifeng Textile Co. Ltd. ⁽⁴⁾	0.40
TOTAL	100.00

Notes:

- (1) Laiwu Runfeng was established from the yarn spinning workshop of Laiwu City Textile Factory in 2000. It was owned as to approximately 4.87% by Mr. Liu Qingping and approximately 1.12% by Mr. Meng Qingli at the time of the first increase of registered capital of Shandong Taifeng on 29 January 2003. Its other shareholders were its employee shareholders union and some individual employees. It had ceased operations since late 2008.
- (2) Laiwu Yinfeng Weaving Co. Ltd was established from the yarn-dye fabric workshop of Laiwu City Textile Factory in 1999 and was owned as to approximately 4.17% by Mr. Li Dengxiang and approximately 4.17% by Mr. Huang Qige at the time of the first increase of registered capital of Shandong Taifeng on 29 January 2003. Its other shareholders were its employee shareholder unions and some individual employees. Laiwu Yinfeng Weaving Co. Ltd. had been dormant since 2006 and was dissolved in May 2009.
- (3) Laiwu Huarui Textile Co. Ltd. was a joint venture established in 1993 between Laiwu City Textile Factory as to 70% and a Swedish company, an Independent Third Party, as to 30%, which was deregistered since 2001.
- (4) Laiwu Yifeng Textile Co. Ltd. was a trading company established in 2000 by Mr. Zhang Xinjun as to 40%, Mr. Yang Yuguo as to 20%, Mr. Wu Maolong as to 20% and Mr. Zhang Zhengjian as to 20%, which had been dormant since 2001. Mr. Wu Maolong and Mr. Zhang Zhengjian are currently employees of Shandong Taifeng.

In January 2004, two share transfer agreements were entered into by two shareholders of Shandong Taifeng respectively, pursuant to which Laiwu Huarui Textile Co. Ltd. transferred 4,000,000 shares of Shandong Taifeng to Mr. Liu Qingping for a consideration of RMB5.36 million and Laiwu Yifeng Textile Co. Ltd. transferred 200,000 shares of Shandong Taifeng to Mr. Li Dengxiang for a

HISTORY, REORGANISATION AND GROUP STRUCTURE

consideration of approximately RMB0.27 million. Mr. Liu Qingping and Mr. Li Dengxiang became direct shareholders of Shandong Taifeng after the completion of the transfer and each of them directly held 8.0% and 0.4% of the equity interest in Shandong Taifeng respectively. The table below sets out the shareholding structure of Shandong Taifeng after the transfers:

Shareholder	Approximate Shareholding Percentage
	(%)
Laiwu Runfeng ⁽¹⁾	48.00
Laiwu Yinfeng Weaving Co. Ltd. ⁽²⁾	8.60
Mr. Liu Qingping	8.00
Mr. Zhang Xinjun	7.60
Mr. Liu Jian	6.40
Ms. Qi Tongli	5.16
Mr. Meng Qingli	4.40
Mr. Zou Shengzhong	4.09
Ms. Geng Yanling	3.60
Mr. Duan Lunzhen	2.11
Mr. Zhang Yongli	1.64
Mr. Li Dengxiang	0.40
TOTAL	100.00

Notes:

- (1) Laiwu Runfeng was established from the yarn spinning workshop of Laiwu City Textile Factory in 2000. It was owned as to approximately 4.87% by Mr. Liu Qingping and approximately 1.12% by Mr. Meng Qingli at the time of the two shares transfers of Shandong Taifeng in January 2004. Its other shareholders were its employee shareholders union and some individual employees. It ceased operations since late 2008.
- (2) Laiwu Yinfeng Weaving Co. Ltd was established from the yarn-dye fabric workshop of Laiwu City Textile Factory in 1999 and was owned as to approximately 4.17% by Mr. Li Dengxiang and approximately 4.17% by Mr. Huang Qige at the time of the two shares transfers of Shandong Taifeng in January 2004. Its other shareholders were its employee shareholders union and some individual employees. Laiwu Yinfeng Weaving Co. Ltd. had been dormant since 2006 and was dissolved in May 2009.

HISTORY, REORGANISATION AND GROUP STRUCTURE

On 16 August 2006, the then shareholders of Shandong Taifeng resolved to convert Shandong Taifeng from a joint stock limited company into a limited liability company. Following this conversion, on 20 August 2006, the shareholders of Shandong Taifeng further resolved to increase the amount of registered capital to RMB180 million. TTG became shareholder of Shandong Taifeng on 22 August 2006 through subscription of new shares in Shandong Taifeng, the subscription price was settled partly by the injection of machineries and partly by cash paid by TTG in the amount of RMB107.32 million and RMB22.68 million respectively. After the increase in registered capital, the shareholding structure of Shandong Taifeng was as follow:

Shareholder	Approximate Shareholding Percentage
	<i>(%)</i>
TTG ⁽¹⁾	72.22
Laiwu Runfeng ⁽²⁾	13.33
Laiwu Yinfeng Weaving Co. Ltd. ⁽³⁾	2.39
Mr. Liu Qingping	2.22
Mr. Zhang Xinjun	2.11
Mr. Liu Jian	1.78
Ms. Qi Tongli	1.43
Mr. Meng Qingli	1.22
Mr. Zou Shengzhong	1.14
Ms. Geng Yanling	1.00
Mr. Duan Lunzhen	0.59
Mr. Zhang Yongli	0.46
Mr. Li Dengxiang	0.11
TOTAL	100.00

Notes:

- (1) During the Track Record Period, the 7 Individual Shareholders were also shareholders of TTG (through the ESU-TTG) until 26 June 2008. As at 20 August 2006, the date on which the shareholders of Shandong Taifeng resolved to increase the amount of registered capital of Shandong Taifeng to RMB180 million and accept TTG to join as a new shareholder, the shareholding percentages of the 7 Individual Shareholders in TTG (held through the ESU-TTG) were as follows: (i) Mr. Liu Qingping (approximately 27.3%), (ii) Mr. Li Dengxiang (approximately 8.76%), (iii) Ms. Qi Tongli (approximately 7.7%), (iv) Mr. Liu Chunwei (approximately 5.09%), (v) Mr. Zou Shengzhong (approximately 3.67%), (vi) Mr. Meng Qingli (approximately 4.07%), and (vii) Mr. Huang Qige (approximately 1.26%). On 26 June 2008, the 7 Individual Shareholders transferred all their respective interest in TTG to the 7 TTG Shareholders. For further details, please see “Relationship with TTG and Laiwu Runfeng” in this prospectus.
- (2) Laiwu Runfeng was owned as to approximately 21.67% by Mr. Liu Qingping, approximately 11.67% by Mr. Liu Chunwei, approximately 8.13% by Ms. Qi Tongli, approximately 7.05% by Mr. Li Dengxiang, approximately 5.70% by Mr. Zou Shengzhong, approximately 1.56% by Mr. Meng Qingli and approximately 0.98% by Mr. Huang Qige at the time of the resolution to increase the registered capital of Shandong Taifeng on 20 August 2006.

HISTORY, REORGANISATION AND GROUP STRUCTURE

- (3) Laiwu Yinfeng Weaving Co. Ltd was owned as to approximately 16.67% by Mr. Liu Qingping, approximately 15.28% by Mr. Li Dengxiang, approximately 4.17% by Ms. Qi Tongli, approximately 4.17% by Mr. Liu Chunwei, approximately 4.17% by Mr. Zou Shengzhong, approximately 4.17% by Mr Meng Qingli and approximately 4.17% by Mr. Huang Qige at the time of the resolution to increase the registered capital of Shandong Taifeng on 20 August 2006.

Pursuant to an acquisition agreement dated 24 August 2006, entered into between China Taifeng and all shareholders of Shandong Taifeng, China Taifeng acquired 100% equity interest in Shandong Taifeng for a total consideration of RMB207,641,200, which was the difference between the valuation of Shandong Taifeng of RMB231,426,600 as at 22 August 2006 and its then undistributed profit of approximately RMB23.8 million (out of which approximately RMB21.2 million was later distributed as dividends to the shareholders of Shandong Taifeng in 2007 and the remaining approximately RMB2.6 million was retained in the undisturbed profits). China Taifeng is a wholly-owned subsidiary of Holistic, which was wholly-owned by the 7 Individual Shareholders and held as to 48.6% by Mr. Liu Qingping, 14.6% by Mr. Li Dengxiang, 13.2% by Ms. Qi Tongli, 8.6% by Mr. Liu Chunwei, 7.5% by Mr. Zou Shengzhong, 5.5% by Mr. Meng Qingli and 2.0% by Mr. Huang Qige as at 24 August 2006. The equity transfer was approved by the Department of Foreign Trade and Economic Cooperation of Shandong Province and Shandong Taifeng was converted from a domestic limited liability company to a WOFE after the approval. The approval certificate was issued on 25 August 2006 and the business license was issued on 30 August 2006.

On 2 July 2008, Shanghai Taifeng was incorporated as a wholly-owned subsidiary of Shandong Taifeng. The business scope of Shanghai Taifeng includes wholesale and import-export business of knitted fabrics, accessories, clothes and home textiles.

Our Directors confirm that there is no employee shareholders union and/or trust arrangement in the ownership history of Shandong Taifeng and other members of our Group.

BUSINESS DEVELOPMENT

Cotton yarn business

We commenced our business in fabric manufacturing at the inception of Shandong Taifeng in 2001. Later in that year, we expanded our business to cotton yarn manufacturing. Initially, we possessed about 50,000 spindles for our cotton yarn production. In 2005, to increase our production capacity in yarn spinning and streamline our overall production, we sold part of our fabric manufacturing facilities to an Independent Third Party. With the additional factory space resulting from the sale of part of the fabric manufacturing facilities, we purchased additional yarn spinning facilities to enhance our cotton yarn production capacity. We owned over 80,000 spindles for our cotton yarn production after the expansion. In March 2006, Shandong Taifeng sold the remaining equipment and machineries for fabric manufacturing to TTG for a consideration of approximately RMB24.0 million. After the respective disposals of fabric manufacturing business in 2005 and 2006, we focused on the business of manufacturing and distribution of cotton yarns and bedding products.

In August 2006, Shandong Taifeng acquired certain assets of TTG in relation to cotton yarn production of RMB183.9 million and further acquired two sets of winding machines from TTG of RMB2.2 million in December 2006, as a result of which the total property, plant and equipment we acquired from TTG in 2006 amounted to RMB186.0 million. We paid a consideration of RMB1.2 million for the acquisition of assets in August 2006, being the net asset value of such assets as at 31

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July 2006 as assessed by a valuation report prepared by an accounting firm in the PRC and representing the sum of RMB183.9 million in property, plant and equipment and RMB141.3 million in inventories and trade and other receivables less RMB324.0 million in trade and other payables. In addition to the acquisition of property, plant and equipment from TTG, TTG also injected certain machineries for cotton yarn production of RMB107.3 million in August 2006 as partial settlement for its contribution to the increase in registered capital of Shandong Taifeng. As a result of the foregoing, the cotton yarn production capacity of Shandong Taifeng substantially increased in 2006 to over 340,000 spindles.

In October 2008, Shandong Taifeng acquired further assets in relation to cotton yarn production from TTG at a consideration of RMB137.6 million, being the asset value as at 15 October 2008 as assessed by a valuation report issued by an asset valuation company in the PRC. After the acquisition, we possessed over 450,000 spindles for our cotton yarn production.

As confirmed by our Directors, in order to streamline the business structure, the common shareholders of Shandong Taifeng and TTG at the relevant time decided that Shandong Taifeng should develop the cotton yarn and bedding product businesses while TTG would focus on the fabric manufacturing business. Our Directors also confirmed that such a decision was welcomed by the respective local district governments of Laiwu City where TTG and Shandong Taifeng were incorporated, namely the governments of the Laicheng District and the Economic and High-technology Development Zone, as following the business delineation, TTG would remain based in the Laicheng District and be taxed by its government, while Shandong Taifeng would remain based in the Economic and High-technology Development Zone and be taxed by its government. Subsequently in June 2008, the 7 Individual Shareholders transferred all of their respective shareholdings in TTG to the 7 TTG Shareholders. While from the point of view of Shandong Taifeng, our Directors prefer to focus on the cotton yarn and bedding product businesses particularly in relation to the higher-end products which we believe would have better growth potentials taking into account the historical and expected growth in the fine-count and high-count cotton yarns and mid-end to high-end bedding products markets, insofar as our Directors are aware, the respective purchasers of the TTG equity interests believe there remain favourable market conditions for the fabric manufacturing business and the development potentials of the land resources of TTG. The Directors do not consider it necessarily desirable for the Group to engage in the complete supply chain of the yarn spinning, fabric, end-product manufacturing and retail segments of the textile industry for the following reasons:

- (1) the fabrics manufactured by TTG are principally grey fabrics while the fabrics used by the Group for its bedding products are finished fabrics, namely grey fabrics which have undergone a number of further processing steps such as singeing (燒毛), desizing (退漿), scouring and bleaching (煮漂), mercerizing (絲光), setting (定型), dyeing (染色), stentering (拉幅), sanforizing (預縮). As such, the Group would still need to source fabrics from third party suppliers and/or engage third party manufacturers to further process the grey fabrics manufactured by TTG; and
- (2) the grey fabrics manufactured by TTG are principally cotton jacquard cloth which is only used for some but not all of the Group's bedding products, which in turn also require a wide range of other fabrics including printed plain fabrics, satin cloth and cotton-silk blended fabrics that are not produced by TTG. As such, the inclusion of TTG's fabric manufacturing business would not complete any so-called "supply chain" of the Group.

HISTORY, REORGANISATION AND GROUP STRUCTURE

In relation to the growth potentials of the cotton yarn and bedding product businesses, please refer to the Industry Overview section under the heading of “Development trends of the cotton textile industry in the PRC” and “Home textile market in the PRC”.

The Directors confirm that there had been no dispute or disagreement between the owners, directors and senior management of Laiwu City Textile Factory, Shandong Taifeng and TTG with respect to the establishment, business operations and ownership of Laiwu City Textile Factory, TTG and Shandong Taifeng in the past.

Bedding product business

In 2003, we commenced our bedding product business as a distributor of bedding products manufactured by Taifeng Home Textile. In February 2006, Shandong Taifeng acquired the bedding product manufacturing business of Taifeng Home Textile through the acquisition of the assets of Taifeng Home Textile for a consideration of RMB77,900, being the net asset value as at 28 February 2006. At the time of the acquisition, Taifeng Home Textile was held as to 88.83% by TTG and the remaining 11.17% by two individuals, who are Independent Third Parties, and its board of directors comprised Mr. Liu Qingping and representatives from two other Independent Third Parties. Taifeng Home Textile principally engaged in the production and sales of home textile products (including bedding products). As a result of the acquisition, Shandong Taifeng possessed an in-house production capacity with over 400 sewing machines for the production of bedding products. After the acquisition, Taifeng Home Textile was liquidated in August 2007. Save as disclosed above, our Directors confirm that there have been no other past business or other relationships between Taifeng Home Textile and our Group, TTG or their respective associates.

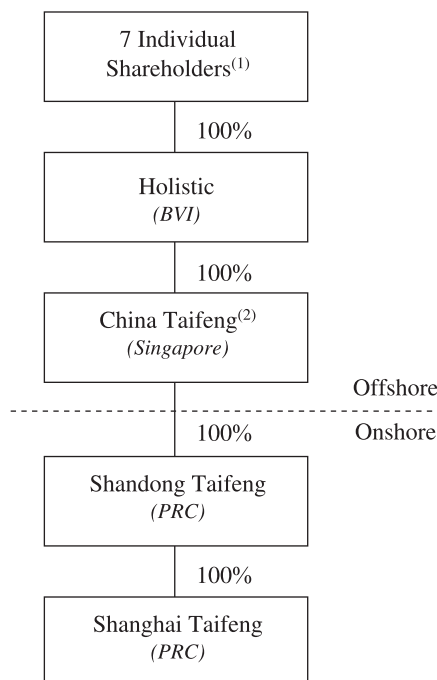
HISTORY, REORGANISATION AND GROUP STRUCTURE

REORGANISATION AND SALE OF SHARES BY THE 7 INDIVIDUAL SHAREHOLDERS

The companies comprising our Group underwent Reorganisation to rationalize our Group's structure in preparation for the Listing. As a result of the Reorganisation, our Company became the holding company of other members of our Group. Please refer to the paragraph headed "Corporate Reorganisation" in Appendix VII to this prospectus for details of the Reorganisation.

(I) Our Shareholding Structure Prior to the Reorganisation

The chart below sets out the shareholding structure of our Group before Reorganisation:



Notes:

(1) Shareholding percentage of the 7 Individual Shareholders in Holistic were as follows:

<u>Shareholder</u>	<u>Percentage</u>
	(%)
Mr. Liu Qingping	48.6
Mr. Li Dengxiang	14.6
Ms. Qi Tongli	13.2
Mr. Liu Chunwei	8.6
Mr. Zou Shengzhong	7.5
Mr. Meng Qingli	5.5
Mr. Huang Qige	2.0
	<u>100.0</u>

(2) China Taifeng was incorporated in Singapore on 18 August 2006 for the purpose of making listing applications with the Singapore Exchange Limited. After due consideration of the facts such as (i) the then uncertain market condition; (ii) the financial and other information contained in the then draft prospectus and other documents provided in the

HISTORY, REORGANISATION AND GROUP STRUCTURE

application were already outdated and additional costs will be incurred to update the information for the purpose of the listing application, as such our Group finally aborted its listing plan of China Taifeng's shares on the Singapore Exchange Limited and withdrew the application in May 2008. Tian Yuan Law Firm, the PRC legal adviser of the then listing of China Taifeng and our PRC Legal Advisers, confirm that at the time of submitting the listing application to the Singapore Stock Exchange, all registration or required approval in relation to the reorganisation of China Taifeng within the PRC have been obtained from the relevant PRC government authorities in accordance with the applicable PRC Laws.

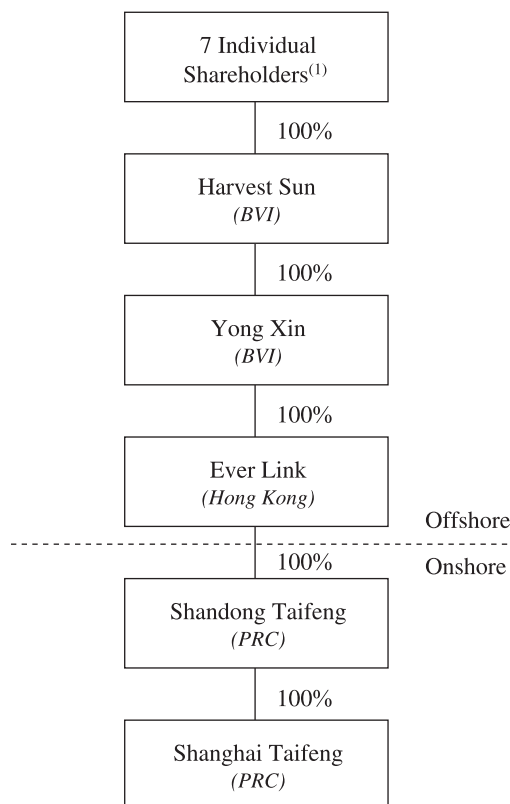
(II) Reorganisation prior to the Global Offering and Sale of Shares in Yong Xin by the 7 Individual Shareholders

Our Group underwent the following steps of the Reorganisation before the sale of shares in Yong Xin by the 7 Individual Shareholders:

- (1) On 23 January 2008, Yong Xin was incorporated in the BVI. On 22 July 2008, 486 shares, 146 shares, 132 shares, 86 shares, 75 shares, 55 shares and 20 shares of US\$1 each were allotted and issued at par to Mr. Liu Qingping, Mr. Li Dengxiang, Ms. Qi Tongli, Mr. Liu Chunwei, Mr. Zou Shengzhong, Mr. Meng Qingli and Mr. Huang Qige respectively;
- (2) On 9 October 2008, Ever Link was incorporated in Hong Kong. On 6 January 2009, Yong Xin acquired one share of HK\$1 at par, being the entire issued share capital of Ever Link, from the then subscriber;
- (3) On 2 January 2009, Harvest Sun was incorporated in the BVI. On 3 April 2009, 486 shares, 146 shares, 132 shares, 86 shares, 75 shares, 55 shares and 20 shares of US\$1 each were allotted and issued at par to Mr. Liu Qingping, Mr. Li Dengxiang, Ms. Qi Tongli, Mr. Liu Chunwei, Mr. Zou Shengzhong, Mr. Meng Qingli and Mr. Huang Qige respectively;
- (4) On 2 January 2009, Fu Sun was incorporated in the BVI. On 3 April 2009, 100 shares of US\$1 each were allotted and issued at par to Mr. Liu Qingping;
- (5) On 12 February 2009, Ever Link and China Taifeng entered into a share transfer agreement whereby Ever Link acquired from China Taifeng its entire equity interest in Shandong Taifeng and the consideration was agreed at Singapore Dollars 40,972,501.00, which is set by reference to the then acquisition cost paid by China Taifeng to Shandong Taifeng's shareholders in 2006; and
- (6) On 8 April 2009, Harvest Sun acquired from the 7 Individual Shareholders their entire shareholding in Yong Xin, the consideration was satisfied by Harvest Sun allotted and issued an additional 486 shares, 146 shares, 132 shares, 86 shares, 75 shares, 55 shares and 20 shares of US\$1 each were allotted and issued at par to Mr. Liu Qingping, Mr. Li Dengxiang, Ms. Qi Tongli, Mr. Liu Chunwei, Mr. Zou Shengzhong, Mr. Meng Qingli and Mr. Huang Qige respectively.

HISTORY, REORGANISATION AND GROUP STRUCTURE

The following chart sets out the shareholding structure of our Group after completion of the above steps but before the sale of shares in Yong Xin by the 7 Individual Shareholders:



Note:

(1) Shareholding percentage of the 7 Individual Shareholders in Harvest Sun are set out as follows:

<u>Shareholder</u>	<u>Percentage</u> (%)
Mr. Liu Qingping	48.6
Mr. Li Dengxiang	14.6
Ms. Qi Tongli	13.2
Mr. Liu Chunwei	8.6
Mr. Zou Shengzhong	7.5
Mr. Meng Qingli	5.5
Mr. Huang Qige	2.0
	<u>100.0</u>

On 17 April 2009, the 7 Individual Shareholders, through Harvest Sun, sold 22% of their shareholding interests in Yong Xin to Superior Delight at a total consideration of HK\$78.0 million. The investment cost for Superior Delight equals approximately HK\$0.47 per Share, representing a discount of approximately 77.2% to 84.8% to the low-end and high-end of Offer Price range respectively. This consideration is set by reference to the financial performance of our Group in the financial year of 2008.

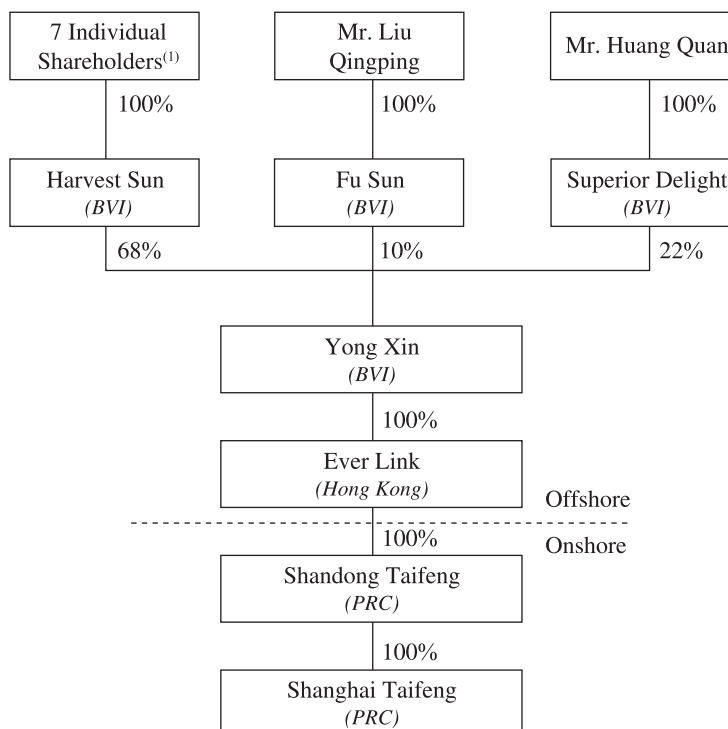
HISTORY, REORGANISATION AND GROUP STRUCTURE

Each of Superior Delight and Mr. Huang Quan, jointly and severally represents, warrants and undertakes to each of the Sole Global Coordinator, the Sole Sponsor, our Company and the other Underwriters that it/he shall not, and shall procure that its/his associates or companies controlled by it/him or nominees or trustees holding in trust for it/him shall not, (a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, any of the share capital or other securities of our Company held by it/him that are convertible into or exercisable or exchangeable for, or that represent the right to receive any such share capital; or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of the ownership of such share capital, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise; or (c) agree (conditionally or unconditionally) to enter into or effect any transactions with the same economic effect as any of the transactions referred to in paragraphs (a) and (b) herein above; or (d) announce any intention to enter into or effect any of the transactions referred to in paragraphs (a), (b) or (c) herein above immediately following the completion of the Global Offering and the Capitalisation Issue within the period commencing on the date by reference to which disclosure of his/its interests in our company is made in this prospectus and ending on the date which is six months from the date on which dealings in the securities of our company first commence on the Stock Exchange (“First Period”). Each of them further, jointly and severally, undertakes to each of the Sole Global Coordinator, the Sole Sponsor, our Company and the other Underwriters that within six months immediately following the First Period, it/he shall (a) when it/he pledges or charges any Shares or other securities of our Company beneficially owned by it/him, immediately inform our Company in writing of such pledge or charge together with the number of Shares and other securities of our company so pledged or charged; and (b) when it/he receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares and securities shall be disposed of, immediately inform our Company in writing of such indications.

On the same date, Harvest Sun also transferred 10% of its shareholding interests in Yong Xin to Fu Sun at a nominal consideration of US\$100.00 as a token of appreciation of Mr. Liu Qingping’s long standing commitment, support and contribution to our Group. Pursuant to a supplemental agreement dated 22 November 2009, Fu Sun holds the 10% shareholding interest in Yong Xin and the Shares on trust for the benefit of Harvest Sun. Upon the completion of a 2-year service as a Director from April 2009 by Mr. Liu Qingping, the trust arrangement will cease and Fu Sun will be beneficial owner.

HISTORY, REORGANISATION AND GROUP STRUCTURE

The following chart sets out the shareholding structure of our Group after the sale of shares in Yong Xin by Harvest Sun to Fu Sun and Superior Delight:

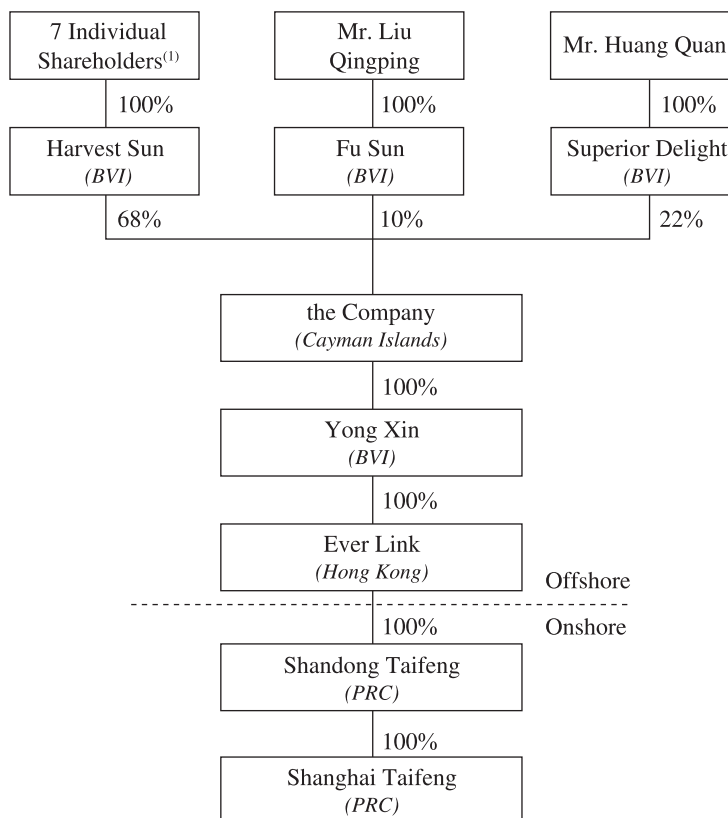


Note:

- (1) Please refer to Note (1) on page 87 of this prospectus for the shareholding percentages of the 7 Individual Shareholders in Harvest Sun.

HISTORY, REORGANISATION AND GROUP STRUCTURE

The following chart sets out the shareholding structure of our Group after (i) a share swap in which Harvest Sun, Fu Sun and Superior Delight transferred all their respective interests in Yong Xin to the Company and (ii) an assignment of the Shareholder's Loan from Harvest Sun in favor of the Company, in return for the crediting as fully paid the Shares already held by Harvest Sun, Fu Sun and Superior Delight:



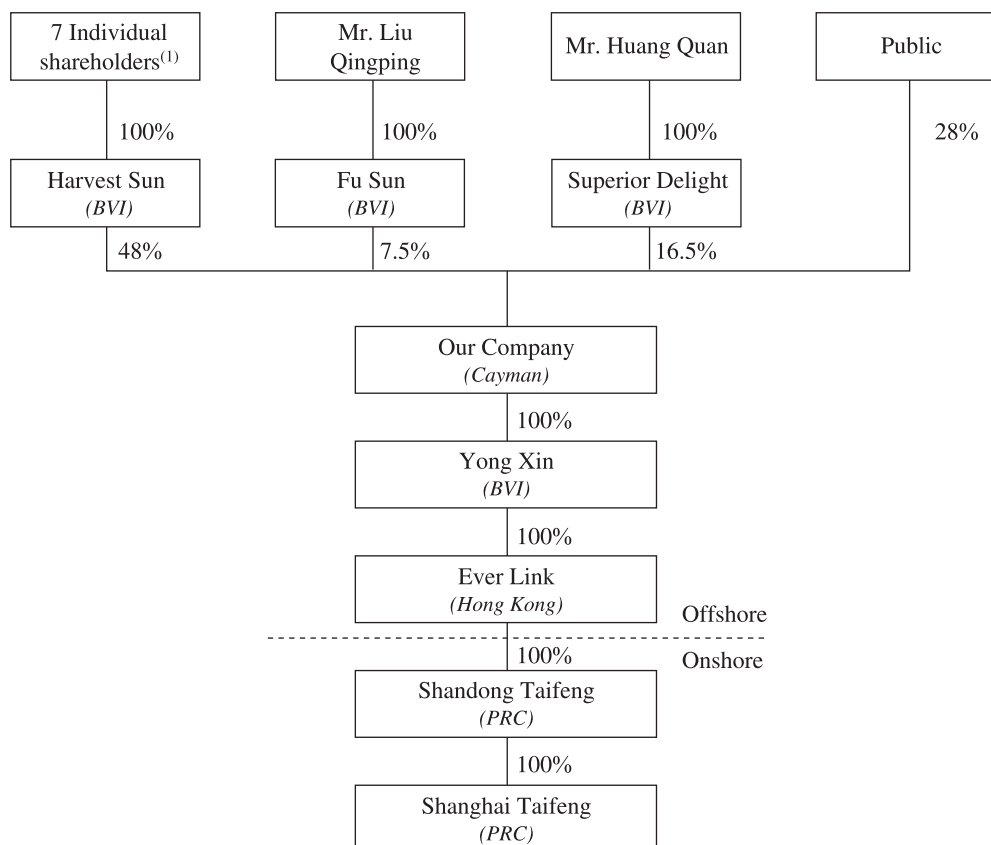
Note:

- (1) Please refer to Note (1) on page 87 of this prospectus for the shareholding percentages of the 7 Individual Shareholders in Harvest Sun.

HISTORY, REORGANISATION AND GROUP STRUCTURE

(III) Our Shareholding Structure after the Global Offering

The following chart sets out the shareholding structure of our Group immediately after the Global Offering (assuming the Over-allotment Option is not exercised at all):



Note:

- (1) Please refer to Note (1) on page 87 of this prospectus for the shareholding percentages of the 7 Individual Shareholders in Harvest Sun.

BUSINESS

BUSINESS OVERVIEW

We are engaged in the manufacturing and distribution of quality cotton yarns and bedding products in China. Although historically we focused on the cotton yarns business, which accounted for 84.0% of our revenue and 96.9% of our reportable segment profit before taxation for the year ended 31 December 2007, we have successfully developed and expanded our bedding products business, which accounted for 45.6% of our revenue and 78.8% of our reportable segment profit before taxation for the year ended 31 December 2009, whilst our cotton yarn business continued to provide steady cash flow and net profit to our business overall.

According to market research conducted by Euromonitor, for the year of 2009, the top 5 companies ranking in the fine-count and high-count yarns industry accounted for 2.6% of the total market share, with the highest ranking company accounting for 1.3% of the total market share while we ranked as the fourth largest yarns manufacturer in terms of sales value of fine-count and high-count yarns in the PRC, accounting for 0.2% of the total market share. According to two confirmations dated 11 May 2009 and 15 October 2009 issued by the China Cotton Textile Association, we are one of the top 10 cotton yarn manufacturers in China in terms of production scale. We are also one of the few sizeable manufacturers capable of producing high-count cotton yarns in China. The General Administration of Quality Supervision, Inspection and Quarantine of the PRC granted our “TAIFENG” branded combed cotton yarns the status of China Famous Brand Products in September 2007.

We focus on fine-count and high-count cotton yarns (i.e. yarn count from 29 to 60 and over 60, respectively) in our cotton yarn production. Fine-count cotton yarn is most commonly used in the cotton textile industry while high-count cotton yarn is usually used to produce better quality cotton textile products. As the living standards continue to improve in China, we believe that demand for cotton yarns with higher yarn count will increase. We currently have over 450,000 spindles for our cotton yarn production. For the year ended 31 December 2009, over 90% of our cotton yarn revenue was generated from the sales of fine-count and high-count cotton yarns. We offer more than 120 varieties of cotton yarn products. In addition to yarn count, we distinguish our cotton yarn products from other cotton yarn products in the market by characteristics such as fibre-blended, combed and knotless. We sell our cotton yarns to fabric manufacturers in China and overseas.

We commenced our bedding product business as a distributor of bedding products in 2003. For the year of 2009, the top 5 bedding products enterprises have in terms of retail sales value in the PRC bedding products market accounted for about 6.8% of the total market share, with the highest ranking enterprise accounting for 1.8% of the total market share while we ranked as the eighth largest bedding product manufacturer, accounting for 0.4% of the total market share, according to market research conducted by Euromonitor. According to a certification dated 7 November 2008, the China Home Textile Association recognized us as one of the leading manufacturers of home textile products in China in 2007. Our “TAIFENG” brand was also recognized by the Trademark Bureau of the PRC State Administration for Industry and Commerce as a Well-known Trademark with respect to our bedding products in April 2009.

A large portion of our bedding products are sold as branded bedding products in China under our “TAIFENG” brand and a smaller portion are sold as OEM bedding products and are consumed overseas. We also sell a small portion of our bedding products under the “IBENA” brand after we obtained the relevant license in July 2008. For further details, please see “— Sales and Marketing —

BUSINESS

Bedding products — “IBENA” brand” in this prospectus. Starting from 2008, to strengthen our position in the bedding products market in China, we have been focusing on domestic sales of our branded bedding products in China. A majority of our branded bedding products are sold in the PRC through distributors. Our Directors believe that our major distributors sell our products mainly on a bulk basis to their corporate customers. We do not own or directly manage the sales network, including the retail stores and counters, of our bedding product distributors. We also market our branded bedding products at retail stores and counters we directly operate. We strategically select well-known chain stores and department stores, including Walmart, INZONE Department Store, Liqun Group and RT-Mart to open our directly-operated counters. We entered into a cooperation agreement with Combest, a renowned PRC healthy bedding product chain management company with over 2,000 franchised stores in China in late December 2009.

Pursuant to the cooperation agreement, (1) we intend to send our “Taifeng” branded bedding products in 100 designated Combest stores for trial operation by the second quarter of 2010 which will be increased to 300 stores by the third quarter of the same year, and eventually in all the stores of the franchised network of Combest by 2011, (2) we will be designated manufacturer and supplier of the non-functional parts of the healthy bedding products series of Combest, and (3) we and Combest will jointly develop new products and new brand name for the bedding product market and jointly enjoy the resulting benefits of the newly developed brand names and relevant trademarks.

Our Directors believe that the cooperation with Combest will benefit our brand building and development by leveraging on the sales network of Combest and support demand for our bedding products through designated production for Combest stores. As at the Latest Practicable Date, our sales network consisted of 47 distributors and 18 retail stores or counters some of our distributors operate as well as 4 retail stores and 115 counters at chain stores and department stores we directly operate. Our extensive sales network covers 19 provinces and municipalities in China. In addition, a number of renowned overseas home textile retailers procure our OEM bedding products from our overseas distributor customers. For direct export sales of our cotton yarns and bedding products with our overseas customers, our Directors confirm that (i) it is our responsibility to ensure compliance with the relevant export laws and regulations in the PRC and (ii) our customers arrange for customs clearance in overseas countries and hence their obligations to ensure compliance with the relevant import laws and regulations in the overseas countries. Our PRC legal advisers opined that they are not aware of any violation of applicable PRC import and export laws and regulations by Shandong Taifeng.

To meet the demand for our bedding products, we currently have over 400 sewing machines and produced more than one million pieces/sets of bedding products each year during the Track Record Period. We offer more than 1,000 assortments of bedding products which are classified in terms of product functionalities, types, colours, styles and sizes etc. Our expertise in yarn spinning enables us to meet the changing consumer demand for bedding products utilising new fabrics produced by cotton yarns blended with special materials (e.g. Tencel[®] and modal fibres) possessing different functional properties to increase the functional properties of our bedding products. Our strong research and development capability in the production of cotton yarns and bedding products, coupled with our stable and extensive network of supplies, enables us to establish a comprehensive business chain which brings us synergies and distinguishes us from our competitors.

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We are strategically located in Shandong Province, one of the largest cotton producing provinces and a major cotton textile producing area in the PRC. Our strategic location allows us to procure raw materials and sell our finished products in a timely and cost effective manner. Situated in Laiwu City of Shandong Province, our production base occupies a total gross floor area of over 230,000 sq.m. and houses six cotton yarn workshops and one bedding product workshop.

We enjoyed significant growth in revenue and profitability in recent years. Our revenue increased from RMB934.3 million for the year ended 31 December 2007 to RMB1,354.1 million for the year ended 31 December 2009, representing a CAGR of 20.4%. During the same periods, our profit before taxation increased from RMB123.8 million for the year ended 31 December 2007 to RMB307.1 million for the year ended 31 December 2009, representing a CAGR of 57.5%.

The following table sets out our revenue by products during the Track Record Period:

	For the year ended 31 December					
	2007		2008		2009	
	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%
Cotton Yarns	785,226	84.0	785,862	74.3	736,938	54.4
Bedding Products						
OEM bedding products	135,425	14.5	65,195	6.2	96,614	7.2
Branded bedding products	13,647	1.5	206,467	19.5	520,516	38.4
Sub-total	149,072	16.0	271,662	25.7	617,130	45.6
Total revenue	934,298	100.0	1,057,524	100.0	1,354,068	100.0

In 2008, we shifted the focus of our bedding products business from OEM bedding products to branded bedding products, and our sales of branded bedding products increased by 152.1% in the year ended 31 December 2009, which was driven principally by a 105.9% increase in their sales volume, reflecting primarily the successful expansion of the geographical coverage of our distribution channels from 6 distributors in 3 provinces and municipalities as of 31 December 2007 to 45 distributors and 16 retail stores or counters some of our distributors operate, as well as 4 retail stores and 78 retail counters at chain stores and department stores we directly operates in 15 provinces and municipalities as of 31 December 2009 and a 22.6% increase in the average selling price of our branded bedding products. For OEM bedding products, the increased sales were driven principally by a 44.3% increase in their sales volume, reflecting the increase in the market demand for our OEM bedding products. For further details regarding the changes in financial performance during the Track Record Period, please see the section headed "Financial Information" in this prospectus.

COMPETITIVE STRENGTHS

We believe we possess the following competitive strengths to grow our business:

Extensive distribution network to increase the sales of our bedding products in China

We maintain an extensive distribution network to market our bedding products in China. As at the Latest Practicable Date, we sold the majority of our branded bedding products to 47 distributors, some of whom operate a total of 18 retail stores or counters in China. We do not own or directly manage the sales network, including the retail stores and counters, of our bedding product distributors. As far as our Directors are aware, our bedding product distributors are domestic entities engaged in trading and distribution of home textile products in the PRC and overseas. Our Directors believe that our major distributors sell our products mainly on a bulk basis to their corporate customers. We select our distributors based on their experience and contacts in the local market and sales and marketing know-how in retail sales of bedding products. To strengthen the relationship with our distributors and to manage their sales operations to increase the sales of our products, we enter into cooperation agreements with our distributors that give them the right to sell our products on an exclusive basis in the territories assigned to them. We also provide support to our distributors such as frequent updates of our product designs, financial subsidies for decoration of their stores and counters, staff trainings and promotional and advertising support to enhance their sales performance. We believe such business model increases the incentives for our distributors to provide quality customer service and vigorously market our branded bedding products to increase our market share. We attribute our revenue growth from the bedding product segment during the Track Record Period, particularly the two years ended 31 December 2008 and 2009, to the rapid increase in the number of distributors and the size and number of retail stores and counters operated by such distributors.

We sell the remaining of our branded bedding products, also on an exclusive basis, through retail stores and counters we directly operate. As at the Latest Practicable Date, we had 4 directly-operated retail stores and 115 directly-operated counters at chain stores and department stores. We strategically select such well-known chain stores and department stores, including Walmart, INZONE Department Store, Liqun Group and RT-Mart to open our directly-operated counters. As at the Latest Practicable Date, our sales network covered 19 provinces and municipalities in China. Our domestic bedding product sales department takes charge of management of our sales of bedding products in various regions in China. Our domestic bedding product sales department is divided into four divisions by function: marketing division, logistics division, sales division and research and development division. The marketing division is responsible for monitoring bedding products market development, market maintenance and development, and promotional and advertising activities. The logistics division is responsible for timely distribution and delivery of bedding products to the retail stores and counters we directly operate. The sales division is responsible for the management of sales networks including management of our distributors and operations of the retail stores and counters we directly operate. The research and development division is responsible for the design and development of our bedding products.

We believe we will be able to continue to increase the sales of our bedding products through the strong distribution network we have established with our distributors. Such relationships will enable us to attain a wide reach of the bedding product market in various regions in China over a relatively short period of time with minimal on-the-ground investments. The strong distribution network and

management system also serve as a platform for us to market our new products and new brands to further expand our business. Therefore, we believe that our existing strong distribution network and management system give us a competitive advantage that will enable us to further expand and diversify in the bedding products retail business.

A scaled business capable of producing quality products that enjoys synergies from economies of scale

For the year of 2009, we ranked as the fourth largest yarns manufacturer in terms of sales value of fine-count and high-count yarns in the PRC according to market research conducted by Euromonitor. We have a scaled business that enables us to enjoy synergies arising from economies of scale. According to the two confirmations dated 11 May 2009 and 15 October 2009 issued by China Cotton Textile Association, we are one of the top 10 cotton yarn manufacturers in China in terms of production scale. In addition, we currently have more than 450,000 spindles capable of producing more than 30,000 tonnes of cotton yarns per annum. For the year of 2009, we ranked as the eighth largest bedding product manufacturer in terms of retail sales value in the PRC bedding product market according to market research conducted by Euromonitor. We currently have more than 400 sewing machines capable of producing more than one million pieces/sets of bedding products per annum.

In addition to our strong production capacity, we have the ability to produce high quality cotton yarns and bedding products. We are one of the few sizeable manufacturers capable of producing high-count cotton yarns in China. Pursuant to a certification dated 7 November 2008, we were recognized by China Home Textile Association as one of the leading manufacturers of home textile products in China in 2007. Our production strength and expertise in yarn spinning enable us to meet consumer demand for bedding products utilizing new materials. We utilize our know-how in cotton yarn production blended with special materials possessing different functional properties to increase the functional properties of our bedding products.

Further, we have established a stable network for our fabric supplies and an extensive distribution network for the sale of our products. The scale of our operation affords us with more bargaining power to negotiate for competitive pricing for our raw materials that enables us to reduce our unit production cost. As a result, we enjoy more flexibilities in pricing our products competitively. Moreover, given our scale of operations, it is more economical for us to invest in advanced equipment and machinery to upgrade our technical capabilities to continue to produce high quality products. We believe the size of our operations enables us to enjoy synergies arising from an integrated business that distinguishes us from our competitors.

Comprehensive product portfolio with strategic focus on high value-added products

We offer a comprehensive range of cotton yarns and bedding products to meet our customer demand for various specifications. With our production scale, technical expertise and advanced production facilities, we strategically focus on the production of high value-added products, which command higher selling prices and generate higher profit margins. We add value to our cotton yarn products because we adopt stringent control over the quality of the raw cotton used for cotton yarn production, maintain consistently high quality of our cotton yarns, and produce cotton yarns with value-added properties such as combed yarns, fibre-blended yarns and yarns with different functional properties. We add value to our bedding products by making use of our strong product design capabilities.

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We currently offer more than 120 varieties of cotton yarn products, ranging from pure cotton yarns of different yarn counts to cotton yarns with advanced production expertise such as fibre-blended, combed and knotless, to give them additional functional properties. For example, we are able to produce cotton yarns with higher yarn count, and fibre-blended yarns like Tencel[®] fibres, modal fibres and bamboo fibres. We derive over 80% of our cotton yarn sales from fine-count cotton yarns (i.e. yarn count from 29 to 60), which is most commonly used in the cotton textile industry, and high-count cotton yarns (i.e. yarn count over 60), which produce better quality cotton textile products with desired added functional properties. As the living standards continue to improve in the PRC, we believe that demand for cotton yarns with higher yarn count will increase.

We also offer more than 1,000 different assortments of bedding products which are classified in terms of product types, colours, styles, and sizes etc. We work closely with our distributors to stay abreast of current market trends and customer preferences. For example, our distributors provide their sales reports upon our request such that we are able to conduct market analysis to update our product design and formulate our production plans for various types of bedding products included in our comprehensive product offerings. We focus on production of high quality bedding products and regularly update our product designs in response to changing market demand. We believe that our comprehensive product offerings enable us to better serve our existing customers and attract new customers. Moreover, with a strategic focus on the high value-added products and product designs, we believe we will be able to increase our profitability as the income levels and purchasing power continue to increase in China.

Strong research and development capabilities and production expertise

We focus our research and development efforts on the research and development of new products and the application of new materials and production techniques in our production process to produce high quality products. We dedicate significant resources to our research and development. As at 31 December 2009, we had a team of 102 staff dedicated to research and development and product design. In addition, we have established a technical centre equipped with specific testing laboratories. In addition to our internal research and development efforts, we collaborate with third parties in connection with product and technology development and technical training. To further strengthen our research and development, we have constructed a new research and development and exhibition centre (the “RDE Centre”) at our headquarters in December 2009. We have received several accreditations and awards for our research and development efforts. For example, our bedding products sold under the “TAIFENG” brand have received a number of product design awards in domestic competitions and conferences. In recognition of our research and development capabilities in December 2004, we were accredited as a technology centre by Shandong Economic and Trade Commission.

We use advanced equipment and machinery to produce our products. We import some of our production equipment and machinery from renowned textile machinery manufacturers overseas. We provide our personnel with appropriate training such that they are equipped with the requisite technical capabilities to operate such equipment and machinery. We believe that, with our strong research and development and technical capabilities, we will be able to further expand our product offerings, improve our product quality and increase our production efficiency.

Well-established brand name with a strong customer base

We have established a well-recognized brand in the textile industry since our inception with our ability to consistently produce high quality products and to offer comprehensive product offerings. The reliability of our brand has enabled us to establish a strong customer base. For example, our cotton yarn customers include the group company of Texhong Textile Group Limited which is a listed company on the Main Board and it accounted for approximately 0.1% of our revenue derived from sales of cotton yarns for the year ended 31 December 2009. A number of renowned overseas home textile retailers also procure our OEM products from our overseas distributor customers. In addition, we sell our bedding products under our “TAIFENG” brand targeting the general home textile market. In 2008, we also launched the licensed “IBENA” brand for our bedding products targeting higher-end bedding product market. We believe these brands allow us to differentiate our target markets that appeal to different customer groups. Our “TAIFENG” brand was recognized by the Trademark Bureau of the PRC State Administration for Industry and Commerce as a Well-known Trademark with respect to our bedding products in April 2009.

To ensure the quality of our products, we maintain stringent quality control throughout our production process. For our cotton yarn production processes, we apply the domestic standard of GB/T398-93 and internationally-recognized Uster Standards as our production quality benchmarks. We have obtained several accreditations for our quality control system and our products have received various quality certifications. For example, in October 2005, our cotton yarn products received Shandong Famous Brand Certificate. In December 2006, our bedding products received Shandong Famous Brand Certificates. In 2006, we received the Shandong Province Quality Management Award by the government of Shandong Province. In March 2007, we obtained ISO 9001:2000 quality management certification in respect of our production. In September 2007, our “TAIFENG” branded combed cotton yarns received the status of China Famous Brand Product by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC. In December 2007, our “TAIFENG” branded bedding products received Exemption Certificate for Product Quality Inspection. We believe that our well-established brand, reputation and market position will continue to enable us to introduce and market our branded products, attract new quality customers and capture new business opportunities as they arise.

Experienced, stable and committed management team

Our senior management team is led by Mr. Liu Qingping with extensive experience and knowledge in the textile industry. Mr. Liu Qingping, who is the founder and chairman of our Group and an executive Director, has over 20 years of experience in the textile industry and received several recognitions and honours. Other members of our senior management team include Mr. Li Dengxiang, Mr. Liu Chunwei, Ms. Qi Tongli, Mr. Zou Shengzhong, Mr. Huang Qige, Mr. Yang Yuguo, Mr. Zou Shengcheng, Mr. Geng Zhensheng and Ms. Geng Yanling. Most of them have over 20 years of experience in the textile industry and have been with our Group since our inception. Their commitment to our Group has contributed to the stability of our senior management team. For further details of the biographies and relevant industry experience of our management team, please see “Directors, Senior Management and Employees” in this prospectus. We believe that an experienced, stable and committed management team will contribute significantly to our future growth.

BUSINESS STRATEGIES

Our principal strategies and future plans are:

Enhancing sales operations and strengthening brand building for bedding products

For the years ended 31 December 2007, 2008 and 2009, sales of our branded products accounted for 9.2%, 76.0% and 84.3% of our bedding product business, or 1.5%, 19.5% and 38.4% of our total revenue, respectively. Branded bedding products generally command higher profit margins. In addition, purchasing power continues to grow in China and consumers become more brand-conscious. As a result, we plan to continue to expand sales of our branded bedding products.

Expansion of sales network and implementation of information system

We seek to expand and optimize our sales network by increasing the number of retail stores and counters that sell our bedding products on an exclusive basis. We plan to expand our sales network with 500 retail stores and counters selling our branded bedding products, comprising about 11 directly-operated retail stores, 189 directly-operated retail counters and 300 retail stores and counters operated by our bedding product distributors by the end of 2011. As at the Latest Practicable Date, we have opened 40 new retail outlets, comprising, 37 directly-operated retail counters and 3 retail stores/counters operated by our bedding product distributors, pursuant to our expansion plan. Apart from this, we entered into a cooperation agreement with Combest, a renowned PRC healthy bedding product chain management company with over 2,000 franchised stores in China in late December 2009, which we believe will further expand our sales network. We will not participate in the operations of the franchised stores of Combest. In addition to increasing the number of retail stores and counters in the provinces and municipalities already covered in our existing sales network, we will expand our sales network to cover new regions which our Directors believe have a fast-growing consumer base. The estimated expenditures for the opening of each new directly-operated retail store is approximately in the range from RMB930,000 to RMB1.1 million, including renovation costs, rental of retail stores, inventory and sales staff payroll. The estimated expenditures for the opening of each new directly-operated counter is approximately in the range from RMB120,000 to RMB190,000, including renovation costs, sales staff payroll, inventory and retail counter entrance fee. The estimated expenditures for the opening of each retail store/counter operated by our bedding product distributors is approximately RMB60,000, including mainly subsidies to the distributors.

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The table below sets out our plan of the number and locations of the directly-operated retail stores, directly-operated retail counters and retail stores/counters operated by our bedding product distributors in each quarter of 2010 and 2011:

	Number	Locations
Directly-operated retail stores to be opened in 2010:		
1st quarter	0	
2nd quarter	2	Liaoning, Hebei
3rd quarter	2	Hubei, Zhejiang
4th quarter	2	Shandong, Shaanxi
Directly-operated retail stores to be opened in 2011:		
1st quarter	0	
2nd quarter	1	Hubei
3rd quarter	1	Liaoning
4th quarter	3	Shandong, Shanxi, Jiangsu
Total	11	

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	<u>Number</u>	<u>Locations</u>
Directly-operated retail counters to be opened in 2010:		
1st quarter	2	Shandong, Anhui
2nd quarter	41	Shandong, Liaoning, Heilongjiang, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Hunan, Hubei, Guangdong, Guangxi, Sichuan, Shaanxi, Gansu, Beijing, Tianjin, Chongqing, Shanghai, Hebei, Henan, Shanxi, Jilin, Ningxia
3rd quarter	21	Shandong, Hebei, Henan, Inner Mongolia, Liaoning, Heilongjiang, Jiangsu, Zhejiang, Fujian, Hunan, Guangdong, Tianjin, Chongqing, Shanghai, Shanxi, Jilin, Hubei, Gansu
4th quarter	30	Shandong, Hebei, Henan, Liaoning, Heilongjiang, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Hubei, Guangdong, Guangxi, Guizhou, Shaanxi, Beijing, Tianjin, Shanghai, Shanxi, Jilin, Sichuan, Hainan, Gansu, Qinghai, Xinjiang, Chongqing
Directly-operated retail counters to be opened in 2011:		
1st quarter	2	Hebei, Liaoning
2nd quarter	28	Shandong, Hebei, Henan, Shanxi, Liaoning, Jilin, Heilongjiang, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Hunan, Sichuan, Beijing
3rd quarter	39	Shandong, Hebei, Henan, Shanxi, Inner Mongolia, Liaoning, Jilin, Heilongjiang, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Hunan, Hubei, Guangdong, Sichuan, Shaanxi, Beijing, Tianjin
4th quarter	26	Shandong, Hebei, Henan, Shanxi, Inner Mongolia, Liaoning, Jilin, Heilongjiang, Jiangsu, Zhejiang, Anhui, Hunan, Hubei, Sichuan, Beijing
Total	<u>189</u>	

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	<u>Number</u>	<u>Locations</u>
Retail stores/counters operated by our bedding product distributors to be opened in 2010:		
1st quarter	8	Shandong, Hebei, Liaoning, Heilongjiang, Anhui, Hunan, Sichuan, Beijing
2nd quarter	35	Shandong, Hebei, Henan, Shanxi, Inner Mongolia, Liaoning, Jilin, Heilongjiang, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Hunan, Hubei, Guangdong, Guangxi, Sichuan, Guizhou, Ningxia, Xinjiang, Beijing, Tianjin, Chongqing, Shanghai
3rd quarter	32	Shandong, Hebei, Henan, Shanxi, Liaoning, Jilin, Heilongjiang, Jiangsu, Zhejiang, Anhui, Hunan, Hubei, Guangdong, Guangxi, Sichuan, Shaanxi, Gansu, Ningxia, Beijing, Tianjin, Chongqing
4th quarter	25	Shandong, Henan, Liaoning, Jilin, Heilongjiang, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Hunan, Hubei, Guangdong, Sichuan, Guizhou, Gansu, Qinghai, Beijing, Shanghai
Retail stores/counters operated by our bedding product distributors to be opened in 2011:		
1st quarter	6	Hebei, Liaoning, Heilongjiang, Anhui, Hunan, Sichuan
2nd quarter	65	Shandong, Hebei, Henan, Shanxi, Inner Mongolia, Liaoning, Jilin, Heilongjiang, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Hunan, Hubei, Guangdong, Guangxi, Sichuan, Guizhou, Hainan, Shaanxi, Gansu, Ningxia, Xinjiang
3rd quarter	67	Shandong, Hebei, Henan, Shanxi, Inner Mongolia, Liaoning, Jilin, Heilongjiang, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Hunan, Hubei, Guangdong, Guangxi, Sichuan, Guizhou, Hainan, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang
4th quarter	62	Shandong, Hebei, Henan, Shanxi, Liaoning, Jilin, Heilongjiang, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Hunan, Hubei, Guangdong, Guangxi, Sichuan, Guizhou, Hainan, Shaanxi, Gansu, Ningxia
Total	<u>300</u>	

To better co-ordinate and manage our expanded bedding products business, we plan to implement information system for our sales network which we believe will significantly improve the operations of our retail sales, including delivery schedules and inventory management. We will conduct an internal control review regarding the monitoring, checking and control of our branded bedding sales network in the PRC by the time of the establishment of the 500 stores and counters or by the end of 2010, whichever is earlier, and the result of such review will be included in the 2010 annual report of our Company.

BUSINESS

Enhancement of brand building and management

We intend to strengthen and raise the profile of our brands in the bedding product market through enhanced sales and marketing activities. In addition to pro-active contacts with potential customers by our sales persons, we intend to enhance the promotion of our products and brands to our domestic and international clientele through various channels such as participating in exhibitions and trade fairs, advertising through websites, television and billboards. Our new RDE Centre also provides additional display area for our products, together with our directly-operated retail stores and counters.

We seek to capitalize on the success of our “TAIFENG” brand and will continue to position the “TAIFENG” brand as a leading local bedding product brand that appeals to customers in the mid-upper bedding products segment. We will also seek to position our licensed “IBENA” brand as a leading international bedding product brand that appeals to customers in the high-end bedding products segment. In addition, we will continue to explore opportunities to develop and introduce new brands in the future.

We plan to apply approximately HK\$345.5 million (or RMB304.0 million) of the proceeds from the New Issue for sales operation enhancement and brand building in our bedding products business.

In order to develop and strengthen our domestic bedding product sales, in December 2009, we engaged 上海襲人營銷諮詢有限公司 (the “Consultant”), an Independent Third Party and a PRC marketing consultancy company to provide consultancy services on our sales and marketing in various aspects. According to the consultancy agreement, to the best knowledge of the Directors, the management team members of the consultancy have more than 10 years of experiences in the home textile sales and marketing industry. They have in the past provided consultancy services to certain famous home textile brands in China to efficiently develop and maintain their branding price system and product development system.

Major terms of the consultancy agreement with the Consultant are set forth below:

- (i) Roles and responsibilities: The Consultant shall provide consultancy services on our brand strategy planning and promotion, optimisation of our product structure, market analysis, promotion of store image, strengthening distributorship management and training in sales and marketing. We shall have the obligation to disclose to the Consultant our relevant system in relation to sales (training) targets and the date of intended accomplishment. We will also disclose to the Consultant the true position of all relevant business activities in order to ensure smooth implementation of our plans. The Consultant shall provide us with monthly training targets and plans and we shall provide responses in relation to the same within a week.
- (ii) Service fees: We had made an initial payment of RMB300,000 to the Consultant upon signing of the consultancy agreement. The on-going service fee payable to the Consultant shall be a fixed sum of RMB100,000 per month together with a commission equivalent to 1.5% of the increase in our direct sales of branded bedding products in the PRC of the relevant month as compared with the corresponding month of the previous year. The direct sales of the branded bedding products in the PRC refer to sales of our branded products, including our existing “Taifeng” brand and “IBENA” brand and other new bedding products or brand names developed by us on our own or with third parties in the future, through our directly-operated retail stores and counters in the PRC, but does not cover any sales pursuant

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to the cooperation agreement with Combest including sales of bedding products of “Taifeng” brand or other brands jointly developed with Combest at Combest stores. Our Directors confirm that the payment of the commission to the Consultant, which has been agreed upon with reference to the charging standard of the Consultant to other bedding product companies for similar consultancy services, is fair and reasonable and in the interest of our Company and its Shareholders as a whole, taking into consideration of the credentials and expertise of the Consultant in sales and marketing in the PRC, the experience of the Consultant in provision of consultancy services to other market players in the bedding product industry, and the need of our Company for strengthening and expansion of our bedding products sales to secure our steady business growth.

- (iii) Service period: The terms of the consultancy agreement is from 28 December 2009 to 31 December 2012.
- (iv) Confidentiality: Both parties shall keep confidential all confidential materials (including but not limited to operation technology, sales rate, sales route, marketing and training) obtained through the implementation of the consultancy agreement.
- (v) Termination: The consultancy agreement can be terminated by either party upon occurrence of force majeure events. We are also entitled to terminate the consultancy agreement if the responsible personnel of the Consultant are not able to perform their obligations under the consultancy agreement.

Since its engagement, the Consultant has provided training to our employees, integrated our products structure, standardised our showroom settings and packaging series and also revised the responsibilities of our various departments.

Enhancing product design and quality control capabilities

To manage and continue to expand our bedding products business, we intend to strengthen our product design capability. We will continue to develop and launch new products to meet market requirements and appeal to a wider spectrum of customers. We plan to implement new computerized design systems and ancillary facilities in this respect. We will also continue to leverage on our sales network to stay abreast of current market trends and consumer preferences of our target consumer groups in various markets throughout the PRC.

In addition, it is essential for us to continuously enhance our quality control on our products and production process. We plan to purchase more advanced instrumental devices for our inspection and testing procedures.

We plan to apply approximately HK\$23.0 million (or RMB20.2 million) of the proceeds from the New Issue for the enhancement of our product design and quality control capabilities.

Expanding and upgrading production capacity with a focus on high value-added products

In order to strengthen our market position in the cotton textile market, we believe that it is essential for us to further enhance our production process and our production capacity.

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In anticipation of the increase in our sales of bedding products as a result of our strategy to expand sales of our branded products, we plan to increase our production capacity for bedding products. We intend to add production lines through acquisition of about 500 new sewing machines by 2011. We expect the new production facilities will increase our production capacity by over 100%.

We plan to apply approximately HK\$170.5 million (or RMB150.0 million) of the proceeds from the New Issue to expand and upgrade our production capacity.

PRODUCTS

We produce cotton yarns and bedding products. The following table sets forth the breakdown of our revenue by products and geographical locations during the Track Record Period:

	For the year ended 31 December					
	2007		2008		2009	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Cotton Yarns						
PRC	736,474	78.8	705,620	66.7	732,908	54.1
Overseas						
<i>Japan and Malaysia</i>	<i>1,072</i>	<i>0.1</i>	<i>7,703</i>	<i>0.7</i>	<i>306</i>	<i>0.0</i>
<i>Hong Kong</i>	<i>34,858</i>	<i>3.7</i>	<i>51,355</i>	<i>4.9</i>	<i>3,584</i>	<i>0.3</i>
<i>Europe</i>	<i>12,700</i>	<i>1.4</i>	<i>20,622</i>	<i>2.0</i>	—	—
<i>Others</i>	<i>122</i>	<i>0.0</i>	<i>562</i>	<i>0.0</i>	<i>140</i>	<i>0.0</i>
Sub-total	48,752	5.2	80,242	7.6	4,030	0.3
Sub-total	785,226	84.0	785,862	74.3	736,938	54.4
Bedding Products						
OEM bedding products						
PRC						
<i>Sales of OEM bedding products to TTG</i>	<i>89,233</i>	<i>9.5</i>	<i>216</i>	<i>0.0</i>	<i>2,212</i>	<i>0.2</i>
Overseas						
<i>Australia</i>	<i>19,205</i>	<i>2.1</i>	<i>10,114</i>	<i>1.0</i>	<i>10,254</i>	<i>0.8</i>
<i>Europe</i>	<i>519</i>	<i>0.0</i>	<i>6,690</i>	<i>0.6</i>	<i>2,387</i>	<i>0.2</i>
<i>United States & Brazil</i>	<i>24,804</i>	<i>2.7</i>	<i>44,962</i>	<i>4.3</i>	<i>77,193</i>	<i>5.7</i>
<i>Others</i>	<i>1,664</i>	<i>0.2</i>	<i>3,213</i>	<i>0.3</i>	<i>4,568</i>	<i>0.3</i>
Sub-total	135,425	14.5	65,195	6.2	96,614	7.2
Branded bedding products						
PRC						
<i>Direct sales</i>						
<i>Sales of branded bedding products through directly-operated retail stores and counters</i>	<i>11,118</i>	<i>1.2</i>	<i>5,898</i>	<i>0.5</i>	<i>11,441</i>	<i>0.8</i>
<i>Distributorship sales</i>	<i>2,529</i>	<i>0.3</i>	<i>200,569</i>	<i>19.0</i>	<i>509,075</i>	<i>37.6</i>
Sub-total	13,647	1.5	206,467	19.5	520,516	38.4
Sub-total	149,072	16.0	271,662	25.7	617,130	45.6
Total	934,298	100.0	1,057,524	100.0	1,354,068	100.0

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Our bedding products consist of branded bedding products and OEM bedding products. We currently sell branded bedding products under our “TAIFENG” brand either through our directly-operated retail stores and counters or through our distributors, and the licensed “IBENA” brand through our directly-operated retail stores and counters. We sell all of our branded bedding products to domestic distributors and customers. We sell our OEM bedding products to our overseas distributor customers from whom a number of renowned overseas home textile retailers procure our products (which we record as overseas sales) or to TTG (which we record as direct sales in China). All of our OEM bedding products carry brands specified by our customers.

In 2008, we shifted the focus of our bedding products business from OEM bedding products to branded bedding products, and our sales of branded bedding products increased by 152.1%, which was driven principally by a 105.9% increase in their sales volume, reflecting primarily the successful expansion of the geographical coverage of our distribution channels from 6 distributors in 3 provinces and municipalities as of 31 December 2007 to 45 distributors in 15 provinces and municipalities as of 31 December 2009 and a 22.4% increase in the average selling price of our branded bedding products. For OEM bedding products, the increased sales were driven principally by a 44.3% increase in their sales volume, reflecting primarily our shift of focus to domestic sales of our branded bedding products and a 2.7% increase in the average selling price of OEM bedding products, reflecting primarily differences in product varieties due to changes in customer demand. For further details regarding the changes in financial performance during the Track Record Period, please see “Financial Information” in this prospectus.

Our direct sales in China represent sales of branded bedding products to customers in China through our directly-operated retail stores and counters and sales of OEM bedding products to TTG, which subsequently exports substantially all such products overseas. Our direct sales in China significantly decreased in 2008 primarily because a larger percentage of our branded bedding products in 2008 were sold through our distributors as opposed to by our directly-operated retail stores and counters, and sales of our OEM bedding products to overseas customers in 2008 were made directly by us as opposed to through TTG.

Our distributorship sales in China represent sales of branded bedding products to customers in China through distributors. Our Directors believe that our major distributors sell our products mainly on a bulk basis to their corporate customers. Our distributorship sales in China significantly increased during the Track Record Period, reflecting primarily our successful expansion of the geographical coverage of our distribution channels and the enhanced ability of our distributors to expand sales network operated by them.

Cotton yarns

We have engaged in cotton yarn production since our inception. Cotton yarns are the main materials used in fabric manufacturing. The quality of the fabrics manufactured depends on the quality of the yarns utilized. Luxury textile products require the use of high quality fabrics and therefore high quality yarns. The functional properties of manufactured fabrics and textile products are also dependent on the functional properties of the yarns used.

We are able to offer a wide range of cotton yarns with more than 120 varieties. We focus on fine-count cotton yarns, namely cotton yarns with yarn count from 29 to 60, in our cotton yarn production. Fine-count cotton yarn is the class of yarn count which is the most commonly used in the cotton textile

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industry. We also produce high-count cotton yarns (i.e. yarn count over 60). For the year ended 31 December 2009, over 90% of our cotton yarn revenue was generated from the sales of fine-count or high-count cotton yarns. With the increase in living standard, we believe that the demand for cotton yarns with higher yarn count which produce better quality cotton textile products will increase. In addition to yarn count, we distinguish our cotton yarns by additional characteristics such as fibre-blended (like Tencel[®] and modal cotton yarns), combed and knotless, which improve the functional properties of the yarns and therefore the quality of the textile products. In general, the profit margin of cotton yarns increases in line with the increase in yarn count and are generally higher for cotton yarns with additional characteristics.



Bedding products

We commenced our bedding product business as a distributor of bedding products in 2003. A large portion of our bedding products are sold as branded bedding products in China under our “TAIFENG” brand and a smaller portion are sold as OEM bedding products and are consumed overseas. We also sell a small portion of our bedding products under the “IBENA” brand after we obtained the relevant license in July 2008. Starting from 2008, to strengthen our position in the bedding products market in China, we have been focusing on domestic sales of our branded bedding products in China. We market our branded bedding products in China principally through distributors. We also market our branded bedding products at retail stores and counters we directly operate. We strategically select such well-known chain stores and department stores, including Walmart, INZONE Department Store, Liqun Group and RT-Mart to open our directly-operated counters.

We entered into a cooperation agreement with Combest, a renowned PRC healthy bedding product chain management company with over 2,000 franchised stores in China in late December 2009. As at the date of the cooperation agreement, to the best knowledge of our Directors, Combest was a domestic company held by several individuals. According to a public announcement made by Goldmond Holdings Limited (Stock code: 8190) (“Goldmond”), a company listed on the GEM, on 24 February 2010, one of Goldmond’s wholly owned subsidiary entered into sale and purchase agreement with one of the shareholders of Combest to acquire, among other things, 67% of Combest’s shareholdings in Combest. On 19 March 2010, Goldmond announced that this transaction was completed. Based on the information publicly available, Mr. Huang Quan, one of our substantial Shareholders, through his controlled entities, is deemed to be interested in 164,500,000 shares, representing 6.26%, of Goldmond as at the Latest Practicable Date. Save as disclosed herein, our Directors confirm that our Company, its shareholders, directors, senior management and associates are independent from the substantial shareholders of

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Goldmond as disclosed in the public announcement of Goldmond dated 30 April 2010 (which is the latest publicly available information of Goldmond in this respect), and the shareholders of Combest. According to Combest's Company website, contents of which do not form part of this prospectus, Combest stores are located in different provinces of China such as Hebei, Inner Mongolia, Shanxi, Anhui, Shandong, Jiangsu, Zhejiang, Hunan, Hubei, Henan, Jiangxi, Heilongjiang, Jilin, Liaoning, Guangdong, Guangxi, Fujian, Hainan, Sichuan, Chongqing, Yunnan, Guizhou, Tibet, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang, and the municipalities of Beijing, Tianjin and Shanghai.

As far as our Directors understand, products offered by Combest at its stores are all under its own brand name. After our "Taifeng" branded bedding products are launched to Combest stores for distribution, Combest will be selling products under its own and our brand names. Pursuant to our cooperation agreement with Combest, we will develop new brand names for bedding product market jointly with Combest. Combest focus on functional and healthcare products which include functional mattresses, quilt blankets, quilt covers, functional down blankets, functional pillows, functional bed frame, health care products such as waist support belts, knee pads, spine support vests, elbow pads and functional healthy underwear, other health care products such as air-freshener, functional shoe pads.

Pursuant to the cooperation agreement, (1) we intend to send our "Taifeng" branded bedding products in 100 designated Combest stores for trial operation by the second quarter of 2010 which will be increased to 300 stores by the third quarter of the same year, and eventually in all the stores of the franchised network of Combest by 2011, (2) we will be designated manufacturer and supplier of the non-functional parts of the healthy bedding products series of Combest, and (3) we and Combest will jointly develop new products and new brand name for the bedding product market and jointly enjoy the resulting benefits of the newly developed brand names and relevant trademarks. As confirmed by our Directors, with respect to the joint development of new products, the intention of the parties to the cooperation agreement is that our Company will be responsible for the research and development of the new products and manufacturing of them upon successful development while Combest will be responsible for the sales of the new products through their distribution network. In relation to the ownership of new brand names and relevant trademarks developed under the cooperation agreement, while we have reached preliminary understanding with Combest as to the intention for the joint development and joint enjoyment of the resulting benefits of newly developed brand names and trademarks, we are still in the course of negotiation with Combest in this regard before we entered into further formal agreements. We will make further announcement(s) should there be any further agreements in respect of the cooperation between us and Combest. We have not developed as at the Latest Practicable Date, nor expect to develop in the near future, any new products or brand names/trademarks under the cooperation agreement. Our Directors confirm that we will resolve any disputes and claim available remedies in relation to any newly developed products and brand names/trademarks in accordance with the further formal agreements to be signed and the applicable PRC laws and regulations. An announcement will be made by the Company once further formal agreements in this regard has been signed. In addition, other major terms of the cooperation agreement with Combest are set out as follows:

(i) **Rights, responsibilities and obligations of our Company:**

- We undertake to provide training to Combest sales and technical staffs once a year with time and location of the training to be organised by us;

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- We shall resolve technical issues raised by Combest by phone, fax or email;
- We will assist in conducting marketing advertisement for Combest and establishing a good reputation for its products;
- We will prepare and examine the bedding products to be supplied to Combest in a timely fashion and undertake to ensure the integrity and quality of the products and exchange any defected products without additional charges.

(ii) **Rights, responsibilities and obligations of Combest:**

- Combest shall pay us for the products provided by us accordingly within the agreed time frame;
- Combest will assist in conducting marketing advertisement for us and establishing a good reputation for our products;
- Combest shall be responsible in handling after-sale services as well as technical support for local users.

The cooperation agreement with Combest does not provide for the followings:

- any fee, commission and expense payable by us to Combest and vice versa;
- any minimum supply or purchase requirement;
- our uniform pricing policy; and
- termination clauses and remedies available to each party.

The cooperation agreement between Combest and us signifies a framework of our cooperation plans. We are in the process of completing further agreements with Combest containing specific agreement clauses pursuant to our cooperation agreement. As advised by our PRC legal advisers, the cooperation agreement has been duly executed by the relevant parties and constitutes a valid and legal agreement which can be enforceable against the parties.

We will sell our “Taifeng” branded bedding products at Combest stores by way of consignment arrangement with revenue recognised when the end-customers purchased our products at the Combest stores. Revenue will be recognised upon delivery of goods to Combest if we are the manufacturer and supplier of the non-functional parts of bedding products series to Combest. For products jointly developed by the Company and Combest, revenue is expected to be recognised upon sales to customers. However, the detailed terms of the appointment of the Company as Combest’s manufacturer and supplier and the joint development between the Company and Combest has not been stipulated in the cooperation agreement. Our appointment as manufacturer and supplier of the non-functional parts of bedding products series to Combest and the joint development of new products and new brand name between the Company and Combest pursuant to the cooperation agreement are not expected to generate any revenue for the year ending 31 December 2010. For further details on the cooperation agreement between

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Combest and us, please refer to the section headed “Risk factor - Our cooperation with Combest is still at preliminary stage and future performance of the cooperation agreement with Combest might not be guaranteed” in this prospectus.

We believe that we will be able to strengthen our brand names through co-operative marketing and promotion with Combest. Combest will on the other hand be able to benefit from our excellence in production of bedding products. In addition, Combest stores will be able to diversify its product portfolio while we are able to expand our sales network. Our Directors believe that the cooperation with Combest will benefit our brand building and development by leveraging on the sales network of Combest and support demand for our bedding products through designated production for Combest stores. Our Directors are of the view that there will not be any potential competition between our “Taifeng” branded bedding products and Combest’s health care bedding product series, as the respective products of Combest and our Group are of different natures and are complementary to one another. Combest is in the business of selling functional and healthcare products and is not in the business of manufacturing or selling non-functional bedding products such as bed linen or textile items that we produce. Combest specializing in the manufacturing of functional products cannot match the manufacturing scale, skills, experience, low cost of production, quality and economies of scale of our production in non-functional bedding products such as bed linen. On the other hand, the main selling products of Combest, such as their functional mattresses, quilt blankets or pillows will need to be used together with bed linen, therefore our products complement each other. The cooperation enables Combest to extend its product portfolio and earn additional sales commission for it and its franchised stores. We on the other hand could benefit from Combest’s existing nationwide network, to increase market penetration significantly and quickly through consignment of our products at Combest franchised stores. Our Directors view that this cooperation could create a win-win situation for both parties.

As at the Latest Practicable Date, our sales network consisted of 47 distributors and 18 retail stores or counters some of our distributors operate as well as 4 retail stores and 115 counters at chain stores and department stores we directly operate. As far as our Directors are aware, our bedding product distributors are domestic entities engaged in trading and distribution of home textile products in the PRC and overseas. Our Directors believe that our major distributors sell our products mainly on a bulk basis to their corporate customers. All the retail stores and counters we directly operated sell our products on an exclusive basis. Our extensive sales network covers 19 provinces and municipalities in China. In addition, a number of renowned overseas home textile retailers procure our OEM bedding products from our overseas distributor customers. For direct export sales of our cotton yarns and bedding products with our overseas customers, our Directors confirm that (i) it is our responsibility to ensure compliance with the relevant export laws and regulations in the PRC and (ii) our customers arrange for customs clearance in overseas countries and hence their obligation to ensure compliance with the relevant import laws and regulations in the overseas countries. Our PRC legal advisers opined that they are not aware of any violation of applicable PRC import and export laws and regulations by Shandong Taifeng.

Our bedding products include single pieces of bed covers, flat sheets, pillows, pillow cases, bed sheets, quilts and quilt covers, as well as combination sets of such products. We produce more than 1,000 assortments of bedding products which are classified in terms of product types, colours, styles, and sizes etc. The fabrics that we use in the production of our bedding products include printed fabrics, jacquard cloth, satin cloth, cotton-silk blended fabrics and cotton-Tencel[®] blended fabrics, which provide different properties to our bedding products. Our branded bedding products are designed by our in-house designers with different themes to cater to market demands and customer specifications.



SALES AND MARKETING

Cotton yarns

We had 22 staff responsible for the development of new customers and maintenance of existing customers for our cotton yarns sales as at 31 December 2009. Our cotton yarns are sold both domestically and overseas. Our exporting countries and regions during the Track Record Period include Hong Kong, Japan, Malaysia, Europe, and the United States. For the years ended 31 December 2007, 2008 and 2009, our domestic sales of cotton yarns amounted to RMB736.5 million, RMB705.6 million and RMB732.9 million, representing 78.8%, 66.7% and 54.1% of our total revenue, respectively. During the same periods, our export sales of cotton yarns amounted to RMB48.8 million, RMB80.2 million, RMB4.0 million, representing approximately 5.2%, 7.6% and 0.3%, of our total revenue, respectively.

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To manage our sales network in China, we divide the PRC market of cotton yarns into five main regions: northern and north-eastern China region, south-western and north-western China region, eastern China region, central China region and southern China region. Our cotton yarn customers are principally fabrics manufacturers which include group company of Texhong Textile Group Limited which is a listed company on the Main Board.

Bedding products

We had 116 staff responsible for bedding product sales as at 31 December 2009. A large portion of our bedding products are sold as branded bedding products in China under our “TAIFENG” brand and a smaller portion are sold as OEM bedding products and are consumed overseas. We also sell a small portion of our bedding products under the “IBENA” brand after we obtained the relevant license in July 2008. For the year ended 31 December 2009, sales of our branded bedding products and OEM bedding products accounted for 84.3% and 15.7% of our total revenue derived from sales of bedding products respectively. Starting from 2008, we have been focusing on domestic sales of our branded bedding products through our distributors and the retail stores and counters we directly operate. For the years ended 31 December 2007, 2008 and 2009, our domestic sales of bedding products amounted to RMB102.9 million, RMB206.7 million and RMB522.7 million, representing 11.0%, 19.5% and 38.6% of our total revenue, respectively. During the same periods, our exports sales of bedding products amounted to RMB46.2 million, RMB65.0 million, RMB94.4 million, representing approximately 5.0%, 6.2% and 7.0%, of our total revenue, respectively.

Sales network in the PRC

Our domestic bedding product sales department is divided into four divisions by function: marketing division, logistics division, sales division and research and development division. The marketing division is responsible for monitoring bedding products market development, market maintenance and development, and promotional and advertising activities. The logistics division is responsible for timely distribution and delivery of bedding products to the retail stores and counters we directly operate. The sales division is responsible for the management of sales networks including management of our distributors and operations of the retail stores and counters we directly operate. The research and development division is responsible for the design and development of our bedding products.

We divide the PRC market of bedding products into nine regions: Shandong region, northeast China region, northwest China region, southwest China region, central China region, eastern China region, Beijing region, northern China region and southern China region. We sell the majority of our branded bedding products to bedding product distributors, some of whom also operate retail stores and counters that sell our products. We sell the remaining of our branded bedding products through the retail stores and counters we directly operate. We strategically select such well-known chain stores and department stores, including Walmart, INZONE Department Store, Liquan Group and RT-Mart to open our directly-operated counters. We entered into a cooperation agreement with Combest, a renowned PRC healthy bedding product chain management company with over 2,000 franchised stores in China in late December 2009. Pursuant to the cooperation agreement, (1) we intend to send our “Taifeng” branded bedding products in 100 designated Combest stores for trial operation by the second quarter of 2010 which will be increased to 300 stores by the third quarter of the same year, and eventually in all the stores of the franchised network of Combest by 2011, (2) we will be designated manufacturer and

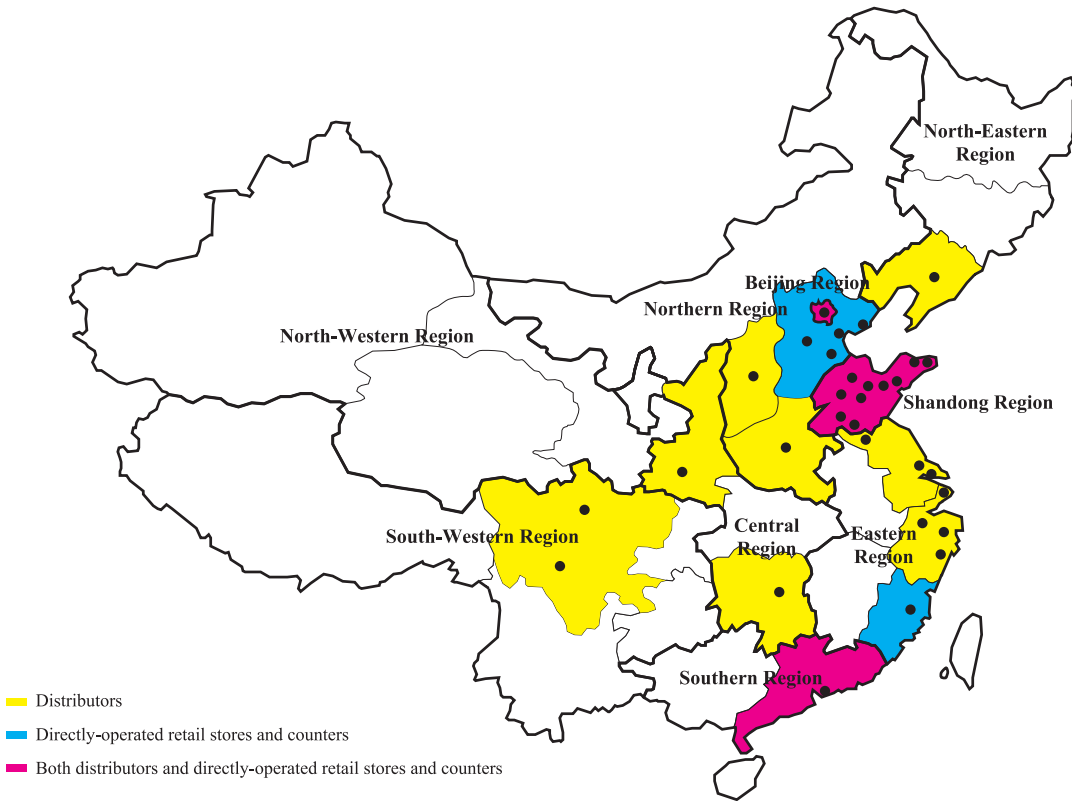
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supplier of the non-functional parts of the healthy bedding products series of Combest, and (3) we and Combest will jointly develop new products and new brand name for the bedding product market. Our Directors believe that the cooperation with Combest will benefit our brand building and development by leveraging on the sales network of Combest and support demand for our bedding products through designated production for Combest stores. As at the Latest Practicable Date, our sales network of bedding products in China consisted of 47 bedding products distributors and a total of 18 retail stores or counters some of our distributors operate as well as 4 retail stores and 115 counters at chain stores and department stores we directly operate. As far as our Directors are aware, our bedding product distributors are domestic entities engaged in trading and distribution of home textile products in the PRC and overseas mainly on a bulk basis to their corporate customers. As at the Latest Practicable Date, our sales network covered 19 different provinces and municipalities in China.

Our retail stores and counters are dedicated bedding products shops and counters at chain stores and department stores. All retail stores and counters directly operated by us, sell our products on an exclusive basis. Our 4 directly-operated retail stores are all located in Shandong Province principally for brand building purposes. These directly-operated retail stores are intended to show our latest bedding product ranges, enhance our brand profile in the local market and give us a platform to test marketing initiatives and gain direct access to consumer feedback.

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The following map and table show our sales network of bedding products in China as at the Latest Practicable Date.



Regions	Directly operated stores and counters			Distributors (Distributor operated stores and counters)		
	December 2008	December 2009	LPD	December 2008	December 2009	LPD
Beijing Region		7	14	2	2	2
Shandong Region	4	67	79	16(7)	20(11)	26(15)
North-Eastern Region			10	1	1	1
Northern Region		3	3	1(1)	2(2)	2(2)
North-Western Region						
Central Region			1	3	3	3
Eastern Region		1	8	10(1)	11(2)	8
Southern Region		4	4	1	1	2
South-Western Region				3	4(1)	3(1)
Total	4	82	119	37(9)	45(16)	47(18)

Sales management

We adopt the following measures to manage our directly-operated retail stores and counters:

- All our directly-operated retail stores and counters provide sales reports of our bedding products to our sales department on a daily basis to facilitate the market research of our products, which in turn provides consolidated sales reports to our finance department on a weekly basis to facilitate accounting for our sales and management of our inventory and accounts receivable.
- All our directly-operated retail stores deposit their respective sales receipts to our designated bank account daily, while the retail outlets in which our directly-operated retail counters are situated centralize the collection of the sales receipts of the counters and issue tax invoices at the end of each month.
- Our finance department designates specific personnel to conduct monthly stock-take of all our directly-operated retail stores and counters to check the inventory quantity against our accounting records, assess whether any inventory has been damaged, and check the sales receipts against the sales volume. Our finance department personnel reports the stock-take records to our senior management who conducts random inspection of such records.
- We lay down the optimal inventory level for each of our directly-operated retail stores and counters according to its shop area and seasonal changes. All directly-operated retail stores and counters have to adjust their respective inventory levels accordingly from time to time.

We adopt the following measures to manage our bedding product distributors:

- Each of our bedding product distributors has to enter into standard cooperation agreement with us to govern its rights and obligations.
- Our distributors have to provide their sales reports to facilitate the market research of our products upon request. Our approval is required before our distributors open new stores and counters. Our distributors have to place purchase orders with specifications of types and quantities of bedding products and make payment into our account in advance before we can arrange for delivery of our products. In order to maintain good business relationship, we offer credit periods within 30 to 90 days to some distributors which place orders for large volumes of bedding products.
- Our sales personnel conducts site visits of the retail stores and counters operated by our bedding product distributors from time to time to examine the decoration and layout of their stores and counters, assess sales performance and inventory level, and provide necessary assistance for their sales management.

To better coordinate and manage our expanded bedding product business, we plan to implement an information system for our sales network. Our retail stores and counters, directly-operated and operated by our bedding product distributors, will be connected to our sales network information platform. We will be able to obtain more up-to-date information of the situation of the retail stores and counters, such

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as collection of sales receipts, pricing and other details of their sales operations, and to carry out relevant analysis and implement stock replenishment, adjustments of pricing, product style and inventory and promotional activities.

In order to develop and strengthen our domestic bedding product sales, in December 2009, we engaged a PRC marketing consultancy company to provide consultancy services on our sales and marketing in various aspects.

Distributors

As at the Latest Practicable Date, we had 47 bedding product distributors and a total of 18 retail stores and counters operated by some of our distributors in China. As far as our Directors are aware, our bedding product distributors are domestic entities engaged in trading and distribution of home textile products in the PRC and overseas. Our Directors believe that our major distributors sell our products mainly on a bulk basis to their corporate customers. Most of our bedding product distributors began their business relationships with us in 2008 as a result of our focus on the development of domestic sales of branded bedding products. We identified our bedding product distributors through various channels such as market referrals, participation in exhibitions and trade fairs, advertisements on television or over the internet, and promotion by our sales team. Our sales persons engage in communication from time to time to inform our distributors our latest products and developments. All our bedding product distributors are Independent Third Parties. We do not own or manage the sales network including the retail stores and counters of our bedding product distributors. For the years ended 31 December 2007, 2008 and 2009, sales to our distributors amounted to RMB2.5 million, RMB200.6 million and RMB509.1 million, representing 0.3%, 19.0% and 37.6% of our total revenue, respectively. Since we do not have a comprehensive credit checking policy on our distributors, our reliance on the businesses generated by them may expose us to potential credit risks if they are unable to pay for our products. Some of our distributors have been established for a relatively short period of time and some have only had a short business history with us. These may give rise to concerns over whether all of our distributors will in future continue to maintain or enhance their respective current business levels with us, or if we are able to achieve the level of distribution sales that we currently estimate. The complete financial and operational information of our distributors is not always available to our Directors, and our Directors are not in any position to obtain such information. If any of our major distributors experiences any financial difficulties, our business with such distributors and settlement of outstanding amounts owing to us may be adversely affected notwithstanding that we have conducted our ongoing credit analysis of our distributors including relying on factors such as the length of business relationships, third party or governmental referral or introduction, our experience in dealing with such customers, market reputation, our business judgement and the settlement history in assessing our customers (including distributors) and monitoring our business and credit risks. Despite the possible risks that may arise from the lack of comprehensive credit checking policy on our distributors, we have so far not been subject to any material loss or bad debt resulting from the same. However, a potential reduction in their orders for our products may also adversely affect our results of operation and profitability.

We select our distributors based on a number of factors which we consider important for the operation of our sales network. To become our distributor, a candidate must have relevant experience in the distribution management and operation of retail stores and counters, sufficient financial resources and the ability to develop and operate a sales network in its designated sales region.

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We entered into cooperation agreements with our bedding product distributors. Most of the cooperation agreements with our distributors were signed around mid-2008, which are generally effective until the end of 2009, with a duration of approximately 1.5 years. We have renewed most of the cooperation agreements upon expiry by the end of 2009, except for four distributors which the cooperation agreement was not extended, the rest were renewed with a duration of approximately 1 year. Major terms of the cooperation agreements with our distributors are set forth below:

(i) Rights and Obligations:

- We give our distributors the right to sell our branded products on an exclusive basis in the territories assigned to them. We also provide support including frequent updates of our product designs, financial subsidies for decoration of stores and counters, trainings and promotional advertising to our distributors to enhance their sales.
- Pursuant to the cooperation agreements, our distributors are required to sell our branded bedding products at a uniform pricing in China. In practice, while we suggest standard prices at which our distributors should sell our bedding products, our directors believe certain of our distributors including top 5 distributors make adjustments to the suggested standard prices and fix their own prices in their sales operations. Such adjustment made to our suggested standard prices constitutes as a breach of our cooperation agreement with our distributors. Since we are at the beginning stage to develop our distributorship network, we do not strictly enforce the uniform pricing policy under the cooperation agreements. It is also the Directors' belief that it is in our best interest not to take legal action on these distributors as this would affect our reputation and business relationship with our distributors hence affect their willingness to cooperate with us. With the enhancement in our bargaining power and sales management, our Directors expect to tighten control over our distributors and their sales operations under the cooperation agreements. As we recognize our revenue by reference to our selling prices to the distributors, rather than the distributors' selling prices to their customers, save as disclosed in Risk Factors — “We depend on third-party distributors for the sales of our bedding products and promotion of our brands in the PRC but we may not have sufficient control over them” in this prospectus, the adjustments in the uniform pricing provided under the cooperation agreements by the distributors do not affect our revenue.
- Our prior approval is required for opening of additional stores and counters by the distributors. Our distributors have to place purchase orders with specifications of types and quantities of bedding products and make payment into our account in advance for us to arrange for delivery of products. In order to maintain good business relationship, we offer credit periods within 30 to 90 days to some distributors which place orders for large volumes of bedding products. Our distributors provide their sales reports for our market analysis upon request. We generally require our distributors to provide sales reports on a quarterly basis.

- (ii) Minimum purchase requirements: There is no minimum purchase requirement stipulated in the cooperation agreements currently signed with our distributors.

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- (iii) Conditions for termination: If force majeure events occur during the term of the cooperation agreements, the cooperation agreements may be terminated with the mutual consent of the parties.
- (iv) Renewal of agreements: Our distributors have the pre-emptive rights to renew their cooperation agreements subject to prior notification to us in writing within 60 days before expiry of the term and completion of the relevant renewal procedures within 30 days before expiry of the term.

Our distributors are not allowed to return our products other than for quality reasons. To promote sales and to increase the competitiveness of our contract terms with our distributors, we allow retail stores and counters operated by our distributors to exchange, but not return, for a maximum of 50% of the initial purchase amounts within three months of delivery and a maximum of 15% of the initial purchase amounts after three months of delivery, provided the products for exchange are not damaged. There were no exchange of goods in 2007, and the amounts of goods exchanged for the years ended 31 December 2008 and 2009 were RMB213,000 and RMB47,000 which amounted to 0.1% and less than 0.1%, respectively of our sales to distributors during the same periods. We did not make any impairments for the goods exchanged during the Track Record Period. Our Directors consider that exchange of goods is a normal business practice in the bedding product industry in China.

Save as disclosed above, our Directors confirm that we have not encountered material deviation from our policies by our bedding product distributors during the Track Record Period. We plan to expand our sales network with 500 retail stores and counters (including 300 retail stores and counters operated by our bedding product distributors) by the end of 2011. To better co-ordinate and manage our expanded bedding product business, we plan to implement an information system for our sales network which we believe will significantly improve the operations of our retail sales, including delivery schedules and inventory management. With the expansion of our sales network, accumulation of experience in the distribution of bedding products, and implementation of information management system, we believe that we will have greater bargaining power when dealing with our bedding product distributors and enhance our efficiency and effectiveness in managing our distributors.

Overseas Sales

In addition to our direct sales to TTG for its subsequent resale and export, we sold a portion of its OEM bedding products to customers overseas, accounting for 5.0%, 6.2% and 7.0% of our total revenues for the years ended 31 December 2007, 2008 and 2009. We sell our OEM bedding products to our overseas distributor customers from whom a number of renowned overseas home textile retailers procure our products.

“TAIFENG” trademark

“TAIFENG” trademark has been registered at the Trademark Bureau of the PRC State Administration for Industry and Commerce in 2003 and recognised as a well-know trademark in China in 2009. So far, Shandong Taifeng has never been involved in any dispute or penalties as a result of infringement of third parties’ intellectual rights. According to our PRC legal advisers, there will be no risk of infringement of third parties’ intellectual right if we use the “TAIFENG” trademark according to the applicable PRC law and regulations.

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“IBENA” brand

We licensed our “IBENA” brand from IBENA Shanghai for a term of five years since 1 July 2008. IBENA Shanghai was authorised by IBENA TEXTILWERKE GMBH, a German company and the registered holder of the “IBENA” brand, to license the “IBENA” brand to us. Pursuant to the IBENA Licensing Agreement, we are granted the exclusive rights to use the “IBENA” brand for our bedding products in the PRC (including Hong Kong and Macau). Our Directors confirm that IBENA Shanghai learned of us through the internet and contacted us in relation to the possible collaboration on the development of the “IBENA” brand in China. After several rounds of negotiations, we entered into the IBENA Licensing Agreement with IBENA Shanghai to distribute “IBENA” branded products in China.

The sales of “IBENA” branded products accounted for approximately 0.1% and 0.3% of the annual sales of our bedding products in 2008 and 2009 respectively after we obtained the IBENA license in July 2008. We launched the “IBENA” brand to market our high-end bedding products as part of our brand diversification efforts to differentiate our markets with different target consumers.

Major terms of the IBENA Licensing Agreement are set forth below:

- (i) Roles and responsibilities: IBENA Shanghai granted Shandong Taifeng a license to use and promote the “IBENA” brand and to manufacture, sell and promote the related bedding products under the “IBENA” brand in China (including Hong Kong and Macau). Shandong Taifeng has the responsibility to prevent the illegal use of the “IBENA” brand by any third party in China. Shandong Taifeng has to seek IBENA Shanghai’s written approval before any use, manufacture, promotion and sale of the “IBENA” brand or the “IBENA” branded products.
- (ii) Licence fee: The license fee payable by Shandong Taifeng is 5.0% of the annual (invoiced) sales of the “IBENA” branded products in the first three years and 8.0% for the remainder of the term.
- (iii) There is no cost/profit-sharing arrangement stipulated in the IBENA Licensing Agreement.
- (iv) Termination: The IBENA Licensing Agreement may be terminated if:
 - (1) one of the parties is voluntarily wound-up or faced with winding-up litigation and the situation is not remedied within one month;
 - (2) Shandong Taifeng is unable to achieve 50% of the annual sales target as follows:

Year	Annual sales target <i>(RMB million)</i>
1 July 2008 to 30 June 2009	5.0
1 July 2009 to 30 June 2010	10.0
1 July 2010 to 30 June 2011	20.0
1 July 2011 to 30 June 2012	28.0
1 July 2012 to 30 June 2013	30.0

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- (3) there exist serious mistakes in the sales figures in the financial reports provided by Shandong Taifeng and the license fee is not duly paid to IBENA Shanghai;
 - (4) any amount owed by Shandong Taifeng to IBENA Shanghai is overdue for six months;
 - (5) Shandong Taifeng infringes IBENA Shanghai's intellectual property rights by any unauthorised manufacture or sale;
 - (6) IBENA Shanghai grants the exclusive rights Shandong Taifeng is entitled to during the term of the IBENA Licensing Agreement to any third party; or
 - (7) there exist infringing products similar to those authorised by IBENA Shanghai under the IBENA Licensing Agreement materially adversely affecting sales of "IBENA" branded products in China.
- (v) Penalty: A penalty of RMB1 million will be imposed on the defaulting party.

Although Shandong Taifeng has not fulfilled the sales target for the year between 1 July 2008 and 30 June 2009 as provided for in the IBENA Licensing Agreement, IBENA Shanghai has, on 9 October 2009, agreed to waive the annual sales target for that year and not to terminate the IBENA Licensing Agreement which will remain effective.

For further details on the risks associated with the termination of the IBENA Licensing Agreement, please see "Risk Factors — Our licence for the use of "IBENA" brand in the PRC may be subject to termination" in this prospectus.

Logistics

We do not maintain any delivery team or delivery vehicles. We outsource the transportation in China to third party logistics service providers. We engage independent transport operators to arrange for railway transportation and shipping of our products and imported materials. Through these arrangements, we are able to reduce our capital investment in logistics and eliminate the risk of liability for loss during transit.

Customers

In respect of cotton yarns, as at 31 December 2009, we had over 200 cotton yarn customers. For the years ended 31 December 2007, 2008 and 2009, sales to our five largest cotton yarn customers accounted for 43.6%, 28.7% and 21.2% of our total revenue, and sales to our largest cotton yarn customer accounted for 29.2%, 18.6% and 15.7% of our total revenue, respectively.

In respect of bedding products, we sell our branded bedding products to distributors as well as to retail customers directly in China and sell our OEM bedding products to overseas distributor customers. As at 31 December 2009, we had about 45 bedding product distributors for our sales of branded bedding products in China. For the years ended 31 December 2007, 2008 and 2009, sales to our five largest bedding product customers accounted for 14.1%, 17.8% and 34.9% of our total revenue, and sales to our largest bedding product customer accounted for 9.6%, 5.5% and 13.2% of our total revenue, respectively.

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Since we do not have a comprehensive credit checking policy on our customers, our reliance on the businesses generated by them may expose us to potential credit risks if they are unable to pay for our products. Some of our customers have been established for a relatively short period of time and some have only had a short business history with us. These may give rise to concerns over whether all of our customers will in future continue to maintain or enhance their respective current business levels with us. The complete financial and operational information of our customers is not always available to the Directors, and our Directors are not in any position to obtain such information. If any of our major customers experiences any financial difficulties, our business with such customers and settlement of outstanding amounts owing to us may be adversely affected notwithstanding that we have conducted our ongoing credit analysis of our customers including relying on, on this basis we have been giving more emphasis on those factors such as the length of business relationships, third party or governmental referral or introduction, our experience in dealing with such customers, market reputation, our business judgement and the settlement history in assessing our customers (including customers) and monitoring our business and credit risks. Despite the possible risks that may arise from the lack of comprehensive credit checking policy on our customers, we have so far not been subject to any material loss or bad debt resulting from the same. However, potential reduction in their orders for our products may also adversely affect our results of operation and profitability.

TTG was our largest cotton yarn customer for the years ended 31 December 2007, 2008 and 2009 and our largest bedding product customer for the year ended 31 December 2007 (but not 2008 and 2009), together accounting for 38.7%, 18.6% and 15.9% of our total revenue for the years ended 31 December 2007, 2008 and 2009, respectively. For further details, please see “Connected Transactions and Waivers” in this prospectus.

As at the Latest Practicable Date, none of our Directors, their respective associates or any Shareholders (who to the knowledge of our Directors owned more than 5% of our issued share capital) had any interest in any of our five largest cotton yarns or bedding products customers.

Marketing

We sell our products through the following sales and marketing initiatives:

Direct sales and marketing activities

We contact target customers through referrals by industry associations and communications with other members of industry associations. We promote our products directly to our customers and meet them to obtain orders. Our sales and marketing personnel work closely with our customers in order to understand their needs. This includes regular visits to customers’ offices to collate feedback on the quality and packaging of our products and how to improve our services.

Promotion and advertisements

We advertise through various channels including websites, television and outdoor billboards. We also promote our products to target customers by way of emails and the distribution of product samples and brochures. This helps us promote our products to end-consumers and increase their awareness of our products. We set up showrooms to display new designs and products. Our new RDE Centre also provides an additional display area of our products, together with our four directly-operated retail stores (one in Jinan, one in Qingdao and two in Laiwu).

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Participation in exhibitions and trade fairs

We participate in various domestic or international exhibitions and trade fairs such as Global Home Textile Show in the U.S., Heimtextil Frankfurt in Germany and Canton Fair and China Knitwear Cotton Trade Fair in the PRC.

Our sales and marketing expenses relate to our advertising fees, sales commission and exhibition expenses. For the years ended 31 December 2007, 2008 and 2009, our sales and marketing expenses amounted to RMB0.2 million, RMB0.5 million and RMB1.2 million, respectively.

PRICING AND PAYMENT TERMS

Pricing and customer policy

Our pricing is based on a variety of factors, including prevailing market conditions, raw material prices, production costs, overhead and the particulars of each sales order. This enables us to respond rapidly to changing market conditions and allows us a greater degree of flexibility to pass on any increased costs to our customers. Apart from pricing and other terms offered, in considering accepting orders from potential customers including TTG, we take into account other factors such as their financial strength, credibility and market reputation, the existence of previous business relationship and our own production capacity to deal with the orders.

Payment terms with customers

Apart from the cash sales from our retail business, we generally allow an average credit period of 30 to 90 days to our customers. The length of trade credits depends on various factors such as financial strength, size of the business and payment history of the customer. All credit terms are subject to our senior management's approval. Before accepting any new customer, we assess the potential customer's credit quality and determine its credit limits based on the historical credit records of these customers. To minimize our credit risk, our management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we review the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

During the Track Record Period, we had not experienced any material difficulties in collecting payments from our customers. Our trade receivables amounted to RMB65.7 million, RMB112.7 million and RMB184.8 million as at 31 December 2007, 2008 and 2009, respectively. We make the allowance for the trade receivables based on the evaluation of collectibility and our management's judgement by reference to the estimation of the future cash flows discounted at an effective interest rate to calculate the present value. For the years ended 31 December 2007, 2008 and 2009, the amounts written-off as uncollectible were RMB0.1 million, RMB0.3 million and RMB0.4 million, respectively.

During the Track Record Period, cash income from the sales of bedding products and cotton yarns made up for 1.05% and 0.51%, 0.86% and 0.47%, and 0.71% and 0.64% of our total revenue for the years ended 31 December 2007, 2008 and 2009 respectively. In addition, our sales are mainly settled through banks in the PRC. As advised by our PRC legal advisers, under the Law on Anti-money Laundering of the PRC, all financial institutions in the PRC are subject to the requirement of (including

but not limited to) establishing and improving customer identification system, the customer identity and transaction record keeping system, large transaction and suspicious transaction reporting system in order to perform their anti-money laundering obligations. As such, our Directors are of the view that money laundering does not pose a substantial risk to our businesses.

PROCUREMENT

Raw materials

As at 31 December 2009, we had 7 staff responsible for sourcing our raw materials and supplies. Our raw materials include raw cotton, which are used for the production of cotton yarns, and fabrics, which are used for the production of bedding products. Our raw materials costs accounted for 76.9%, 74.4%, 75.4% of our total cost of sales for the years ended 31 December 2007, 2008 and 2009, respectively. Raw cotton costs accounted for 79.0%, 74.8% and 60.4% of our total raw material costs for the years ended 31 December 2007, 2008 and 2009, respectively. During the same periods, fabrics costs accounted for 21.0%, 25.2% and 39.6% of our total raw materials costs, respectively. In addition, raw material costs for cotton yarn production accounted for 74.7%, 71.5% and 67.5% of our cost of sales for cotton yarns for the years ended 31 December 2007, 2008 and 2009, respectively. During the same periods, raw material costs for bedding products production accounted for 86.9%, 84.5% and 92.0% of our cost of sale for bedding products, respectively.

We use both domestic and overseas cotton in our cotton yarn production. For domestic cotton, we source mainly from Shandong Province and Xinjiang Autonomous Region, both of which are major cotton producing provinces in the PRC. For overseas cotton, we source mainly from the United States and Australia. In order to produce fibre-blended yarns for our cotton yarn production, we also purchase other fibres such as Tencel[®], modal fibres, bamboo fibres, dacron and viscose.

We source fabrics mainly from Jiangsu Province and Shandong Province, and we do not have any overseas fabrics supplier. The fabrics that we use in our production of bedding products include printed fabrics, jacquard cloth, satin cloth, cotton-silk blended fabrics and cotton-Tencel[®] blended fabrics. We make our fabrics procurement in accordance with the product designs of our bedding products. We provide our suppliers with specifications such as materials, colours, and patterns. We also procure ancillary components such as filling materials, labels and packaging materials for the production of our bedding products.

Suppliers

As a steady supply of quality raw materials is essential to our business, we carefully evaluate the suitability of potential suppliers including TTG based on their scale, reputation and product quality and their ability to assure timely delivery of quality materials. In order to ensure a high quality of supplies which enhances consistency in our product quality, we have established strict management procedures and rules to govern dealings with our suppliers.

For our raw cotton supplies, including those from TTG, we usually seek to purchase in bulk to obtain more favorable purchase prices. Therefore, we order commonly-consumed raw cotton in advance in anticipation of future raw cotton requirements, which we believe allows us to better control our cost of sales. The lead time for sourcing our raw cotton varies from one to five days within Shandong Province and from seven to fifteen days for those out of Shandong Province after placement of orders in

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respect of our domestic sourcing to about one month after loading on board for shipment in respect of our overseas sourcing. In respect of our fabric supplies, including those from TTG, we determine our fabric requirements based on the volume of the orders and the specification for our products from our customers.

We sign letters of intent from time to time with our suppliers to ensure that we have priority in the supply of raw materials. In order to maintain flexibility in terms of choice and pricing, except for framework supply agreements with several global cotton suppliers signed recently, we generally do not enter into any long-term supply contracts with our suppliers. As such, we are free to source raw materials from a number of suppliers. We believe this arrangement allows us to ensure that we source raw materials that are available to us at the highest quality and the most competitive pricing.

During the Track Record Period, we did not encounter any material production disruption due to shortages of raw materials. Given our broad supply network, we consider that we are able to maintain a steady supply without substantial increase in costs of raw materials in the event we experience any unexpected disruptions in supply or any cessation of business with any of our major suppliers. Cotton is a commodity readily available in the PRC as well as from overseas suppliers. Therefore, in the event that any of our cotton suppliers ceases supplying us with cotton, we will be able to obtain cotton supplies from alternative sources.

Our suppliers usually require payment on delivery. Some suppliers accept letter of credits with a credit period commonly ranging from one month to three months. However, since October 2009, there has been a relatively large increase in the prices of raw materials and the Directors anticipated that the trend would be increasing under the then market environment. In order to reduce the costs of raw materials, the Company entered into purchase contracts (which required prepayment) with some of its major suppliers to lock the prices of raw materials so as to reduce production costs. Purchase contracts with prepayment terms were entered into to cater for the need of the Company under the then market environment. Such arrangement is temporary and there is no change in the Company's procurement model. The Company has not entered into any purchase contracts (which required prepayments) since January 2010. Purchases are principally denominated and settled in Renminbi for domestic purchases and in U.S. dollars for overseas purchases.

In respect of raw cotton, as at 31 December 2009, we had about 21 raw cotton suppliers. For the years ended 31 December 2007, 2008 and 2009, purchases from our five largest raw cotton suppliers accounted for 42.9%, 59.6% and 44.1% of our total raw material purchase, respectively, and purchases from our largest raw cotton supplier accounted for 24.3%, 30.8% and 27.3% of total raw material purchase, respectively.

In respect of fabrics, as at 31 December 2009, we had over 10 fabric suppliers. For the years ended 31 December 2007, 2008 and 2009, purchases from our five largest fabrics suppliers accounted for 17.9%, 18.9% and 29.7% of our raw material purchase, respectively, and purchases from our largest fabrics supplier accounted for 15.0%, 5.6% and 9.9% of our raw material purchase, respectively.

TTG was our largest raw cotton supplier for the years ended 31 December 2007, 2008 and 2009 and our largest fabric supplier for the years ended 31 December 2007 and 2008 (but not for the year ended 31 December 2009), together accounting for 39.3%, 36.4% and 29.3% of our raw material purchase for the years ended 31 December 2007, 2008 and 2009, respectively. For further details, please see "Connected Transactions and Waivers" in this prospectus.

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As at the Latest Practicable Date, none of our Directors, their respective associates or any Shareholders (who to the knowledge of our Directors owned more than 5% of our issued share capital) had any interest in any of our five largest raw cotton or fabric suppliers.

Fuel and utilities

Our primary fuel and utilities requirements are electricity, steam and water. Steam is used in our production process to maintain an optimum temperature and humidity in winter. We also apply steam in the ironing process of our bedding products. Water is used for cooling purposes in our production process. Our fuel and utilities costs accounted for 8.3%, 9.2% and 8.9% of our total cost of sales for the years ended 31 December 2007, 2008 and 2009, respectively. During the Track Record Period, we did not experience any material interruption of operation as a result of electricity, steam or water suspension.

During the Track Record Period, our electricity and steam supplies were provided by TTG. TTG supplies electricity for its own production and for Shandong Taifeng. TTG also supplies steam produced in the course of power generation to the manufacturing enterprises in the Economic and High-Technology Development Zone of Laiwu City in which we are situated. For the years ended 31 December 2007, 2008 and 2009, the amounts paid to TTG in respect of utility expenses were RMB76.5 million, RMB81.7 million and RMB58.5 million, respectively. Due to the local government's policy to replace small power generating units with large units for environmental concerns, TTG had suspended operations of its power plant since end of July 2009. As such, we have signed supply agreements with other Independent Third Parties to source electricity and steam after the suspension of operations of TTG's power plant. We therefore do not foresee any difficulties in sourcing electricity and steam after the de-commission of TTG's power plant. We source our water from a local water supplier, which is an Independent Third Party.

PRODUCTION

We undertake our production operations at six cotton yarn workshops and one bedding product workshop, all of which are under the direct supervision of our vice general manager in charge of production, who also supervises our production equipment unit and safety unit. As at 31 December 2009, our production workforce comprised 4,559 full-time employees, including those we sourced from local labour stations. For further details, please see "Directors, Senior Management and Employees — Staff" in this prospectus.

At the end of each year, we formulate the production plan for the following year based on the estimated annual production capability of our production workshops. We formulate a monthly production plan for each of the production workshop according to customers' orders. Our vice general manager in charge of production is responsible for ensuring the implementation of the production plans and making appropriate adjustments in the course of production.

Production facilities

Our six cotton yarn workshops and one bedding product workshop are all located at our production base at Laiwu City, Shandong Province, the PRC. Our Laiwu production base has an aggregate gross floor area of over 230,000 sq.m. and comprises warehouses, office buildings, dormitories and other ancillary facilities. Our production machinery includes blowing machines, carding machines, spinning machines, combing machines, winding machines, sewing machines and embroidery machines. We import some of our production machineries from overseas textile machinery manufacturers. We provide our personnel with appropriate training so that they are equipped with the requisite technical capabilities to operate these machines. We currently have more than 450,000 spindles for the production of cotton yarns and over 400 sewing machines for the production of bedding products.

Production process

The basic steps involved in the production processes relating to our products are as follows:

Cotton yarns



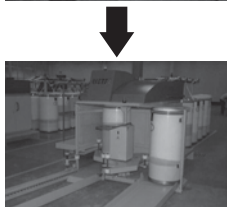
Blowing (清花)

Cotton is loosened from a tightly packed bale into loose tufts to remove dirt and foreign matters. The loosened clean tufts are then reformed into a sheet suitable for carding.



Carding (梳棉)

Carding separates the sheet of tufts into individual fibres, removes trash particles and short fibres, orientates the fibres lengthwise and evenly distributes them before reassembling the fibres into a net-like and sliver form.



Drawing (併條)

Drawing increases the parallelism of the fibres and combines several carded slivers into one drawn sliver. This is a blending operation that contributes to greater yarn uniformity.



Combing (精梳)

Combing parallels the fibres and removes any short fibres and impurities from the long staple so that the combed fibres will be more uniform in length and suitable for further processing.



Roving (粗紗)

Roving reduces the size of the drawn sliver and increases the parallelism of the fibres which are twisted to be suitable for spinning.



Spinning (細紗)

Spinning further attenuates and twists the fibres to produce a continuously twisted strand of yarn.



Winding (自絡)

Yarn is subject to winding by an automatic winding machine in order to increase the length of the yarn on the package, control its quality and to eliminate impurities and defects.

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Bedding products



Cutting

Fabric is spread out and checked for quality before being cut by an electrical cutting machine and passed to the embroidering stage or sewing stage.



Embroidering

Embroidery is produced with a computerized embroidery machine using patterns "digitized" with embroidery software.



Sewing

The whole sewing process is conducted in a flow process so that each sewing worker is only required to perform certain sewing processes in which he/she is specialized in order to improve efficiency and maintain product quality. Quality control staff will perform sample checking on the semi-finished products throughout the whole sewing process to monitor product quality.



Ironing



Folding



Packaging

The bedding products are then ironed, folded and packaged for storage or shipment.

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Production capacities and utilization rates

Cotton yarns

Production capacity of cotton yarn is largely determined by the number of spindles. We set out below the utilization rates for the production of our cotton yarns during the Track Record Period.

	No. of spindles (pieces)	Designed production capacity⁽¹⁾	Production volume⁽²⁾ (tonnes)		Utilization rate⁽³⁾ (%)
			Actual	Converted	
For the year ended 31 December 2007	349,920	121,872	30,526	119,138	97.8
For the year ended 31 December 2008	473,760 ⁽⁴⁾	132,744 ⁽⁴⁾	31,720	130,669	98.4
For the year ended 31 December 2009	473,760	165,004	31,530	118,910	72.1

Notes:

- (1) The designed production capacity refers to the production capacity of our ring-spinning spindles and is derived based on the following basis and assumptions:
 - (i) the relevant production facilities only produce 20-yarn-count cotton yarns; and
 - (ii) the production facilities are in operation 24 hours a day for 358 days per year taking into account our specific maintenance schedule.

The production capacity of the production facilities may be affected by other factors such as synchronization of various types of machinery employed in different production stages and skill of the staff in operating the machinery.
- (2) The actual production volume refers to the actual amount of cotton yarns produced in each given period and comprises cotton yarns of different yarn counts depending on customers' requirements and specifications. The production volume of cotton yarn of different yarn count is converted to corresponding production volume of 20-yarn-count cotton yarns for comparison purposes.
- (3) Utilization rate is derived by dividing the converted production volume by the designed production capacity. As the designed production capacity is determined based on certain assumptions and the converted production volume for comparison purposes does not represent the actual production volume, our utilization rates as set out in the above table are for reference only and are subject to change if the underlying assumptions were different.
- (4) In October 2008, Shandong Taifeng acquired further assets in relation to cotton yarn production from TTG. For further details, please see "History, Reorganisation and Group Structure — Business Development — Cotton Yarn Business" in this prospectus.

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Bedding products

Production capacity of bedding products is largely determined by the number and type of sewing machines. We set out below the utilization rates for the production of our bedding products during the Track Record Period.

	Designed production capacity⁽¹⁾ ('000 pieces/ sets)	Production volume⁽²⁾ ('000 pieces/sets)		Utilization rate⁽³⁾ (%)
		Actual	Converted	
For the year ended 31 December 2007	2,137	1,894	1,263	59.1
For the year ended 31 December 2008	2,137	1,598	1,895	88.7
For the year ended 31 December 2009	3,205 ⁽⁴⁾	2,469	3,060	95.5

Notes:

- (1) The designed production capacity refers to the production capacity of our lockstitch sewing machines and is derived based on the following basis and assumptions:
- (i) the relevant production facilities only produce four-piece bedding product sets with the usual specifications for overseas sales;
 - (ii) the relevant production facilities can produce 16 sets of four-piece bedding product set with the usual specifications for overseas sales per day; and
 - (iii) the relevant production facilities operate one shift of eight hours per day and 312 days per year taking into account weekends, public holidays and our specific maintenance and operation schedules.
- The production capacity of the production facilities may be affected by other factors such as synchronization of various types of machinery employed in different production stages and skill of the staff in operating the machinery.
- (2) The actual production volume refers to the actual amount of bedding products produced each year and comprises bedding products of different types and specifications including single pieces of bedding products and bedding product sets consisting of different numbers of pieces of bedding products. The production volume of bedding products consisting of different product types and specifications is converted to corresponding production volume of four-piece bedding product set with the usual specifications for overseas sales for comparison purposes.
- (3) Utilization rate is derived by dividing the converted production volume by the designed production capacity. As the designed production capacity is determined based on certain assumptions and the converted production volume for comparison purposes does not represent the actual production volume, our utilization rates as set out in the above table are for reference only and are subject to change if the underlying assumptions were different.
- (4) The increase in the designed production capacity by about 50% in 2009 was due to the increase in the number of four-piece bedding product set with the usual specifications for overseas sales per day from 16 sets to 24 sets as a result of the increase in production workers for bedding products who operated the production facilities in two shifts of eight hours each per day in the second half of 2009.

QUALITY CONTROL

We consider that one of the major factors which contribute to our success is the high and stable quality of our products. We regard quality control as an important part of our operations. For our cotton yarn production processes, applicable PRC standard of GB/T398-93 and international standard of Uster Standards are used as our quality benchmarks, which in some circumstances, are specifically required by some of our customers who purchase our cotton yarns. GB/T398-93 is a PRC standard for quality of original-coloured cotton yarn products and Uster Standards are standard benchmarks commonly used as the basis for the trading of textile products at assured levels of quality across global markets. We have implemented a comprehensive quality control system in all aspects of our operation.

We have obtained accreditations for our quality control system and our products have also received various quality certifications. In 2006, we received the Shandong Province Quality Management Award from the government of Shandong Province. In March 2007, we obtained ISO 9001:2000 quality management certification in respect of our production. For further details, please see “Business — Awards and Accreditations” in this prospectus. Despite the possible risks that may arise in the event of product recalls, defects or claims, we have so far not encountered any of these events in the Track Record Period and have not incurred any material additional costs or liquidated damages resulting from the same.

Purchase of raw materials

We conduct sample testing prior to the confirmation of our orders of raw cotton purchases so as to ensure that the quality of the raw cotton which we purchase meets our specifications. In respect of our fabric procurement, details of specifications are set out in the purchase orders made to our fabric suppliers. Incoming raw materials are inspected before they are stored into our warehouses for future use. Substandard raw materials are returned to suppliers or accepted at a discounted price.

Production

Each of our cotton yarn workshops has its own product testing laboratory where we conduct comprehensive testing on the quality of our semi-finished and finished products to ensure that our products adhere to our customers’ specifications. Our production staff are responsible for testing and examining the quality of semi-products throughout the production process. Finished products are inspected before sending to warehouses for storage. Daily quality inspection reports are compiled to ensure stable quality control of semi-finished and finished products.

Inventory storage

We have established proper warehouse management regulations which cover various aspects such as incoming, outgoing, storage, delivery and transportation of materials to ensure proper management and control of our inventories. We conduct regular and random inspection on a monthly basis to ensure compliance with our warehouse management regulations.

Machinery and equipment management

Our engineers carry out regular inspections and maintenance of our machinery and equipment on a monthly basis or more frequently in order to ensure optimum performance of our machinery and equipment.

Sales

Our sales staff are responsible for collecting customers' comments and handling customers' complaints. We assess such feedback in order to improve our quality control procedures.

Staff quality awareness and reward and penalty system

We conduct trainings for and continuous assessments of our staff. In order to promote awareness on quality control among our staff, we have implemented a reward and penalty system whereby bonus or penalties will be granted or imposed based on our internal quality control guidelines.

RESEARCH AND DEVELOPMENT

We focus our research and development efforts on the development of new products and the application of new materials and production techniques. With respect to our cotton yarns, our research and development focuses on developing higher count cotton yarns and new fibre-blended yarns, and improving yarn quality. With respect to our bedding products, our research and development focuses on developing functional and environmental friendly products and product designs.

Our research and development and product design team comprised 102 staff as at 31 December 2009. We have also engaged technical experts from external research institutes and industry associations, including a member of the Chinese Academy of Engineering, to provide guidance on technical and process improvements, as well as direction for our research and development. To centralize and enhance our research and development activities, we have established a technical centre which comprises a cotton testing and analysis laboratory, a constant-temperature and constant-humidity laboratory, a product development key laboratory, and a fabric design room. To encourage internal research and development, we have set up a reward system for successful research and development results such as development of new products, product designs, and rationalization and improvement of production process.

To further strengthen our research and development, we have constructed the RDE centre at our Laiwu production base in December 2009. The total gross floor area of the building is 3,568 sq.m. The total development cost of the RDE Centre is RMB6.9 million.

We also engage in research and development collaboration with external parties. In October 2005, we signed a framework agreement with Fudan University in respect of staff training, trial and commercialization of technical results, and technical support and consultation. The agreement will expire on 29 October 2010 and we shall consider extending the contract upon its expiration. So far we have improved our production management through the technical support and consultation provided by Fudan's experienced professors during their site visits at our production facilities and meeting conferences. We also entered into a cooperation agreement with Xi'an Engineering University on 15 February 2009 in respect of development of new products and training of technical staff. Our cooperation is expected to continue and there is currently no limitation period to our cooperation agreement. So far our staffs have undergone various trainings through our cooperation with Xi'an Engineering University, which include subjects on international trading, textile design, financial management and quality management.

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In December 2004, we received accreditation from Shandong Economic and Trade Commission as a technology centre in recognition of our research and development capabilities. The bedding products sold under the “TAIFENG” brand are designed by our in-house product designers, and have received a number of product design awards in domestic competitions and conferences. For further details, please see “Business — Awards and Accreditations” in this prospectus.

Our expenses on research and development were RMB14.3 million, RMB9.6 million and RMB5.2 million for the years ended 31 December 2007, 2008 and 2009 respectively.

COMPETITION

We operate in a highly competitive industry. For domestic sales of cotton yarns and bedding products, we mainly face direct competition from major players in the industry in China. For cotton yarns and bedding products exported to overseas markets, we believe we face competition from both domestic and foreign manufacturers, which include many companies that are larger in size and have greater financial resources than us. Although we may face competition from new entrants in the future, we believe that the high capital requirements, increasing technology requirements and the importance of customer relationships pose significant barriers to entry for new competitors.

INTELLECTUAL PROPERTY RIGHTS

Our intellectual property rights primarily consist of the trademarks (including the license right to our licensed trademarks) and the domain name we use for the sales and marketing of our products. For further details, please see “Statutory and General Information — Further information about the business — B. Intellectual property rights of our Group” included in Appendix VII to this prospectus.

We are not aware of any material infringement of our intellectual property rights during the Track Record Period. We believe that we have taken all reasonable measures to prevent any infringement of our own intellectual property rights and to avoid any losses as a result of infringement of the intellectual property rights of third parties by our suppliers. As at the Latest Practicable Date, we were not aware of any pending or threatened claims against us or any of our subsidiaries relating to the infringement of any intellectual property rights owned by third parties.

On 18 June 2007, Shandong Taifeng entered into a trademark transfer agreement with TTG, pursuant to which Shandong Taifeng agreed to transfer its “TAIFENG” trademark to TTG at a consideration of RMB5.5 million, based on an independent valuation of the trademark conducted by an asset valuation company in the PRC. At the material time, the local government encouraged the registration of the “TAIFENG” brand as a “China Famous Brand” with a view to promoting the local industry. Accordingly, Shandong Taifeng transferred the “TAIFENG” trademark to TTG leveraging on the longer history of operations of TTG and its predecessor, Laiwu City Textile Factory, to apply for the registration. According to the trademark transfer agreement, TTG agreed to grant a licence to Shandong Taifeng to use the “TAIFENG” trademark at nil consideration.

Pursuant to another trademark transfer agreement dated 5 June 2009, TTG agreed to transfer the “TAIFENG” trademark back to Shandong Taifeng at a consideration of RMB6.9 million, based on a valuation report issued by an asset valuation company in the PRC. TTG also agreed to transfer another “TAIFENG” trademark to Shandong Taifeng at nil consideration. As at the Latest Practicable Date, the application for the transfers has been approved by the Trademark Bureau of the PRC State

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Administration for Industry and Commerce on 13 January 2010. TTG agreed not to use any “TAIFENG” trademark after completion of the trademark transfer. Shandong Taifeng repurchased the “TAIFENG” trademark from TTG because TTG is no longer engaged in cotton yarns business. The Directors also confirm that, to the best of their knowledge, TTG did not use the “TAIFENG” trademark in its operation other than in cotton yarn production in the past because it is the industry practice not to use a trademark or brand name on fabrics, in particular grey fabrics, the principal fabrics manufactured by TTG, which require further processing before the end products are used or sold. It is not necessary to have a brand name or trademark applied to the grey fabrics. According to the licence agreement dated 3 July 2009, TTG agreed to grant a licence to Shandong Taifeng to use the two “TAIFENG” trademarks at nil consideration before completion of the trademark transfers. The licence agreement also provides that (i) TTG will not, or allow any third party to, use the “TAIFENG” trademarks, and (ii) Shandong Taifeng has the right to stop infringements on the “TAIFENG” trademarks by third parties. For further details, please see “Connected Transactions and Waivers” in this prospectus.

According to our PRC legal advisers, pursuant to the licence agreement and applicable PRC trademark laws and regulations, in the event of any infringement of the “TAIFENG” trademark, during the period of the licence agreement, Shandong Taifeng may request TTG to take legal actions or other measures to stop such infringement and if TTG fails to stop such infringement within a reasonable period, Shandong Taifeng as exclusive licensee to use the “TAIFENG” trademark may independently take legal action and claim for compensation.

AWARDS AND ACCREDITATIONS

We have obtained various awards and recognition in the past. Set forth below is the highlight of some of the awards and certifications in respect of our business or products.

<u>Award/Certification</u>	<u>Awarding Authority/ Accrediting Body</u>	<u>Year Awarded</u>	<u>Description</u>
<i>Quality Control</i>			
ISO 9001:2000 International Quality Control System Authentication (ISO 9001:2000質量管理體系認證)	China Quality Certification Centre (中國質量認證中心)	Awarded since 14 March 2007 (current certificate valid until 2 April 2012)	For yarn and bedding products business
ISO 14001:2004 International Environment Governance System Authentication (ISO 14001:2004環境管理體系認證)	China Quality Certification Centre (中國質量認證中心)	Awarded since 23 September 2002 (current certificate valid until 29 March 2012)	For yarn and bedding products business
GB/T 28001-2001 Occupation Health System Authentication (GB/T 28001-2001 職業健康安全管理体系認證)	China Quality Certification Centre (中國質量認證中心)	Awarded since 31 December 2002 (current certificate valid until 29 March 2012)	For yarn and bedding products business

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<u>Award/Certification</u>	<u>Awarding Authority/ Accrediting Body</u>	<u>Year Awarded</u>	<u>Description</u>
Shandong Province Quality Management Award (山東省質量管理獎)	Shandong Provincial People's Government (山東省人民政府)	December 2006	For enterprise quality management system
<i>Technical Capabilities</i>			
Certified Shandong Provincial Enterprise Technology Centre (山東省認定企業技術中心)	Shandong Economic and Trade Commission (山東省經濟貿易委員會)	December 2004	For enterprise technology system
<i>Products</i>			
Outstanding Awards (Design Class) of The Second "YAGUANG Cup" of China Home Textiles Design Competition of Fashion Products (第二屆中國家紡時尚產品暨設計大獎賽「亞光盃」— 優秀獎 (設計類))	China Home Textile Association (中國家用紡織品行業協會)	October 2007	For various designs of our bedding products
China Famous Brand Product (中國名牌產品)	General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局)	September 2007	For "TAIFENG" brand combed cotton yarns
Several awards of Shandong Province "LT•GRFF" Cup Fabric Design Competition (山東省「魯泰•格蕾芬盃」面料設計大賽面料實物類獎項)	Shandong Textile Industry Office (山東省紡織工業辦公室)	April 2007	For various designs of our bedding products
Shandong Famous Brand Product (山東名牌產品)	Shandong Well-known Brand Strategy Promotion Committee (山東省名牌戰略推進委員會)	December 2006 to December 2009	For "TAIFENG" brand bedding products
	Shandong Provincial Quality & Technical Supervision Bureau (山東省質量技術監督局)		
Shandong Famous Brand Certificate (山東省著名商標)	Shandong Administration of Industry and Commerce (山東省工商行政管理局)	November 2006 to November 2009	For "TAIFENG" brand bedding products
Well-known Trademark (馳名商標)	Trademark Bureau of the PRC Administration of Industry and Commerce (中國工商行政管理總局商標局)	24 April 2009	For "TAIFENG" brand bedding products

PROPERTIES

Owned properties

As at 31 March 2010, which is the date of the property valuation for the purpose of this prospectus, we owned the land use rights of a parcel of land with a site area of 124,703 sq.m., on which 22 buildings and various ancillary structures are constructed for production, storage, office, residential, research, exhibition and ancillary purposes. The total gross floor area of these buildings is 79,160 sq.m. We have obtained state-owned land use rights certificate and building ownership certificates for the said land and buildings except one building with a gross floor area of approximately 3,568 sq.m. which was completed in December 2009. The said building is used as a research and development exhibition centre. Considering the use and the size of the said building, our Directors consider that the said building is not crucial to our operations. The relevant building ownership certificate is under application which we expect to obtain by end of year 2010, and according to our PRC legal advisors, based on a confirmation letter obtained from Laiwu Property Management Bureau on 11 March 2010, there will be no legal impediment for us to obtain the building ownership certificate.

Leased properties

As at 31 March 2010, we leased eight properties for our business activities and operations in the PRC.

Production

We leased two properties situated in the Economic and High-Technology Development Zone of Laiwu City from TTG. The first property comprises portions of two parcels of land with a total site area of 44,512.82 sq.m. and three industrial buildings and other structures with a total lease area of 47,088.69 sq.m. We use these facilities principally for our production purposes. Pursuant to the tenancy agreement dated 22 May 2009, the property is leased to Shandong Taifeng for a term of 20 years commencing from the date of the tenancy agreement and expiring on 21 May 2029 at a monthly rent of RMB350,000 exclusive of water, electricity and gas charges and other outgoings. The rent might be adjusted after three years of the lease based on then prevailing market rate. TTG is in the course of obtaining the relevant building ownership certificates of the said buildings.

Shandong Taifeng has obtained a confirmation letter from Laiwu Property Management Bureau (萊蕪市房地產管理局) confirming that (i) TTG is in the process of obtaining the relevant title certificates of the defective properties with no legal obstacle; and (ii) Shandong Taifeng has the proper legal right to use the leased properties before the title certificate of the leased properties has been obtained. Our PRC legal advisers is of the opinion that Laiwu Property Management Bureau as the registration authority has the authority to confirm the legal status of the leased properties within its jurisdiction. In view of the above, our Directors are of the view that the risk of forced eviction from the defective properties is remote.

The second property comprises two parcels of land with a total site area of 159,552.9 sq.m., and 16 buildings with a total gross floor area of 108,458.57 sq.m. We use these facilities principally for our production purposes. Pursuant to the tenancy agreement dated 22 May 2009, the property is leased to Shandong Taifeng for a term of 20 years commencing from the date of the tenancy agreement and

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expiring on 21 May 2029 at a monthly rent of RMB775,000, exclusive of water, electricity and gas charges and other outgoings. The rent might be adjusted after three years of the lease based on then prevailing market rate.

Pursuant to the tenancy agreements, Shandong Taifeng has the right to extend the term of each lease for another term of 20 years at the same or no less favourable terms as set forth in the current tenancy agreements. Shandong Taifeng also has an option to purchase the leased properties. The exercise prices of the option are based on then prevailing market prices as determined by an independent valuation. The options are exercisable by Shandong Taifeng at any time during the tenure of the lease agreements.

Others

We leased six other properties, with an aggregate lease area of 1,409 sq.m., for commercial and other purposes. We use these leased properties principally as our retail stores, warehouse, and office. All of these properties are leased from Independent Third Parties, except one leased from TTG. Pursuant to the tenancy agreement dated 9 July 2008, Shandong Taifeng leased a property as its retail store at Laiwu with a total area of 120 sq.m. from TTG for a term of three years commencing from 10 July 2008 and expiring on 10 July 2011 at an annual rent of RMB30,000.

For further details, please see “Connected Transactions and Waivers” in this prospectus.

Registration of lease

We have registered all the leases of our leased properties mentioned above with the relevant local authorities, except for those leased properties situated at Laiwu City and Shanghai. According to an explanation letter dated 22 May 2009 issued by Laiwu Property Management Bureau, registration of lease has not been implemented by the said bureau and non-registration of lease will not affect the legality and validity of the lease. As confirmed by the said bureau, Shandong Taifeng will not be subject to any penalty arising from the absence of registration. As advised by our PRC legal advisers, the lack of lease registration will not affect the legality and validity of the relevant tenancy agreements.

Further details of our properties are set forth in Appendix IV to this prospectus.

INSURANCE

We carry insurance covering risks in respect of properties and vehicles, employee compensation and goods in transit.

We are not required under PRC law to maintain product liability insurance. As is consistent with the customary practice in China, we do not maintain insurance against product liability for the products we sell. Our Directors confirm that we have never experienced any material third party liability claims in relation to our products.

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ENVIRONMENTAL PROTECTION

We believe that our production process does not generate hazards that have any significant adverse effects on the environment. Due to the composition of the products which we manufacture, there is minimal waste discharge, noise, water or air pollution. Our production does not involve any production of fabrics or any dyeing process and waste water treatment is therefore not considered necessary.

According to the confirmation letter issued by the Laiwu Environmental Protection Bureau on 25 January 2010, during the latest three years, (i) Shandong Taifeng, our sole PRC subsidiary engaged in manufacturing operations, has complied with the requirements of national and local environmental protection laws, regulations and policies. The operation activity and the waste discharge of Shandong Taifeng comply with the requirements of national and local laws, regulations and standards; and (ii) no penalties has been imposed on Shandong Taifeng due to the violation of environmental protection laws and regulation and there are no circumstances which may cause the violation of environmental laws and regulations by Shandong Taifeng.

Given the aforesaid, we believe that our operations have been in compliance with the applicable environmental laws and regulations during the Track Record Period. For further details, please see “Description of Relevant PRC Laws and Regulations” as set forth in Appendix VI to this prospectus.

Since we do not produce a large amount of waste during the production process, our Directors do not anticipate that there will be a substantial amount of additional expenses that we may incur in the future for environment compliance matters.

LEGAL PROCEEDINGS

As at the Latest Practicable Date, we were not aware of any current, pending or threatened litigation, arbitration proceedings or administrative proceedings against us or any of our subsidiaries or any of our Directors which could have a material adverse effect on our financial condition or results of operation.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS

Our Board comprises eight Directors, including three independent non-executive Directors.

The following table sets forth certain information relating to our Directors:

Executive Directors

Name	Age	Position	Date of Appointment
Liu Qingping	56	Chairman and executive Director	21 May 2009
Li Dengxiang	49	Vice-chairman and executive Director	18 November 2009
Qi Tongli	47	Executive Director	21 May 2009
Liu Chunwei	42	Executive Director	18 November 2009
Zou Shengzhong	43	Executive Director	18 November 2009

Independent Non-executive Directors

Name	Age	Position in various committees	Date of Appointment
Chan Kin Sang	58	Chairman of nomination committee and member of audit committee	18 November 2009
Li Yuchun	62	Chairman of audit committee and member of remuneration committee	18 November 2009
Dai Shunlin	67	Chairman of remuneration committee and member of nomination committee	18 November 2009

Executive Directors

Mr. Liu Qingping (劉慶平先生), Chairman and executive Director

Mr. Liu, aged 56, joined our Group in 2001 since the incorporation of our Group. He was recognized a senior economist in 1994 by the Senior Appraisal Committee of Shandong Province Professional Economics Duties (山東省經濟專業職務高級評審委員會). His experience in the textile industry dated back to 1987 when he first joined Laiwu City Textile Factory as the head of factory overseeing the operation and production of the whole factory. Except for a few days in 2006, he has been a director of Laiwu Runfeng since its incorporation. From January 2001, he has been the chairman of Shandong Taifeng. During most of the time from December 2001 to May 2007, he was the chairman of TTG, a company evolved from Laiwu City Textile Factory. From May 2007 to July 2009, he was a non-executive director of TTG. He was appointed as executive Director of our Company on 21 May 2009. He will be responsible for important decision making, overall management and development planning of our Group. Together with other senior executives of certain Shandong based enterprises (including executives of our Company), Mr. Liu attended a distance learning program of about one year jointly offered by American Liberty University, a university in the United States licensed and approved by (i) the State of California Bureau for Private Postsecondary and Vocational Education and (ii) State of Alabama Department of Postsecondary Education (“American Liberty University”), and Fudan University, which organized classes at the enterprises’ premises (the “Distance Learning Program”) and graduated in 2005 with a doctorate degree in business administration.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Liu obtained numerous recognitions and honours in the past. In 1995, he was awarded “Outstanding Quality Manager for Textile Industry of the Shandong Province (山東省紡織系統優秀質量管理工作者)” by Textile Industry Bureau of Shandong Province (山東省紡織工業廳) and Association of Quality Management Textile Industry of Shandong Province (山東紡織質量管理協會). In 2004, he was awarded (i) “Entrepreneur with Good Faith of Shandong Province (山東省誠信企業家)” by The Committee for Credit Rating of Shandong Province and Shandong Province Credit Rating Company (山東省信譽評級委員會及山東省信譽評級總公司) and (ii) Award for Outstanding Entrepreneurs of Textile Industry of Shandong Province (山東紡織企業家創業獎) by Office of Textile Industry of Shandong Province (山東省紡織工業辦公室) and The Association of Textile Enterprises Management of Shandong Province (山東紡織企業管理協會). In 2005, he was awarded “Outstanding Ideological and Political (Enterprise Culture) Operator in Textile Industry of Shandong Province (山東省紡織行業優秀思想政治，企業文化建設工作者)” by Office of Textile Industry of Shandong Province (山東省紡織工業辦公室) and Political Research Committee of Textile Workers of Shandong Province (山東省紡織職工政研會). In 2006, he was awarded (i) “50 People Promoting the Globalization of PRC Brands in 2006 (2006推動中國品牌國際化50人)” by PRC Organization Committee of the 14th World Productivity Congress (第十四屆世界生產力大會中國組織委員會) and (ii) “Outstanding Operator and Manager of Shandong Province (山東省優秀經營管理者)” by Committee for Economic and Trade of Shandong Province (山東省經濟貿易委員會). In 2007, he was recognised (i) “An Excellent Leading Individual in Outstanding Quality Control of the Textile Industry in the PRC (全國紡織行業優秀質量管理小組活動卓越領導者)” by China National Textile and Apparel Council (中國紡織工業協會) and China Trade Union of Financial and Commercial Workers, Light Industry and Textile Workers, Tobacco Industry Workers (中國財貿輕紡煙草工會) and (ii) “Model Worker in Business Sector in Countrywide (全國商務系統勞動模範)” by Ministry of Personnel of the People’s Republic of China (中華人民共和國人事部) and the Ministry of Commerce of the People’s Republic of China (中華人民共和國商務部).

Mr. Li Dengxiang (李登祥先生), Vice-chairman and executive Director

Mr. Li, aged 49, joined our Group in 2001. Mr. Li has extensive experience in the textile industry. From August 1982 to October 1992, he was a workshops supervisor of Laiwu City Second Dyeing Factory. He was a workshops supervisor, head of branch factory and vice head of factory in Laiwu City Textile Factory from October 1992 to November 2001. During most of the time from December 2001 to August 2007, he was a vice general manager, general manager and a director of TTG. He was a director of Laiwu Runfeng from its incorporation to July 2002. He resumed the role of director of Laiwu Runfeng in August 2006 and has been in the same position since then. Since the inception of our Group in 2001, he has been a director of Shandong Taifeng. He was appointed an executive Director of our Company on 18 November 2009 and is responsible for overseeing the production, quality and operation management of our Group. He graduated from the Shandong Industrial University (now merged as Shandong University) in 1998 with a Professional certificate in business administration. He then attended the Distance Learning Program jointly offered by American Liberty University and Fudan University, and graduated in 2005 with a doctoral degree in business administration. Mr. Li attended the Distance Learning Program together with Mr. Liu Qingping. For more information on American Liberty University and the Distance Learning Program, please see the paragraph headed “Executive Directors — Mr. Liu Qingping (劉慶平先生), Chairman and executive Director” in this section.

Mr. Li obtained various recognitions and awards in the past. He was awarded “Golden Bridge Prize of Technology market of Shandong Province (山東省技術市場科技金橋獎)” by Golden Bridge Prize Award Committee of Shandong Province (山東省技術市場科技金橋獎獎勵委員會) in 2005 and 2007. In 2007, he was also recognized as an “Outstanding Young to Middle Age Technology Worker of the Textile Industry in the PRC (全國棉紡織行業優秀中青年科技工作者)” by China Textile Engineering Society (中國紡織工程學會).

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Ms. Qi Tongli (齊同麗女士), executive Director

Ms. Qi, aged 47, joined our Group in 2001. She is a Senior Engineer recognized by the Human Resource Bureau of the Shandong Province. Ms. Qi has more than 22 years of experience in the textile industry. From August 1987 to November 2001, she was a technician, planner, head of employee-employer relationship division, workshops supervisor, head of production planning division, head of technology improvement office, factory head assistant, head of production department, vice factory head of Laiwu City Textile Factory. From July 2000 to July 2002, she was a supervisor of Laiwu Runfeng. She has been a director of Laiwu Runfeng since August 2006 in charge of financial management. During most of the time from December 2001 to August 2007, she was a vice general manager and director of TTG in charge of financial management. Since the inception of our Group in 2001, she has been a director of Shandong Taifeng in charge of financial management. She was appointed as an executive Director of our Company on 21 May 2009 and is responsible for financial management of our Group. In 1981, she obtained a certificate in textile industry from Jinan School of Textile Industry, and she further obtained from the Shandong Industrial University (now merged as Shandong University) in 1998 with a certificate in business administration. She then attended the Distance Learning Program jointly offered by American Liberty University and Fudan University, and graduated in 2005 with a doctoral degree in business administration. Ms. Qi attended the Distance Learning Program together with Mr. Liu Qingping. For more information on American Liberty University and the Distance Learning Program, please see the paragraph headed “Executive Directors — Mr. Liu Qingping (劉慶平先生), Chairman and executive Director” in this section.

Ms. Qi was recognized as a “Model Outstanding Female Worker and Contribution of Shandong Province (山東省女職工建功立業標兵)” and was awarded “Award for Improvement of Living Standard in Shandong Province (富民興魯勞動獎章)” in 2007 by the General Labour Union of Shandong Province (山東省總工會).

Mr. Liu Chunwei (劉純衛先生), executive Director

Mr. Liu, aged 42, joined our Group in 2001. Mr. Liu has more than 20 years of experience in the textile industry. From September 1988 to November 2001, he was a supervisor of workshops, office supervisor, assistant to head of factory and vice factory head of Laiwu City Textile Factory. From July 2000 to July 2002, he was a director of Laiwu Runfeng responsible for overseeing of the operation and administration. He resumed the role of director of Laiwu Runfeng in October 2004 and has been in the same position since then. From May 2005 to August 2007, he was a director of TTG. Since the inception of our Group in 2001, he has been a director of Shandong Taifeng for most of the time. He was appointed as an executive Director of our Company on 18 November 2009. He is currently a general manager of Shandong Taifeng and is responsible for overseeing the production, technology and operation of our Group. He obtained a certificate in textile industry from the Shandong Textile College in 1988. He then attended the Distance Learning Program jointly offered by American Liberty University and Fudan University, and graduated in 2005 with a doctoral degree in business administration. Mr. Liu attended the Distance Learning Program together with Mr. Liu Qingping. For

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

more information on American Liberty University and the Distance Learning Program, please see the paragraph headed “Executive Directors — Mr. Liu Qingping (劉慶平先生), Chairman and executive Director” in this section.

Mr. Liu received the “Award for Improvement of Living Standard in Shandong Province (富民興魯勞動獎章)” in 2001 by the General Labour Union of Shandong Province (山東省總工會).

Mr. Zou Shengzhong (鄒生忠先生), executive Director

Mr. Zou, aged 43, joined our Group in 2001. He was accredited as a Senior Engineer by Shandong Personnel Bureau (山東省人事廳). Mr. Zou has more than 25 years of experience in the textile industry. From July 1983 to May 1987, he was supervisor of design department and workshops supervisor of Laiwu City Second Dyeing Factories. From May 1987 to November 2001, he was a workshops supervisor, factory head assistant and vice factory head of Laiwu City Textile Factory. From July 2000 to July 2002, he was a director and vice general manager (production technology) of Laiwu Runfeng. He resumed the role of director of Laiwu Runfeng in August 2006 and has been in the same position since then. From May 2005 to August 2007, he was a director and vice general manager (production technology) of TTG. From January 2001 to August 2006, he was a supervisor of Shandong Taifeng. Since August 2006, he has been a director and vice general manager (production technology) of Shandong Taifeng. He was appointed as an executive Director of our Company on 18 November 2009. He graduated from Changwei School of Textile Industry in 1983 and in 1987 he obtained a certificate in electricity engineering from the Shandong TV University. He then attended the Distance Learning Program jointly offered by American Liberty University and Fudan University, and graduated in 2005 with a doctoral degree in business administration. Mr. Zou attended the Distance Learning Program together with Mr. Liu Qingping. For more information on American Liberty University and the Distance Learning Program, please see the paragraph headed “Executive Directors — Mr. Liu Qingping (劉慶平先生), Chairman and executive Director” in this section.

Independent Non-executive Directors

Mr. Chan Kin Sang (陳健生先生), independent non-executive Director

Mr. Chan, aged 58, is currently the sole proprietor of Messrs. Peter K.S. Chan & Co., Solicitors and Notaries. He was appointed an independent non-executive Director on 18 November 2009. He has been a practicing solicitor in Hong Kong since 1982. He was admitted as a Notary Public in 1997 and as a China-appointed Attesting Officer in 2000. He is currently a Fellow of the Hong Kong Institute of Directors. Mr. Chan graduated from the University of Hong Kong with a Bachelor of Laws degree in 1979.

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His appointments as director of other publicly listed companies are as follows:

Listed Company	Stock code	Place of Listing	Role	Existing or past appointment
People's Food Holdings Limited	P05	Singapore	Independent non-executive director	Existing
Sunray Holdings Limited	S38	Singapore	Independent non-executive director	Existing
Luxking Group Holdings Limited	L34	Singapore	Independent non-executive director	Existing
Goldmond Holdings Limited	8190	Hong Kong	Independent non-executive director	Existing
China Precious Metal Resources Holdings Co., Limited	1194	Hong Kong	Independent non-executive director	Existing
Pacific Plywood Holdings Limited	767	Hong Kong	Independent non-executive director	Existing
Pan Hong Property Group Limited	P36	Singapore	Non-executive director	Existing
Dynamic Energy Holdings Limited	578	Hong Kong	Independent non-executive director	Past
New Smart Energy Group Limited	91	Hong Kong	Independent non-executive director	Past
CHT (Holdings) Limited	C36	Singapore	Independent non-executive director	Past
Plus Holdings Limited*	1013	Hong Kong	Independent non-executive director	Past

* This company is incorporated in Bermuda and engaged in the business of information technology. During the period from 1 November 2007 to 20 August 2008, Mr. Chan was appointed as an independent non-executive director of this company when the trading of the shares of this company was suspended and there was an outstanding petition for winding up commenced on 15 November 2006 for an outstanding amount of US\$0.9 million and provisional liquidator was appointed. The winding up petition was dismissed and the provisional liquidator was discharged on 20 August 2008.

Mr. Chan is fully aware of his obligations, and the time required to discharge his responsibilities as an independent non-executive Director. Since Mr. Chan's directorships with other companies are mostly non-executive in nature, and he will not be involved in the day-to-day operation and management of our Company as an independent non-executive Director, Mr. Chan confirms and we consider that Mr. Chan shall have sufficient time to discharge his responsibilities as an independent non-executive Director.

Mr. Li Yuchun (李玉春先生), independent non-executive Director

Mr. Li, aged 62, is a retired senior bank official. He was recognized as an economist by the Bank of China Qingdao Branch in 1990. He has accumulated more than 20 years of experience in the banking industry and financial management. From 1987 to 2000, he assumed many senior positions in the

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Qingdao Branch and Shandong Province Branch of Bank of China (“BOC”). For example, he was a vice division head of the foreign exchange credit division of Qingdao Branch of BOC, vice department head of the credit management department of Shandong Province Branch of BOC, department head of the corporation management department of the Shandong Province Branch of BOC. From 2000 to 2008, he worked in the Export-Import Bank of China (“EIBOC”). He was the vice representative of the Qingdao representative office of EIBOC from August 2000 to August 2001. He was later promoted to the chief representative in August 2001 and maintained in the same position until June 2004. During the period from February 2004 to June 2004, he was also the head of the organizing committee in establishing Qingdao Branch of EIBOC. From June 2004 to February 2007, he was promoted the head of Qingdao Branch of EIBOC. Immediately prior to his retirement in 2008, he was an inspector of Qingdao Branch of EIBOC from February 2007 to February 2008. He is currently an independent director of Shandong Inspur Software Co. Ltd (Stock Code: SHA 600756), a company listed in the Shanghai Stock Exchange. He was appointed an independent non-executive Director on 18 November 2009. He graduated from People’s Liberation Army School of Sailors Politics (中國人民解放軍海軍政治學院) in professional political works in 1986.

Mr. Dai Shunlin (戴順林先生), independent non-executive Director

Mr. Dai, aged 67, is a deputy director of China Institute of Textile Planning and a retired senior engineer. He was appointed an independent non-executive Director on 18 November 2009. He has more than 40 years in the textile industry. In 1968 to 1976, he worked in Shandong Weifang Dyeing Factory as a technician and assistant engineer. In 1976 to 1981, he was a technician and a vice division head of quality control division of Weifang Bureau of Textile Industry. From 1981 to 1983, he was the vice head of Weifang Bureau of Textile Industry. During the period from 1983 to 1990, he was the vice head and later promoted to be the head of the Construction department of Bureau of Textile Industry of Shandong Province. In 1990 to 2000, he was a deputy director of Bureau of Textile Industry of Shandong Province. From 2000 to 2003, he was the vice supervisor of the office of Textile Industry of Shandong Province. He graduated from the textile engineering department of Wuxi School of Light Industry with a certificate in professional machine knitting in 1966.

Save as disclosed, each of the Directors confirms with respect to him/her that: (i) he/she has not held any directorships in the last three years in any public companies the securities of which are listed on any securities market in Hong Kong or overseas; (ii) he/she does not have any relationship with any other Directors, senior management or substantial or controlling shareholders of our Company; (iii) he/she does not hold any positions in our Company or other members of our Group; (iv) he/she does not have any interests in the Shares within the meaning of Part XV of SFO; (v) there is no other information that should be disclosed for him/her pursuant to the requirements under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules; and (vi) there are no other matters that need to be brought to the attention of holders of securities of our Company.

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SENIOR MANAGEMENT

Name	Age	Group Position
Huang Qige	41	Secretary to the board of directors of Shandong Taifeng
Yang Yuguo	44	Vice general manager of Shandong Taifeng
Zou Shengcheng	41	Vice general manager of Shandong Taifeng
Geng Zhensheng	44	Vice general manager of Shandong Taifeng
Geng Yanling	37	Vice general manager of Shandong Taifeng
Pang Wai Hong	45	Financial controller and company secretary of our Company

Mr. Huang Qige (黃啟閣先生), Secretary to the board of directors of Shandong Taifeng

Mr. Huang, aged 41, is the secretary to the board of directors of Shandong Taifeng. In 2005, he obtained a doctoral degree in business administration from American Liberty University. In 2008, he finished his studies of accountancy with Shandong School of Economics. He has accumulated more than 8 years of experience as secretary to the board of directors. Since 2000, he has been a supervisor, head of corporate management department and secretary to the board of directors of Laiwu Runfeng. From December 2001 to August 2007, he was a supervisor and secretary to the board of directors of TTG. He joined Shandong Taifeng in 2001 and was a general manager (production and operation) from November 2007 to October 2008 and is currently a secretary to the board of directors of Shandong Taifeng. He obtained a certificate in physics from Shandong Mineral College (山東礦業學院) in 1989. He then attended the Distance Learning Program jointly offered by American Liberty University and Fudan University and graduated in 2005 with a doctoral degree in business administration. Mr. Huang attended the Distance Learning Program together with Mr. Liu Qingping. For more information on American Liberty University and the Distance Learning Program, please see the paragraph headed “Executive Directors — Mr. Liu Qingping (劉慶平先生), Chairman and executive Director” in this section.

Mr. Yang Yuguo (楊玉國先生), Vice general manager of Shandong Taifeng

Mr. Yang, aged 44, joined our Group in 2001. He had been in the textile industry since 1987. He was a technician, head of technology division, workshops supervisory and head of production department in Laiwu City Textile Factory from September 1987 to November 2001. During the period from December 2001 to July 2008, he was the head of production department, a manager of the sales department and a director of TTG. From January 2001 to now, he is the supervisor and vice general manager, manager of the sales department of Shandong Taifeng. He is responsible for the sales of our Group. He obtained a certificate from the School of Economics of Peking University Adult Education College in 1998.

Mr. Zou Shengcheng (鄒生成先生), Vice general manager of Shandong Taifeng

Mr. Zou, aged 41, joined our Group in 2003. He had more than 16 years of experience in the textile industry. He was a technician and supervisor in the production department of a textile factory in Shandong Province from 1992 to 2003. He joined our Group in 2003 as the head of production

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department and in 2007 he was promoted to the chief engineer of our Group. He is responsible for the products development and technology of the Group. He graduated from Shandong School of Textile Industry with a bachelor's degree in textile engineering in 1992.

Mr. Geng Zhensheng (耿振生先生), Vice general manager of Shandong Taifeng

Mr. Geng, aged 44, joined our Group in 2001. He had been in the textile industry since 1987. He was a technician, workshops supervisor and sales manager in Laiwu City Textile Factory from December 1987 to November 2001. During the period from December 2001 to July 2008, he was a sales manager and assistant to general manager of TTG. From January 2001 to now, he is a manager of the sales department, assistant to general manager and vice general manager of Shandong Taifeng. He is responsible for the production of our Group. He completed secondary school education in Laiwu City in 1982.

Ms. Geng Yanling (耿雁翎女士), Vice general manager of Shandong Taifeng

Ms. Geng, aged 37, joined our Group in 2001. She is a certified tax planner in the PRC. She had been in the textile industry since 1992. She was an accountant in Laiwu City Textile Factory from September 1992 to November 2001. During the period from December 2001 to June 2008, she was an accountant and manager in the finance department of TTG. From January 2001 to now, she is a finance manager and vice general manager of Shandong Taifeng. She is responsible for the finance of the Group.

Ms. Geng is awarded the Model Worker by the Shandong People's Government and is also awarded an Outstanding Person by the Laiwu City Economic and Trade Commission (萊蕪市經濟貿易委員會) in 2008. She obtained a certificate in economics from Harbin Polytechnic University in 2008.

COMPANY SECRETARY

Mr. Pang Wai Hong (彭偉康先生), financial controller and company secretary

Mr. Pang, aged 45, is the financial controller and a company secretary of our Group. He has been a member of the HKICPA since 1993 and a fellow of the Association of Chartered Certified Accountants since 1997. He graduated from the National University of Ireland with a degree of Master of Science (Finance) in 1999 and obtained a Master of Lighting degree from Queensland University of Technology in 2008. Mr. Pang has accumulated more than 20 years of financial and auditing experience. During the period from 1988 to 1989, he was an audit clerk and middle level auditor with McCabe Lo & Company, CPA. From 1990 to 1992, he worked in Hodgson Impey Cheng, CPA initially as an audit senior and was later promoted to an audit supervisor. During the period from 1992 to 2000, he was a auditing manager with Deloitte Touche Tohmatsu, CPA responsible for audit planning and control, conducting detailed reviews and providing supervision of the work of audit staff. He was also responsible for group administration, training, overall evaluation and counselling of audit staff. From 2000 to 2008, he was the chief financial officer of People's Food Holdings Limited (stock code: P05), a company listed on the Singapore Stock Exchange. He was responsible for the finance and accounting functions, statutory compliance and corporate governance matters of the company. He is currently an independent non-executive director of China Renji Medical Group Limited (stock code: 648), a company listed on the Main Board. He joined our Group in July 2009.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

In each of the years ended 31 December 2007, 2008 and 2009, the total remuneration (comprising fees, salaries and allowances, discretionary bonuses and pension scheme contribution) and benefits in kind of our Directors was RMB0, RMB584,000 and approximately RMB6.8 million, respectively, and the total remuneration of the five highest-paid individuals (including one Director) was approximately RMB1.8 million, RMB1.7 million and RMB7.4 million, respectively.

Except as disclosed above, no other amounts have been paid or were payable by us to the Directors and members of the senior management for the years ended 31 December 2007, 2008 and 2009.

We will determine the remuneration of our Directors on the basis of their experience, performance, duties and market conditions. The aggregate remuneration (including fees, basic salaries, allowances and other benefits and contributions to pension schemes, housing allowances, other allowances and benefits in kind, and discretionary bonuses) of our executive Directors and independent non-executive Directors, for the year ending 31 December 2010 are estimated to be approximately RMB11.5 million and RMB279,900 respectively.

STAFF

As at 31 December 2009, we had a total of 4,908 full-time employees (consisting of 4,904 employees of Shandong Taifeng and 4 employees of Shanghai Taifeng). The following table shows a breakdown of our employees by their functions as at 31 December 2009:

Department	No. of employees
Sales	138
— <i>cotton yarns</i>	22
— <i>bedding products</i>	116
Sourcing and procurement	7
Production	4,559
Research and development and product design	102
Management	102
Total	4,908

We signed labour contracts with 993 of our 4,908 full-time employees while the remaining 3,915 employees were dispatched by the local labour stations pursuant to the relevant labour employment agreements with such local labour stations. As these 3,915 workers are engaged by the local labour stations and have no direct contractual relationship with us, we are not responsible for contributions of their social insurances (exclusive of work-related injury insurance) or housing fund. According to the labour employment agreements entered into between Shandong Taifeng and the local labour stations, confirmation issued by such local labour stations and with reference to the relevant PRC labour laws and

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

regulations, the local labour stations are the responsible parties for the contribution of the social insurance contributions (exclusive of work-related injury insurance) and housing funds of the 3,915 workers.

OUR RELATIONSHIP WITH STAFF

We recognize the importance of a good relationship with our employees. We have not experienced any significant problems with our employees or disruption to our operations due to labour disputes, nor have we experienced any difficulties in the recruitment and retention of experienced staff. Our Directors believe that we have a good working relationship with our employees.

SOCIAL INSURANCES AND HOUSING FUND

Shandong Taifeng, our primary operating subsidiary in China, is required to make social insurances contributions and housing fund contribution for the benefit of its own employees under PRC law and regulations. In addition, Shandong Taifeng is required to make work-related injury insurance contribution for the workforce it sourced from local labour stations pursuant to the labour employment agreements with such local labour stations. Due to differences in local regulations, inconsistent implementation by local authorities in the PRC and different levels of acceptance of the social insurance and housing fund systems by employees, Shandong Taifeng has not made social insurances contributions, including work-related injury insurance contribution, and housing fund contribution for its own employees and the workforce it sourced from local labour stations.

To date, Shandong Taifeng has not received any complaint from its employees for lack of contributions for social insurances, including work-related injury insurance, and housing fund. Neither has Shandong Taifeng received any notice or legal documents from the regulatory authorities of social insurances and housing fund requesting contributions for relevant funds. To minimize regulatory risks associated with non-contribution to the relevant funds, Shandong Taifeng made an inquiry with the local social insurance bureau as well as the local housing fund management centre on how Shandong Taifeng could make relevant contributions. On 2 February 2010, the local social insurance bureau issued a letter confirming that Shandong Taifeng was permitted to make outstanding social insurances, including work related injury insurance, contributions for the years ended 31 December 2007, 2008 and 2009 in installments starting from 31 December 2009 and that Shandong Taifeng would not be subject to any penalties. Our Directors confirm that no repayment schedule for the outstanding social insurance contributions was requested by the social insurance bureau, and as at the Latest Practicable Date, we had not been requested by the social insurance bureau to make repayment. We have made outstanding social insurance contributions in the amount of approximately RMB0.5 million in March 2010, and expect to make all the outstanding social insurance contributions by the end of June 2011, through 6 separate instalments to be paid at the end of each quarter. On 1 February 2010, the local housing fund management centre issued a letter confirming that (i) Shandong Taifeng had made the housing fund registration with Laiwu Housing Fund Management Centre in October 2009 and had been making housing fund contribution starting from 1 October 2009; (ii) Laiwu Housing Fund Management Centre had waived the right to seek outstanding housing fund contributions, including any penalties, payable prior to 1 October 2009; and (iii) save for the above, Shandong Taifeng had complied with the relevant national and local housing fund laws and regulations and no penalty had been imposed on Shandong Taifeng due to the outstanding housing fund contributions. Our PRC legal advisers opined that the local social insurance bureau has the authority to issue the letter mentioned above to us because according to

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the relevant social insurance regulations, the local social insurance bureau, being an authority above the county level authority, is in charge of all the administration and supervision of social insurance matter within its jurisdiction. Our PRC legal advisers also advised that the local housing fund management centre has the authority to issue the confirmation letter to us because according to the relevant housing fund regulations, all local housing fund management centre shall be in charge of all matters relating to registration and payment of housing fund within its jurisdiction.

As at 31 December 2009, the outstanding amount for social insurances contribution, including work-related injury insurance contribution, for its own employees as well as the workforce sourced from local labour stations was RMB11.52 million. As at 31 December 2009, the outstanding amount for housing fund contribution for its employees was RMB1.0 million. Because the housing fund management centre waived its right to seek all outstanding housing fund contribution, including any penalties, payable prior to 1 October 2009, we did not make any provision for the outstanding housing fund contribution payable prior to 1 October 2009. Our PRC legal advisers has advised that according to the relevant housing fund regulations, the local housing fund management centre shall be in charge of all matters relating to the registration and payment of housing fund within its jurisdiction and thus the local housing fund management centre is the competent authority to waive the relevant contributions. Our Controlling Shareholders have agreed to indemnify us against all losses suffered or incurred by us as a result of or in connection with the social insurance, housing fund and work-related injury contributions due or payable for employees of our Group that any member of our Group has failed to make prior to Listing. In addition, Shandong Taifeng undertakes to comply with applicable laws and regulations to make relevant contributions in the future.

According to the relevant PRC laws and regulations, enterprises which have not paid the social insurance contributions or have not contributed to social insurance payments on behalf of employees according to the relevant rules will be required to pay such amounts by the relevant labour insurance administrative departments or tax authorities within a required period. If the payment is not made within the required period, in addition to payment of the outstanding amount, a late charge calculated at 0.2% per day of the outstanding amount will be charged from the date of the default payment. Enterprises which do not make requisite registration or complete procedures to open relevant accounts to make housing fund contributions for their employees will be ordered by the housing fund management centre to make such payment or complete such procedures within a required period, or be subject to a penalty of not less than RMB10,000 and not more than RMB50,000. Based on the above, assuming that we did not pay the relevant social insurances and housing fund contributions within the prescribed time limits required by the labour insurance administrative department and the local housing fund management centre, the maximum possible penalties that might be imposed on the Group in relation to the social insurance contribution would be RMB7.3 million as at 31 December 2009, and the maximum possible penalties that might be imposed on us in relation to the housing fund contribution would be RMB50,000 as at 31 December 2009.

We have a specific unit under our management department to deal with human resources affairs. Our human resources personnel are responsible for ensuring compliance with the relevant social insurance and housing fund laws and regulations. They collect payroll information of our employees and calculate the amounts of social insurance and housing fund contributions to be paid on a timely basis, and from time to time liaise with the relevant local authorities to assess our compliance situation as well as update our Group with the local regulations and requirements applicable to us.

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EMPLOYEE TRAINING

With the aim to encouraging our employees to continuously develop themselves by further education, we provide our employees in our management team, production team, sales and marketing team and research and development team with in-house or external training relevant to their current roles or anticipated tasks in our Group. We value our employees as our assets in which we invest our resources in order for them to make a greater contribution to our success.

STAFF REMUNERATION

We determine our staff's remuneration based on factors such as qualifications and years of experience. Our staff costs (including Directors' and senior management's emoluments) for the years ended 31 December 2007, 2008 and 2009 were RMB55.6 million, RMB64.3 million and RMB83.2 million, respectively.

BOARD COMMITTEES

Audit Committee

We have established an audit committee on 21 April 2010 with written terms of reference as suggested under the Code of Best Practice set out in Appendix 14 to the Listing Rules.

The primary duties of the audit committee are to review the material investment, capital operation and material financial systems of our Company; to review the accounting policy, financial position and financial reporting procedures of our Company; to communicate with external audit firms; to assess the performance of internal financial and audit personnel; and to assess the internal control of our Company. At present, the audit committee of our Company consists of three members, namely Mr. Li Yuchun, Mr. Chan Kin Sang and Mr. Dai Shunlin, all of which are independent non-executive Directors. Mr. Li Yuchun is the chairman of the audit committee.

Remuneration and Nomination Committee

We have established a remuneration and nomination committee on 21 April 2010 with written terms of reference as suggested under the Code of Best Practice set out in Appendix 14 to the Listing Rules.

The primary duties of the remuneration and nomination committee are: (i) to review and determine the terms of remuneration packages, bonuses and other compensation payable to our Directors and other senior management; and (ii) to review the structure, size and composition (including the skills, knowledge and experience) of our Board regularly and make recommendations to our Board regarding any proposed changes, identify suitably qualified individuals as members of our Board and select or make recommendations to our Board on the selection of individuals nominated for directorships, assess the independence of the independent non-executive Directors and make recommendations to our Board on matters relating to appointment or reappointment of Directors, and succession planning for Directors, particularly the chairman and the general manager. At present, the remuneration committee of our Company consists of three members, namely Mr. Dai Shunlin, Mr. Li Yuchun and Mr. Liu Qingping, of which Mr. Dai Shunlin and Mr. Li Yuchun are independent non-executive Directors. Mr. Dai Shunlin is the chairman of the remuneration committee. And the nomination committee of our Company consists of

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

three members, namely Mr. Chan Kin Sang, Mr. Dai Shunlin and Mr. Liu Qingping, of which Mr. Chan Kin Sang and Mr. Dai Shunlin are independent non-executive Directors. Mr. Chan Kin Sang is the chairman of the nomination committee.

COMPLIANCE ADVISER

We will appoint CIMB as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us on the following matters:

1. the publication of any regulatory announcement, circular or financial report;
2. where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
3. where we propose to use the proceeds of the New Issue in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Company deviate from any forecast, estimate, or other information in this prospectus; and
4. where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of our Company.

The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised at all) and the Capitalisation Issue, without taking into account the Offer Shares that may be taken up under the Global Offering, the following persons will have interests or short positions in 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 or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company and are therefore regarded as substantial shareholders of our Company under the Listing Rules:

<u>Name</u>	<u>Capacity/ Nature of interest</u>	<u>Number of Shares directly or indirectly held immediately following completion of the Global Offering</u>	<u>Approximate percentage of issued Share immediately following completion of the Global Offering</u>
Harvest Sun ⁽¹⁾	Registered and beneficial owner; beneficiary of a trust	555,000,000	55.5%
Superior Delight	Registered and beneficial owner	165,000,000	16.5%
Fu Sun ⁽²⁾	Trustee	75,000,000	7.5%
Mr. Liu Qingping ⁽³⁾	Interest in a controlled corporation	555,000,000	55.5%
Mr. Huang Quan ⁽⁴⁾	Interest in a controlled corporation	165,000,000	16.5%

Notes:

- (1) Harvest Sun is owned as to 48.6% by Mr. Liu Qingping and therefore, Mr. Liu Qingping is deemed to be interested in 480,000,000 Shares held directly by Harvest Sun and 75,000,000 Shares held by Fu Sun on a trust for its benefit under the SFO.
- (2) Fu Sun is wholly-owned by Mr. Liu Qingping. Fu Sun holds on trust the 75,000,000 Shares for the benefit of Harvest Sun. Upon the completion of a 2-year service as director of the Company from April 2009 by Mr. Liu Qingping, Fu Sun will be beneficial owner of the 75,000,000 Shares.
- (3) Mr. Liu Qingping is deemed to be indirectly interested in 555,000,000 Shares, ie. 55.5% of the issued capital of the Company through his direct interests in Harvest Sun under the SFO.
- (4) Superior Delight is wholly-owned by Mr. Huang Quan and Mr. Huang Quan is therefore deemed to be interested in 165,000,000 Shares held by Superior Delight under the SFO.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the Global Offering and the Capitalisation Issue, have interests or short positions in 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 or, who are, directly or indirectly interested in 10% or more of the nominal value of

SUBSTANTIAL SHAREHOLDERS

any class of share capital carrying rights to vote in all circumstances at general meetings of our Group (other than our Company). Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

The Selling Shareholder is offering 30,000,000 Shares, representing approximately 3% of the total issued share capital of the Company immediately following the completion of the Global Offering and Capitalisation Issue without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option, for sale under the International Placing. The shareholding of the Selling Shareholder immediately prior to and following the completion of the Global Offering (before the exercise of the Over-allotment Option) are set out in the table below:

<u>Name of Selling Shareholder</u>	<u>Number of Shares held by Selling Shareholder prior to its sale of Shares</u>	<u>Number of Shares to be sold by Selling Shareholder</u>	<u>Number of Shares (approximate percentage of total issued share capital of the Company) to be held by the Selling Shareholder immediately following the completion of the Global Offering and the sale of Sale Shares (before the exercise of the Over-allotment Option)</u>
Harvest Sun	510,000,000	30,000,000	480,000,000 (48%)

RESTRICTIONS ON DISPOSAL OF SHARES

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange, our Company, the Sole Sponsor and the Sole Global Coordinator respectively that he/she/it shall not and shall procure that the relevant registered holder(s) shall not (save in connection with the stock borrowing arrangement described under “Over-allotment and Stabilization” in the section headed “Information about this prospectus and the Global Offering” of this prospectus):

- (a) in the period commencing on the date of this prospectus and ending on the date which is six months from the date on which dealings in the Shares commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he/she/it is the beneficial owner; or
- (b) in the period of six months commencing on the date on which the period referred to in (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in (a)

SUBSTANTIAL SHAREHOLDERS

above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/she/it, together with other Controlling Shareholders would cease to be Controlling Shareholder.

The offer of the Sale Shares contained in this prospectus shall not be subject to such restrictions.

Each of our Controlling Shareholders has further undertaken to the Stock Exchange, our Company, the Sole Sponsor and the Sole Global Coordinator respectively that within the period from the date of this prospectus and ending on the date which is 12 months from the date on which dealings in the Shares first commence on the Stock Exchange, he/she/it shall:

- (1) when he/she/it pledges/charges any securities of our Company beneficially owned by him/her/it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155, Laws of Hong Kong) pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform our Company of such pledge/charge together with the number of securities so pledged/charged; and
- (2) when he/she/it receives indications, whether verbal or written, from the pledgee/chargee that any of the pledged/charged securities will be disposed of, immediately inform our Company of such indications.

Our Company has undertaken to the Sole Sponsor and the Sole Global Coordinator that it shall inform the Stock Exchange as soon as it has been informed of matters referred to in (1) and (2) above by our Controlling Shareholders or any of them and disclose such matters by way of a press announcement which is to be published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

STOCK BORROWING ARRANGEMENT

In order to facilitate settlement of the over-allocations under the International Offering, if any, Harvest Sun is expected to agree with the Sole Global Coordinator that, if so requested by the Sole Global Coordinator, it may, subject to the terms of the Stock Borrowing Agreement, make available to the Sole Global Coordinator up to 42,000,000 Shares held by it to facilitate settlement of over-allocations in the International Offering allowed by Rule 10.07(3) of the Listing Rules. The stock borrowing arrangement will be subject to the following conditions:

- such stock borrowing arrangement with Harvest Sun will only be effected by the Sole Global Coordinator for the sole purpose of covering any over-allocations in the International Offering prior to the exercise of the Over-allotment Option by the Sole Global Coordinator;
- the maximum number of Shares borrowed from Harvest Sun by the Sole Global Coordinator under the Stock Borrowing Agreement will be limited to the maximum number of Shares which may be issued upon the full exercise of the Over-allotment Option;
- the same number of Shares so borrowed from Harvest Sun must be returned to Harvest Sun or its nominees on or before 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 in full;

SUBSTANTIAL SHAREHOLDERS

- the stock borrowing arrangement under the Stock Borrowing Agreement will be effected in compliance with all applicable listing rules, laws, and other regulatory requirements; and
- no payment, benefits, interest or consideration will be made to Harvest Sun and any of the Controlling Shareholders by the Sole Global Coordinator in relation to the Stock Borrowing Agreement as part of the conditions of the Stock Borrowing Agreement.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Immediately following completion of the Global Offering and the Capitalisation Issue, Harvest Sun and Fu Sun will respectively hold 48% and 7.5% of our Company's issued share capital. Since Harvest Sun and Fu Sun are wholly-owned by the 7 Individual Shareholders and Mr. Liu Qingping respectively, in the context of our Company, Harvest Sun, Fu Sun and the 7 Individual Shareholders are our Controlling Shareholders.

Independence from Controlling Shareholders

Management independence and operational independence

Although our Controlling Shareholders will retain a controlling interest in our Company after the Listing, our Company has full rights to make all decisions on, and to carry out, its own business operations independently. Our Company (through its subsidiaries) holds all relevant licences necessary to carry on its businesses, and has sufficient capital, equipment and employees to operate its businesses independently of any of our Controlling Shareholders.

Our management and operational decisions are made by our executive Directors and senior management, who have served our Company or our subsidiaries for a long time and have substantial experience in the industry in which our Company is engaged. Further, our three independent non-executive Directors will bring independent judgment to the decision-making process of the Board.

Our Directors currently do not expect that following the Listing, there will be any business transactions between our Company and any of our Controlling Shareholders. Based on the above, our Directors are of the view that our Company is independent of the Controlling Shareholders in terms of management and business operations.

Administrative independence

We have our own capabilities and personnel to perform all essential administrative functions including financial and accounting management, inventory management development. Our company secretary and senior management staff are independent of any of our Controlling Shareholders.

Financial independence

Our own financial management system and the ability to operate independently from our Controlling Shareholders from a financial perspective. We are capable of obtaining financing from external sources without reliance on our Controlling Shareholders.

During the Track Record Period, Mr. Liu Qingping had provided loans to the Group and guarantees to secure bank loans of the Group. Our Directors confirm that all such loans were repaid in June 2009 and all such personal guarantee were released prior to the Latest Practicable Date.

Having considered the above reasons, our Directors are of the view that our Group is capable of carrying on our businesses independently of our Controlling Shareholders (including any associate thereof) after the Listing.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Non-competition undertakings given by the Controlling Shareholders and entities controlled by them

Each of the Controlling Shareholders, Holistic and Laiwu Runfeng has confirmed that neither he/she/it, nor any of his/her/its associates, is currently interested, involved or engaged, or is likely to be interested, involved or engaged, directly or indirectly, in business, which competes or is likely to compete, directly or indirectly, with our Group's business (as disclosed in this prospectus) and would require disclosure under Rule 8.10 of the Listing Rules. The Controlling Shareholders, Holistic and Laiwu Runfeng have entered into a deed of non-competition (the "Deed of Non-competition") with our Company to the effect that with effect from the Listing Date, each of them will not, and procure that none of the respective associates shall, except through his/her/its/their interests in our Company, whether as principal or agent and whether undertaken directly or indirectly in his/her/its/their own account or in conjunction with or on behalf of or through any person, firm, body corporate, partnership, joint venture or other contracture arrangement and whether for profit or otherwise, carry on, participate in, acquire or hold any right or interest in, or otherwise be interested, involved or engaged in or concerned with, directly or indirectly, any business which is in any respect in competition with or similar to or may be in competition, directly or indirectly, with our businesses. Each of the Controlling Shareholders, Holistic and Laiwu Runfeng also undertakes to procure entities that they are entitled to exercise or control the exercise of 30% or more of the voting power at general meetings of such entity or they are in a position to control the composition of a majority of the board of directors of such entity to enter into a deed of adherence in which such entities shall observe the terms of the Deed of Non-competition. The Deed of Non-competition also provides that all conflicted Directors shall absent themselves from meetings and voting of the Board when matters in which such Director or his/her/its associates have a material interest are discussed (including first rights of refusal), unless expressly requested to attend by a majority of the independent non-executive Directors. A Director who has or whose associates have a material interest in a contract is prohibited by the Articles of Association from voting or being counted in the quorum at the meeting at which the contract is considered save in certain circumstances as set out in the Articles of Association.

The Deed of Non-competition also provides, amongst other things, that:

- (i) our independent non-executive Directors shall review, at least on an annual basis, the compliance with the Deed of Non-competition by the Controlling Shareholders, Holistic and Laiwu Runfeng and their respective associates, or first rights of refusal provided by the Controlling Shareholders, Holistic and Laiwu Runfeng and their respective associates on their existing or future competing businesses;
- (ii) the Controlling Shareholders, Holistic and Laiwu Runfeng shall provide all information necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-competition;
- (iii) our Company shall disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the undertakings and first right of refusal provided by the Controlling Shareholders, Holistic and Laiwu Runfeng either through the annual report of our Company, or by way of announcements to the public;
- (iv) the Controlling Shareholders shall abstain from voting at any general meeting of our Company if there is any actual or potential conflict of interests; and

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (v) the terms of Deed of Non-competition cannot be amended or varied save with prior approval of the Shareholders.

The Deed of Non-competition will cease to have effect on any of the Controlling Shareholders if (i) the day on which the Shares cease to be listed on the Stock Exchange; (ii) the day on which the Controlling Shareholders and their respective associates in aggregate cease to be interested (directly or indirectly) in 30% or more of the entire issued share capital of our Company; or (iii) the day on which the Controlling Shareholders beneficially own or are interested in the entire issued share capital of our Company.

TTG

Information of TTG

TTG was incorporated in the PRC on 27 December 2001. It is currently principally engaged in the manufacturing and sales of cotton fabrics and property development. Transactions between TTG and our Group include the purchase of raw cotton and fabrics from TTG and the sales of cotton yarns to TTG, which were recorded as related party transactions during the Track Record Period. For further details of the related party transactions during the Track Record Period, please refer to Note 29 to the Accountants' Report set out in Appendix I to this prospectus. Please also refer to sub-sections headed "Customers", "Suppliers", "Fuel and utilities" and "Properties" in the "Business" section and the "Financial Information" section of this prospectus for further details of the transactions with TTG. Save as disclosed in this prospectus that TTG and Shandong Taifeng shared certain common shareholders and directors in the past, details of which are disclosed in this section, TTG is an Independent Third Party. To the best knowledge of our Directors, before the disposal and injection of its assets in relation to cotton yarn production to Shandong Taifeng in August 2006, TTG possessed about 260,000 spindles for cotton yarn production. TTG further disposed of two sets of winding machines in December 2006 and other assets in relation to cotton yarn production in October 2008. TTG does not currently possess the necessary production facilities for and is not engaged in any production of cotton yarns or bedding products and the Directors do not consider there is any competition between TTG and us.

Shareholding and Directorship

During the Track Record Period, the 7 Individual Shareholders held an aggregate of 57.85% interest in TTG and were therefore TTG's controlling shareholders up to 26 June 2008 when they transferred their respective interest in TTG to the 7 TTG Shareholders, namely Mr. Liu Jian, Mr. Guo Yangang, Mr. Shen Liying, Mr. Sun Yanshen, Ms. Wang Jianyun, Mr. Duan Lunzhen and Mr. Zhang Xinjun, being the 7 TTG Shareholders (the "TTG Transfer") who became the new controlling shareholders of TTG.

The 7 TTG Shareholders have been colleagues of the 7 Individual Shareholders for many years. Mr. Liu Jian had been a senior management member and an employee of Shandong Taifeng until the TTG Transfer in June 2008. Mr. Guo Yangang and Ms. Wang Jianyun had been employees of Shandong Taifeng until after the TTG Transfer in May 2009 and April 2009 respectively. As at the Latest Practicable Date, none of the 7 TTG Shareholders had any shareholding, directorship, management position or employment in our Group. The 7 TTG Shareholders had been shareholders of TTG, since incorporation of TTG in 2001 for Mr. Liu Jian, Mr. Shen Liying, Mr. Sun Yanshen, Ms. Wang Jianyun, Mr. Duan Lunzhen and Mr. Zhang Xinjun, and since 2002 for Mr. Guo Yangang, they held an aggregate of 5.95% interest in TTG during the Track Record Period up to 26 June 2008. All of them, except Mr. Guo Yangang and Ms. Wang Jianyun, were employees, and participated in the management, of TTG before the TTG Transfer. They became TTG's new group of controlling shareholders in June 2008 holding an aggregate of 63.79% in TTG.

During the Track Record Period, Mr. Liu Qingping, Mr. Li Denxiang, Ms. Qi Tongli, Mr. Liu Chunwei and Mr. Zou Shenzhong had been directors of TTG until 23 August 2007 except that Mr. Liu Qingping, after disposing his interest in TTG in June 2008, stayed as the non-executive chairman of

RELATIONSHIP WITH TTG AND LAIWU RUNFENG

TTG until the board of directors of TTG approved his resignation from this position on 20 May 2009 which was subsequently registered with the relevant PRC authority on 7 July 2009. As at the Latest Practicable Date, none of our Directors held any directorate or supervisory position in TTG.

TTG Transfer

The reason for the TTG Transfer is that, as confirmed by our Directors, in order to streamline the business structure, the common shareholders of Shandong Taifeng and TTG at the relevant time decided that Shandong Taifeng should develop the cotton yarn and bedding product businesses while TTG would focus on the fabric manufacturing business. Our Directors also confirm that such a decision was welcomed by the respective local district governments of Laiwu City where TTG and Shandong Taifeng were incorporated, namely the governments of the Laicheng District and the Economic and High-technology Development Zone, as following the business delineation, TTG would remain based in the Laicheng District and be taxed by its government, while Shandong Taifeng would remain based in the Economic and High-technology Development Zone and be taxed by its government. While from the point of view of Shandong Taifeng, our Directors prefer to focus on the cotton yarn and bedding product businesses particularly in relation to the higher-end products which we believe would have better growth potentials taking into account the historical and expected growth in the fine-count and high-count cotton yarn and mid-end to high-end bedding products markets, insofar as our Directors are aware, the respective purchasers of the TTG equity interests believe there remains favourable market conditions for the fabric manufacturing business and the development potentials of the land resources of TTG.

The consideration for the transfer in the sum of RMB268.1 million represents 2.5 times of the invested amount paid by the 7 Individual Shareholders, which is determined after negotiation between the transferors and transferees with reference to the financial performance of TTG. The parties originally agreed that the consideration would be settled by instalments within six months from 26 June 2008 (the "First Agreement"). On 26 December 2008, the parties entered into a supplemental agreement (the "Second Agreement") and agreed to extend the time for the payment of the consideration of the transfer for a further six months from the date of the Second Agreement. On 26 March 2009, the parties entered into a further supplemental agreement (the "Third Agreement") in which the parties agreed that the time for payment of the consideration be extended to three years from the date of the Third Agreement. The payment obligation of the 7 TTG Shareholders under the First Agreement, the Second Agreement and the Third Agreement is not secured and the Directors confirm that there are no other major terms. On 12 October 2009, the parties agreed to accelerate the payment of the consideration as to 30% by November 2009 ("First Installment"), 30% by March 2010 ("Second Installment") and the remaining 40% by March 2011. The Directors confirm that all the 7 Individual Shareholders have received the First Installment and Second Installment for their respective equity interests in TTG from their respective purchasers. The 7 Individual Shareholders confirmed that they intend to pursue the outstanding TTG Transfer consideration from the 7 TTG Shareholders and that they will not waive the outstanding TTG Transfer consideration.

According to our PRC legal advisers, the transfer of the equity interests in TTG between the 7 TTG Shareholders and the 7 Individual Shareholders was resolved and approved by the Council of the ESU-TTG, which is the organ of authority for the ESU-TTG, and was in accordance with the articles of association of the ESU-TTG and comply with the applicable PRC law and regulations. The TTG Transfer was legal, valid and duly completed on 26 June 2008. The validity of the TTG Transfer will

RELATIONSHIP WITH TTG AND LAIWU RUNFENG

not be affected even if the 7 TTG Shareholders fail to pay the consideration within the stipulated period and the TTG Transfer agreements will continue to be effective and cannot be rescinded automatically or by either party. The 7 Individual Shareholders confirm that they do not have intention to buy back the shareholdings in TTG from the 7 TTG Shareholders.

To the best knowledge of our Directors, as at the Latest Practicable Date, TTG were owned as to 99.09% by the ESU-TTG and 0.91% by 13 Independent Third Parties (other than the 7 TTG Shareholders), and there also exists no trust or nominee arrangement with the 7 Individual Shareholders with respect to ownership and management of TTG.

Transactions with TTG

We had transactions with TTG and/or its subsidiary during the Track Record Period. These transactions were recorded as related party transactions during the Track Record Period which related to purchases of raw cotton, fabrics and other materials, sales of cotton yarns, bedding products and other materials, supply of electricity and steam, leasing of properties, and provision of financial assistance. Certain of these transactions are expected to continue after Listing. For further details of the related party transactions during the Track Record Period, please refer to Note 29 to the Accountants' Report set out in Appendix I to this prospectus. Please also refer to sub-sections headed "Customers", "Suppliers", "Fuel and utilities" and "Properties" in the "Business" section and the "Financial Information" section of this prospectus for further details of the these transactions with TTG.

TTG was our largest cotton yarn customer for the years ended 31 December 2007, 2008 and 2009 and our largest bedding product customer for the year ended 31 December 2007 (but not 2008 and 2009), together with other materials accounting for 39.0%, 22.1% and 16.0% of our total revenue during the same period. TTG was our largest raw cotton supplier for the years ended 31 December 2007, 2008 and 2009 and our largest fabric supplier for the years ended 31 December 2007 and 2008 (but not 2009), together with other materials accounting for 39.3%, 37.1% and 29.3% of our total raw material purchase during the same period.

Through years of development, we have developed our supplies and sales networks and diversified our supplier and customer bases, and hence our procurement from and sales to TTG have gradually decreased during the Track Record Period. We have also gradually developed direct business relationship with the ultimate suppliers of raw cotton and the ultimate customers of cotton yarns and bedding products of TTG. Therefore, the scale of transactions with TTG has been continuously decreasing during the Track Record Period. Our Directors confirm that the decrease in purchases and sales transactions with TTG was not connected with the disposals of the shares in TTG by the 7 Individual Shareholders in June 2008.

To the best knowledge of our Directors, TTG also had other fabrics customers and other cotton yarn suppliers, but TTG only sold its imported raw cotton to and procured bedding products from our Group. To the best knowledge of our Directors, the ultimate suppliers of TTG's raw cotton supplies to our Group are primarily overseas cotton enterprises while the fabrics supplied by TTG are produced by TTG itself. On the other hand, to the best knowledge of our Directors, our cotton yarns sold to TTG are consumed by TTG for fabric manufacturing with the remaining portion exported to overseas fabric manufacturers by TTG, while our bedding products sold to TTG were principally exported by TTG on an OEM basis during the Track Record Period. Our Directors confirm that TTG does not act as agent to

RELATIONSHIP WITH TTG AND LAIWU RUNFENG

Shandong Taifeng to sell to and/or purchase from any ultimate customers or suppliers and the transactions between Shandong Taifeng and TTG are conducted on normal commercial terms consistent with other customers and suppliers of our Group.

Supplies of raw cotton

We procure supplies of raw cotton from TTG instead of from the overseas cotton suppliers directly due to the following reasons:

- established overseas cotton supply network of TTG and its predecessor, Laiwu City Textile Factory, in the past and their long previous business relationship with overseas cotton suppliers; and
- geographical proximity with TTG and hence relative ease of logistic arrangement and communication in purchasing cotton from TTG as comparing with other third party suppliers under similar commercial terms.

Our Directors confirm that in the event TTG fails to supply raw cotton and/or fabrics to us, there are other comparable suppliers readily available in the market from which we could source our supplies. In fact, in respect of our cotton supply, we have been continuing expanding our cotton supply network and have signed framework supply agreements with some global cotton suppliers recently.

Supplies of fabrics

The fabrics procured by us from TTG are manufactured by TTG itself. Due to the long business relationship between TTG and our Group and geographical proximity, at the commencement of our operations, we mainly procured our fabrics supply from TTG. For the years ended 31 December 2007, 2008 and 2009, our purchase of fabrics from TTG accounted for 81.5%, 24.8% and 4.8% of our total purchase of fabrics during the same periods.

Based on our current business model, which is focused on our cotton yarns and bedding product businesses, our Directors do not consider it necessarily desirable for the Group to engage in fabric manufacturing business for the following reasons:

1. Our Directors consider the fabric manufacturing business in general to be not attractive in view of the relatively low margins and profitability as compared to our existing businesses; and
2. As fabrics with different specifications are required for the production of our bedding products and different machines and processes are required to produce such fabrics, our Directors believe it would be more cost effective and efficient for the Group to source fabrics from third party suppliers for the production of our bedding products.

In addition, to the best knowledge of the Directors, PRC bedding products enterprises generally do not have fabrics production facilities and capabilities.

RELATIONSHIP WITH TTG AND LAIWU RUNFENG

Sales of cotton yarns

Cotton yarns sold to TTG are consumed by TTG for its fabric manufacturing with the remaining portion sold by TTG to overseas fabric manufacturers. We sell our cotton yarns to TTG instead of to the ultimate customers directly mainly due to the fact that those ultimate customers of cotton yarns choose to continue to purchase cotton yarns from TTG due to their long business relationships with TTG and its predecessor, Laiwu City Textile Factory.

Sales of bedding products

As far as our Directors understand, we are the only bedding product supplier to TTG, and the bedding products sold were principally exported to overseas home textile distributors on an OEM basis. We sold bedding products to TTG instead of to those overseas customers directly since we had not developed our own sales network of bedding products overseas at the beginning of our bedding product business.

As confirmed by our Directors, the gradual decrease in the amount of purchases of raw materials from TTG during the Track Record Period was mainly due to the fact that we have strengthened our own supply network of raw cotton and fabrics and diversified our supplier base.

On the other hand, as confirmed by our Directors, the gradual decrease in the amount of sales of cotton yarns and bedding products to TTG during the Track Record Period was mainly due to the following:

- we have strengthened our own sales network of our finished products and broadened our customer base; and
- we have developed our own export channels and shifted our focus to expand distribution channels of branded bedding products through distributors.

As such, our Directors expect that the scale of transactions with TTG will continue to reduce after Listing. Nevertheless, subject to the caps for the continuing connected transactions, our Directors consider that whether and to what extent we will continue to have transactions with TTG will depend on the commercial terms TTG and other customers and suppliers can offer. In accordance with the requirements of the Listing Rules, we will provide information of our largest and top five customers and suppliers, and their respective sales and purchases percentages in our annual reports after Listing. With a view to enhancing transparency regarding the transactions with TTG, we would voluntarily disclose the amounts of sales and purchases with TTG if it falls within the top five customers and/or suppliers of our Group in our interim reports after Listing. Transactions with TTG will also be reviewed by the Audit Committee after the Listing. In addition, as the Stock Exchange has exercised its discretion under Rule 14A.06 of the Listing Rules to deem TTG as a connected person of our Company, our transactions with TTG will be subject to, among other things, the connected transaction requirements under the Listing Rules after Listing until such time when the 7 TTG Shareholders fully settle the consideration for TTG Transfer. An announcement will be made by the Company upon the settlement of the consideration in relation to the TTG Transfer.

RELATIONSHIP WITH TTG AND LAIWU RUNFENG

LAIWU RUNFENG

Information of Laiwu Runfeng

Laiwu Runfeng was a company incorporated in the PRC on 11 July 2000. According to the business license of Laiwu Runfeng, its scope of business covers production and sale of pure cotton, blended yarns, bedding and accessories. Laiwu Runfeng was principally engaged in the production of coarse-count cotton yarns (as opposed to the fine-count and high-count cotton yarns) and had approximately 50,000 spindles for cotton yarn production before ceasing its operations in late 2008. Pursuant to a notice issued by Laiwu City government, the land use right in relation to the land on which the factory of Laiwu Runfeng was located will be recovered by the government for redevelopment purposes. As a result, Laiwu Runfeng ceased its business and operations in late 2008. The production equipment of Laiwu Runfeng has also been sold to an Independent Third Party. Therefore the Directors are of the view that Laiwu Runfeng is not in competition with the Group.

Transactions with Laiwu Runfeng

Our Directors confirm that during the Track Record Period, Laiwu Runfeng and Shandong Taifeng shared certain common suppliers and customers. However, as confirmed by our Directors, before its cease of operation, Laiwu Runfeng was focused on producing lower-end cotton yarn products using less advanced equipment.

During the Track Record Period, we had various transactions with Laiwu Runfeng as set forth below:

- we sold goods to Laiwu Runfeng which principally comprised raw cotton and scrap materials in the amount of RMB43.9 million and RMB39.4 million for the years ended 31 December 2007 and 2008. However, before its cease of operation, Laiwu Runfeng was focused on producing lower-end cotton yarn products using less advanced equipment;
- we purchased surplus raw cotton from Laiwu Runfeng in the amount of RMB4.9 million and RMB12.4 million for the years ended 31 December 2007 and 2008; and
- we provided cotton yarn processing services to Laiwu Runfeng in the amount of RMB314,000 for the year ended 31 December 2008.

Our Directors confirm that transactions between Laiwu Runfeng and our Group were conducted on normal commercial terms. In addition, our transactions with Laiwu Runfeng have been discontinued and it is expected that there will not be any intended business relationship going forward.

CONNECTED TRANSACTIONS AND WAIVERS

We have entered into a number of transactions with TTG. The Stock Exchange has exercised its discretion under Rule 14A.06 of the Listing Rules to deem TTG as a connected person (as defined in the Listing Rules) of our Company until the 7 TTG Shareholders have fully settled the considerations for the TTG Transfer. As such, the agreements set out in the paragraph headed “I. Non-exempt Continuing Connected Transactions” below will be subject to, among other things, the connected transactions requirements under the Listing Rules following the Listing Date. For details of other transactions between the Group and TTG during the Track Record Period which will not continue after the Listing Date, please refer to Note 29 to the Accountants’ Report set out in Appendix I to this prospectus. Please also refer to sub-sections headed “Customers”, “Suppliers”, “Fuel and utilities” and “Properties” in the “Business” section and the “Financial Information” section of this prospectus for further details of these transactions with TTG.

I. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

(a) Continuing Connected Transactions exempt from the independent shareholders’ approval requirements, but subject to the reporting and announcement requirements under Rule 14A.34 of the Listing Rules

Leasing of properties by TTG to us

Prior to the Listing Date, TTG has leased to us three properties situated in Laiwu City.

The first property comprises portions of two parcels of land situated at the Economic and High-Technology Development Zone with a total site area of 44,512.82 sq.m. and three industrial buildings and other structures with a total lease area of 47,088.69 sq.m. (“First Property”). We are currently using these facilities principally for purposes of production and accommodation for our employees. Pursuant to a tenancy agreement dated 22 May 2009 as supplemented by a supplemental agreement dated 16 November 2009, the property is leased to Shandong Taifeng for a term of 20 years commencing from the date of the tenancy agreement and expiring on 21 May 2029 at a monthly rent of RMB350,000 exclusive of water, electricity and gas charges and other outgoings. Shandong Taifeng (but not TTG) has the unilateral right to terminate the lease from 31 December 2011. The rent might be adjusted after three years of the lease based on the then prevailing market rate (the “First Lease Agreement”).

The second property comprises two parcels of land situated at the Economic and High-Technology Development Zone with a total site area of 159,552.9 sq.m., and 16 buildings with a total gross floor area of 108,458.57 sq.m. (“Second Property”). We are currently using these facilities principally for purposes of production, storage, office and accommodation for our employees. Pursuant to a tenancy agreement dated 22 May 2009 as supplemented by a supplemental agreement dated 16 November 2009, the property is leased to Shandong Taifeng for a term of 20 years commencing from the date of the tenancy agreement and expiring on 21 May 2029 at a monthly rent of RMB775,000 exclusive of water, electricity and gas charges and other outgoings. Shandong Taifeng (but not TTG) has the unilateral right to terminate the lease from 31 December 2011. The rent might be adjusted after three years of the lease based on the then prevailing market rate (the “Second Lease Agreement”).

CONNECTED TRANSACTIONS AND WAIVERS

The third property comprises 4 retail shops situated at Laicheng District on the ground floor of a 3-storey industrial building with a total lettable area of approximately 120 sq.m. (“Third Property”). We are currently using these facilities as our retail shops. Pursuant to a tenancy agreement dated 9 July 2008, the property is leased to Shandong Taifeng for a term of 3 years commencing on 10 July 2008 and expiring on 10 July 2011 at an annual rent of RMB30,000 exclusive of management fee, water and electricity charge (the “Third Lease Agreement”).

The long-term nature of the First and Second Lease Agreements will provide stability for the Group’s business operations. It enables the Group to secure a location for its workshops, office and dormitory at a fair market price and to prevent unnecessary cost, effort, time and interruption of business caused by relocation in the case of short-term leases. It also enables the Group to save recurrent initial set-up costs such as interior decoration and lease renewal expenses in the case of short-term leases. As such, the Directors (including the independent non-executive Directors) and the Sole Sponsor are of the view that a term exceeding three years is required for the First and Second Lease Agreements and that it is a normal business practice to maintain such a long term lease.

For the three years ended 31 December 2007, 2008 and 2009, the aggregate annual rental expenses in connection with the leasing of the First, Second and Third Properties was approximately RMB9,300,000, RMB10,000,000 and RMB13,530,000, respectively.

The annual rental payable under the First, Second and Third Lease Agreements for the two years ending 31 December 2010 and 2011 will be RMB13,530,000 and RMB13,530,000 respectively and, as confirmed by the Directors, was determined with reference to the previous lease agreements of the related properties and the then market rental rate in Laiwu City. Jones Lang LaSalle Sallmanns Limited, the valuer appointed by the Company in connection with the Global Offering, has issued a letter confirming the rental rates of the related properties in relation to the First Lease Agreement, the Second Lease Agreement and the Third Lease Agreement are fair and reasonable.

The First, Second and Third Lease Agreements are all on normal commercial terms. The percentage ratios of the consideration under the First, Second and Third Lease Agreements on an annual basis are less than 2.5% (being the threshold stipulated in Rule 14A.34(1) of the Listing Rules) but more than 0.1% (being the threshold stipulated in Rule 14A.33(3) of the Listing Rules). Therefore, under Rule 14A.34 of the Listing Rules, the transactions under the First, Second and Third Lease Agreements will be exempt from the independent Shareholders approval requirements but subject to the reporting and announcement requirements contained in Rules 14A.45 to 14A.47 of the Listing Rules.

For so long the transactions contemplated under the First, Second and Third Lease Agreements constitute connected transaction, we will appoint an independent valuer to review the terms of the First, Second and Third Lease Agreements every three years and disclose the results of such reviews in our annual report.

CONNECTED TRANSACTIONS AND WAIVERS

(b) Continuing Connected Transactions subject to reporting, announcement and independent shareholders' approval

On 16 November 2009, Shandong Taifeng entered into a master agreement with TTG, pursuant to which Shandong Taifeng will (i) sell cotton yarns, bedding products and other products to TTG according to the latter's specifications and at prevailing market prices, and (ii) purchase raw cotton, fabrics and other materials from TTG according to the former's specifications and at prevailing market prices, effective from the Listing Date and expiring on 31 December 2011 (the "Master Agreement"). The Master Agreement may be renewed by agreement between the parties.

(1) Sale of goods to TTG

For the three years ended 31 December 2007, 2008 and 2009, the aggregate revenue generated from the sale of goods to TTG was approximately RMB363,948,000, RMB233,718,000 and RMB216,327,000, respectively.

The Directors expect that the aggregate revenue to the Group generated from the sales of goods to TTG for the two years ending 31 December 2010 and 2011 will not exceed, RMB114,300,000 and RMB63,700,000 respectively.

The maximum annual cap is determined with reference to (i) the decrease of revenue generated from sale of goods to TTG during the years ended 31 December 2008 and 2009; and (ii) the expected continuous decrease in sale of goods to TTG in 2010 and 2011.

(2) Purchase of materials from TTG

For the three years ended 31 December 2007, 2008 and 2009, the aggregate amount incurred by the Group for the purchase of materials from TTG was approximately RMB306,076,000, RMB277,023,000 and RMB204,054,000, respectively.

The Directors expect that the aggregate amount payable to TTG by the Group for the purchase of materials from TTG for the two years ending 31 December 2010 and 2011 will not exceed RMB112,300,000 and RMB60,200,000 respectively.

The maximum annual cap is determined with reference to (i) the decrease of amount incurred for the purchase of materials from TTG during the years ended 31 December 2008 and 2009; and (ii) the expected continuous decrease in purchase of materials from TTG in the future.

The percentage ratios of the consideration for the sale of goods and purchase of materials on an annual basis are more than 2.5% (being the threshold stipulated in Rule 14A.34(1) of the Listing Rules) and as each of these annual caps for the sale of goods and purchase of materials will exceed HK\$10,000,000, the Master Agreement is subject to the reporting, announcement and independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules.

Should the Master Agreement be renewed, we will comply with the requirements under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS AND WAIVERS

II. APPLICATION FOR WAIVERS

Our Directors (including the independent non-executive Directors) consider that the continuing connected transactions described above have been and will be entered into in the ordinary and usual course of our business, on normal commercial terms and on an arm's length basis, the terms of these continuing connected transactions and the proposed annual caps and annual rental (as the case may be) are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

For the non-exempt continuing connected transactions described under the paragraph headed "(a) Continuing Connected Transactions exempt from the independent shareholders' approval requirements, but subject to the reporting and announcement requirements under Rule 14A.34 of the Listing Rules" above, the percentage ratios, including the assets ratio, revenue ratio and consideration ratio, in respect thereof on an annual basis are expected to be more than 0.1% but less than 2.5%. Such transactions would, therefore, be subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirements applicable to continuing connected transactions under the Listing Rules.

For the non-exempt continuing connected transactions described under the paragraph headed "(b) Continuing Connected Transactions subject to reporting, announcement and independent shareholders' approval" above, the annual caps are expected to be more than HK\$10,000,000 and the percentage ratio of the annual caps are expected to be more than 2.5%. Such transactions are considered to be non-exempt continuing connected transactions under Rule 14A.35 and would, therefore, be subject to the reporting, announcement and independent shareholders' approval requirements contained in Rules 14A.45 to 14A.48 of the Listing Rules on each occasion when they arise.

Our Directors consider that strict compliance with the announcement and/or independent shareholders' approval requirements under the Listing Rules upon Listing would be burdensome and would add unnecessary administrative costs to our Company. We have accordingly applied for and the Stock Exchange has granted us waivers from compliance with announcement and/or independent shareholders' approval requirements related to the said continuing connected transactions pursuant to Rule 14A.42(3) of the Listing Rules for a period of two years ending on 31 December 2011. We will comply with the requirements under Rules 14A.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40 of the Listing Rules.

III. CONFIRMATIONS FROM THE DIRECTORS AND VIEW FROM THE SOLE SPONSOR

The Directors (including the independent non-executive Directors) confirm that all of the above-mentioned continuing connected transactions:

- (i) have been and shall be entered into in the ordinary and usual course of business of our Group and in the interests of the Shareholders as a whole; and
- (ii) are either on normal commercial terms that are fair and reasonable and in the interests of the shareholders as a whole or, if there are not sufficient comparable transactions to determine whether they are on normal commercial terms, on terms no less favourable than terms available to or from (as appropriate) Independent Third Parties.

CONNECTED TRANSACTIONS AND WAIVERS

The Directors (including the independent non-executive Directors) further confirm that the annual caps and the annual rental (as the case may be) of the above continuing connected transactions are fair and reasonable and in the interests of the Shareholders as a whole.

The Sole Sponsor is of the view that the continuing connected transactions have been and shall be entered into on normal commercial terms and in the ordinary and usual course of business of our Company and that the terms of the continuing connected transactions, the annual rental and the annual caps (as the case may be) set out above are fair and reasonable and in the interests of the Shareholders as a whole.

SHARE CAPITAL

The authorised and issued share capital of our Company is as follows:

Number of Shares comprised in the authorised share capital:

Shares	<i>(HK\$)</i>
1,500,000,000	150,000,000

(a) assuming the Over-allotment Option is not exercised, the share capital of our Company immediately following the Global Offering will be as follows:

Shares	<i>(HK\$)</i>
1,000 Shares in issue upon the completion of the Reorganisation	100
749,999,000 Shares to be issued pursuant to the Capitalisation Issue	74,999,900
250,000,000 New Shares to be issued under the Global Offering	25,000,000
Total <u>1,000,000,000</u>	<u>100,000,000</u>

(b) assuming the Over-allotment Option is exercised in full, our Company's share capital immediately following the Global Offering will be as follows:

Shares	<i>(HK\$)</i>
1,000 Shares in issue upon the completion of the Reorganisation	100
749,999,000 Shares to be issued pursuant to the Capitalisation Issue	74,999,900
292,000,000 New Shares to be issued in the Global Offering	29,200,000
Total <u>1,042,000,000</u>	<u>104,200,000</u>

Assumptions

The above table assumes that the Global Offering becomes unconditional. They take no account of Shares which may be allotted and issued or repurchased by our Company pursuant to the issuing mandate and Repurchase Mandate as described below.

SHARE CAPITAL

Ranking

The Offer Shares will rank *pari passu* in all respects with all other Shares in issue as mentioned in this prospectus, and in particular, will rank in full for all dividends and other distributions hereafter declared, paid or made on the Shares after the date of this prospectus save for entitlements to the Capitalisation Issue.

GENERAL MANDATE TO ISSUE SHARES

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

- (i) 20% of the aggregate nominal amount of our Company's share capital in issue immediately following completion of the Global Offering and the Capitalisation Issue (without taking into consideration of any Shares to be issued upon exercise of the Over-allotment Option); and
- (ii) the aggregate nominal amount of our Company's share capital repurchased by our Company (if any) pursuant to the Repurchase Mandate.

Our Directors may, in addition to the Shares which they are authorised to issue under the mandate, allot, issue and deal in the Shares pursuant to a rights issue, or any scrip dividend shares or similar arrangements providing for allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association.

The mandate will expire:

- at the conclusion of our Company's next annual general meeting;
- upon the expiry of the period within which our Company is required by applicable laws or the Articles of Association to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of its Shareholders in general meeting, whichever occurs first.

For further details, please see "Further information about the Company and its subsidiaries — C. Resolutions in writing of the Shareholders of our Company passed on 18 November 2009 and 21 April 2010" in Appendix VII to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with an aggregate nominal amount of not more than 10% of the total nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue (without taking into consideration of any Shares to be issued upon exercise of the Over-allotment Option).

SHARE CAPITAL

This mandate relates only to repurchases made on the Stock Exchange and/or on any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and which are made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “5. Repurchase by our Company of its own securities” in Appendix VII to this prospectus.

This mandate will expire:

- at the conclusion of our Company’s next annual general meeting;
- upon the expiry of the period within which our Company is required by applicable laws or the Articles of Association to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of its Shareholders in general meeting, whichever occurs first.

For further information about this Repurchase Mandate, please refer to the section headed “1. Further information about the Company — C. Resolutions in writing of the Shareholders of our Company passed on 18 November 2009 and 21 April 2010” in Appendix VII to this prospectus.

FINANCIAL INFORMATION

You should read the following discussion and analysis of our financial condition and our results of operations together with our audited combined financial statements as at and for the years ended 31 December 2007, 2008 and 2009 and the accompanying notes included in the Accountants' Report set out in Appendix I to this prospectus (collectively the "Financial Statements"). The Accountants' Report has been prepared in accordance with HKFRS. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth in the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are engaged in the manufacturing and distribution of quality cotton yarns and bedding products in China. Our products are sold in China and certain other parts of the world. Our product portfolio currently includes more than 120 varieties of cotton yarns and more than 1,000 different assortments of bedding products.

We have grown significantly during recent years, primarily due to the significant growth in our bedding products business. Our revenue was RMB1,354.1 million for the year ended 31 December 2009, RMB1,057.5 million for the year ended 31 December 2008 and RMB934.3 million for the year ended 31 December 2007. Our profit before taxation was RMB307.1 million for the year ended 31 December 2009, RMB131.9 million for the year ended 31 December 2008 and RMB123.8 million for the year ended 31 December 2007.

We report our financial results in two business segments as described below.

- *Cotton yarns segment.* We have been manufacturing cotton yarns since our inception in 2001 and significantly increased our production capacity in August 2006 and December 2006 by acquiring certain assets in relation to cotton yarn production from TTG and further increased our production capacity in October 2008 by acquiring additional cotton yarns equipment from TTG. Our cotton yarns have more than 120 varieties, most of them belonging to the fine-count and high-count categories, and are sold mainly to fabric manufacturers in China.
- *Bedding products segment.* We began distributing bedding products in 2003 as a distributor of bedding products manufactured by Taifeng Home Textile, expanded our business to cover the manufacturing of OEM bedding products in February 2006 by acquiring the bedding products business of Taifeng Home Textile, and broadened our product range to include the "IBENA" brand in 2008. Our bedding products have more than 1,000 varieties and consist of branded and OEM bedding products. We currently sell all of our branded bedding products in China, either to our distributors for resale or to consumers through our directly-operated retail stores and counters. Our Directors believe that our major distributors sell our products mainly on a bulk basis to their corporate customers. We currently sell our OEM bedding products either to our overseas distributor customers, which resell them to overseas home textile retailers, or to TTG, which resell them to its overseas customers.

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KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by a number of factors, including those set out below:

Business mix

Our results of operations are significantly affected by the relative contribution of our cotton yarns business and our bedding products business, which we report as two segments. The following tables set forth, for the periods indicated, selected data related to the relative contribution of our business segments:

	For the year ended 31 December					
	2007		2008		2009	
	Revenue (RMB'000)	%	Revenue (RMB'000)	%	Revenue (RMB'000)	%
Cotton yarns	785,226	84.0	785,862	74.3	736,938	54.4
Bedding products	149,072	16.0	271,662	25.7	617,130	45.6
Total	934,298	100.0	1,057,524	100.0	1,354,068	100.0

	For the year ended 31 December					
	2007		2008		2009	
	Profit before taxation (RMB'000)	%	Profit before taxation (RMB'000)	%	Profit before taxation (RMB'000)	%
Cotton yarns	151,579	122.4	97,113	73.6	79,919	26.0
Bedding products	4,834	3.9	77,019	58.4	297,039	96.7
Subtotal	156,413	126.3	174,132	132.0	376,958	122.7
Unallocated income ⁽¹⁾	7,721	6.2	7,073	5.4	6,592	2.1
Unallocated expenses ⁽²⁾	(34,856)	(28.1)	(49,309)	(37.4)	(50,449)	(16.4)
Listing expenses	(5,465)	(4.4)	—	0.0	(26,012)	(8.4)
Total	123,813	100.0	131,896	100.0	307,089	100.0

Notes:

- (1) Unallocated income represents interest income and other income that are unallocatable by business segment.
- (2) Unallocated expenses represent depreciation of property, plant and equipment, release of prepaid lease payments, interest expenses and other expenses that are unallocatable by business segment.

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While the two segments may continue to vary in their relative significance to our business from time to time, we expect our bedding products business to gradually increase in its relative significance. Our long term strategy is to expand our bedding products business by capitalising on the growth in demand for lifestyle products in China and to strengthen our position in our cotton yarns business by focusing on the production of high quality cotton yarns using compact spinning.

Product mix

The results of operations of our business segments are significantly affected by their product mix, because individual products vary significantly in quality and other characteristics and therefore have different gross profit margins and average realised selling prices. We evaluate our product mix on an ongoing basis and focus on producing products that we believe enjoy growing demand and higher gross profit margin.

- Cotton yarns segment.* We produce cotton yarns with a wide range of yarn count and other characteristics such as fibre-blended (like Tencel[®] and modal cotton yarns), combed and knotless. Except for medium-count yarns, most of which are sold in overseas markets characterised by intense competition, the average realised selling price and gross profit margin of cotton yarns generally increase with yarn count, as illustrated by the table below:

		For the year ended 31 December					
		2007		2008		2009	
		Gross profit margin (%)	Average realised selling price (RMB per tonne)	Gross profit margin (%)	Average realised selling price (RMB per tonne)	Gross profit margin (%)	Average realised selling price (RMB per tonne)
Product category	Yarn count						
Coarse-count yarns	18 or below	13.7	13,568	8.4	13,443	5.4	11,538
Medium-count yarns	19 up to 28	9.1	17,597	0.3	17,642	9.8	16,276
Fine-count yarns	29 up to 60	12.4	24,146	11.1	22,896	9.7	19,036
High-count yarns	61 or above	36.9	50,681	22.5	43,093	15.5	31,536
Segment weighted average		20.3	26,674	13.8	25,149	12.3	22,453

Although the gross profit margins of our medium-count increased in certain periods, the gross profit margins of the remaining categories decreased throughout the Track Record Period. For further details regarding the decreases in the gross profit margins of our various categories of cotton yarns, please see “Risk Factors — Risks relating to our business — The gross profit margins of most of our cotton yarn products fluctuated significantly during the Track Record Period and may continue to fluctuate with our changing operating environment” in this prospectus.

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With a view to increasing our profitability, we have been focusing on fine-count and high-count cotton yarns in our cotton yarn production. A majority of the cotton yarns manufactured by us during the Track Record Period have a yarn count of 29 or above. The following tables set forth, for the periods indicated, selected data on the product mix of our cotton yarns business:

		For the year ended 31 December					
		2007		2008		2009	
		Sales volume (tonnes)	%	Sales volume (tonnes)	%	Sales volume (tonnes)	%
Product category	Yarn count						
Coarse-count yarns	18 or below	3,233	11.0	2,871	9.3	1,944	5.9
Medium-count yarns	19 up to 28	4,169	14.1	3,201	10.2	2,749	8.4
Fine-count yarns	29 up to 60	16,914	57.5	19,514	62.4	17,382	53.0
High-count yarns	61 or above	<u>5,122</u>	<u>17.4</u>	<u>5,662</u>	<u>18.1</u>	<u>10,746</u>	<u>32.7</u>
Total		<u>29,438</u>	<u>100.0</u>	<u>31,248</u>	<u>100.0</u>	<u>32,821</u>	<u>100.0</u>

		For the year ended 31 December					
		2007		2008		2009	
		Revenue (RMB'000)	%	Revenue (RMB'000)	%	Revenue (RMB'000)	%
Product category	Yarn count						
Coarse-count yarns	18 or below	43,859	5.6	38,600	4.9	22,433	3.0
Medium-count yarns	19 up to 28	73,366	9.3	56,464	7.2	44,743	6.1
Fine-count yarns	29 up to 60	408,406	52.0	446,800	56.9	330,878	44.9
High-count yarns	61 or above	<u>259,595</u>	<u>33.1</u>	<u>243,998</u>	<u>31.0</u>	<u>338,884</u>	<u>46.0</u>
Total		<u>785,226</u>	<u>100.0</u>	<u>785,862</u>	<u>100.0</u>	<u>736,938</u>	<u>100.0</u>

		For the year ended 31 December					
		2007		2008		2009	
		Gross profit (RMB'000)	%	Gross profit (RMB'000)	%	Gross profit (RMB'000)	%
Product category	Yarn count						
Coarse-count yarns	18 or below	5,994	3.8	3,248	3.0	1,204	1.3
Medium-count yarns	19 up to 28	6,708	4.2	164	0.1	4,370	4.8
Fine-count yarns	29 up to 60	50,609	31.8	49,709	46.0	32,233	35.7
High-count yarns	61 or above	<u>95,857</u>	<u>60.2</u>	<u>54,957</u>	<u>50.9</u>	<u>52,619</u>	<u>58.2</u>
Total		<u>159,168</u>	<u>100.0</u>	<u>108,078</u>	<u>100.0</u>	<u>90,426</u>	<u>100.0</u>

- Bedding products segment.** We offer two major types of bedding products: OEM bedding products, which are consumed primarily overseas, and branded bedding products, which are consumed primarily in China. Our bedding products are packaged in two forms: in single pieces or in multiple-piece sets. Our sales volume represents the amount of bedding products sold and comprises bedding products of different specifications and packaging forms. Because each set consists of more than one piece, an increase in the sales of sets in relation to pieces will lead to an increase in the average realised selling price but a decrease in the

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sales volume. The majority of our OEM bedding products are packaged in pieces whereas the majority of our branded bedding products are packaged in multiple-piece sets. Partly as a result of the foregoing, our branded bedding products command a higher average realised selling price and gross profit margin than our OEM bedding products, as illustrated by the table below:

	For the year ended 31 December					
	2007		2008		2009	
	Gross profit margin	Average realised selling price <i>(RMB per piece/set)</i> (%)	Gross profit margin	Average realised selling price <i>(RMB per piece/set)</i> (%)	Gross profit margin	Average realised selling price <i>(RMB per piece/set)</i> (%)
OEM bedding products	3.0	78	7.4	94	9.2	97
Branded bedding products	12.7	147	35.9	296	57.1	363
Segment weighted average	<u>3.9</u>	<u>81</u>	<u>29.0</u>	<u>196</u>	<u>49.6</u>	<u>254</u>

To increase our profitability, we have been focusing on branded bedding products since 2008 and will seek to broaden our product offerings by introducing new products under other brand names. The following tables set forth, for the periods indicated, selected data on the product mix of our bedding products business:

	For the year ended 31 December					
	2007		2008		2009	
	Sales volume <i>(pieces/sets)</i>	%	Sales volume <i>(pieces/sets)</i>	%	Sales volume <i>(pieces/sets)</i>	%
OEM bedding products	1,737,326	94.9	690,604 ⁽¹⁾	49.8	996,367 ⁽²⁾	41.0
Branded bedding products	92,734	5.1	696,850	50.2	1,435,050	59.0
Total	<u>1,830,060</u>	<u>100.0</u>	<u>1,387,454</u>	<u>100.0</u>	<u>2,431,417</u>	<u>100.0</u>

Note:

- (1) The decrease in the sales volume of our OEM bedding products to 690,604 pieces/sets for the year ended 31 December 2008 from 1,737,326 pieces/sets for the year ended 31 December 2007 was primarily due to the decrease in the market demand for our OEM bedding products as a result of the global economic downturn in 2008, and our shift of focus towards sales of branded bedding products in 2008.
- (2) The increase in the sales volume of our OEM bedding products to 996,367 pieces/sets for the year ended 31 December 2009 from 690,004 pieces/sets for the year ended 31 December 2008 was primarily due to the increase in the market demand for our OEM bedding products as a result of the recovery of the global economy in the second half of 2009.

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	For the year ended 31 December					
	2007		2008		2009	
	Revenue (RMB'000)	%	Revenue (RMB'000)	%	Revenue (RMB'000)	%
OEM bedding products	135,425	90.8	65,195	24.0	96,614	15.7
Branded bedding products	13,647	9.2	206,467	76.0	520,516	84.3
Total	149,072	100.0	271,662	100.0	617,130	100.0

	For the year ended 31 December					
	2007		2008		2009	
	Gross profit (RMB'000)	%	Gross profit (RMB'000)	%	Gross profit (RMB'000)	%
OEM bedding products	4,070	70.1	4,802	6.1	8,905	2.9
Branded bedding products	1,737	29.9	74,088	93.9	297,000	97.1
Total	5,807	100.0	78,890	100.0	305,905	100.0

We adjust our product mix from time to time in response to changing market demand for products of different quality and other characteristics. Because cotton yarns and bedding products of different characteristics can be produced with no or minimum equipment alterations in most cases, we are capable of adjusting our production resources quickly to produce products of specific characteristics to satisfy customer demand and to increase production of higher margin products as necessary.

Demand for our products

Demand for our products is affected by the growth of their individual market segments, competition within these market segments and the popularity of individual products. Stronger demand for a product generally results in its higher revenue and gross profit contribution.

- *Cotton yarns.* Demand for our cotton yarns is affected by the growth of the global cotton textile industry. Our Directors consider that, in recent years, the global cotton textile industry has been growing at a slower pace while the cotton yarn industry has exhibited some signs of overcapacity, which resulted in more intensified competition and decreases in the revenue and gross profit in this segment. For instance, while sales volume of our cotton yarns increased from 29,438 tonnes in 2007 to 32,821 tonnes in 2009, the average realised selling price decreased from RMB26,674 per tonne in 2007 to RMB22,453 per tonne in 2009.
- *Bedding products.* Our bedding products have two major markets: the developed countries market such as Australia, Europe and the United States, in which our OEM bedding products are consumed, and the PRC market, in which our branded bedding products are consumed. Our Directors consider that, in recent years, the bedding products industry in developed countries has experienced limited growth and intense competition from other OEM

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manufacturers has contributed to price cuts, resulting in a decrease in the revenue contribution from our OEM bedding products, while the demand for quality bedding products in China has increased with the increased purchasing power of the middle class.

To capture the opportunities in the PRC market, we have been shifting our focus towards branded bedding products, which are distributed and sold in China through distributors. Our Directors believe that our major distributors sell our products mainly on a bulk basis to their corporate customers. To maintain our competitiveness in the PRC market, we work closely with our distributors to expand the coverage of our distribution network and to increase the efficiency of our sales and distribution channels. We believe that our ability to differentiate ourselves from our competitors will have a positive impact on the average realised selling price of our branded bedding products. Partly as a result of the increased market awareness of our branded bedding products, the average realised selling price of our branded bedding products increased from RMB147 per piece/set in 2007 to RMB296 per piece/set in 2008 and further to RMB363 per piece/set in the year ended 31 December 2009. We will seek to continually build and strengthen our brand name in the PRC market by devoting more marketing resources to differentiate ourselves from our competitors and to increase sales of our branded bedding products in the PRC market.

We believe that our success going forward is largely dependent upon our ability to improve the product mix to shift to more premium value-added products and to implement cost saving strategies to improve our operating efficiencies. Our goal is to shift our focus from increasing our sales volumes to increasing our profit margins.

Cost of raw materials

The raw materials used in our production consist of two types: raw cotton, which we use in the production of our cotton yarns, and fabrics, which we use in the production of our bedding products. To increase our bargaining power and minimise the risk of interruption in our raw material supplies, we have intentionally expanded our supplier network in the past years and currently procure our raw materials from multiple suppliers. The following table sets forth, for the periods indicated, the cost of our raw materials:

	For the year ended 31 December					
	2007		2008		2009	
	Raw materials cost	%	Raw materials cost	%	Raw materials cost	%
	<i>(RMB'000)</i>		<i>(RMB'000)</i>		<i>(RMB'000)</i>	
Raw cotton	467,509	79.0	484,749	74.8	436,238	60.4
Fabrics	124,482	21.0	162,887	25.2	286,241	39.6
Total	591,991	100.0	647,636	100.0	722,479	100.0

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- Raw cotton for our cotton yarns.* We source raw cotton mainly from Shandong Province and Xinjiang Autonomous Region in China. We also source raw cotton from overseas, mainly from the United States and Australia, depending on the price and quality at the time of procurement. As a result, fluctuations in foreign exchange rates have had, and will continue to have, an impact on the cost of our cotton yarns. The following table sets forth, for the periods indicated, selected information about our sourcing of raw cotton:

	For the year ended 31 December		
	2007	2008	2009
Cost per tonne (RMB)	14,306.6	13,208.6	11,514.0
Percentage in terms of cost sourced from:			
TTG ⁽¹⁾	31.0%	42.5%	50.2%
Domestic suppliers (other than TTG)	55.6%	51.4%	37.4%
Overseas suppliers	13.4%	6.1%	12.4%

Note:

- (1) All raw cotton supplied by TTG was sourced by TTG from overseas raw cotton suppliers. The increase in the purchase of raw cotton from TTG for the year ended 31 December 2009 was because, in view of the reasonable price of raw cotton in the global market during the same period, we purchased a large quantity of raw cotton from overseas raw cotton suppliers through TTG. Recently we have entered into framework supply agreements with overseas raw cotton suppliers so as to expand our suppliers' base and reduce our reliance on our major suppliers such as TTG.

Raw cotton prices are sensitive to agricultural conditions and climate changes that are beyond our control and are generally volatile. Although raw cotton prices had remained stable between late 2004 and early 2008, prices began to decrease in the second half of 2008. The fluctuations in our average unit cost of raw cotton during the Track Record Period were principally in line with the fluctuations of domestic and international raw cotton prices. The cotton yarn industry is highly competitive and our ability to pass the increased costs of raw cotton onto our customers is more limited. To reduce the impact of such fluctuation on our results of operations, we will continually monitor the changes in the market price of raw cotton and seek to make bulk purchases when the market price of raw cotton declines.

- Fabrics for our bedding products.* Our bedding products are produced using principally printed fabrics, jacquard cloth, satin cloth, cotton-silk blended fabrics and cotton-Tencel[®] blended fabrics. We select our fabrics based on changing trends and customer demand and source fabrics mainly from Jiangsu Province and Shandong Province in China at varying prices. The following table sets forth, for the periods indicated, selected information about our sourcing of fabrics:

	For the year ended 31 December		
	2007	2008	2009
Cost per metre (RMB)	22.5	20.6	19.0

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Our average unit cost of fabrics is affected by the prices of individual fabrics selected by us, and, because fabrics used in our manufacturing operations are mostly made of cotton, by the market prices of raw cotton generally. The decreases in our average unit cost of fabrics during the Track Record Period were principally driven by the changes in the individual fabrics selected by us. We generally set the prices of our bedding products based on their fabric costs and other factors. To mitigate the fluctuations in the cost of fabrics, we will seek to enhance the market recognition of our brand name so that we have more bargaining power in passing a portion of the increase onto our customers.

Production volume and efficiency

We produce all our products at our own production facilities located at Laiwu City, Shandong Province. Although depreciation expense and cost of direct labour accounted for a relatively small portion of our cost of sales during the Track Record Period, our ability to continually lower our unit costs through enhancing production volume and efficiency is important in achieving or maintaining our profitability. Higher production volume generally gives us more bargaining power in our raw material procurement and reduces our unit production cost by spreading our fixed operating expenses over a larger volume of products. Higher production efficiency allows us to develop a broader portfolio of products and gain access to additional production capacities with minimal capital expenditures.

- *Cotton yarns.* Our annual designed production capacity increased significantly during the Track Record Period, reflecting primarily our acquisition of certain assets in relation to cotton yarn production from TTG in October 2008. For the years ended 31 December 2007, 2008 and 2009, we made capital investments of RMB16.8 million, RMB136.2 million and RMB6.3 million, respectively, in enhancing our cotton yarn production and R&D capability. The following table sets forth, for the periods indicated, selected information about our production capacity and efficiency of cotton yarns:

	For the year ended 31 December		
	2007	2008	2009
Designed production capacity (tonnes) ⁽¹⁾	121,872	132,744	165,004
Actual production volume (tonnes) ⁽²⁾	30,527	31,720	31,530
Production cost per tonne (RMB) ⁽³⁾	21,331	21,114	19,242

Notes:

- (1) For reference only and the numbers are based on assumptions. For further details, please see “Business — Production — Production capacities and utilisation rates” in this prospectus.
- (2) The actual production volume refers to the actual amount of cotton yarns produced in each given period and comprises cotton yarns of different yarn counts depending on customers’ requirements and specifications. For further details, please see “Business — Production — Production capacities and utilisation rates” in this prospectus.
- (3) Production cost per tonne is calculated by dividing the production cost over the actual production volume in any given period. Production cost in any given period is calculated by adding the cost of sales for that period to the difference between the closing inventory and the opening inventory for that period.

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- Bedding products.* Production capacity of our bedding segment is determined by the number and type of sewing machines. Because our sewing machines are suitable for the production of substantially all of our bedding products with no or minimum equipment alterations, we are able to respond promptly to changes in demand. By keeping extra capacity in reserve to handle increased demand of certain products, we are able to enhance production volume of such products promptly to capture business opportunities and improve profitability. For the years ended 31 December 2007, 2008 and 2009, we made capital investments of RMB0.4 million, RMB0.1 million and RMB0.5 million respectively, in enhancing our bedding products production capability. The following table sets forth, for the periods indicated, selected information about our production capacity and efficiency of bedding products:

	For the year ended 31 December		
	2007	2008	2009
Designed production capacity (pieces/sets) ⁽¹⁾	2,137,000	2,137,000	2,670,720
Actual production volume (pieces/sets) ⁽²⁾	1,894,028	1,597,533	2,469,395
Production cost per piece/set (RMB) ⁽³⁾	76	124 ⁽⁴⁾	125

Notes:

- For reference only and the numbers are based on assumptions. For further details, please see “Business — Production — Production capacities and utilisation rates” in this prospectus.
- The actual production volume refers to the actual amount of bedding products produced in each given period and comprises bedding products of different types and specifications, including single pieces and multiple-piece sets. For further details, please see “Business — Production — Production capacities and utilisation rates” in this prospectus.
- Production cost per piece/set is calculated by dividing the production cost over the actual production volume in any given period. Production cost in any given period is calculated by adding the cost of sales for that period to the difference between the closing inventory and the opening inventory for that period.
- In 2008, a larger percentage of our bedding products were packaged and sold as multiple-piece sets as opposed to as single pieces. Partly as a result of the foregoing, production cost of bedding products increased from RMB76 per piece/set for the year ended 31 December 2007 to RMB124 per piece/set for the year ended 31 December 2008, reflecting an increase in the cost of fabrics from RMB67 per piece/set to RMB108 per piece/set and an increase in the cost of packaging materials from RMB6 per piece/set to RMB10 per piece/set. The cost of fabrics per piece/set increased because there was an increase in the average volume of fabrics consumed in the production of a piece/set of bedding products, the effects of which were partially offset by the decrease in the unit cost of fabrics per metre from RMB22.5 in 2007 to RMB20.6 in 2008.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations as included in this prospectus is based on the Financial Statements prepared in accordance with the significant accounting policies set forth in Note 3 to the Accountants’ Report set out in Appendix I to this prospectus, which conform with HKFRS. Accounting methods, assumptions and estimates that underlie the preparation of the Financial Statements affect our financial condition and results of operations reported. Such

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assumptions and estimates are made based on historical experience and various other assumptions that we believe to be reasonable, the results of which form the basis of judgments on our carrying amounts of assets and liabilities and our results. Results may differ under different assumptions or conditions.

The selection of critical accounting policies, the judgments 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 our Financial Statements. We believe that the following accounting policies involve the most significant accounting judgments and estimates used in the preparation of our Financial Statements.

Inventory reserves

Our inventories consist primarily of raw materials, finished goods and work-in-progress, all of which are valued utilising the average weighted cost method. We provide inventory reserves for excess, slow-moving and obsolete inventories based on percentage markdowns applied to inventories aged for certain time period and inventories whose carrying value is in excess of net realisable value, which is computed based on the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. Inventory reserves are recognised as an expense in the period in which the write-down or loss occurs. Once established, the original cost of the inventory less the related inventory reserve represents the new cost basis of such products. Reversal of these reserves is recognised only when the related inventory has been sold or scrapped.

We currently assess our inventory on a quarterly basis. As the assessment is based on current market conditions and management's experience of manufacturing and selling products of a similar nature, establishment of inventory reserves requires the use of management judgment and estimates, which may impact the ending inventory valuation and the gross margin and net profit of the relevant business segment in a financial year. We normally record a full impairment loss for our branded bedding products aged one year or more and with insignificant subsequent sales; record a 50% impairment loss for our cotton yarns aged one year or more but less than two years; and record a full impairment loss for our cotton yarns aged two years or more. We do not record any impairment loss for our OEM bedding products because such products are produced pursuant to specific orders from our customers. For the years ended 31 December 2007, 2008 and 2009, impairment losses of inventories of nil, RMB12.1 million and nil, respectively, were recognised. Management estimates could change significantly as a result of changes in customer preferences and competitor actions in response to severe industry cycles.

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Allowance for bad and doubtful accounts

Our accounts receivable consists mainly of trade receivables. We provide an allowance for bad and doubtful accounts for known and potential losses for amounts owed by customers, which reduces the carrying amount of trade receivables. Impairment losses are established based on certain percentages applied to trade receivables aged for certain periods of time, are supplemented by specific allowances for certain customers accounts where collection is no longer certain, and are recognised in the allowance account. Write-offs are established when events or changes in circumstances indicate that the trade receivables are no longer deemed to be collectible. Subsequent recoveries of the amounts previously written off are recognised as a reversal to the allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of comprehensive income for the period. The table below sets out, for the periods indicated, changes in our allowance for bad and doubtful accounts:

	Year ended 31 December		
	2007	2008	2009
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Balance at the beginning of the year	538	637	951
Impairment losses recognised in trade receivables	194	663	507
Amounts written-off as uncollectible	(95)	(349)	(411)
Balance at the end of the year	637	951	1,047

We currently assess our accounts receivable on a quarterly basis. As the collectability of accounts receivable is based on a combination of indicators, including the aging of accounts receivable, historical write-off experience and prevailing economic condition, the identification of bad and doubtful accounts requires the use of management judgment and estimates, which may impact the ending value of accounts receivable and the profit for the relevant business segment in a financial year. As of 31 December 2007, 2008 and 2009, we provided allowances for doubtful debts of RMB0.6 million, RMB1.0 million and RMB1.0 million, respectively, against trade receivables of RMB65.7 million, RMB112.7 million and RMB184.8 million, respectively. For the years ended 31 December 2007, 2008 and 2009, our trade receivables that were over 90 days for which no impairment was recorded amounted to RMB2.1 million, RMB4.5 million and RMB8.0 million, respectively. We have not made additional allowance for bad and doubtful accounts in light of the global economic downturn, because our management does not consider the downturn to have had an adverse impact on our customers' ability to pay.

Revenue recognition

Our revenue is derived from the sale of cotton yarns and bedding products. We measure revenue at the fair value of the consideration received or receivable in the normal course of business, net of discounts and sales-related taxes. The manner at which revenue is recognised involves a number of management estimates, as illustrated below:

- *Timing of recognition.* Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. We generally recognise revenue when

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the underlying products are received and accepted at the point of delivery, which is usually when title passes to the customer either on shipment (in the case of our cotton yarns and bedding products sold to our overseas customers) or on receipt of goods by the customer (in the case of our cotton yarns and bedding products sold within the PRC), depending on individual terms of contracts of sales.

- *Amount recognised.* We record revenue at the invoiced amount (excluding sales and value added taxes) less actual accruals for product returns.
 - We allow customers of our cotton yarn products to return the products for quality reasons within a certain period of time varying from contract to contract.
 - To promote sales and to increase the competitiveness of our contract terms with our distributors, we allow retail stores and counters operated by our distributors to exchange, but not return, for a maximum of 50% and 15% of the initial purchase amounts within and after three months of delivery respectively, provided that the products for exchange are not contaminated or damaged. Our distributors of branded bedding products are not allowed to any return of products other than for quality reasons.

As transfers of risks and rewards vary depending on the surrounding circumstances of the product sale, revenue recognition requires the use of management judgment and estimates, which may impact the amounts of revenue and gross margins recorded for different product lines in a financial year.

Depreciation of property, plant and equipment

Our property, plant and equipment consists primarily of plant and equipment, construction in progress and buildings, with the remaining consisting of office equipment and motor vehicles. It is stated at cost less subsequent accumulated depreciation.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress) over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method. The estimated useful lives for our property, plant and equipment (other than construction in progress) are as follows:

<u>Property, plant and equipment</u>	<u>Useful life</u>
Buildings	15 to 30 years
Plant and equipment	5 to 15 years
Office equipment	5 to 10 years
Motor vehicles	10 years

As useful lives and residual values are based on, among other things, an assessment of the machinery's operating and maintenance history and expected future performance, computation of depreciation expenses requires the use of management judgment and estimates, which may impact the ending valuation of property, plant and equipment and gross margin of a business segment in a financial year. For the years ended 31 December 2007, 2008 and 2009, depreciation expenses of RMB33.2 million, RMB33.4 million and RMB40.7 million were recorded, respectively. As estimates can result in

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differences from the actual useful lives of certain assets, our management examines estimates used for depreciation for reasonableness every year. If it is determined that the useful life of property or equipment should be shortened or lengthened, depreciation expenses would be adjusted.

PRINCIPAL ITEMS IN STATEMENTS OF COMPREHENSIVE INCOME

Revenue

We derive our revenue from the sale of cotton yarns and bedding products to customers within the PRC and selected overseas markets. The following table sets forth, for the periods indicated, a breakdown of our revenue:

		For the year ended 31 December					
		2007		2008		2009	
		Revenue	%	Revenue	%	Revenue	%
		<i>(RMB'000)</i>		<i>(RMB'000)</i>		<i>(RMB'000)</i>	
<i>Cotton Yarns</i>							
Product category	Yarn Count						
Coarse-count yarns	18 or below	43,859	4.7	38,600	3.7	22,433	1.7
Medium-count yarns	19 up to 28	73,366	7.8	56,464	5.3	44,743	3.3
Fine-count yarns	29 up to 60	408,406	43.7	446,800	42.2	330,878	24.4
High-count yarns	61 or above	259,595	27.8	243,998	23.1	338,884	25.0
Sub-total		785,226	84.0	785,862	74.3	736,938	54.4
<i>Bedding Products</i>							
OEM		135,425	14.5	65,195	6.2	96,614	7.2
Branded products		13,647	1.5	206,467	19.5	520,516	38.4
Sub-total		149,072	16.0	271,662	25.7	617,130	45.6
Total		934,298	100.0	1,057,524	100.0	1,354,068	100.0

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Cost of sales

Our cost of sales comprises mainly cost of raw materials, fuel and utilities, direct labour costs and other production overheads. The following table sets forth, for the periods indicated, a breakdown of our cost of sales:

	For the year ended 31 December					
	2007		2008		2009	
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%
Raw materials:						
<i>raw cotton</i>	467,509	60.7	484,749	55.7	436,238	45.5
<i>fabrics</i>	124,482	16.2	162,887	18.7	286,241	29.9
Sub-total	591,991	76.9	647,636	74.4	722,479	75.4
Fuel and utilities	63,406	8.3	79,869	9.2	84,766	8.9
Direct labour	45,474	5.9	50,725	5.8	62,505	6.5
Other production overheads	68,452	8.9	92,326	10.6	87,987	9.2
Sub-total	177,332	23.1	222,920	25.6	235,258	24.6
Total	769,323	100.0	870,556	100.0	957,737	100.0

- *Raw materials.* Raw materials are our main cost of sales, accounting for 76.9%, 74.4% and 75.4% of our total cost of sales for the years ended 31 December 2007, 2008 and 2009, respectively. The raw materials used in our production are raw cotton for cotton yarns and fabrics for bedding products.

- *Fuel and utilities.* Fuel and utilities accounted for 8.3%, 9.2% and 8.9% of our cost of sales for the years ended 31 December 2007, 2008 and 2009, respectively. Our primary fuel and utilities are electricity, steam and water.

- *Direct labour.* Direct labour accounted for 5.9%, 5.8% and 6.5% of our cost of sales for the years ended 31 December 2007, 2008 and 2009, respectively. Direct labour mainly comprises salaries and wages for production workers, technicians and those who are directly involved in the manufacturing of our products.

- *Other production overheads.* Other production overheads accounted for 8.9%, 10.6% and 9.2% of our cost of sales for the years ended 31 December 2007, 2008 and 2009, respectively. Other production overheads mainly comprise depreciation of plant and equipment used in our manufacturing processes, impairment losses of inventories, packaging materials, consumables and supplies, loading and unloading fees, transportation costs, and rental fees.

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Other income

Other income amounted to 1.3%, 1.1% and 0.8% of revenue for the years ended 31 December 2007, 2008 and 2009, respectively. Other income comprises mainly interest income, gains from sales of scrap materials, foreign exchange gains and subcontracting income which relates to fees charged for additional processing work done to enhance the quality of cotton yarns as required by cotton yarn users from time to time.

Distribution and selling expenses

Distribution and selling expenses amounted to 1.2%, 1.4% and 1.6% of revenue for the years ended 31 December 2007, 2008 and 2009, respectively. Distribution and selling expenses comprise mainly freight, import/export declaration and delivery charges, sales commission and wages paid to sales staff, expenses related to marketing and promotion such as advertisements and exhibitions, and testing expenses.

Administrative expenses

Administrative expenses amounted to 1.8%, 2.2% and 2.5% of revenue for the years ended 31 December 2007, 2008 and 2009, respectively. Administrative expenses comprise mainly staff cost, depreciation, entertainment, rental, bank charges, and other sundry expenses.

Finance costs

Finance costs amounted to 2.1%, 2.7% and 1.4% of revenue for the years ended 31 December 2007, 2008 and 2009, respectively. Finance costs comprise mainly interest charges on our interest-bearing bank borrowings, interest charges on amounts due to related companies and imputed interest expense on a non-current interest-free shareholder's loan.

Income tax

Our Company is a Cayman Islands company and has subsidiaries incorporated in the BVI, Hong Kong and the PRC.

- *PRC tax.* The applicable PRC statutory enterprise income tax rate, or EIT, for wholly foreign-owned enterprises was 33%, comprising a state tax rate of 30% and a local tax rate of 3%, for the year ended 31 December 2007 and has been changed to 25% with effect from 1 January 2008.
- Shandong Taifeng, a wholly foreign-owned enterprise, qualified as a foreign invested manufacturing company on 25 August 2006. The qualification provides for a full exemption from EIT for the first two calendar years (i.e. 2006 and 2007) and a 50% reduction in EIT in the next three calendar years (i.e. 2008 to 2010), commencing from the first profitable year after offsetting all tax losses carried forward from previous five years. The reduction of EIT from 33% to 25% does not apply to enterprises subject to such preferential policies. As a result, Shandong Taifeng was subject to a 33% EIT rate for the period from 1 January 2006 to 24 August 2006, was exempt from EIT for the

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period from 25 August 2006 to 31 December 2006 and in 2007, and has been subject to a 12.5% EIT rate since 1 January 2008. Substantially all of our business is conducted through Shandong Taifeng.

- Shanghai Taifeng was established in the PRC on 2 July 2008 as a wholly-owned subsidiary of Shandong Taifeng. It is not entitled to any tax exemption benefits and is subject to EIT at the statutory tax rate. As a result, Shanghai Taifeng has been subject to a 25% EIT rate since its incorporation.
- *Taxes in other jurisdictions.* During the Track Record Period, our Group was not subject to any corporate income tax in Hong Kong, the Cayman Islands and the BVI.

RESULTS OF OPERATIONS

The following table summarises the consolidated statement of comprehensive income data from the Financial Statements during the Track Record Period, details of which are set out in the Accountants' Report in Appendix I to this prospectus.

	For the year ended 31 December		
	2007	2008	2009
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Revenue	934,298	1,057,524	1,354,068
Cost of sales	(769,323)	(870,556)	(957,737)
Gross profit	164,975	186,968	396,331
Other income	12,186	11,414	11,031
Distribution and selling expenses	(11,590)	(14,470)	(21,609)
Administrative expenses	(16,820)	(23,228)	(33,702)
Listing expenses	(5,465)	—	(26,012)
Finance costs	(19,473)	(28,788)	(18,950)
Profit before taxation	123,813	131,896	307,089
Income tax expense	—	(24,962)	(58,801)
Profit for the year	123,813	106,934	248,288

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Year to year comparison of results of operations

Year ended 31 December 2009 compared to year ended 31 December 2008

Revenue

Revenue increased by 28.0% to RMB1,354.1 million for the year ended 31 December 2009 from RMB1,057.5 million for the year ended 31 December 2008 as a result of the following:

- *Cotton yarns segment.* Revenue of the cotton yarns segment decreased by 6.2% to RMB736.9 million for the year ended 31 December 2009 from RMB785.9 million for the year ended 31 December 2008. The decrease was driven by a 10.7% decrease in the average realised selling price of cotton yarns, reflecting primarily decreases in the market prices of high-count cotton yarns as a result of a slow down in the PRC cotton yarn industry for the year ended 31 December 2009, the effects of which were partially offset by a 5.0% increase in the sales volume of cotton yarns, reflecting primarily the increased production and sales of fine-count and high-count cotton yarns.
- *Bedding products segment.* Revenue of the bedding products segment increased by 127.2% to RMB617.1 million for the year ended 31 December 2009 from RMB271.7 million for the year ended 31 December 2008. The increase was due mainly to an increase of RMB314.0 million in revenue from the sales of branded bedding products and an increase of RMB31.4 million in revenue from the sales of OEM bedding products.
 - *Branded bedding products.* The increased sales of branded bedding products were driven principally by a 105.9% increase in their sales volume, reflecting primarily the enhanced ability of our distributors to expand their respective sales networks and a 22.6% increase in the average realised selling price of branded bedding products. The higher average realised selling price reflected primarily the enhanced market awareness of our “TAIFENG” brand in China and an increase in the percentage of branded bedding products sold as a multiple-piece set, which represented higher prices as compared to products sold as a single piece.
 - *OEM bedding products.* The increased sales of OEM bedding products were driven principally by a 44.3% increase in sales volume, reflecting the increase in the market demand for our OEM bedding products.

Cost of sales

Cost of sales increased by 10.0% to RMB957.7 million for the year ended 31 December 2009 from RMB870.6 million for the year ended 31 December 2008 as a result of the following:

- *Cotton yarns segment.* Cost of sales of our cotton yarns segment decreased by 4.6% to RMB646.5 million for the year ended 31 December 2009 from RMB677.8 million for the year ended 31 December 2008. The decrease was mainly due to a decrease in the cost of raw materials, reflecting a decrease in the average unit cost of raw cotton driven by the decreases

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in domestic and international raw cotton prices, the effects of which were partially offset by the increased volume of raw cotton consumed, reflecting the increase in the sales volume of cotton yarns.

- *Bedding products segment.* Cost of sales of our bedding products segment increased by 61.4% to RMB311.2 million for the year ended 31 December 2009 from RMB192.8 million for the year ended 31 December 2008. The increase was mainly due to an increase in the cost of raw materials, reflecting primarily a higher volume of fabrics consumed by us for the bedding products sold, the effects of which were partially offset by a decrease in the average unit cost of fabrics, reflecting primarily general changes in product varieties.

Gross profit and gross profit margin

As a result of the foregoing, gross profit increased by 112.0% to RMB396.3 million for the year ended 31 December 2009 from RMB187.0 million for the year ended 31 December 2008. Gross profit margin increased to 29.3% from 17.7%.

- *Cotton yarns segment.* Gross profit of our cotton yarns segment decreased by 16.4% to RMB90.4 million for the year ended 31 December 2009 from RMB108.1 million for the year ended 31 December 2008. The decrease reflected primarily a slow-down of the PRC cotton yarn industry for the year ended 31 December 2009. Gross profit margin decreased to 12.3% from 13.8%.
- *Bedding products segment.* Gross profit of our bedding products segment increased by 287.7% to RMB305.9 million for the year ended 31 December 2009 from RMB78.9 million for the year ended 31 December 2008. The increase reflected primarily the growth of our branded bedding products in China. Gross profit margin increased to 49.6% from 29.0%.

Other income

Other income slightly decreased by 3.5% to RMB11.0 million for the year ended 31 December 2009 from RMB11.4 million for the year ended 31 December 2008. The decrease was mainly due to a decrease of RMB1.2 million in the interest income recorded on the balance due from TTG, for which interest accrued monthly, in arrears, at a fixed annual rate of 6.0%. The effects of the foregoing, however, were partially offset by an increase of RMB0.5 million in the sales of scrap materials for the year ended 31 December 2009.

Distribution and selling expenses

Distribution and selling expenses increased by 49.0% to RMB21.6 million for the year ended 31 December 2009 from RMB14.5 million for the year ended 31 December 2008. The increase was primarily due to a recognition of RMB3.7 million of rental fees, utilities and renovation costs for our newly-opened directly-operated retail stores and counters in the year ended 31 December 2009, and an increase of RMB1.1 million in transportation expenses, reflecting primarily increased sales of cotton yarns and bedding products in the domestic market.

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Administrative expenses

Administrative expenses increased by 45.3% to RMB33.7 million for the year ended 31 December 2009 from RMB23.2 million for the year ended 31 December 2008. The increase was primarily due to the recognition of RMB5.8 million in expenses associated with share-based payment transactions for the year ended 31 December 2009.

Finance costs

Finance costs decreased by 34% to RMB19.0 million for the year ended 31 December 2009 from RMB28.8 million for the year ended 31 December 2008. The decrease was mainly due to the decrease of RMB7.9 million in interest recorded as imputed interest expense on a shareholder loan due to Mr. Liu Qingping, a controlling shareholder. The shareholder loan due to Mr. Liu Qingping was fully repaid in June 2009. For further details, please see “— Indebtedness” in this prospectus.

Profit before taxation

As a result of the foregoing, profit before taxation increased by 132.8% to RMB307.1 million for the year ended 31 December 2009 from RMB131.9 million for the year ended 31 December 2008.

Income tax expense

Income tax expense increased by 135.2% to RMB58.8 million for the year ended 31 December 2009 from RMB25.0 million for the year ended 31 December 2008. The increase was mainly due to an increase in the taxable income for the year ended 31 December 2009. Effective tax rate increased to 19.1% for the year ended 31 December 2009 from 18.9% for the year ended 31 December 2008.

Profit for the year

As a result of the foregoing, profit for the year increased by 132.3% to RMB248.3 million for the year ended 31 December 2009 from RMB106.9 million for the year ended 31 December 2008.

Year ended 31 December 2008 compared to year ended 31 December 2007

Revenue

Revenue increased by 13.2% to RMB1,057.5 million for the year ended 31 December 2008 from RMB934.3 million for the year ended 31 December 2007 as a result of the following:

- *Cotton yarns segment.* Revenue of the cotton yarns segment slightly increased by 0.1% to RMB785.9 million for the year ended 31 December 2008 from RMB785.2 million for the year ended 31 December 2007. The increase was driven by a 6.1% increase in the sales volume of cotton yarns, reflecting primarily the increased production and sales of fine-count cotton yarns, the effects of which were partially offset by a 5.7% decrease in their average selling price, reflecting primarily decreases in the market demand for cotton yarns in 2008 as a result of the global economic downturn.

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- *Bedding products segment.* Revenue of the bedding products segment increased by 82.2% to RMB271.7 million for the year ended 31 December 2008 from RMB149.1 million for the year ended 31 December 2007. The increase was due to an increase of RMB192.8 million in revenue from the sales of branded bedding products, the effects of which were partially offset by a decrease of RMB70.2 million in revenue from the sales of OEM bedding products.
 - *Branded bedding products.* The increased sales of branded bedding products were driven principally by a 651.5% increase in their sales volume, reflecting primarily the successful expansion of the geographical coverage of our distribution channels from 6 distributors in Shandong Province, Hunan Province and Shanghai as of 31 December 2007 to 37 distributors in 11 provinces and municipalities as of 31 December 2008 and a 101.4% increase in the average realised selling price of our branded bedding products. The higher average selling price reflected primarily the enhanced market awareness of our “TAIFENG” brand in China and an increase in the percentage of branded bedding products sold as a multiple-piece set, which represented higher prices as compared to products sold as a single piece.
 - *OEM bedding products.* The decreased sales of OEM bedding products were driven principally by a 60.2% decrease in their sales volume, reflecting primarily our shift of focus to domestic sales of our branded bedding products, the effects of which were partially offset by a 20.5% increase in the average realised selling price of OEM bedding products, reflecting primarily differences in product varieties due to changes in customer demand.

Cost of sales

Cost of sales increased by 13.2% to RMB870.6 million for the year ended 31 December 2008 from RMB769.3 million for the year ended 31 December 2007 as a result of the following:

- *Cotton yarns segment.* Cost of sales of our cotton yarns segment increased by 8.3% to RMB677.8 million for the year ended 31 December 2008 from RMB626.0 million for the year ended 31 December 2007. The increase was mainly due to increases in the cost of fuel and utilities, reflecting primarily a higher volume of fine-count cotton yarns manufactured by us; and the cost of raw materials, reflecting primarily a higher volume of raw cotton consumed due to the increase in the sales volume of cotton yarns, the effects of which were partially offset by a decrease in the average unit cost of raw cotton as influenced by the global economic downturn in 2008.
- *Bedding products segment.* Cost of sales of our bedding products segment increased by 34.5% to RMB192.8 million for the year ended 31 December 2008 from RMB143.3 million for the year ended 31 December 2007. The increase was mainly due to an increase in the cost of raw materials, reflecting primarily a higher volume of fabrics consumed by us for the bedding products sold, the effects of which were partially offset by a decrease in the average unit cost of fabrics, reflecting primarily the year-to-year variation in customer preferences; and an increase in the cost of packaging materials, reflecting primarily the increase in the sales volume of branded bedding products.

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Gross profit and gross profit margin

As a result of the foregoing, gross profit increased by 13.3% to RMB187.0 million for the year ended 31 December 2008 from RMB165.0 million for the year ended 31 December 2007. Gross profit margin remained unchanged at 17.7%.

- *Cotton yarns segment.* Gross profit of our cotton yarns segment decreased by 32.1% to RMB108.1 million for the year ended 31 December 2008 from RMB159.2 million for the year ended 31 December 2007. The decrease reflected primarily a slow-down of the domestic cotton yarn industry as a result of the global economic downturn in 2008. Gross profit margin decreased to 13.8% from 20.3%.
- *Bedding products segment.* Gross profit of our bedding products segment increased by 1,260.3% to RMB78.9 million for the year ended 31 December 2008 from RMB5.8 million for the year ended 31 December 2007. The increase reflected primarily our success in offering our branded bedding products in China. Gross profit margin increased to 29.0% from 3.9%.

Other income

Other income decreased by 6.6% to RMB11.4 million for the year ended 31 December 2008 from RMB12.2 million for the year ended 31 December 2007. The decrease was mainly due to a gain of RMB5.5 million from the sale of our trademark “TAIFENG” to TTG, a transaction of a non-recurring nature, in 2007; and an exchange gain of RMB1.6 million resulting from transactions denominated in foreign currencies in 2007, a trend which was reversed in 2008. The effects of the foregoing, however, were partially offset by the interest income of RMB6.4 million recorded on the balance due from TTG for which interest accrued monthly, in arrears, at a fixed annual rate of 6.0%. Income of a similar nature was not recorded in 2007.

Distribution and selling expenses

Distribution and selling expenses increased by 25.0% to RMB14.5 million for the year ended 31 December 2008 from RMB11.6 million for the year ended 31 December 2007. The increase was primarily due to an increase of RMB1.3 million in transportation expenses, reflecting primarily the increases in the sales of cotton yarns and bedding products; an increase of RMB0.7 million in wages paid to sales staff, reflecting primarily an increase in the number of our sales staff and their stronger sales performance; and an increase of RMB0.3 million in commissions paid to sales agents for our domestic sales of cotton yarns.

Administrative expenses

Administrative expenses increased by 38.1% to RMB23.2 million for the year ended 31 December 2008 from RMB16.8 million for the year ended 31 December 2007. The increase was primarily due to an increase of RMB3.3 million in fees paid for use of land and buildings and other tax, reflecting primarily an additional RMB2.7 million VAT paid for sales of scrap materials due to changes in the VAT rate applicable; an increase of RMB1.3 million in utilities, reflecting primarily the utilities

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consumed in our employee canteens, which were categorised as cost of sales in 2007; and an increase of RMB0.8 million in wages, reflecting primarily an increase in the salaries of our administrative staff as we expanded our bedding products business.

Finance costs

Finance costs increased by 47.7% to RMB28.8 million for the year ended 31 December 2008 from RMB19.5 million for the year ended 31 December 2007. The increase was mainly due to an increase of RMB5.0 million in interest recorded on bank borrowings, reflecting primarily an increase in the average daily aggregate amount outstanding; an increase of RMB2.4 million in interest recorded on a bridge loan provided by TTG in the principal amount of RMB120.0 million to finance our purchase of certain cotton yarn production equipment in October 2008; and an increase of RMB1.9 million in interest recorded as effective interest expense on a shareholder loan due to Mr. Liu Qingping, a controlling shareholder. The bridge loan was fully repaid in December 2008 and the shareholder loan due to Mr. Liu Qingping was fully repaid in June 2009. For further details, please see “— Indebtedness” in this prospectus.

Profit before taxation

As a result of the foregoing, profit before taxation increased by 6.5% to RMB131.9 million for the year ended 31 December 2008 from RMB123.8 million for the year ended 31 December 2007.

Income tax expense

Income tax expense was RMB25.0 million for the year ended 31 December 2008. No income tax expense was recorded for the year ended 31 December 2007. The increase was mainly due to a change in the applicable tax rate of Shandong Taifeng, our principal operating subsidiary, from 0% (full EIT exemption) to 12.5% (50% reduction in EIT). Effective tax rate of the Group was 18.9% in 2008.

Profit for the year

As a result of the foregoing, profit for the year decreased by 13.7% to RMB106.9 million for the year ended 31 December 2008 from RMB123.8 million for the year ended 31 December 2007.

LIQUIDITY AND CAPITAL RESOURCES

Our operations are working capital intensive and have been funded through a combination of cash generated from our operations, bank borrowings, shareholder loan and equity financing. Our Directors are not aware of any material change to the sources of cash of our Group and the use of cash by our Group during the Track Record Period.

As of 31 December 2009, our material sources of liquidity are bank balances and cash of RMB255.8 million, pledged bank deposits of RMB24.3 million, and unutilised bank borrowing limits of RMB51.2 million.

General economic conditions may affect our ability to secure credit facilities to settle our payment obligations. In the event of any cancellation of purchase orders and/or default on payment obligations by our customers, our cash flow, business operation and profitability would be adversely affected.

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Cash flow data

The following table summarises, for the periods indicated, our statements of cash flows:

	For the year ended 31 December		
	2007	2008	2009
	<i>(RMB'000)</i>		
Net cash inflow/(outflow) from operating activities	77,075	208,358	284,905
Net cash inflow/(outflow) from investing activities	(17,298)	(202,324)	50,632
Net cash inflow/(outflow) from financing activities	(11,897)	5,411	(179,469)
Net increase (decrease) in cash and cash equivalents held	47,880	11,445	156,068
Cash and cash equivalents at the beginning of the financial year	40,378	88,258	99,703
Cash and cash equivalents at the end of the financial year	88,258	99,703	255,771

Operating activities

Cash generated by our operating activities has been derived mainly from profit before taxation, as adjusted for certain charges, and has fluctuated significantly with working capital changes, which vary generally with sales and operating activity levels. Net cash generated from operating activities increased to RMB284.9 million for the year ended 31 December 2009 from RMB208.4 million for the year ended 31 December 2008. The improvement reflected primarily higher profit before taxation and better management of inventories. Net cash generated from operating activities increased to RMB208.4 million for the year ended 31 December 2008 from RMB77.1 million for the year ended 31 December 2007. Although market demand for our products has generally decreased due to the global economic downturn, we managed to improve our cash flow from operating activities mainly due to better control of inventories. The improvement in cash flow reflected primarily higher profit before taxation and better credit terms from suppliers, although their effects were partially offset by an increase in inventories and an increase in trade and other receivables and prepayment.

Net cash generated from operating activities for the year ended 31 December 2009 of RMB284.9 million was the result of the following:

- profit before taxation of RMB307.1 million;
- adjustment of RMB58.9 million, including depreciation of property, plant and equipment of RMB40.7 million, interest expenses of RMB19.0 million and a share-based payment expense of RMB5.8 million, the effects of which were partially offset by interest income of RMB5.2 million recorded on the balance due from TTG and the reversal of write-down of inventories of RMB1.3 million;
- a decrease in cash resulting from changes in working capital of RMB61.0 million, including an increase in trade and other receivables and prepayment of RMB145.1 million which was principally driven by the increased deposits on purchases of raw materials. The effects of the foregoing were partially offset by a decrease in inventories of RMB61.7 million, reflecting principally the increased market demand for our bedding products, an increase in trade and other payables and accruals of RMB22.5 million; and

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- PRC enterprise income tax paid of RMB20.1 million.

Net cash generated from operating activities for the year ended 31 December 2008 of RMB208.4 million was the result of the following:

- profit before taxation of RMB131.9 million;
- adjustment of RMB68.4 million, including depreciation of property, plant and equipment of RMB33.4 million, interest expenses of RMB28.8 million and impairment losses of inventories of RMB12.1 million, the effects of which were partially offset by interest income of RMB6.4 million recorded on the balance due from TTG;
- an increase in cash resulting from changes in working capital of RMB8.6 million, including a decrease in inventories of RMB68.6 million, reflecting principally our reduction in purchases of raw cotton to minimize our exposure to the unstable market price of raw cotton in 2008. The effects of the foregoing, however, were partially offset by an increase in trade and other receivables and prepayments of RMB58.8 million, reflecting principally the increased sales of cotton yarns and bedding products, and a decrease in trade and other payables and accruals of RMB1.1 million. The decrease in trade and other payables and accruals included a decrease of RMB30.3 million of trade payables to related parties, reflecting principally the decreased purchases of raw materials from TTG, the effects of which were partially offset by an increase of RMB18.1 million of trade payables to suppliers, which was driven principally by the increased cost of raw materials; and
- PRC enterprise income tax paid of RMB0.5 million.

Net cash generated from operating activities for the year ended 31 December 2007 of RMB77.1 million was the result of the following:

- profit before taxation of RMB123.8 million;
- adjustment of RMB47.6 million, including depreciation of property, plant and equipment of RMB33.2 million and interest expenses of RMB19.5 million, the effects of which were partially offset by the sale of our trademark “TAIFENG” to TTG for a consideration of RMB5.5 million, which was recorded as an investing activity; and
- a decrease in cash resulting from changes in working capital of RMB94.3 million, including an increase in inventories of RMB97.1 million, reflecting principally the expansion of our cotton yarn production capacity and the increased production volume of our bedding products, and an increase in trade and other receivables and prepayments of RMB29.2 million, reflecting principally the increased sales of cotton yarns and bedding products, the effects of which were partially offset by an increase in trade and other payables and accruals of RMB32.1 million, reflecting principally the increased cost of raw materials.

Investing activities

Cash used in our investing activities has been mainly related to the enhancement of our production capabilities.

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Net cash generated from investing activities for the year ended 31 December 2009 was RMB50.6 million including the repayment of an amount due from TTG of RMB60.6 million, the effects of which were partially offset by an increase in pledged bank deposits of RMB4.2 million, and purchase of property, plant and equipment of RMB6.8 million.

Net cash used in investing activities for the year ended 31 December 2008 was RMB202.3 million, including an advance to TTG of RMB178.4 million, which was fully repaid in the first half of 2009, and the purchase of property, plant and equipment of RMB22.8 million, most of which was related to our acquisition of equipment from TTG.

Net cash used in investing activities for the year ended 31 December 2007 was RMB17.3 million, including purchase of property, plant and equipment of RMB13.7 million and an increase in pledged bank deposits of RMB9.4 million, the effects of which were partially offset by proceeds of RMB5.5 million on the sale of our trademark “TAIFENG” to TTG.

Financing activities

Cash generated from our financing activities has been mainly derived from debt and equity financing from shareholders and bank borrowings.

Net cash used in financing activities for the year ended 31 December 2009 was RMB179.5 million, including a repayment of the shareholder loan due to Mr. Liu Qingping of RMB180.0 million, a repayment of a loan due to Laiwu Runfeng of RMB30.0 million, a repayment of an amount due to Taifeng Properties of RMB1.4 million and interest payment of RMB12.6 million. The foregoing effects, however, were partially offset by a net increase in bank borrowings of RMB44.5 million.

Net cash generated from financing activities for the year ended 31 December 2008 was RMB5.4 million, including a net increase in bank borrowings of RMB43.8 million, the effects of which were partially offset by our repayment of RMB27.7 million to Mr. Liu Qingping, a controlling shareholder.

Net cash used in financing activities for the year ended 31 December 2007 was RMB11.9 million, including a net decrease in bank borrowings of RMB12.0 million, our repayment of RMB54.6 million to Laiwu Runfeng, dividend payment of RMB21.2 million and interest payment of RMB7.1 million. The effects of the foregoing, however, were partially offset by our receipt of a shareholder loan from Mr. Liu Qingping, a controlling shareholder, in the principal amount of RMB83.0 million.

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Working capital management

Operating efficiency

The following table sets forth, for the periods indicated, selected operating efficiency ratios for our Group:

	For the year ended 31 December		
	2007	2008	2009
Trade receivables turnover (days) ⁽¹⁾	21	31	40
Trade payables turnover (days) ⁽²⁾	45	42	31
Inventory turnover (days) ⁽³⁾	88	81	47

Notes:

- (1) Trade receivables turnover is calculated based on the average of the beginning and ending balance of trade receivables for a given period, divided by revenue during the given period and multiplied by 365 days for a year.
- (2) Trade payables turnover is calculated based on the average of the beginning and ending balance of trade payables for a given period divided by cost of sales during the given period and multiplied by 365 days.
- (3) Inventory turnover is calculated based on the average of the beginning and ending balance of inventory, net of impairment, for a given period, divided by cost of sales during the given period and multiplied by 365 days for a year.

Trade receivables turnover. Our trade receivables consist primarily of receivables from cotton yarns customers and bedding products distributors. We generally allow an average credit period of 30 to 90 days to our customers. The credit terms offered to a customer are decided by our senior management and depend on various factors such as financial strength, size of the business and payment history of the customer. Our management works closely with our sales personnel to conduct regular reviews of customers with overdue payments or who have exceeded their credit limit. We usually pursue collection of delinquent payments through telephone calls and in person as deemed necessary. Payments are generally received in RMB (for domestic sales) or U.S. dollars (for overseas sales) and payment methods can be by way of telegraphic transfers and settlements through letters of credit.

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Average trade receivable turnover increased from 21 days for the year ended 31 December 2007 to 31 days for the year ended 31 December 2008 and to 40 days for the year ended 31 December 2009. These increases were primarily due to the increase in proportion of sales to our bedding products distributors to which we granted longer credit periods. The table below sets forth, as of the end of reporting periods indicated, an aged analysis of our trade receivables (net of allowance for doubtful debts):

	As of 31 December		
	2007	2008	2009
	<i>(RMB'000)</i>		
Trade receivables:			
0–30 days	37,374	80,963	130,658
31–60 days	20,330	18,171	33,638
61–90 days	5,320	8,126	11,473
91–180 days	1,352	4,012	4,769
Over 180 days	728	486	3,186
	65,104	111,758	183,724

Trade payables turnover. Our trade payables consist primarily of payables to our raw material suppliers. Our raw material suppliers generally offer us trade credit periods from 30 to 90 days.

Average trade payables turnover decreased from 45 days for the year ended 31 December 2007 to 42 days for the year ended 31 December 2008 and to 31 days for the year ended 31 December 2009. These decreases were primarily due to increased purchases from suppliers requiring shorter payment terms. The table below sets forth, as of the end of reporting periods indicated, an aged analysis of our trade payables:

	As of 31 December		
	2007	2008	2009
	<i>(RMB'000)</i>		
0–30 days	86,085	65,930	54,476
31–60 days	7,485	20,862	2,266
61–90 days	10,329	2,135	2,086
91–180 days	1,744	1,844	3,320
Over 180 days	570	3,321	5,637
	106,213	94,092	67,785

Inventory turnover. Our inventories consist of raw materials, work-in-progress and finished goods. Based on our Group's internal control policy on inventory management, persons in charge of the warehouses are required to inspect all incoming items to ascertain their condition. Records of all

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incoming and outgoing items are required to be kept and be provided to the relevant departments. Periodic stock-takes are also required to be carried out to ensure that the number of stored items corresponds with all recorded entries.

Average inventory turnover decreased from 88 days for the year ended 31 December 2007 to 81 days for the year ended 31 December 2008 and to 47 days for the year ended 31 December 2009. The decrease for the year ended 31 December 2008 was primarily due to the decrease in raw cotton inventories, reflecting primarily our reduction in purchases to minimise our exposure to the unstable market price of raw cotton in 2008. The decrease for the year ended 31 December 2009 was primarily due to the decrease in finished goods inventories, reflecting principally the increased market demand for our bedding products.

Our Directors confirm that, taking into consideration the financial resources presently available to us, including banking facilities and other internal resources, and the estimated net proceeds from the New Issue, we have sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this prospectus.

Save as disclosed in this prospectus, our Directors are not aware of any other factors that would have a material impact on our Group's liquidity. Details of the funds necessary to meet our existing operations and to fund our future plans are set out in the section headed "Future Plans and Use of Proceeds" in this prospectus.

Capital expenditures

Our capital expenditures have been primarily used in the expansion of our production capability through the acquisition of new production machinery and technology upgrades. The following table sets forth, for the periods indicated, our capital expenditures:

	For the year ended 31 December		
	2007	2008	2009
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Property, plant and equipment	11,647	140,675	2,627
Construction in progress	2,058	1,743	4,155
Motor vehicles	—	418	—
	13,705	142,836	6,782

Our total capital expenditures increased to RMB142.8 million for the year ended 31 December 2008 from RMB13.7 million for the year ended 31 December 2007. The increase principally reflected our purchase of additional cotton yarn equipment from TTG in October 2008. Our total capital expenditures of RMB6.8 million for the year ended 31 December 2009 were mainly incurred for the construction of our research and development and exhibition centre.

Between 31 December 2009 and the Latest Practicable Date, we did not make any material capital expenditures.

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We expect our capital expenditures for the year ending 31 December 2010 to be RMB38.0 million, and intend to finance these capital expenditures primarily through internal cash flows and proceeds from the New Issue. The table below sets forth, for the financial years indicated, our planned major capital expenditure projects:

	For the year ending
	<u>31 December</u>
	<u>2010</u>
	<i>(RMB'000)</i>
Technology upgrades	13,630
Manufacturing plant and equipment	<u>24,400</u>
	<u><u>38,030</u></u>

As we may incur additional capital expenditures from time to time as we pursue new opportunities to expand our production capacities, actual expenditures may differ significantly from our current plans. Our planned capital expenditure projects may also change due to changes in business plans such as potential acquisitions, individual project progress, market conditions and outlook. Further, our ability to obtain sufficient funding for our planned capital expenditure projects in the future is subject to a variety of uncertainties, including our future results of operations, financial condition and cash flows, economic, political and other conditions in the PRC, Hong Kong and other jurisdictions in which we operate.

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NET CURRENT ASSETS/LIABILITIES

The table below sets out, as of the end of reporting periods indicated, selected information for our current assets and current liabilities:

	As of 31 December		
	2007	2008	2009
	<i>(RMB'000)</i>		
CURRENT ASSETS			
Inventories ⁽¹⁾	234,155	153,480	93,075
Trade and other receivables and prepayments	77,868	136,038	280,680
Prepaid lease payments	207	207	179
Amount due from a related company	—	62,349	—
Pledged bank deposits	18,173	20,142	24,318
Bank balances and cash	88,258	99,703	255,771
	418,661	471,919	654,023
CURRENT LIABILITIES			
Trade and other payables and accruals	181,682	180,538	203,011
Amounts due to related companies	30,000	31,402	—
Tax payable	2,079	24,701	51,194
Dividend payable	—	—	50,000
Bank and other borrowings	74,538	118,291	162,806
	288,299	354,932	467,011
NET CURRENT ASSETS	130,362	116,987	187,012

Note:

- (1) The following table sets out a summary of our inventory balances as of the end of reporting periods indicated:

	As of 31 December		
	2007	2008	2009
	<i>(RMB'000)</i>		
Raw materials	163,410	72,230	51,775
Work-in-progress	25,348	18,909	17,795
Finished goods	45,397	62,341	23,505
Total	234,155	153,480	93,075

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As at 31 March 2010, our Group's current assets of RMB783.0 million, which mainly comprised inventories of RMB102.5 million, trade and other receivables and prepayments of RMB249.5 million, pledged bank deposits of RMB28.1 million and bank balances and cash of RMB402.7 million. As at 31 March 2010, our Group's current liabilities of RMB588.0 million, which mainly comprised trade and other payables of RMB225.1 million, dividend payable of RMB130.0 million and bank and other borrowings of RMB170.6 million.

Net current assets increased to RMB187.0 million as of 31 December 2009 from RMB117.0 million as of 31 December 2008. The increase was mainly due to an increase in trade and other receivables and prepayments, reflecting an increase of prepayment to the suppliers from RMB4.2 million as of 31 December 2008 to RMB83.7 million as of 31 December 2009. As there has been a relatively large increase in the prices of raw materials since October 2009 and our Directors anticipated that the trend would be increasing under the then market environment, in order to reduce the costs of raw materials and to cater for the then market environment, we entered into purchase contracts (which required prepayment) with some of its major suppliers to lock the prices of raw materials so as to reduce production costs. Such arrangement is temporary and there is no change in the Company's procurement model. We has not entered into any purchase contracts (which required prepayments) since January 2010; an increase in bank balances and cash, due principally to the higher profit before taxation; the elimination of the amounts due to related companies, reflecting our repayment of a loan due to Laiwu Runfeng and an amount due to Taifeng Properties; and an increase in pledged bank deposits, reflecting the increase in the deposits pledged in banks to secure an increase in bills payables as a result of our expansion of bedding products business. The effects of such changes, however, were partially offset by a decrease in finished goods inventories, reflecting principally the increased market demand for our bedding products; an increase in trade and other payables and accruals, reflecting principally our increased purchases of fabrics driven by our increased production of bedding products; and an increase in short-term bank borrowings.

Net current assets decreased to RMB117.0 million as of 31 December 2008 from RMB130.4 million as of 31 December 2007. The decrease was mainly due to a decrease in raw materials inventories, reflecting principally our reduction in purchases of raw cotton to minimize our exposure to the unstable market price of raw cotton in 2008; and an increase in short-term bank borrowings. The effects of such increases, however, were partially offset by an increase in trade receivables, reflecting principally an increase in sales of our bedding products; and an increase in finished goods inventories, reflecting principally an increase in cotton yarns.

Accurate determination of the liquidity of inventories and trade receivables is an important component of determining current assets and current liabilities, and if overstated they do not yield an accurate measurement of our ability to meet our maturing current liabilities.

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CONTRACTUAL OBLIGATIONS AND OTHER OFF-BALANCE SHEET ARRANGEMENTS

The following table sets forth our significant debt and other contractual obligations as of 31 December 2009:

	Cash payments due by period				
	Total	Less than 1 year	1–3 years	3–5 years	More than 5 years
			<i>(RMB'000)</i>		
Debt obligations	162,806	162,806	—	—	—
Operating lease obligations	29,015	14,902	14,113	—	—
Total	191,821	177,708	14,113	—	—

INDEBTEDNESS

At the close of business on 31 March 2010, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding bank and other borrowings of approximately RMB170.6 million (of which RMB44.0 million was unguaranteed but secured by fixed charges on certain of the Group's assets, including properties, inventories and short-term bank deposits, the remaining amount of RMB126.6 million was unsecured). The unsecured bank and other borrowings of RMB126.6 million included unsecured bank borrowings of RMB124.0 million, which were guaranteed by certain related parties and independent third parties, and unsecured other borrowing of RMB2.6 million, which was unguaranteed. In addition, the Group had contingent liabilities of RMB60.0 million in respect of financial guarantee provided to the bank in respect of a banking facility to the extent of RMB60.0 million granted to Taifeng Textile Group Limited.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 31 March 2010, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees or other material contingent liabilities.

Bank borrowings. The bank borrowings outstanding as of 31 December 2009 consisted of various loans from commercial banks in China in the aggregate principal amount of RMB162.8 million with interest rates ranging from 1.35% to 10.62%, including a drawdown of RMB33.8 million from a bank facility for a maximum amount of RMB95.0 million. All borrowings are repayable within one year from that date.

On 20 November 2009, we obtained a bank credit facility from Laiwu branch of Bank of China with a credit limit of RMB95.0 million and a maturity date of 17 November 2010. As of 31 December 2009, RMB5.0 million aggregate principal amount of term loans and credit consisting of RMB16.1 million of trade financing instruments and RMB12.7 million of bank acceptance letters were utilised as bank borrowings and an additional RMB10.0 million of bank acceptance letters was utilised as bills payables. All drawdowns carried a weighted average interest rate of 6.54%. We were required to comply with certain negative and affirmative covenants, including without limitation, providing accountants' report to the lender and notifying the lender of any material transaction that may adversely impact our ability to pay under such facility.

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As of 31 December 2009, borrowings in the aggregate amounts of RMB24.0 million were secured by a pledge of inventories of Shandong Taifeng in an amount of RMB63.4 million with the remaining constituting our unsecured obligations. Borrowings in the aggregate amounts of RMB81.8 million, RMB33.8 million and RMB57.0 million as of 31 December 2009 were respectively guaranteed by TTG, Taishan Paper, an Independent Third Party, and Laiwu City Economic Development Investment Company Limited (萊蕪市經濟開發投資有限公司), an Independent Third Party and a state-owned enterprise. The guarantee provided by Taishan Paper was because we have provided guarantee for the obligations of TTG under bank facilities in the aggregate limit of RMB60.0 million and TTG has extended financial supports to Taishan Paper in transactions unrelated to us. The guarantee provided by Taishan Paper will be fully released upon Listing. The guarantee provided by Laiwu City Economic Development Investment Company Limited was due to the government support from local government in connection with our business operation. For further details of guarantees provided by TTG and Mr. Liu Qingping, please see “— Transactions with Related Parties” in this prospectus.

Capital adequacy ratios

The following table sets forth certain capital adequacy ratios for the periods indicated:

	For the year ended 31 December		
	2007	2008	2009
Gearing ⁽¹⁾	35.4%	30.0%	13.9%
Debt-to-equity ⁽²⁾	82.3%	61.1%	23.7%

Notes:

- (1) Calculated as the total debts for the period, divided by total assets for the period and multiplied by 100%. Debts are defined to include current and non-current borrowings.
- (2) Calculated as the total debts for the period, divided by the equity for the period and multiplied by 100%. Debts are defined to include current and non-current borrowings. Equity is defined to include the minority interests.

The gearing ratio decreased from 35.4% for the year ended 31 December 2007 to 30.0% for the year ended 31 December 2008 and to 13.9% for the year ended 31 December 2009. The debt-to-equity ratio decreased from 82.3% for the year ended 31 December 2007 to 61.1% for the year ended 31 December 2008 and to 23.7% for the year ended 31 December 2009. The decreases in the gearing ratio and debt-to-equity ratio were principally due to the increases in the total assets and equity respectively.

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Other contractual obligations

Operating lease obligations. We lease certain of our office premises under operating lease arrangements. Leases for properties are negotiated for terms of one to ten years. The following table sets forth the maturity profile of our operating lease obligations as of 31 December 2009:

	Cash payment due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	<i>(RMB'000)</i>				
Shandong Taifeng	28,775	14,662	14,113	—	—
Shanghai Taifeng	240	240	—	—	—
Total	29,015	14,902	14,113	—	—

Contingent liabilities

As of 31 December 2009, we were liable as a guarantor for the obligations of TTG under bank facilities in the aggregate limit of RMB60.0 million. We provided guarantee for TTG in exchange for the guarantee made by TTG for our bank borrowings of RMB81.8 million and the guarantee made by Taishan Paper, an Independent Third Party, which had received financial supports from TTG in transactions unrelated to us, for our bank borrowings of RMB33.8 million as of 31 December 2009.

Our Directors represented that the corporate guarantee provided by the Company to TTG will be released upon Listing.

Subsequent events

The following events have occurred subsequent to 31 December 2009:

In accordance with a resolution in writing of the Shareholders of the Company passed on 25 January 2010, the Company declared special dividend of RMB80.0 million to the then holders of our Shares whose names appeared on our register of members on 28 November 2009. The dividend has been fully paid on 20 May 2010.

Our Directors confirm that there has been no material change in indebtedness, commitments and contingent liabilities of our Group since 31 December 2009.

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TRANSACTIONS WITH RELATED PARTIES

The following table sets forth, for the periods indicated, our transactions with related parties other than the advances to or by related parties:

<u>Name of related party</u>	<u>Nature of transactions/ balances</u>	<u>For the year ended 31 December</u>		
		<u>2007</u>	<u>2008</u>	<u>2009</u>
		<i>(RMB'000)</i>		
TTG	Purchase of materials ⁽¹⁾	306,076	277,023	122,862
	Sales of goods ⁽²⁾	363,948	233,718	118,386
	Purchase of property, plant and equipment ⁽³⁾⁽¹⁶⁾	—	137,592	—
	Utility expenses paid ⁽⁴⁾⁽¹⁶⁾	76,478	81,713	39,583
	Rental expenses under operating leases paid ⁽⁵⁾	9,300	10,000	6,765
	Interest income received ⁽⁶⁾⁽¹⁶⁾	—	6,370	4,412
	Interest expenses paid ⁽⁷⁾⁽¹⁶⁾	—	2,400	—
	Disposal of trademark ⁽⁸⁾⁽¹⁶⁾	5,534	—	—
	Trade payables ⁽¹⁰⁾	26,162	572	—
	Acquisition of trademark ⁽¹²⁾⁽¹¹⁾	—	—	6,934
Laiwu Runfeng	Sales of goods ⁽¹²⁾⁽¹⁶⁾	43,863	39,409	—
	Purchase of materials ⁽¹³⁾⁽¹⁶⁾	4,918	12,414	—
	Subcontracting income received ⁽⁹⁾⁽¹⁶⁾	—	314	—
	Trade receivables ⁽¹⁴⁾⁽¹⁶⁾	—	11,695	—
	Trade payables ⁽¹⁵⁾⁽¹⁶⁾	4,662	—	—

Notes:

- (1) Purchase of raw cotton, fabrics and others such as ancillary materials.
- (2) Sales of cotton yarns, bedding products and others such as scrap materials.
- (3) Purchase of cotton yarn equipment in October 2008. For further details, please see “History, Reorganisation and Group Structure — Business Development — Cotton yarn business” in this prospectus.
- (4) Expenses paid for use of electricity and steam of TTG. For the details regarding future supply of electricity and steam, please see “Business — Procurement — Fuel and utilities” in this prospectus.
- (5) Rentals paid by our Group for certain of its office premises and production plants.
- (6) Accrued interest income recorded on amounts due from TTG, which were RMB6.4 million and RMB5.2 million as of 31 December 2008 and 31 December 2009, respectively.

FINANCIAL INFORMATION

- (7) Interest expenses recorded as effective interest expenses on a bridge loan of RMB120.0 million due to TTG for the year ended 31 December 2008.
- (8) Sale of trademark “TAIFENG”.
- (9) Income from cotton yarn processing work.
- (10) Trade balance at the end of the year/period for the purchase of materials from TTG.
- (11) Acquisition of trademark “TAIFENG”.
- (12) Sales of raw cotton and scrap materials.
- (13) Purchase of surplus raw cotton.
- (14) Trade balance at the end of the year/period for the sales of goods to Laiwu Runfeng.
- (15) Trade balance at the end of the year/period for the purchase of materials from Laiwu Runfeng.
- (16) These items have discontinued or are expected to discontinue after the Listing.

Following the resignation of Mr. Liu Qingping as a director of TTG on 7 July 2009, our Directors confirmed that TTG is no longer a related company of our Company. The Stock Exchange has exercised its discretion under Rule 14A.06 of the Listing Rules to deem TTG as a connected person (as defined in the Listing Rules) of our Company until the 7 TTG Shareholders have fully settled the considerations for the TTG Transfer. The above transactions with TTG for the year ended 31 December 2009 represented the transactions occurred during the period from 1 January 2009 to 6 July 2009. There were approximately RMB4,329,000 trade receivables from TTG as of 31 December 2009 (2007 and 2008: Nil).

The significant transactions with TTG for the year ended 31 December 2009 are as follows:

	For the period from 1 January 2009 to 7 July 2009	For the period from 7 July 2009 to 31 December 2009	For the full financial year ended 31 December 2009
	<i>(Note 1)</i>	<i>(Note 2)</i>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sales of goods	118,386	97,941	216,327
Purchase of materials	122,862	81,192	204,054
Utility expenses paid	39,583	18,922	58,505
Rental expenses under operating leases paid	6,765	6,765	13,530
Interest income received	4,412	803	5,215
Acquisition of trademark	6,934	—	6,934

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Notes:

1. Period for which TTG is a related company of our Company.
2. Period for which TTG is not a related company of our Company. The Stock Exchange has exercised its discretion under Rule 14A.06 of the Listing Rules to deem TTG as a connected person (as defined in the Listing Rules) of our Company until the 7 TTG Shareholders have fully settled the considerations for the TTG Transfer.

TTG also provided corporate guarantee of approximately RMB36,194,000, RMB33,706,000 and RMB81,806,000 to the Group in respect of the bank borrowings for the year ended 31 December 2007, 2008 and 2009, respectively.

Mr. Liu Qingping has also provided personal guarantees of RMB8,000,000, RMB68,000,000 and Nil to financial institution in respect of the Group's bank borrowings as at 31 December 2007, 2008 and 2009 respectively. The personal guarantees of RMB60,000,000 from Mr. Liu Qingping as at 31 December 2008 has been released in January 2009.

As at 31 December 2008 and 2009, the Group has provided financial guarantees to banks in respect of banking facilities to the extent of RMB160,000,000 and RMB60,000,000 granted to TTG respectively.

The Directors represented that the corporate guarantee provided by TTG will be released upon the Listing.

Details of operating lease commitments under rental agreements with related parties are set out in note 31.

In the opinion of the directors of the Group, sales of goods, purchase of material and rental of properties with TTG are expected to be continued after the Listing.

In addition to the above transactions with related parties, the following table sets forth certain information on the loans, advances, guarantees and pledges we made to or received from related parties as of 31 December 2009:

<u>Group member</u>	<u>Related party</u>	<u>Nature of financial activities</u>	<u>Amount as of 31 December 2009</u>	<u>Reason for financial activities</u>	<u>Status as of the Latest Practicable Date</u>
<i>(RMB'000)</i>					
Shandong Taifeng	TTG	Guarantee for Shandong Taifeng	81,806	Financial support	To be released upon Listing
Shandong Taifeng	TTG	Guarantee by Shandong Taifeng	60,000 ⁽¹⁾	Financial support	To be released upon Listing
Shandong Taifeng	TTG	Pledge of assets of Shandong Taifeng for TTG	51,820 ⁽²⁾	Financial support	To be released upon Listing

Notes:

- (1) The guarantee was provided to bank facilities at a maximum of RMB60.0 million granted to TTG.
- (2) Pledge of assets to secure certain bank borrowings of TTG.

FINANCIAL INFORMATION

MARKET RISKS

We are exposed to market risks from changes in market rates and prices, such as foreign currency exchange rates, interest rates, commodity price, credit and liquidity.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. We are exposed to interest rate risk resulting from fluctuations in interest rates on our financial obligations. In particular, our bank borrowings bear interest rates that are subject to adjustments by our lenders in accordance with changes in relevant PBOC regulations. If the PBOC increases interest rates, our finance cost will increase. In addition, we may incur other debt obligations from time to time to support general corporate purposes, including capital expenditures and working capital needs. Upward fluctuations in interest rates will increase the cost of new debt. Fluctuations in interest rates can also lead to significant fluctuations in the fair values of our debt obligations.

As of 31 December 2009, RMB150.1 million of our financial liabilities carried a fixed interest rate and RMB12.7 million of our financial liabilities carried a variable interest rate. We do not use any derivative instruments to modify the nature of our debt so as to manage our interest rate risk. A hypothetical 50 basis point increase in interest rates would not significantly impact our profit for the years ended 31 December 2009, or our net assets as of 31 December 2009, respectively, assuming all other variables remained constant.

Foreign currency risk

Foreign currency risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in foreign currency exchange rates. We conduct our business primarily in Renminbi, which is also our functional and reporting currency. We are also exposed to risks of the eventual net cash inflows and outflows resulting from foreign currency denominated transactions with customers and suppliers and our exposure is primarily limited to U.S. dollars.

Renminbi is not a fully-convertible currency. The Renminbi to U.S. dollar exchange rate has been relatively stable since 1994. Since the currency exchange rate reforms in July 2005, Renminbi has been steadily increasing in value against U.S. dollars, and we cannot predict nor give any assurance of its future stability. Fluctuations in foreign currency exchange rates may adversely affect the value, translated or converted into U.S. dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends. We cannot give any assurance that any future movements in the exchange rate of Renminbi against U.S. dollars or other foreign currencies will not adversely affect our results of operations and financial condition. We do not currently hedge our foreign currency exposure.

For the year ended 31 December 2009, 7.3% of our revenue and 12.4% of our purchases were denominated in U.S. dollars. As of 31 December 2009, trade receivables of RMB19.8 million, trade payable of RMB19.8 million and bank and other borrowings of RMB12.7 million were denominated in U.S. dollars. A hypothetical 5.0% strengthening of Renminbi against U.S. dollars would result in decreases of RMB0.4 million in our net profit for the year ended 31 December 2009, but would not significantly impact our net assets as of 31 December 2009, assuming all other variables remained constant.

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Commodity price risk

Commodity price risk is primarily related to the changes in prices of key commodities that we purchase. We are exposed to commodity price risks resulting from increases in the price of raw cotton and fabrics, which are the key commodities used as raw materials for our production of cotton yarns and bedding products. To mitigate our exposure, our management continually monitors the changes in the market price of raw cotton and seeks to make bulk purchases when the market price of raw cotton declines. We also maintain our inventory of raw materials at a lower level when the market prices of raw cotton and fabrics decrease continually within a certain period. For cotton yarns, our ability to pass the increased costs of raw cotton onto our customers is limited because the cotton yarn industry is highly competitive. For bedding products, we generally set our prices with a margin taking into consideration the fabric costs and other factors such as the market recognition of our brand name and market conditions. To mitigate the fluctuations in the cost of fabrics, we will seek to enhance the market recognition of our brand name in order to increase our bargaining power in passing a portion of the increase onto our customers. Currently, we do not use derivative commodity instruments to manage the risk of changes in prices of raw cotton and fabrics.

Credit risk

Credit risk is primarily related to trade receivables from our customers and the risk of financial loss if a partner, customer or counterparty to a financial instrument fails to meet its contractual obligations. The credit risk on liquid funds is limited because the counterparties are banks with good reputation or high credit ratings assigned by international credit-rating agencies.

To minimize credit risk arising from trade receivables, our management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we reviewed the recoverable amount of each individual trade receivable and amount due from related companies at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors consider that our credit risk is significantly reduced. We have not experienced any collection issues with our customers.

Liquidity risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they become due. Our approach to managing liquidity is to ensure that we will have sufficient liquidity to meet our liabilities when due. As such, we monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the effects of fluctuations in cash flows. Our management monitors the utilisation of borrowings and ensures compliance with loan covenants.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

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

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DIVIDEND POLICY

Our Company declared a special dividend of RMB50.0 million on 28 November 2009 payable to our then eligible Shareholders. Our Company also declared a special dividend of RMB80.0 million on 25 January 2010 payable to the then holders of our Shares whose names appeared on our register of members on 28 November 2009. As advised by our PRC legal advisers, according to the articles of Shandong Taifeng and the applicable PRC laws and regulations, the principal procedures for the payment of special dividends of RMB50.0 million and RMB80.0 million by Shandong Taifeng to its offshore shareholder, namely Ever Link, are (i) passing of board resolutions by Shandong Taifeng for the declaration of dividends, (ii) obtaining relevant taxation certificates from the responsible taxation authorities, and (iii) completing the approval procedures for offshore remittance with the relevant designated remitting banks. Shandong Taifeng had passed relevant board resolutions for the declaration of the special dividends on 28 November 2009 and 25 January 2010 and made applications to the local taxation authorities for the issue of the necessary taxation certificates. The said applications had been accepted by the local taxation authorities and Shandong Taifeng had applied for the approval of offshore remittances with the designated remitting banks once the taxation certificates were issued. The special dividends were paid to the eligible Shareholders on 20 May 2010, after the approval for offshore remittances had been obtained. Investors should pay attention to the possible impact on our cashflow and working capital as a result of the payment of the special dividend. Shandong Taifeng, our key operating subsidiary, declared dividends of RMB21.2 million in the financial year of 2006, which were fully paid in the financial year of 2007. Save as disclosed above, no other dividend was paid by us or any of our subsidiaries during the Track Record Period. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

Our Directors may declare dividends in the future after taking into account our operating results, financial condition, capital requirements, cash requirements including capital expenditure, restrictions under the terms of our credit facilities (if any), our development plans and other factors deemed relevant by our Directors. Cash dividends on the Shares, if any, will be paid in Hong Kong dollars.

Any declaration and payment as well as the amount of dividends will be subject to our Company's constitutional documents and the Cayman Islands Companies Law. Our Shareholders in general meeting must approve any declaration of dividends, which must not exceed the amount recommended by our Directors. In addition, our Directors may from time to time pay such interim dividends as appear to be justified by our Company's profits, or special dividends of such amounts and on such dates as they think fit. No dividend shall be declared or payable except out of our Company's profits and reserves lawfully available for distribution.

Future declarations of dividends may or may not reflect our Group's historical declarations of dividends and will be at the absolute discretion of our Directors. Future dividend payments by our Company will also depend upon the availability of dividends received from our subsidiaries in China. PRC laws require that dividends be paid only out of net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require foreign-invested enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends.

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Distributions from our subsidiaries may also be restricted if they incur debt or losses, or in accordance with any restrictive covenants in bank credit facilities or other agreements that our Company or our subsidiaries and associated companies may enter into in the future.

Subject to the above-mentioned, beginning on our financial year ending 31 December 2010, our Directors currently intend to declare a dividend in an amount equivalent to not less than 20.0% of the consolidated profit attributable to equity holders of our Company for each financial year.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 21 May 2009 and is an investment holding company. There were no reserves available for distribution to the Shareholders as of 31 December 2009.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is set out to illustrate the effect of the Global Offering on our net tangible assets as of 31 December 2009 as if it had taken place on 31 December 2009.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustration purpose only and, because of its hypothetical nature, it may not give a true picture of our net tangible assets as of 31 December 2009 or any future date following the Global Offering. It is prepared based on our net assets as of 31 December 2009 as set out in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountants' Report in Appendix I to this prospectus.

	Audited consolidated net tangible assets attributable to equity holders of our Company as at 31 December 2009	Estimated net proceeds from the New Issue	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share	Unaudited pro forma adjusted net tangible assets per Share
	<i>RMB'000 (Note 1)</i>	<i>RMB'000 (Note 2)</i>	<i>RMB'000</i>	<i>RMB (Note 3)</i>	<i>(HK\$ equivalent) (Note 4)</i>
Based on an Offer Price of HK\$2.06 per Share	<u>679,267</u>	<u>417,738</u>	<u>1,097,005</u>	<u>1.097</u>	<u>1.245</u>
Based on an Offer Price of HK\$3.09 per Share	<u>679,267</u>	<u>626,672</u>	<u>1,305,939</u>	<u>1.306</u>	<u>1.483</u>

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Notes:

- (1) The audited consolidated net tangible assets attributable to equity holders of our Company as of 31 December 2009 has been derived from the net assets of the Group after deducting the trademark of approximately RMB6.9 million from the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the New Issue are based on the Offer Shares and the Offer Price of HK\$2.06 or HK\$3.09 per Share, being the low or high end of the stated Offer Price range, after deduction of the underwriting fees and related expenses payable by our Company (excluding other related expenses of approximately RMB26,012,000 which have been paid or accrued as of 31 December 2009). The estimated net proceeds from the New Issue are converted from Hong Kong dollars into Renminbi at an exchange rate of RMB0.8809 to HK\$1.00.
- (3) The unaudited pro forma adjusted net tangible assets per Share is calculated based on 1,000,000,000 Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering.
- (4) The unaudited pro forma adjusted net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of RMB0.8809 to HK\$1.00. No representation is made that the Renminbi amounts have been or may be converted to Hong Kong dollars, or vice versa, at that rate.
- (5) The unaudited pro forma net tangible assets of the Group attributable to the equity holders of the Company does not take into account the special dividend of RMB80.0 million declared by the Board on 25 January 2010, which was paid to the then eligible Shareholders on 20 May 2010. The unaudited pro forma net tangible assets per share would have been reduced to HK\$1.155 and HK\$1.392 per share based on the Offer Price of HK\$2.06 and HK\$3.09 respectively, after taking into account the payment of the special dividend in the sum of RMB80.0 million.
- (6) By comparing the valuation of the Group's property interests including buildings and prepaid lease payments as at 31 March 2010 of RMB82.3 million as set out in Appendix IV to this prospectus, the net valuation surplus is approximately RMB24.1 million as compared to the carrying amounts of the Group's property interest as of 31 March 2010, which has not been included in the above net tangible assets of the Group attributable to the equity holders of the Company as at 31 December 2009. The valuation of the Group's property interests will not be incorporated in the Group's financial statements. If the net valuation surplus is to be included in the Group's financial statements, an additional depreciation charge of approximately RMB161,000 would be recorded per annum.

PROFIT FORECAST FOR THE SIX MONTHS ENDING 30 JUNE 2010

Our Directors forecast that, on the bases and assumptions set out in Appendix III to this prospectus and in the absence of unforeseeable circumstances, the forecast consolidated profit attributable to the equity holders of our Company for the six months ending 30 June 2010 will not be less than RMB140 million.

Unaudited forecast consolidated profit attributable to equity holders of the Company for the six months ending 30 June 2010 ⁽¹⁾	not less than RMB140 million (HK\$159 million)
Unaudited pro forma forecast earnings per share ⁽²⁾⁽³⁾	not less than RMB0.14 (HK\$0.16)

Notes:

- (1) The bases on which the above profit forecast has been prepared are set out in Appendix III to this prospectus.

FINANCIAL INFORMATION

- (2) The calculation of unaudited pro forma forecast earnings per Share for the six months ending 30 June 2010 is based on the above unaudited forecast consolidated profit attributable to equity holders of the Company for the six months ending 30 June 2010, assuming the Global Offering and Capitalisation Issue had been completed on 1 January 2010 and a total of 1,000,000,000 Shares were issued and outstanding during the entire year. This calculation assumes that the Over-allotment Option will not be exercised. Our Directors confirm that our Company's consolidated financial statements for the six months ending 30 June 2010 will be audited pursuant to Rule 11.18 of the Listing Rules.
- (3) The unaudited forecast consolidated profit attributable to equity holders of the Company and the unaudited pro forma forecast earnings per Share are converted into Hong Kong dollars at an exchange rate of RMB0.8809 to HK\$1.00. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

PROPERTY INTERESTS

For the purpose of the Listing, Jones Lang LaSalle Sallmanns Limited has valued the property interests of our Group at RMB82.3 million as at 31 March 2010. Particulars of the property interests of our Group are set out in Appendix IV to this prospectus.

A reconciliation of the Group's property interests and the valuation of such property interests as required under Rule 5.07 of the Listing Rules is set forth below:

	<i>RMB'000</i>
Net book value of property interest as of 31 December 2009	
Property, plant and equipment	
Buildings	50,866
Prepaid lease payments	<u>7,815</u>
	58,681
Movement from 31 December 2009 to 31 March 2010	
Depreciation of buildings	(490)
Release of prepaid lease payments	<u>(45)</u>
	(535)
Net book value of property interests as of 31 March 2010 (unaudited)	58,146
Value attributable to our Group as of 31 March 2010	<u>82,250</u>
Net valuation surplus as of 31 March 2010	<u><u>24,104</u></u>

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 since 31 December 2009, the end of the period reported in the Accountants' Report set out in Appendix I to this prospectus, and there has been no event since 31 December 2009 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

We aim to maintain and strengthen our market positions in the cotton yarn and home textile industries in the PRC. We will continue to participate in both cotton yarn and bedding product businesses but our business focus will be on our bedding product business, particularly sales of branded bedding products in the PRC. To achieve this goal, we plan to pursue the following strategies set out in the section entitled “Business — Business Strategies”.

- Expanding sales network and strengthening brand building for our bedding products;
- Enhancing product design and quality control capabilities; and
- Enhancing production capabilities with a focus on high value-added products.

USE OF PROCEEDS FROM THE NEW ISSUE

We estimate that the aggregate net proceeds from the New Issue (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering) will be approximately HK\$565.3 million (or HK\$669.5 million assuming the Over-allotment Option is exercised in full), assuming an Offer Price of HK\$2.575 per Share, which is the mid-point of the indicative Offer Price range of HK\$2.06 to HK\$3.09 per Share.

We currently intend to apply the net proceeds from the New Issue as follows:

- approximately HK\$345.5 million (or RMB304.0 million) (approximately 61.1% of the estimated net proceeds from the New Issue based on an assumed Offer Price of HK\$2.575 per Share, being the mid-point of the indicative Offer Price range, assuming the Over-allotment Option is not exercised) for sales operation enhancement and brand building in our bedding products business, in which,
 - approximately HK\$169.4 million (or RMB149.0 million) will be used for establishment of new retail stores and counters as follows:
 - (i) approximately HK\$14.0 million (or RMB12.3 million) will be used for the set up of 11 directly-operated retail stores by the end of 2011, providing for the renovation cost, rental of retail stores and sales staff payroll of the retail stores;
 - (ii) approximately HK\$33.3 million (or RMB29.3 million) will be used for the set up of 189 directly-operated retail counters by the end of 2011, providing for the renovation cost, sales staff payroll and retail counter entrance fee and promotional expenses to be paid to the chain stores or department stores;
 - (iii) approximately HK\$20.5 million (or RMB18.0 million) will be used to subsidise the distributors by one-off subsidies for the set up of about 300 distributor-operated retail stores or retail counters by the end of 2011;
 - (iv) approximately HK\$101.6 million (or RMB89.4 million) will be used for the establishment of new retail stores and counters between 2012 and 2014;

FUTURE PLANS AND USE OF PROCEEDS

- approximately HK\$113.2 million (or RMB99.6 million) will be used for advertisements and promotion as follows:
 - (i) approximately HK\$78.2 million (or RMB68.8 million) will be used as advertising expenses on television commercial on central and provincial television channels;
 - (ii) approximately HK\$1.4 million (or RMB1.2 million) will be used for advertisement in newspaper and magazine;
 - (iii) approximately HK\$2.3 million (or RMB2.0 million) will be used for new product pronouncement function;
 - (iv) approximately HK\$3.4 million (or RMB3.0 million) will be used for outdoor billboard advertisement;
 - (v) approximately HK\$1.8 million (or RMB1.6 million) will be used for participation in exhibitions or trade fairs;
 - (vi) approximately HK\$26.1 million (or RMB23.0 million) will be used as branding ambassador fee;
- approximately HK\$56.8 million (or RMB50.0 million) will be used for acquiring and/or development of new brand name; and
- approximately HK\$6.1 million (or RMB5.4 million) will be used for implementation of information system for our sales network.
- approximately HK\$170.5 million (or RMB150.0 million) (approximately 30.1% of the estimated net proceeds from the New Issue based on an assumed Offer Price of HK\$2.575 per Share, being the mid-point of the indicative Offer Price range, assuming the Over-allotment Option is not exercised) for the expansion and upgrade of our production capacity, in which,
 - approximately HK\$39.8 million (or RMB35.0 million) will be used for acquisition of new production line to enhance the production capacity of bedding products through land acquisition, construction of plant building and the acquisition of about 500 new sewing machines which we intend to purchase the new production facilities from relevant third party equipment and machinery providers;
 - approximately HK\$73.9 million (or RMB65.0 million) will be used for acquiring land and buildings for production purposes. The relevant land and buildings which we intend to acquire is part of the lands and buildings situated at both sides of Panlonghe Street and western side of Yuntaishan Road, Economic and High-technology Development Zone, Laiwu City, Shandong Province, the PRC (i.e. the property no. 3 referred to in Appendix IV to this prospectus) with State-owned Land Use Rights Certificate (Lai Wu Shi Guo Yong 920070 Di No. 0359) and have a total site area of 46,475 sq.m. and a total gross floor area of 35,069 sq.m. We currently leased the relevant land and buildings from TTG and occupied the same pursuant to a tenancy agreement dated 22

FUTURE PLANS AND USE OF PROCEEDS

May 2009 as supplemented by a supplemental agreement dated 16 November 2009. We have an option under the said tenancy agreement to purchase the relevant property at any time during the tenure. For further details, please refer to “Business — Properties — Leased properties” in this prospectus. The Stock Exchange has exercised its discretion under Rule 14A.06 of the Listing Rules to deem TTG as a connected person (as defined in the Listing Rules) of our Company until the 7 TTG Shareholders have fully settled the considerations for the TTG Transfer. As such, if we purchase the relevant property from TTG, the transaction will be subject to, among other things, the connected transactions requirements under the Listing Rules. We will comply with the Listing Rules in this regard and make further announcements as and when appropriate; and

- approximately HK\$56.8 million (or RMB50.0 million) will be used for upgrading our existing lines to enhance the compact spinning production capacity in relation to our cotton yarn production by upgrading our 400 spinning machines to achieve compact spinning.
- approximately HK\$22.9 million (or RMB20.2 million) (approximately 4.1% of the estimated net proceeds from the New Issue based on an assumed Offer Price of HK\$2.575 per Share, being the mid-point of the indicative Offer Price range, assuming the Over-allotment Option is not exercised) for the enhancement of our product design and quality control capabilities, in which,
 - approximately HK\$19.4 million (or RMB17.1 million) will be used for acquisition of new testing and assessment equipment for our bedding products; and
 - approximately HK\$3.5 million (or RMB3.1 million) will be used for improvement of product design of bedding products.
- approximately HK\$26.4 million (or RMB23.3 million) (approximately 4.7% of the estimated net proceeds from the New Issue based on an assumed Offer Price of HK\$2.575 per Share, being the mid-point of the indicative Offer Price Range, assuming the Over-allotment Option is not exercised) for working capital and general corporate purposes.

We will not receive any of the proceeds from the sale of Sale Shares by the Selling Shareholder. In the event the Offer Price is finally determined at the high or low end of the indicative Offer Price range, assuming the Over-allotment Option is not exercised, the Selling Shareholder will receive approximately HK\$81.9 million and HK\$53.4 million respectively, after deduction of underwriting commission and estimated expenses payable by the Selling Shareholder.

In the event the Offer Price is finally determined at the high or low end of the indicative Offer Price range and assuming the Over-allotment Option is exercised in full, the net proceeds of the New Issue that we estimate we would receive from subscriptions for additional Shares would increase by approximately HK\$241.0 million or decrease by approximately HK\$36.3 million respectively, as compared with the amount described above (which is based on the mid-point of the indicative Offer Price range). In the event the Offer Price is finally determined at the high end, assuming the Over-allotment Option is exercised in full, we currently intend to allocate approximately HK\$187.3 million of the net proceeds for brand building in our bedding products and/or approximately HK\$53.8 million of

FUTURE PLANS AND USE OF PROCEEDS

the net proceeds for working capital and general corporate purposes. In the event the Offer Price is finally determined at the low end, assuming the Over-allotment Option is exercised in full, we currently intend to reduce the net proceeds applied for brand building in our bedding products by approximately HK\$14.8 million and/or for working capital and general corporate purposes by approximately HK\$21.5 million.

In the event the Offer Price is finally determined at the high or low end of the indicative Offer Price range, the net proceeds from the New Issue (assuming the Over-allotment Option is not exercised) would increase by approximately HK\$117.2 million or decrease by approximately HK\$120.2 million respectively, as compared with the amount described above (which is based on the mid-point of the indicative Offer Price range). If the Offer Price is finally determined at the high end of the indicative Offer Price range, we currently intend to use the additional net proceeds of HK\$117.2 million as follows:

- (i) HK\$33.9 million for the establishment of additional new retail stores and counters between 2012 and 2014;
- (ii) HK\$67.7 for advertisements and promotion; and/or
- (iii) HK\$15.6 million for working capital and general corporate purposes.

If the Offer Price is finally determined at the low end of the indicative Offer Price range, we currently intend to reduce the net proceeds from the New Issue applied for brand building in our bedding products by HK\$116.4 million and/or for working capital and general corporate purposes by HK\$3.8 million.

To the extent the net proceeds from the New Issue 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 external sources of financing. We currently believe that the net proceeds from the New Issue, when combined with such external sources of financing, are sufficient for the uses set forth above. To the extent that the net proceeds from the New Issue are not immediately applied for the above purposes, we intend to deposit the net proceeds from the New Issue into interest-bearing accounts with banks or other financial institutions. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

UNDERWRITING

HONG KONG UNDERWRITERS

Daiwa Capital Markets Hong Kong Limited
China Merchants Securities (HK) Co., Limited
CIMB Securities (HK) Limited
VC Brokerage Limited
CMB International Capital Corporation Limited
Oriental Patron Securities Limited
Kim Eng Securities (HK) Limited

INTERNATIONAL UNDERWRITERS

Daiwa Capital Markets Hong Kong Limited
China Merchants Securities (HK) Co., Limited
CIMB Securities (HK) Limited
VC Brokerage Limited
CMB International Capital Corporation Limited
Oriental Patron Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

The Hong Kong Underwriting Agreement was entered into on 28 May 2010. Pursuant to the Hong Kong Underwriting Agreement, our Company is offering initially 28,000,000 Public Offer Shares for subscription on and subject to the terms and conditions set forth in this prospectus and the Application Forms. Subject to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be offered as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally, but not jointly, to subscribe or procure subscribers for their respective applicable proportions of the Public Offer Shares now being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions set forth in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the execution and delivery of the International Placing Agreement having been signed and becoming unconditional.

UNDERWRITING

Grounds for termination

The Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) may in its sole discretion terminate this Agreement by notice in writing given to us at any time prior to 8:00 a.m. on the Listing Date, if:

- (a) there has come to the notice of the Sole Global Coordinator:
 - (i) that any statement, considered by the Sole Global Coordinator (for itself and on behalf of other Hong Kong Underwriters) in its sole and absolute opinion to be material, contained in this prospectus (or any other documents used in connection with the offer of the Offer Shares) (“Offer Documents”) was, when it was issued, or has become, untrue, incorrect or misleading in any respect or that any forecasts, expressions of opinion, intention or expectation expressed in any Offer Document are not, in the sole and absolute opinion of the Sole Global Coordinator, in all material respects fair and honest and based on reasonable assumptions, when taken as a whole; or
 - (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom considered by the Sole Global Coordinator (for itself and on behalf of other Hong Kong Underwriters) to be material to the Global Offering; or
 - (iii) any breach of any of the obligations imposed upon any party (other than the Sole Global Coordinator or any of the Underwriters) to any of the Underwriting Agreements; or
 - (iv) any change or development involving a prospective change in the conditions, business affairs, prospects, profits, losses or the financial or trading position or performance of our Company or any of our subsidiaries which is considered by the Sole Global Coordinator (for itself and on behalf of other Hong Kong Underwriters) in its sole and absolute opinion to be material in the context of the Global Offering; or
 - (v) any breach of any of the warranties of the Hong Kong Underwriting Agreement considered by the Sole Global Coordinator (for itself and on behalf of other Hong Kong Underwriters) in its sole and absolute opinion to be material in the context of the Global Offering, or any matter or event showing any of the warranties of the Hong Kong Underwriting Agreement to be untrue, misleading or inaccurate in any material aspects; or
 - (vi) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares is refused or not granted, other than subject to customary conditions, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
 - (vii) our Company withdraws any of the Offer Document or the Global Offering; or

UNDERWRITING

- (viii) any person (other than any of the Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents; or
 - (ix) any event, act or omission which gives rise or is likely to give rise to any material liability of our Company pursuant to the indemnities contained in the Hong Kong Underwriting Agreement; or
 - (x) a valid demand by any creditor for repayment or payment of any indebtedness of our Company or any of our subsidiaries or in respect of which our Company or any of our subsidiaries is liable prior to its stated maturity which demand has or could reasonably be expected to have a material adverse effect on our Group taken as a whole, or
- (b) there shall develop, occur, exist or come into force:
- (i) any event, or series of events, beyond the reasonable control of the Underwriters (including, without limitation, acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a national or international emergency, riot, public disorder, economic sanctions, outbreaks of diseases pandemics or epidemics (including without limitation Severe Acute Respiratory Syndrome and H5N1, H1N1 or any related or mutated forms thereof) or interruption or delay in transportation); or
 - (ii) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change, in local, national, international, financial, economic, legal, political, military, industrial, fiscal, regulatory, currency or market conditions, conditions in Hong Kong, the PRC, the United States, the Cayman Islands, the BVI or any other jurisdictions relevant to our Group (the “Relevant Jurisdictions”), or matters and/or disaster or monetary or trading settlement system (including without limitation any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the Tokyo Stock Exchange, the London Stock Exchange, the American Stock Exchange, the Nasdaq National Market, the Chicago Board of Options Exchange, the Chicago Mercantile Exchange or the Chicago Board of Trade, or a material fluctuation in the exchange rate of the Hong Kong dollar against any foreign currency, or a material revaluation of the Hong Kong currency against the currency of the United States or the Renminbi against any foreign currencies, or any interruption in securities settlement or clearance service or procedures in Hong Kong or anywhere in the world); or
 - (iii) any new laws, rules, statutes, ordinances, regulations, guidelines, opinions, notices, circulars, orders, judgements, decrees, or rulings of any governmental authority (“Laws”) or change or development involving a prospective change in existing Laws or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in any of the Relevant Jurisdictions; or

UNDERWRITING

- (iv) the imposition of economic sanctions or withdrawal of trading privileges, in whatever form, directly or indirectly, by or for the United States or the European Union (or any member thereof) on any of the Relevant Jurisdictions; or
- (v) a change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment Laws in any of the Relevant Jurisdictions or affecting an investment in the Shares; or
- (vi) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (vii) any litigation or claim of material importance of any third party being threatened or instigated against any member of our Group; or
- (viii) any of our Directors being charged with an indictable offence or prohibited by operation of Law or otherwise disqualified from taking part in the management of a company; or
- (ix) the chairman or chief executive officer of our Company vacating his office in circumstances where the operations of our Group will be materially and adversely affected; or
- (x) the commencement by any regulatory body of any public action against any of our Director in his capacity as such or an announcement by any regulatory body that it intends to take any such action; or
- (xi) a contravention by any member of our Group of the Companies Ordinance, the Listing Rules, or other applicable securities Laws; or
- (xii) a prohibition on our Company for whatever reason from allotting the Offer Shares pursuant to the terms of the Global Offering; or
- (xiii) non-compliance of this prospectus (or any other documents used in connection with the offer of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Law; or
- (xiv) other than with the approval of the Sole Global Coordinator, the issue or requirement to issue by our Company of a supplementary prospectus (or any other documents used in connection with the offer of the Offer Shares) pursuant to the Companies Ordinance or the Listing Rules; or
- (xv) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity; or
- (xvi) any loss or damage sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or

UNDERWRITING

- (xvii) a petition is presented for the winding-up or liquidation of our Company or any of our subsidiaries or our Company or any of our subsidiaries 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 any of our subsidiaries or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of our Company or any of our subsidiaries or anything analogous thereto occurs in respect of our Company or any of our subsidiaries; or

- (xviii) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary of Hong Kong and/or the Hong Kong Monetary Authority or otherwise), New York (imposed at the United States federal or New York state level or otherwise) or the PRC or a material disruption in commercial banking or securities settlement or clearance services in any of the Relevant Jurisdictions; or

- (xix) any suspension or limitation in trading in shares or securities generally on the New York Stock Exchange or the Stock Exchange or a disruption has occurred in securities settlement or clearance services or procedures in the Relevant Jurisdictions; or

- (xx) any change or development involving a prospective change in the condition, financial or otherwise, or in the earnings, business affairs, business prospects or trading position of our Group, including any litigation or claim of material importance of any third party being threatened or instigated against our Company or any of our subsidiaries; or

- (xxi) any outbreak or escalation of hostilities (whether or not war is or has been declared) involving any of the Relevant Jurisdictions or any escalation thereof, or the declaration by any of the Relevant Jurisdictions of a national emergency or war,

which in each case in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters):

- (a) is or will or could be expected to have an adverse effect on the general affairs, management, business, financial, trading or other condition or prospects of our Company or any of its subsidiaries or on any present or prospective shareholder in his, her or its capacity as such; or

- (b) has or will have or could be expected to have an adverse effect on the success, marketability or pricing of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or

- (c) makes it inadvisable, inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering or shall otherwise result in an interruption to or delay thereof; or

- (d) would have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

UNDERWRITING

Undertakings

We agree and undertake that we will not effect any purchase of Shares, or agree to do so, which may reduce the holdings of Shares of persons other than the Directors, substantial shareholders or their respective associates to below 25% on or before the date falling six months after the Listing Date without first having obtained the prior written consent of the Sole Global Coordinator (on behalf of the Hong Kong Underwriters).

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealing), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

Each of the Controlling Shareholders has jointly and severally undertaken to each of the Sole Global Coordinator, the Sole Sponsor, our Company and the other Hong Kong Underwriters that:

- (i) in the period commencing on the date by reference to which disclosure of his/her/its interests in our Company is made in this prospectus and ending on the date falling six months from the Listing Date (the “First Period”), he/she/it shall not, and shall procure that the relevant registered holder(s) and his/her/its associates and companies controlled by him/her/it and any nominee or trustee holding in trust for him/her/it shall not, without the prior written consent of the Sole Global Coordinator and unless in compliance with the requirements of the Listing Rules, (a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, any of the Shares or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive any of the Shares or securities of our Company disclosed in this prospectus to be beneficially owned by him/her/it or the relevant company, nominee or trustee (including any interest in any shares in any company controlled by him/her/it) which is directly or indirectly a beneficial owner of any of the Shares or securities of the Company as disclosed in this prospectus as aforesaid (the “Relevant Securities”); or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, directly or indirectly, any of the economic consequences of ownership of the Relevant Securities, whether any of the foregoing transactions is to be settled by delivery of the Relevant Securities, in cash or otherwise; (c) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (a) or (b) above; or (d) announce any intention to enter into or effect any of the transactions referred to in paragraphs (a), (b) or (c) above;
- (ii) he/she/it shall not, and shall procure that the relevant registered holder(s) and his/her/its associates or companies controlled by him/her/it and any nominee or trustee holding in trust for him/her/it shall not, directly or indirectly, without the prior written consent of the Sole Global Coordinator and the Stock Exchange in the six-month period commencing on the expiry of the First Period set out in paragraph (i) above (the “Second Period”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or

UNDERWRITING

encumbrances in respect of, any Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/she/it would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company or would together with the other Controlling Shareholders cease to be controlling shareholders (as defined in the Listing Rules) of our Company;

- (iii) in the event of a disposal of any Shares or securities of our Company or any interest therein within the Second Period, he/she/it shall take all reasonable steps to ensure that such a disposal shall not create a disorderly or false market for any Shares or other securities of our Company; and
- (iv) he/she/it shall, and shall procure that his/her/its associates and companies controlled by and nominees or trustees holding in trust for him/her/it shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by him/her/it or by the registered holder controlled by him/her/it of any Shares.

Each of Mr. Huang Quan and Superior Delight has jointly and severally represented, warranted and undertaken to each of the Sole Global Coordinator, the Sole Sponsor, the Company and the other Hong Kong Underwriters that he/it shall not, and shall procure that his/its associates or companies controlled by him/it or nominees or trustees holding in trust for him/it shall not, (a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, any Relevant Securities; or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, directly or indirectly, any of the economic consequences of the ownership of the Relevant Securities, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise; or (c) agree (conditionally or unconditionally) to enter into or effect any transactions with the same economic effect as any of the transactions referred to in paragraphs (a) and (b) above; or (d) announce any intention to enter into or effect any of the transactions referred to in paragraphs (a), (b) or (c) above immediately following the completion of the Global Offering and the Capitalisation Issue within the First Period.

Each of the Controlling Shareholders, Mr. Huang Quan and Superior Delight has further undertaken to each of our Company, the Sole Global Coordinator, the Sole Sponsor, the other Hong Kong Underwriters that, within six months immediately following the First Period, he/she/it will:

- (i) when he/she/it pledges or charges any securities or interests in the Relevant Securities, immediately inform our Company, the Sole Global Coordinator and the Sole Sponsor in writing of such pledges or charges together with the number of securities and nature of interest so pledged or charged; and
- (ii) when he/she/it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company, the Sole Global Coordinator and the Sole Sponsor in writing of such indications.

We will inform the Stock Exchange as soon as we have been informed of the matters above (if any) by any of the Controlling Shareholders, Mr. Huang Quan and Superior Delight and disclose such matters by way of a press announcement.

UNDERWRITING

The International Offering

In connection with the International Offering, we expect to enter into the International Placing Agreement with, among others, the Sole Global Coordinator, the International Underwriters and the Selling Shareholder on or around the Price Determination Date. Under the International Placing Agreement, the International Underwriters will, subject to certain conditions set out therein, severally agree to subscribe/purchase or procure subscription/purchase for the International Offer Shares. The Selling Shareholder is expected to offer and sell the Sale Shares in the International Offering only and not in the Hong Kong Public Offering. The International Placing Agreement is expected to provide that it may be terminated on similar grounds as the Hong Kong Underwriting Agreement.

We expect to grant to the Sole Global Coordinator (for itself and on behalf of the International Underwriters) the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriters at any time from the day on which dealings in the Shares commence on the Stock Exchange until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require us to allot and issue up to an aggregate of 42,000,000 additional Shares representing 15% of the initial Offer Shares, at the Offer Price, to cover over-allocations (if any) in the International Offering.

Total Commission and Expenses

The Hong Kong Underwriters will receive an underwriting commission of 3.0% on the Offer Price of the Public Offer Shares initially offered under the Hong Kong Public Offering, out of which they will pay any sub-underwriting commission. For unsubscribed Public Offer Shares reallocated to the International Offering, we and the Selling Shareholder rateably will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the Sole Global Coordinator and the relevant International Underwriters (but not the Hong Kong Underwriters). In addition, an incentive fee of up to approximately 1.6% on the aggregate Offer Price of all the Offer Shares (assuming the Over-allotment Option is not exercised) will be paid to the Sole Global Coordinator (for the account of the Joint Bookrunners).

The aggregate commissions, incentive fee and estimated expenses, together with listing fees, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Global Offering are estimated to be approximately HK\$78.2 million to HK\$100.7 million (assuming the Over-allotment Option is not exercised and the Offer Price ranging from HK\$2.06 to HK\$3.09 per Share) and are payable by our Company and the Selling Shareholder in proportion to the amount of Offer Shares issued or sold by each of them under the Global Offering. Stamp duty (if any) payable in respect of the Sale Shares shall be borne by the Selling Shareholder.

HONG KONG UNDERWRITERS' INTERESTS IN OUR COMPANY

Save as disclosed in this prospectus and save for its obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding interests in us or the right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in our Company or any other member of our Group.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (i) the Hong Kong Public Offering of 28,000,000 the Shares (subject to adjustment as mentioned below) in Hong Kong; and
- (ii) the International Offering of an aggregate of 252,000,000 Shares (subject to adjustment as mentioned below and the exercise of the Over-allotment Option) outside the United States (including to professional, institutional and corporate investors and excluding retail investors in Hong Kong) in reliance on Regulation S.

The Offer Shares will represent 28% of our registered share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. The Sole Global Coordinator is the sole global coordinator of the Global Offering. The Joint Bookrunners are the joint bookrunners of the Global Offering. The Joint Lead Managers are the joint lead managers of the Global Offering. The underwriting arrangements, and the respective Underwriting Agreements, are summarised in the section headed “Underwriting” in this prospectus.

Investors may apply for Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for Offer Shares under the International Offering, but may not do both.

THE HONG KONG PUBLIC OFFERING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to among others, our Company (for itself and on behalf of the Selling Shareholder) and the Sole Global Coordinator (on behalf of the Underwriters) agreeing on the Offer Price.

Number of Shares initially offered

We are initially offering 28,000,000 New Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 10% of the total number of Offer Shares initially available under the Global Offering.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the section below entitled “— Conditions of the Hong Kong Public Offering.”

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants, but, subject to that, will be made strictly on a pro-rata basis. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

The total number of Offer Shares available under the Hong Kong Public Offering is to be divided into two pools for allocation purposes (subject to any adjustment in the number of Offer Shares allocated between the International Offering and the Hong Kong Public Offering): 14,000,000 Public Offer Shares for pool A and 14,000,000 Public Offer Shares for pool B. The Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Public Offer Shares with an aggregate subscription price of HK\$5 million or less (excluding the brokerage fee, SFC transaction levy and Stock Exchange trading fee payable). The Public Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Public Offer Shares with an aggregate subscription price of more than HK\$5 million and up to the total value of pool B (excluding the brokerage fee, SFC transaction levy and Stock Exchange trading fee payable). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Public Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Public Offer Shares will be transferred to the other pool to satisfy demand in this other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for Public Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Public Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 14,000,000 Public Offer Shares in pool A or 14,000,000 Public Offer Shares in pool B will be rejected. No applications will be accepted from applicants applying for more than the total number of Public Offer Shares originally allocated to each pool.

Reallocation

The allocation of the Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, or (iii) 100 times or more of the number of Shares initially available under the Hong Kong Public Offering, then Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Shares available under the Hong Kong Public Offering will be increased to 84,000,000 Shares (in the case of (i)), 112,000,000 Shares (in the case of (ii)) and 140,000,000 Shares (in the case of (iii)) representing 30%, 40% and 50% of the Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option). In each case, the additional Shares reallocated to the Hong Kong Public Offering will be allocated equally between pool A and pool B and the number of Shares allocated to the International Offering will be correspondingly reduced in such manner as the Sole Global Coordinator deem appropriate. In addition, the Sole Global Coordinator may allocate Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

If the Public Offer Shares are not fully subscribed for or purchased, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Public Offer Shares originally included in the Hong Kong Public Offering to the International Offering, in such proportions as the Sole Global Coordinator deems appropriate.

Applications

Each applicant under the Hong Kong Public Offering 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 applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering, and such applicant's application may be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or he has been or will be placed or allocated International Offer Shares under the International Offering.

The listing of Offer Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$3.09 per Share in addition to any brokerage fee, SFC transaction levy and Stock Exchange trading fee payable on each Share. If the Offer Price, as finally determined in the manner described in the subsection below entitled “— Pricing of the Global Offering”, is less than the maximum price of HK\$3.09 per Share, appropriate refund payments (including the brokerage fee, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed “How to Apply for the Public Offer Shares” in this prospectus.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

We expect to enter into the International Placing Agreement relating to the International Offering on the Price Determination Date.

Number of Shares offered

Subject to reallocation as described above and the exercise of the Over-allotment Option, our Company is initially offering for subscription 222,000,000 New Shares and the Selling Shareholder is offering for sale 30,000,000 Sale Shares, both at the final Offer Price, representing in aggregate 90% of the total number of Offer Shares initially available under the Global Offering, under the International Offering. The International Offering will consist of an aggregate of 252,000,000 International Offer Shares. The International Offering is subject to, among other things, the Hong Kong Public Offering being unconditional.

Allocation

The International Offering will include selective marketing of Offer Shares to professional, institutional, corporate and other investors (excluding retail investors) anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

on Regulation S. Professional, institutional and corporate investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of International Offer Shares will be effected in accordance with the “book-building” process described in the sub-section below entitled “— Pricing of the Global Offering” and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which will lead to the establishment of a solid professional and institutional shareholder base to our benefit and that of our Shareholders as a whole.

The Sole Global Coordinator (for itself and on behalf of the other Underwriters) may require any investor who has been offered the International Offer Shares, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Public Offer Shares under the Hong Kong Public Offering.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, we are expected to grant an Over-allotment Option to the Sole Global Coordinator (for itself and on behalf of the International Underwriters) exercisable at the discretion of the Sole Global Coordinator (on behalf of the International Underwriters).

Pursuant to the Over-allotment Option, the Sole Global Coordinator has the right, exercisable at any time from the day on which trading of Shares commences on the Stock Exchange until 30 days after the last day for lodging of applications under the Hong Kong Public Offering, to require us to allot and issue up to 42,000,000 additional Shares, representing 15% of the Offer Shares initially available under the Global Offering, at the Offer Price, to cover any over-allocations in the International Offering. If the Over-allotment Option is exercised, an announcement will be made in accordance with the Listing Rules.

PRICING OF THE GLOBAL OFFERING

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring International Offer Shares. Prospective professional and institutional investors will be required to specify the number of International Offer Shares they are 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 around, the last day for lodging applications under the Hong Kong Public Offering.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Pricing for Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Friday, 4 June 2010, or by the latest on Saturday, 5 June 2010, by agreement between the Sole Global Coordinator, for itself and on behalf of the other Underwriters, and our Company (for itself and on behalf of the Selling Shareholder) and the number of Shares to be allocated under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$3.09 per Share and is expected to be not less than HK\$2.06 per Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Applicants under the Global Offering should pay, on application, the maximum price of HK\$3.09 per Share plus 1% brokerage fee, 0.004% SFC transaction levy and 0.005% Stock Exchange trading fee amounting to a total of HK\$6,242.36 per board lot of 2,000 Shares. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.** If the Offer Price, as finally determined in the manner described below, is lower than HK\$3.09, being the maximum price, we will refund the respective difference (including the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus monies) to successful applicants, without interest. Further details are set forth in the section headed “How to Apply for the Public Offer Shares” in this prospectus.

The Sole Global Coordinator, for itself and on behalf of the other Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the current of our Company (for itself and on behalf of the Selling Shareholder) consent, reduce the number of Public Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In case of such a reduction, we will, as soon as practicable following the decision to make the reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) announcement of the reduction in the number of Public Offer Shares and/or the indicative Offer Price range. Upon issue of such announcement, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Sole Global Coordinator, for itself and on behalf of the other Underwriters, and our Company (for itself and on behalf of the Selling Shareholder), will be fixed within this revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Public Offer Shares and/or the indicative Offer Price range may not be made until the last day for lodging applications under the Hong Kong Public Offering. The announcement will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. **Applicants under the Hong Kong Public Offering should note that in no circumstances can applications be withdrawn once they are submitted, even if the number of Public Offer Shares and/or the Offer Price range is reduced as described in this paragraph.** In the absence of any announcement of reduction published as described in this paragraph, the Offer Price, if agreed upon between our Company (for itself and on behalf of the Selling Shareholder) and the Sole Global Coordinator, for itself and on behalf of the other Underwriters, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

The net proceeds of the New Issue (after deduction of underwriting fees and estimated expenses payable by us in relation to the Global Offering, assuming the Over-allotment Option is not exercised) are estimated to be approximately HK\$445.1 million, assuming an Offer Price of HK\$2.06 per Share, or approximately HK\$682.6 million, assuming an Offer Price of HK\$3.09 per Share (or assuming the Over-allotment Option is exercised in full, approximately HK\$529.1 million, assuming an Offer Price of HK\$2.06 per Share, or approximately HK\$806.4 million, assuming an Offer Price of HK\$3.09 per Share).

The final Offer Price, the indications of interest in the Global Offering, the results of applications and the basis of allotment of Shares available under the Hong Kong Public Offering, are expected to be announced on Thursday, 10 June 2010 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

STABILISATION

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

In connection with the Global Offering, the Sole Global Coordinator, as stabilising manager, its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilising or maintaining the market price of Offer Shares at a level higher than that which might otherwise prevail for a limited period commencing from the Listing Date.

Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Sole Global Coordinator, its affiliates or any person acting for it to do this. Such stabilisation, if taken, will be conducted at the absolute discretion of the Sole Global Coordinator, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period. The number of Offer Shares that may be over-allocated will not be greater than the number of Offer Shares which may be sold upon exercise of the Over-allotment Option, being 42,000,000 Shares, which is 15% of the Offer Shares initially available under the Global Offering.

The Sole Global Coordinator, its affiliates or any person acting for it may take all or any of the following stabilising actions in Hong Kong during the stabilisation period:

- (i) purchase, or agree to purchase, any of Offer Shares or offer or attempt to do so for the sole purpose of preventing or minimising any reduction in the market price of Offer Shares; and/or
- (ii) in connection with any action described in paragraph (i) above:
 - (A) (1) over-allocate Offer Shares; or

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

- (2) sell or agree to sell Offer Shares so as to establish a short position in them, for the sole purpose of preventing or minimising any reduction in the market price of Offer Shares;

- (B) exercise the Over-allotment Option and/or purchase or subscribe for or agree to purchase or subscribe for Offer Shares in order to close out any position established under paragraph (A) above;

- (C) sell or agree to sell any of Offer Shares acquired by it in the course of the stabilising action referred to in paragraph (i) above in order to liquidate any position that has been established by such action; and/or

- (D) offer or attempt to do anything as described in paragraph (ii)(A)(2), (ii)(B) or (ii)(C) above.

The Sole Global Coordinator, its affiliates or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares, and there is no certainty as to the extent to which and the time period for which it will maintain such a position. Investors should be warned of the possible impact of any liquidation of the long position by the Sole Global Coordinator, its affiliates or any person acting for it, which may include a decline in the market price of Offer Shares.

Stabilisation cannot be used to support the price of Offer Shares for longer than the stabilisation period, which begins on the day on which dealings in Offer Shares commence on the Stock Exchange and ends on the thirtieth day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilisation period is expected to expire on Saturday, 3 July 2010. After this date, when no further stabilising action may be taken, demand for Offer Shares, and therefore their market price, could fall.

Any stabilising action taken by the Sole Global Coordinator, its affiliates or any person acting for it, may not necessarily result in the market price of Offer Shares staying at or above the Offer Price either during or after the stabilisation period. Stabilisation bids or market purchases effected in the course of the stabilisation action may be made at any price at or below the Offer Price and can therefore be done at a price below the price investors have paid in acquiring Offer Shares.

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, 11 June 2010, it is expected that dealings in Offer Shares on the Stock Exchange will commence at 9:30 a.m. on Friday, 11 June 2010.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for Offer Shares pursuant to the Hong Kong Public Offering will be conditional on, among other things:

- (i) the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the Shares which may be made available pursuant to the Capitalisation Issue and the exercise of the Over-allotment Option), and such listing and permission not having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange; and
- (ii) the Offer Price having been duly determined; and
- (iii) the execution and delivery of the International Placing Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 8:00 a.m. in Hong Kong on Friday, 11 June 2010.

If, for any reason, the Offer Price is not agreed between our Company (for itself and on behalf of the Selling Shareholder) and the Sole Global Coordinator (for itself and on behalf of the other Underwriters), the Global Offering will lapse and will not proceed.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will publish notice of the lapse of the Hong Kong Public Offering in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for the Public Offer Shares” in this prospectus. In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving banker or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on Friday, 11 June 2010 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination” in this prospectus has not been exercised.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

1. CHANNELS OF APPLYING FOR THE PUBLIC OFFER SHARES

You may apply for the Public Offer Shares by using one of the following methods:

- using a **WHITE** or **YELLOW** Application Form; or
- giving **electronic application instructions** to HKSCC to cause HKSCC Nominees Limited to apply for the Public Offer Shares on your behalf;
- by means of **White Form eIPO** by submitting applications online through the designated website at www.eipo.com.hk. Use the **White Form eIPO** if you want the Shares to be issued in your own name.

You, or you and your joint applicant(s), may only make one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider.

2. WHO CAN APPLY FOR 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;
- have a Hong Kong address;
- are outside the United States when completing and submitting the application or are a person described in paragraph (h)(3) of Rule 902 of Regulation S; and
- are not a legal or natural person of the PRC.

If you wish to apply for Public Offer Shares online through the **White Form eIPO** 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 **White Form eIPO** service if you are an individual applicant. Corporations or joint applicants may not apply by means of **White Form eIPO** service.

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 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 Global Coordinator (or its agents or nominees) may accept it at its discretion and subject to any conditions it thinks fit, including production of evidence of the authority of the attorney.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

The number of joint applicants may not exceed four.

We and the Sole Global Coordinator (or our or its agents) or the designated **White Form eIPO** Service Provider 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 legal or beneficial owners of Shares, directors, supervisors or chief executives of our Company or any of our subsidiaries, or their respective associates or any other connected persons of our Company or persons who will become our connected persons immediately upon completion of the Global Offering.

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

3. WHICH APPLICATION CHANNELS YOU SHOULD USE

(a) **WHITE Application Forms**

Use a **WHITE** Application Form if you want the Public Offer Shares to be registered in your own name.

(b) **YELLOW Application Forms**

Use a **YELLOW** Application Form if you want the Public Offer Shares to be registered in the name of HKSCC Nominees Limited and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant.

(c) **Give electronic application instruction to HKSCC**

Instead of using a **WHITE** or **YELLOW** Application Form or **White Form eIPO** service, you may **electronically** instruct HKSCC via CCASS to cause HKSCC Nominees Limited to apply for the Public Offer Shares on your behalf. Any Public Offer Shares allocated to you will be registered 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.

(d) **Apply through the designated White Form eIPO service**

You may apply for Public Offer Shares online through the designated website at www.eipo.com.hk, referred to herein as the "**White Form eIPO**" service, if you want the Public Offer Shares to be registered in your own name.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

4. WHERE TO COLLECT THE APPLICATION FORMS

- (a) You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 31 May 2010 until 12:00 noon on Thursday, 3 June 2010 from:

any of the following addresses of the Hong Kong Underwriters:

Daiwa Capital Markets Hong Kong Limited

Level 26, One Pacific Place
88 Queensway
Hong Kong

or

China Merchants Securities (HK) Co., Limited

48/F, One Exchange Square
Central
Hong Kong

or

CIMB Securities (HK) Limited

25th Floor, Central Tower
28 Queen's Road Central
Hong Kong

or

VC Brokerage Limited

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

or

CMB International Capital Corporation Limited

Units 1803-04, 18/F, Bank of America Tower
12 Harcourt Road, Central
Hong Kong

or

Oriental Patron Securities Limited

Suite 2701-3 & 2705-8
27/F, Two Exchange Square
8 Connaught Place, Central
Hong Kong

or

Kim Eng Securities (HK) Limited

Level 30 Three Pacific Place
1 Queen's Road East
Hong Kong

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

or any of the following branches of **Bank of Communications Co., Ltd. Hong Kong Branch:**

Hong Kong Island:	Hong Kong Branch	20 Pedder Street, Central
	Central District Sub-Branch	G/F., Far East Consortium Building, 125A Des Voeux Road C., Central
	King's Road Sub-Branch	67-71 King's Road
	Taikoo Shing Sub-Branch	Shop 38, G/F., CityPlaza 2, 18 Taikoo Shing Road
Kowloon:	Kowloon Sub-Branch	G/F., 563 Nathan Road
	Shamshuipo Sub-Branch	G/F., Shop 1, Golden Centre, 94 Yen Chow Street, Sham Shui Po
	Ngau Tau Kok Sub-Branch	Shop G1 & G2, G/F., Phase I, Amoy Plaza, 77 Ngau Tau Kok Road
New Territories:	Tai Po Sub-Branch	Shop No.1, G/F., Wing Fai Plaza, 29-35 Ting Kok Road, Tai Po
	Market Street Sub-Branch	G/F., 53 Market Street, Tsuen Wan
	Tiu Keng Leng Sub-Branch	Unit L2-064 & 065, Metro Town Shopping Mall, 8 King Ling Road, Tiu Keng Leng

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

Hong Kong Island:	Des Voeux Road Branch	Standard Chartered Bank Building, 4-4A, Des Voeux Road Central, Central
	88 Des Voeux Road Branch	88 Des Voeux Road Central, Central
	Quarry Bay Branch	G/F, Westlands Gardens, 1027 King's Road, Quarry Bay
	Leighton Centre Branch	Shop 12-16, UG/F, Leighton Centre, 77 Leighton Road, Causeway Bay

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Kowloon:	Kwun Tong Branch	1A Yue Man Square, Kwun Tong
	Mongkok Branch	Shop B, G/F, 1/F & 2/F, 617-623 Nathan Road, Mongkok
	Tsimshatsui Branch	G/F, 10 Granville Road, Tsimshatsui
New Territories:	Shatin Centre Branch	Shop 32C, Level 3, Shatin Shopping Arcade, Shatin Centre, 2-16 Wang Pok Street, Shatin
	Tsuen Wan Branch	Shop C, G/F & 1/F, Jade Plaza, 298 Sha Tsui Road, Tsuen Wan
	Tseung Kwan O Branch	Shop G37-40, G/F, Hau Tak Shopping Centre East Wing, Hau Tak Estate, Tseung Kwan O

(b) You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 31 May 2010 until 12:00 noon on Thursday, 3 June 2010 from:

- (1) the Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or
- (2) your stockbroker, who may have such Application Forms and this prospectus available.

5. WHEN TO APPLY FOR THE PUBLIC OFFER SHARES

(a) **WHITE** or **YELLOW** Application Forms

Your completed **WHITE** or **YELLOW** Application Form, with a cheque or banker's cashier order attached, must be lodged by 12:00 noon on Thursday, 3 June 2010, or, if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" below.

Your completed **WHITE** or **YELLOW** Application Form, with a payment attached, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed under the paragraph headed "Where to collect the Application Forms" in this section at the following times:

Monday, 31 May 2010	—	9:00 a.m. to 5:00 p.m.
Tuesday, 1 June 2010	—	9:00 a.m. to 5:00 p.m.
Wednesday, 2 June 2010	—	9:00 a.m. to 5:00 p.m.
Thursday, 3 June 2010	—	9:00 a.m. to 12:00 noon

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(b) Electronic application instructions to HKSCC

CCASS Clearing Participants or CCASS Custodian Participants should input **electronic application instructions** at the following times:

Monday, 31 May 2010	—	9:00 a.m. to 8:30 p.m.⁽¹⁾
Tuesday, 1 June 2010	—	8:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, 2 June 2010	—	8:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, 3 June 2010	—	8:00⁽¹⁾ a.m. to 12:00 noon

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing Participants or CCASS Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, 31 May 2010 until 12:00 noon on Thursday, 3 June 2010 (24 hours daily, except on the last day for submitting applications).

The latest time for inputting your **electronic application instructions** via CCASS (if you are a CCASS Participant) is 12:00 noon on Thursday, 3 June 2010 or if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” below.

(c) White Form eIPO

You may submit your application to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk from 9:00 a.m. on Monday, 31 May 2010 until 11:30 a.m. on Thursday, 3 June 2010 or such later time as described under the sub-paragraph headed “Effect of bad weather conditions 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, 3 June 2010, the last day for submitting applications, or, if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” below.

You will not be permitted to submit your application to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.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.

(d) Application lists

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 3 June 2010, except as provided in the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” below.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

No proceedings will be taken on applications for the Public Offer Shares and no allocation of any such Shares will be made until after the closing of the application lists.

(e) Effect of bad weather conditions on the opening of the application lists

The application lists will be open between 11:45 a.m. and 12:00 noon on Thursday, 3 June 2010, subject to weather conditions. The application lists will not be open in relation to the Hong Kong Public Offering 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, 3 June 2010. Instead, the application lists will be open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon in Hong Kong.

6. HOW TO APPLY USING A WHITE OR YELLOW APPLICATION FORM

- Obtain a **WHITE** or **YELLOW** Application Form.
- You should read the instructions in this prospectus and the relevant Application Form carefully. If you do not follow the instructions, your application is liable to be rejected and returned by ordinary post together with the accompanying cheque or banker’s cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk to the address stated on your Application Form.
- Decide how many Public Offer Shares you want to subscribe. Calculate the amount you must pay in accordance with the table set out in the Application Forms on the basis of the maximum Offer Price of HK\$3.09 per Offer Share, plus brokerage of 1%, the SFC transaction levy of 0.004% and the Stock Exchange trading fee of 0.005%.
- Complete the Application Form in English (save as otherwise indicated) and sign it. Only written signatures will be accepted. Applications made by corporations, whether on their own behalf, or on behalf of other persons, must be stamped with the company chop (bearing the company name) and signed by a duly authorised officer, whose representative capacity must be stated. If you are applying for the benefit of someone else, you, rather than that person, must sign on the Application Form. If it is a joint application, all applicants must sign on the Application Form. If your application is made through a duly authorised attorney, our Company and the Sole Global Coordinator (or its agents or nominees) may accept or reject the application at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of your attorney. The Sole Global Coordinator in its capacity as agent of our Company has full discretion to accept or reject any application, in full or in part, without assigning any reasons therefor.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(e) Each Application Form must be accompanied by either one cheque or one banker's cashier order, which must be stapled to the top left-hand corner of the Application Form. If you pay by cheque, the cheque must:

- be in Hong Kong dollars;
- not be post-dated;
- be drawn on your Hong Kong dollar bank account in Hong Kong;
- show your account name, which must either be pre-printed on the cheque, or be endorsed on the reverse of the cheque by an authorised signatory of the bank. This account name must correspond with the name of the applicant on the Application Form (or, in the case of joint applicants, the name of the first-named applicant). If the cheque is drawn on a joint account, one of the joint account names must be the same as the name of the first-named applicant;
- be made payable to "Bank of Communications (Nominee) Co. Ltd. — International Taifeng Public Offer"; and
- be crossed "Account Payee Only".

Your application may be rejected if your cheque does not meet all these requirements or is dishonoured on our first presentation.

If you pay by banker's cashier order, the banker's cashier order must:

- be issued by a licensed bank in Hong Kong and have your name certified on the reverse of the banker's cashier order by an authorised signatory of the bank on which it is drawn. The name on the reverse of the banker's cashier order and the name on the Application Form must be the same. If it is a joint application, the name on the reverse of the banker's cashier order must be the same as the name of the first-named joint applicant;
- not be post-dated;
- be in Hong Kong dollars;
- be made payable to "Bank of Communications (Nominee) Co. Ltd. — International Taifeng Public Offer"; and
- be crossed "Account Payee Only".

Your application may be rejected if your banker's cashier order does not meet all these requirements.

(f) Lodge your **WHITE** or **YELLOW** Application Forms in one of the special collection boxes by the time and at one of the locations, as respectively referred to in sub-paragraph 4(a) above.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (g) The right is reserved to present all or any remittance for payment. However, your cheque or banker's cashier order will not be presented for payment before 12:00 noon on Thursday, 3 June 2010. Our Company will not give you a receipt for your payment. Our Company will keep any interest accrued on your application monies (up until, in the case of monies to be refunded, the date of despatch of refund cheques). The right is also reserved to retain any share certificate(s) and/or any surplus application monies or refunds pending clearance of your cheque or banker's cashier order.
- (h) Multiple or suspected multiple applications are liable to be rejected. For further details, please see “— How many applications you can make” in this prospectus.
- (i) In order for the **YELLOW** Application Forms to be valid:

You, as the applicant(s), must complete the form and sign on the first page of the application form. Only written signature will be accepted.

- If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):
 - the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its CCASS Participant I.D. in the appropriate box on the **YELLOW** Application Form.
- If the application is made by an individual CCASS Investor Participant:
 - the **YELLOW** Application Form must contain your full name and your Hong Kong identity card number; and
 - the CCASS Investor Participant should insert its CCASS Participant I.D. in the appropriate box on the **YELLOW** Application Form.
- If the application is made by a joint individual CCASS Investor Participant:
 - the **YELLOW** Application Form must contain all joint CCASS Investor Participants' names and the Hong Kong identity card numbers of all joint CCASS Investor Participants; and
 - the CCASS Participant I.D. must be inserted in the appropriate box on the **YELLOW** Application Form.
- If you are applying as a corporate CCASS Investor Participant:
 - the **YELLOW** Application Form must contain the CCASS Investor Participant's company name and Hong Kong business registration number; and
 - the CCASS Participant I.D. and company chop (bearing the CCASS Investor Participant's company name) must be inserted in the appropriate box on the **YELLOW** Application Form.

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- 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 the application invalid.
- (j) Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are required 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 joint beneficial owner.

7. HOW TO APPLY THROUGH THE WHITE FORM eIPO SERVICE

- (a) You may apply through **White Form eIPO** by submitting an application through the designated website at www.eipo.com.hk. If you apply through **White Form eIPO**, the Shares will be issued in your own name. For the purposes of allocating Public Offer Shares, each applicant giving **electronic application instructions** through the **White Form eIPO** service to the White Form eIPO Service Provider through the designated website at www.eipo.com.hk will be treated as an applicant.
- (b) Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at www.eipo.com.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated **White Form eIPO** Service Provider and may not be submitted to our Company.
- (c) The designated **White Form eIPO** Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at www.eipo.com.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.
- (d) By submitting an application to the designated **White Form eIPO** Service Provider through the **White Form eIPO** service, you are deemed to have authorised the designated **White Form eIPO** Service Provider to transfer the details of your application to our Company and the Hong Kong Share Registrar.
- (e) You may submit an application through the **White Form eIPO** service in respect of a minimum of 2,000 Public Offer Shares. Each electronic application instruction in respect of more than 2,000 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.eipo.com.hk.
- (f) You should give **electronic application instructions** through **White Form eIPO** at the times set out in the 2nd-paragraph headed “When to apply for the Public Offer Shares — **White Form eIPO**” above.
- (g) You should make payment for your application made by **White Form eIPO** service in accordance with the methods and instructions set out in the designated website at www.eipo.com.hk. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Thursday, 3 June 2010, or such later time as described under the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” in the section headed “When to apply for the Public Offer

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Shares”, the designated **White Form eIPO** 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.eipo.com.hk.

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated White Form eIPO Service Provider, will contribute HK\$2 per each “**INTERNATIONAL TAIFENG HOLDINGS LIMITED**” White Form eIPO application submitted via www.eipo.com.hk to support the funding of “Source of DongJiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

Warning: The application for Public Offer Shares through the White Form eIPO service is only a facility provided by the designated White Form eIPO Service Provider to public investors. Our Company, our Directors, the Sole Global Coordinator, the Sole Sponsor, the Underwriters and the White Form eIPO Service Provider take no responsibility for such applications, and provide no assurance that applications through the White Form eIPO 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 **White Form eIPO** service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offering to submit your **electronic application instructions**. In the event that you have problems connecting to the designated website for the **White Form eIPO** 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** or **YELLOW** Application Form or give **electronic application instructions** to HKSCC via CCASS. For further details, please see “— How many applications you can make” in this prospectus.

8. HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

- (a) CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for the Public Offer Shares and to arrange for payment of the money 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.

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- (b) If you are a CCASS Investor Participant, you may give **electronic application instructions** to HKSCC through the CCASS Phone System by calling 2979 7888 or CCASS Internet System at <https://ip.ccass.com> (according to the procedures contained in “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:

Customer Service Centre of HKSCC
2nd Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

- (c) 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.
- (d) You are deemed to have authorised HKSCC and/or HKSCC Nominees Limited to transfer the details of your application whether submitted by you or through your designated CCASS Clearing Participant or CCASS Custodian Participant to our Company and our Hong Kong Share Registrar.
- (e) You may give **electronic application instructions** in respect of a minimum of 2,000 Public Offer Shares. Each **electronic application instruction** in respect of more than 2,000 Public Offer Shares must be in one of the numbers set out in the table on the Application Form.
- (f) Where a **WHITE** Application Form is signed by HKSCC Nominees Limited on behalf of persons who have given **electronic application instructions** to apply for the Public Offer Shares:
- (i) HKSCC Nominees Limited is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form and/or this prospectus; and
 - (ii) HKSCC Nominees Limited does all the things on behalf of each of such persons as stated in the paragraph headed “Effect of making any application” below.
- (g) If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees Limited 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.

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- (h) For the purpose of allocating the Public Offer Shares, HKSCC Nominees Limited shall 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 shall be treated as an applicant.
- (i) The paragraph headed “Personal data” below applies to any personal data held by the Sole Sponsor, the Sole Global Coordinator, our Company and the Hong Kong Share Registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees Limited.

Warning

Application for the Public Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Our Company, the Sole Sponsor, the Sole Global Coordinator and all other parties involved in the Global Offering take no responsibility for the application and provide no assurance that any CCASS Participant will be allocated any Public Offer Shares. To ensure that CCASS Investor Participants can give their electronic application instructions to HKSCC through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input instructions. If CCASS Investor Participants have problems in connecting to the CCASS Phone System or CCASS Internet System to submit electronic application instructions, they should either:

- (a) **submit the WHITE or YELLOW Application Form (as appropriate) or submit an application to the designated White Form eIPO Service Provider; or**
- (b) **go to HKSCC’s Customer Service Centre to complete an application instruction input request form before 12:00 noon on Thursday, 3 June 2010 or such later time as described under the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” above.**

9. RESULTS OF ALLOCATIONS

Results of allocations in the Global Offering including (i) the indication of the level of interest in the International Offering; (ii) the level of applications in the Hong Kong Public Offering; (iii) the basis of allotment of the Public Offer Shares; (iv) the number of Shares reallocated under the clawback adjustment, if any; and (v) the Hong Kong identity card/passport/Hong Kong business registration certificate numbers of successful applicants and the number of the Public Offer Shares successfully applied for, and the final Offer Price will be made available at the times and dates and in the manner specified below:

- on our website at **www.taifeng.cc** and the Stock Exchange’s website at **www.hkex.com.hk** from Thursday, 10 June 2010 onward;
- on our Hong Kong Public Offering results of allocations website at **www.iporeresults.com.hk** (a hyperlink to which can also be found on our website **www.taifeng.cc**) on a 24-hour basis from 8:00 a.m. on Thursday, 10 June 2010 to 12:00 midnight on Wednesday, 16 June 2010.

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The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration certificate number provided in his/her/its application to search for his/her/its own allocation result;

- from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of the Public Offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, 10 June 2010 to Sunday, 13 June 2010;
- from special allocation results booklets which set out the results of allocations available for inspection during opening hours of the designated branches of the receiving bank of the Hong Kong Public Offering from Thursday, 10 June 2010 to Saturday, 12 June 2010 at the addresses set out in the section headed “Where to collect the Application Forms”.

10. HOW MANY APPLICATIONS YOU CAN MAKE

(a) You may make more than one application for the Public Offer Shares only if:

- You are a nominee, in which case you may make an application as a nominee by: (i) giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Participant); or (ii) using a **WHITE** or **YELLOW** Application Form and lodging more than one application in your own name on behalf of different beneficial owners. In the box on the **WHITE** or **YELLOW** 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 made for your own benefit.

Multiple or suspected multiple applications are liable to be rejected.

(b) Save as referred to (a) above, all of your applications for the Public Offer Shares (including the part of the application made by HKSCC Nominees Limited acting on **electronic application instructions**) will be rejected as multiple applications if you, or you and your joint applicant(s) together or any of your joint applicants:

- make more than one application (whether individually or jointly with others) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing or Custodian Participant) or to the designated **White Form eIPO** Service Provider; or
- both apply (whether individually or jointly with others) on one (or more) **WHITE** Application Form and one (or more) **YELLOW** Application Form or on one (or more) **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC via CCASS or to the designated **White Form eIPO** Service Provider; or

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- apply (whether individually or jointly with others) on one (or more) **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing or Custodian Participant) or to the designated **White Form eIPO** Service Provider for more than 100% of the Public Offer Shares being initially available in either pool A or pool B to the public as referred to under the section headed “Structure and Conditions of the Global Offering” in this prospectus; or
 - have applied for or taken up, or indicated an interest in applying for or taking up or have been or will be placed (including conditionally and/or provisionally) any International Offer Shares under the International Offering.
- (c) All of your applications for the Public Offer Shares are liable to be rejected as multiple applications if more than one application is made for your benefit (including the part of the application made by HKSCC Nominees Limited acting on **electronic application instructions**). If an application is made by an unlisted company and:
- (i) the principal business of that company is dealing in securities; and
 - (ii) you exercise statutory control over that company,
- then the application will be deemed to be made for your benefit.
- Unlisted company* means a company with no equity securities listed on the Stock Exchange.
- Statutory control* in relation to a company means you:
- (i) control the composition of the board of directors of that company; or
 - (ii) control more than half of the voting power of that company; or
 - (iii) 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 profit or capital).
- (d) If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit to the designated **White Form eIPO** 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 **White Form eIPO** 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 **White Form eIPO** service by giving **electronic application instructions** through the designated website at **www.eipo.com.hk** and completing payment in respect of such **electronic application instructions**, or of submitting one application through the **White Form eIPO** service and one or more applications by any other means, all of your applications are liable to be rejected.

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11. EFFECT OF MAKING ANY APPLICATION

- (a) By completing and submitting any Application Form, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:
- **instruct** and **authorize** our Company, the Sole Global Coordinator, and/or the Sole Sponsor (or their respective agents or nominees), each acting as an agent of our Company, to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary to effect the registration of any Offer Shares allocated to you in your name(s) or the name of HKSCC Nominees, as the case may be, as required by the Articles and otherwise to give effect to the arrangements described in this prospectus and the relevant Application Form;
 - **undertake** to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Offer Shares allocated to you, and as required by the Articles;
 - **represent, warrant** and **undertake** that you are not, and none of the other person(s) for whose benefit you are applying is, within the United States (as defined in Regulation S under the US Securities Act) and will acquire the Public Offer Shares in an offshore transaction (within the meaning of Regulation S under the US Securities Act);
 - **confirm** that you have received a copy of this prospectus and have only relied on the information and representations contained in this prospectus in making your application, and not on any other information or representation concerning our Company save as set out in any supplement to this prospectus and you agree that neither our Company, the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters nor any of their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Global Offering will have any liability for any such other information or representations;
 - **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it due to an innocent misrepresentation;
 - (if the application is made for your own benefit) **warrant** that the application 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 **White Form eIPO** Service Provider via the **White Form eIPO** service;
 - (if the application is made by an agent on your behalf) **warrant** that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;
 - (if you are an agent for another person) **warrant** that reasonable inquiries have been made of that other person that the application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form

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or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider via the **White Form eIPO** service, and that you are duly authorised to sign the Application Form or to give **electronic application instructions** as that other person's agent;

- **agree** that once your application is accepted, your application will be evidenced by the results of the Hong Kong Public Offering made available by our Company;
- **undertake** and **confirm** that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for, taken up or indicated an interest in, or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any International Offer Shares in the International Offering, nor otherwise participate in the International Offering;
- **warrant** the truth and accuracy of the information contained in your application;
- **agree** to disclose to our Company, the Sole Global Coordinator, the Sole Sponsor and their respective agents any information about you or the person(s) for whose benefit you have made the application which they require;
- **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- **undertake** and **agree** to accept the Offer Shares applied for, or any lesser number allocated to you under the application;
- **authorise** our Company to place your name(s) or HKSCC Nominees, as the case may be, on the Company's register of members as the holder(s) in Hong Kong of any Offer Shares allocated to you, and our Company and/or our Company's agents to send any Share certificate(s) (where applicable) and/or any refund cheque (where applicable) to you or (in case of joint applicants) the first-named applicant in the Application Form by ordinary post to the address stated on your Application Form at your own risk (except if you have applied for 1,000,000 Public Offer Shares or more, as the case may be, and have indicated in your Application Form that you wish to collect your refund cheque and/or Share certificates (where applicable) in person);
- **agree** that the processing of your application, including the dispatch of refund cheque(s) (if any), may be done by any of our Company's receiving bank and is not restricted to the bank at which your Application Form is lodged;
- **confirm** that you are aware of the restrictions on the Global Offering of the Offer Shares described in this prospectus;
- **understand** that these declarations and representations will be relied upon by our Company, the Sole Global Coordinator, and the Sole Sponsor in deciding whether or not to allocate any Offer Shares in response to your application;

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- if the laws of any place outside Hong Kong are applicable to your application, you **agree** and **warrant** that you have complied with all such laws and none of our Company, the Sole Sponsor and the Hong Kong Underwriters, nor any of their respective officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus;
 - **agree** with our Company, for itself and for the benefit of each shareholder of our Company (and so that our Company will be deemed by its acceptance in whole or in part of the application to have agreed, for itself and on behalf of each shareholder of our Company) (and if applicable, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Cayman Islands Companies Law, the Companies Ordinance, the Memorandum and the Articles;
 - **agree** with our Company and each shareholder of our Company, and our Company agrees with each of our Company's shareholders, to observe and comply with the Cayman Islands Companies Law, the Companies Ordinance, the Memorandum and the Articles;
 - **agree** with the Company and each shareholder of our Company that the Shares in our Company are freely transferable by the holder thereof;
 - **agree** that our Company, the Sole Global Coordinator, the Sole Sponsor, the Hong Kong Underwriters and any of their respective directors, officers, employees, partners, agents or advisers, and any other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus and any supplement to this prospectus (and only then to the extent such liability is held to exist by a court with competent jurisdiction);
 - **agree** to disclose to our Company, the Company's Hong Kong Share Registrar, the receiving bank, the Sole Global Coordinator, the Sole Sponsor and their respective advisers and agents any personal data and any other information which they require about you or the person(s) for whose benefit you have made the application; and
 - **confirm** that you have read the terms and conditions and application procedures as set out in this prospectus and the Application Forms and agree to be bound by them.
- (b) If you apply for the Public Offer Shares using a **YELLOW** Application Form, in addition to the confirmations and agreements referred to in (a) above, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee **agree** that:
- any Public Offer Shares allocated to you shall be registered in the name of HKSCC Nominees and deposited directly into CCASS operated by HKSCC for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant in accordance with your election on the Application Form;

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- each of HKSCC and HKSCC Nominees reserves the right (1) not to accept any or part of such allotted Public Offer Shares issued in the name of HKSCC Nominees or not to accept such allotted Public Offer Shares for deposit into CCASS; (2) to cause such allotted Public Offer Shares to be withdrawn from CCASS and transferred into your name (or, if you are a joint applicant, to the first-named applicant) at your own risk and costs; and (3) to cause such allotted Public Offer Shares to be issued in your name (or, if you are a joint applicant, to the first-named applicant) and in such a case, to post the Share certificates for such allotted Public Offer Shares at your own risk to the address on your Application Form by ordinary post or to make available the same for your collection;
 - each of HKSCC and HKSCC Nominees may adjust the number of allotted Hong Kong Offer Shares issued in the name of HKSCC Nominees;
 - neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this prospectus and the Application Form; and
 - neither HKSCC nor HKSCC Nominees shall be liable to you in any way.
- (c) In addition, by giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:
- **instructed** and **authorised** HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
 - **instructed** and **authorised** HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and 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 Offer Price per Share initially 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;

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- (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) HKSCC Nominees is only acting as nominee for the applicants and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus. In addition to the confirmations and agreements set out in paragraph (a) above, **instructed** and **authorised** HKSCC to cause HKSCC Nominees to do on your behalf all the things which it has stated to do on your behalf in the **WHITE** Application Form, and the following:
 - **agree** that the Public Offer Shares to be allocated 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 input **electronic application instructions** on your behalf or for your CCASS Investor Participant stock account;
 - **undertake** and **agree** to accept the Public Offer Shares in respect of which you have given **electronic application instructions** or any lesser number;
 - (if the **electronic application instructions** are given for your own benefit) **declare** that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) **declare** that you have only given one set of **electronic application instructions** for the benefit of that other person and that you are duly authorised to give those instructions as that other person's agent;
 - **understand** that the above declaration will be relied upon by our Company, the Directors, the Sole Global Coordinator and 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 you and that you may be prosecuted if you make a false declaration;
 - **authorise** our Company 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 your **electronic application instructions** and to send Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between our Company and HKSCC;
 - **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them; and are aware of the restrictions on the Hong Kong Public Offering described in this prospectus;
 - **confirm** that you have only relied on the information and representations in this prospectus in giving your **electronic application instructions** or instructing your broker or custodian to give **electronic application instructions** on your behalf;

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- **agree** (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
 - **agree** that any application made by HKSCC Nominees on behalf of you pursuant to the **electronic application instructions** given by you is irrevocable until after the expiration of the fifth day after the time of the opening of the application lists, such agreement to take effect as a collateral contract with our Company and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that we will not offer any Public Offer Shares to any person before until after the expiration of the fifth day after the time of the opening of the application lists, except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under Section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
 - **agree** that once the application of HKSCC Nominees is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by our Company;
 - **agree** to the arrangements, undertakings and warranties specified in the participant agreement between you 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 Public Offer Shares; and
 - **agree** with our Company, for itself and for the benefit of each of the shareholders of our Company (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of our shareholders of the Company, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance and our Articles.
- (d) Our Company, the Sole Global Coordinator, the Sole Sponsor, the Underwriters and their respective directors and any other parties involved in the Global Offering are entitled to rely on any warranty, representation or declaration made by you in your application.
- (e) In the event of this application being made by joint application, all the warranties, representations, declarations and obligations expressed to be made, given or assumed by or imposed on the joint applicants shall be deemed to have been made, given or assumed by or imposed on the applicants jointly and severally. You may be prosecuted if you make a false declaration.

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12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you or your application is liable to be rejected:

(a) If your application is revoked

By completing and submitting an Application Form or **electronic application instruction** to HKSCC or to the **White Form eIPO** Service Provider via the **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or until after the expiration of the fifth day after the time of the opening of the application lists. This agreement will take effect as a collateral contract with our Company, and will 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 or to the **White Form eIPO** Service Provider via the **White Form eIPO** service. This collateral contract will be in consideration of our Company agreeing that we will not offer any Public Offer Shares to any person on or until after the expiration of the fifth day after the time of the opening of the application lists, except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day), if a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits 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) has/have not been so notified, or if applicant(s) has/have been notified but has/have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted 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 this prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(b) If our Company, the Sole Global Coordinator, the White Form eIPO Service Provider or their respective agents exercise their discretion to reject your application

Our Company, the Sole Global Coordinator, the White Form eIPO Service Provider (as agent of our Company) or their respective agents 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.

(c) If the allotment of Public Offer Shares is void

The allotment of Public Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** or apply by a **YELLOW** Application Form) will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.

(d) In one of the following circumstances

- your application is a multiple or a suspected multiple application;
- the Application Form is not completed correctly;
- 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 or taken up, or indicated an interest for, or have been or will be placed or allotted (including conditionally and/or provisionally) International Offer Shares in the International Offering. By filling in any of the Application Forms or giving **electronic application instructions** to HKSCC or the **White Form eIPO** Service Provider, you agree not to apply for the International Offer Shares in the International Offering. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received International Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Public Offer Shares in the Hong Kong Public Offering;
- our Company and the Sole Global Coordinator (on behalf of our Company) believe that the acceptance of your application would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is completed and/or signed or your address appeared in the Application Form is located;
- if you apply for more than 50% of the Public Offer Shares initially being offered in the public for subscription; or

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- any of the Hong Kong Underwriting Agreement and/or the International Placing Agreement does not become unconditional or is terminated in accordance with the terms thereof.

13. HOW MUCH ARE THE PUBLIC OFFER SHARES

The maximum Offer Price of the Public Offer Shares is HK\$3.09 each. You must also pay brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%. The proposed board lot for trading in the Shares is 2,000 Shares. This means that for every 2,000 Public Offer Shares, you will pay HK\$6,242.36. The Application Forms have tables showing the exact amount payable for certain numbers of Public Offer Shares.

You must pay the maximum Offer Price, brokerage of 1%, the Stock Exchange trading fee of 0.005% and the SFC transaction levy of 0.004% in full when you apply for the Public Offer Shares.

If your application is successful, the brokerage is paid to participants of the Stock Exchange, the Stock Exchange trading fee is paid to the Stock Exchange and the SFC transaction levy is paid to the SFC.

If the Offer Price as finally determined is less than HK\$3.09 per Offer Share, appropriate refund payments (including brokerage of 1%, the Stock Exchange trading fee of 0.005% and the SFC transaction levy of 0.004% attributable to the surplus application monies) will be made to successful applicants, without interest. Details of the procedures for refund are set out in the paragraph headed “Refund of your money — additional information” below.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES/e-REFUND PAYMENT INSTRUCTIONS/REFUND CHEQUES

If an 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 Offer Share (excluding the related brokerage, SFC transaction levy and Stock Exchange trading fee) initially paid on application, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with “Structure and Conditions of the Global Offering — Conditions of the Hong Kong Public Offering” in this prospectus or if any application is revoked or any allotment under the application has become void, the application monies, or the appropriate portion of the application monies, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

No temporary document of title will be issued in respect of the Public Offer Shares. No receipt will be issued for sums paid on application. Subject to personal collection as mentioned below, in due course, there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified in the application:

- (a) for applications on **WHITE** Application Forms or by giving **electronic application instructions** through the **White Form eIPO** service: (i) Share certificate(s) for all the Public Offer Shares applied for, if the application is wholly successful; or (ii) Share certificate(s) for the number of Public Offer Shares successfully applied for, if the application is partially

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

successful. For wholly successful and partially successful applications on **YELLOW** Application Forms, Share certificates for Shares successfully applied for will be deposited into CCASS as described below; and/or

- (b) for applications on **WHITE** or **YELLOW** Application Forms refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the initial price per Offer Share paid on application if the Offer Price is less than the price per Offer Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, attributable to such refund/surplus monies but without interest.

Despatch/Collection of Share Certificates/e-Refund payment instructions/Refund Cheques

- (a) If you are applying using a **WHITE** Application Form and you elect to receive any share certificate(s) in your name:
- Refund cheque(s) and share certificate(s) for applicants who apply for less than 1,000,000 Public Offer Shares or for 1,000,000 Public Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) in person are expected to be despatched on Thursday, 10 June 2010 to the same address as that for share certificate(s), being the address specified in the relevant Application Form.
 - Applicants who have applied on **WHITE** Application Forms for 1,000,000 Public Offer Shares or more and have indicated on their Application Forms that they wish to collect share certificate(s) and/or refund cheque(s) (where applicable) in person from our Hong Kong Share Registrar may collect share certificate(s) and/or refund cheque(s) (where applicable) in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 10 June 2010.
 - Applicants being individuals who are applying for 1,000,000 Public Offer Shares or more and opt for personal collection cannot authorise any other person to make collection on their behalf. Corporate applicants who are applying for 1,000,000 Public Offer Shares or more and opt for personal collection must attend by their authorised representatives bearing letters of authorization from the corporation stamped with the corporation’s respective chops. Both individuals and authorised representatives (where applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Share Registrar.
 - Uncollected share certificate(s) and refund cheque(s) (where applicable) will be despatched by ordinary post at the applicants’ own risk to the addresses specified on the relevant Application Forms.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (b) If: (i) you are applying on a **YELLOW** Application Form; or (ii) you are giving **electronic application instructions** to HKSCC, and in each case you elect to have allocated Public Offer Shares deposited directly into CCASS:

If your application is wholly or partly successful, 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 (on the Application Form or electronically, as the case may be), at the close of business on Thursday, 10 June 2010 or, under certain contingent situations, on any other date as shall be determined by HKSCC or HKSCC Nominees Limited.

- *If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) on a **YELLOW** Application Form:*

For Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Public Offer Shares allocated to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant on a **YELLOW** Application Form:*

Our Company is expected to make available the results of the Hong Kong Public Offering, including the results of CCASS Investor Participants' applications, in the manner described above in the paragraph headed "Results of allocations" on Thursday, 10 June 2010. You should check the results made available by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 10 June 2010 or such other date as shall be determined by HKSCC or HKSCC Nominees Limited. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System or CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your stock account.

- *If you have given **electronic application instructions** to HKSCC:*

Our Company is expected to make available the application results of the Hong Kong Public Offering, including the results of CCASS Participants' applications (and in the case of CCASS Clearing Participants and CCASS Custodian Participants, our Company shall include information relating to the beneficial owner), your Hong Kong identity card number or passport number or Hong Kong Business Registration number or other identification code (as appropriate) in the manner described above in the paragraph headed "Results of allocations" on Thursday, 10 June 2010. You should check the results made available by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 10 June 2010 or any other date HKSCC or HKSCC Nominees Limited chooses.

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- *If you are instructing your CCASS Clearing Participant or CCASS Custodian Participant to give **electronic application instructions** to HKSCC on your behalf:*

You can also check the number of Public Offer Shares allocated to you and the amount of refund (where applicable) payable to you with that CCASS Clearing Participant or CCASS Custodian Participant.

- *If you are applying as a CCASS Investor Participant by giving **electronic application instruction** to HKSCC:*

You can also check the number of the Public Offer Shares allotted to you and the amount of refund (where applicable) payable to you via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 10 June 2010. Immediately following the credit of the Public Offer Shares to your stock account and the credit of the 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 stock account and the amount of refund credited to your designated bank account (where applicable).

(c) If you are applying through **White Form eIPO**:

If you apply for 1,000,000 Public Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the designated White Form eIPO Service Provider through the designated website at www.eipo.com.hk and your application is wholly or partially successful, you may collect your share certificate(s) (where applicable) in person from Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 10 June 2010, or such other date as notified by our Company in the newspapers as the date of dispatch/collection of share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated **White Form eIPO** 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) (where applicable) will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk on Thursday, 10 June 2010 by ordinary post and at your own risk.

If you apply through the **White Form eIPO** service and paid the application monies from a single bank account, refund monies (if any) will be despatched to the your application payment bank account in the form of e-Refund payment instructions.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

If you apply through the **White Form eIPO** service and paid the application monies from multiple bank accounts, refund monies (if any) will be despatched to the address as specified on the your **White Form eIPO** application in the form of refund cheque(s), by ordinary post 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 **White Form eIPO** Service Provider set out below in “Refund of your money — additional information”.

No receipt will be issued for application monies paid. Our Company will not issue temporary documents of title.

15. REFUND OF YOUR MONEY — ADDITIONAL INFORMATION

- (a) You will be entitled to a refund (any interest accrued on refund money prior to the date of despatch of refund cheques will be retained for the benefit of our Company) if:
- your application is not successful, in which case our Company will refund your application money together with the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee to you, without interest;
 - your application is accepted only in part, in which case our Company will refund the appropriate portion of your application money, the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee, without interest;
 - the Offer Price (as finally determined) is less than the price per Offer Share initially paid by the applicant on application, in which case our Company will refund the surplus application money together with the appropriate portion of the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee, without interest; and
 - the conditions of Global Offering are not fulfilled in accordance with the paragraph headed “Conditions of the Hong Kong Public Offering” under the section headed “Structure and Conditions of the Global Offering” in this prospectus.
- (b) If you apply on a **YELLOW** Application Form for 1,000,000 Public Offer Shares or more and have indicated on your Application Form that you wish to collect your refund cheque in person, you may collect your refund cheque (where applicable) in person from our Hong Kong Share Registrar on Thursday, 10 June 2010. The procedure for collection of refund cheques for **YELLOW** Application Form applicants is the same as that for **WHITE** Application Form applicants set out in the paragraph headed “Despatch/Collection of Share Certificates/e-Refund Payment Instructions/Refund Cheques” above in this section.

If you have applied for 1,000,000 Public Offer Shares or above and have not indicated on your Application Form that you will collect your refund cheque (if any) in person, or if you have applied for less than 1,000,000 Public Offer Shares, your refund cheque (if any) will be sent to the address on your Application Form on the date of despatch, which is expected to be on Thursday, 10 June 2010, by ordinary post and at your own risk.

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- (c) If you are applying by giving **electronic application instructions** to HKSCC to apply on your behalf, all refunds are expected to be credited to your designated bank account (if you are applying as a CCASS Investor Participant) or the designated bank account of your broker or custodian (if you are applying through a CCASS Clearing Participant or CCASS Custodian Participant) on Thursday, 10 June 2010.
- (d) If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Offer Shares for which you have applied, or if your application is otherwise rejected by the designated **White Form eIPO** Service Provider, the designated **White Form eIPO** Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated **White Form eIPO** Service Provider on the designated website at **www.eipo.com.hk**.

Otherwise, any monies payable to you due to a refund for any of the reasons set out above in this section shall be made pursuant to the arrangements described above in “Despatch/Collection of Share Certificates/e-Refund payment instructions/Refund Cheques”.

- (e) Refund cheques will be crossed “Account Payee Only”, and made out to you, or if you are a joint applicant, to the first-named applicant on your Application Form. Part of your Hong Kong identity card number or passport number, or, if you are joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by you may be printed on your refund cheque, where applicable. Such data may also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number or passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number or passport number may lead to delay in encashment of or may invalidate your refund cheque.
- (f) Refund cheques are expected to be despatched on Thursday, 10 June 2010. Our Company intends to make special efforts to avoid undue delays in refunding money.

16. PERSONAL DATA

This Personal Information Collection Statement informs applicants for and holders of Shares of the policies and practices of our Company and our Company’s Hong Kong Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance.

(a) Reasons for the collection of your personal data

From time to time it is necessary for applicants for securities or registered holders of securities to supply their latest correct personal data to our Company and the Hong Kong Share Registrar when applying for securities or transferring securities into or out of their names or in procuring the services of the Hong Kong Share Registrar.

Failure to supply the requested data may result in your application for securities being rejected or in delay or inability of our Company or the Hong Kong Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfer of

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

the Public Offer Shares which you have successfully applied for and/or the dispatch of the Share certificate(s) and/or the dispatch of e-Refund payment instructions, and/or the dispatch of refund cheque(s) to which you are entitled.

It is important that holders of securities inform us and the Company's Hong Kong Share Registrar immediately of any inaccuracies in the personal data supplied.

(b) Purposes

The personal data of the applicants and holders of securities may be used, held and/or stored (by whatever means) for the following purposes:

- processing of your application and refund cheque, where applicable, and verification of compliance with the terms and application procedures set out in the Application Forms and this prospectus and announcing results of allocations of the Public Offer Shares;
- enabling compliance with all applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the name of holders of securities including, where applicable, in the name of HKSCC Nominees;
- maintaining or updating the registers of holders of securities of our Company;
- conducting or assisting to conduct signature verifications, any other verification or exchange of information;
- establishing benefit entitlements of holders of securities of our Company, such as dividends, rights issues and bonus issues;
- distributing communications from our Company and our subsidiaries;
- compiling statistical information and shareholder profiles;
- making disclosures as required by laws, rules or regulations (whether statutory or otherwise);
- disclosing identities of successful applicants by way of press announcement(s) or otherwise;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable our Company and our Hong Kong Share Registrar to discharge our obligations to holders of securities and/or regulators and/or other purpose to which the holders of securities may from time to time agree.

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(c) Transfer of personal data

Personal data held by our Company and the Hong Kong Share Registrar relating to the applicants and the holders of securities will be kept confidential but our Company and the Company's Hong Kong Share Registrar, to the extent necessary for achieving the above purposes or any of them, may make such enquiries as they consider necessary to confirm the accuracy of the personal data and in particular, they may disclose, obtain, transfer (whether within or outside Hong Kong) the personal data of the applicants and the holders of securities to, from or with any and all of the following persons and entities:

- our Company or our respective appointed agents such as financial advisers and receiving bank;
- HKSCC and HKSCC Nominees, who will use the personal data for the purposes of operating CCASS (in cases where the applicants have requested for the Public Offer Shares to be deposited into CCASS);
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to our Company and/or the Share registrar in connection with the operation of their businesses;
- the Stock Exchange, the SFC and any other statutory, regulatory or governmental bodies; and
- any other persons or institutions with which the holders of securities have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers.

(d) Access to and correction of personal data

The Personal Data (Privacy) Ordinance provides the applicants and the holders of securities with rights to ascertain whether our Company or the Hong Kong Share Registrar holds their personal data, to obtain a copy of that data, and to correct any data that is inaccurate.

In accordance with the Personal Data (Privacy) Ordinance, our Company and the Hong Kong Share Registrar have the right to charge a reasonable fee for the processing of any data access request. All requests for access to data or correction of data or for information regarding policies and practices and kinds of data held should be addressed to us, at our registered address disclosed in the sections headed "Corporate Information" section in this prospectus or as notified from time to time in accordance with applicable law, for the attention of the company secretary, or the Company's Hong Kong Share Registrar for the attention of the privacy compliance officer.

By signing an Application Form or by giving **electronic application instructions** to HKSCC or by applying through **White Form eIPO**, you agree to all of the above.

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17. MISCELLANEOUS

(a) Commencement of Dealings in the Shares

Dealings in our Shares on the Stock Exchange are expected to commence on Friday, 11 June 2010.

Our Shares will be traded in board lots of 2,000 Shares each. The stock code of our Shares is 873.

(b) Shares will be Eligible for Admission into CCASS

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

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling our Shares to be admitted into CCASS.

(c) 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** 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.



德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

31 May 2010

The Directors
International Taifeng Holdings Limited
CIMB Securities (HK) Limited

Dear Sirs,

We set out below our report on the financial information (“Financial Information”) regarding International Taifeng Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2009 (the “Relevant Periods”), for inclusion in the prospectus of the Company dated 31 May 2010 (the “Prospectus”).

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 21 May 2009. Through a corporate reorganisation, as more fully explained in the paragraph headed Corporate Reorganisation in Appendix VII to the Prospectus (the “Corporate Reorganisation”), the Company became the holding company of companies now comprising the Group which is principally engaged in production and distribution of cotton yarn and bedding products on 18 August 2009.

As at the date of this report, the Company has the following companies comprising the Group:

Name of subsidiary	Place and date of incorporation/ establishment	Place of operation	Issued and fully paid up share capital/ registered capital	Attributable equity interest held by the Company	Principal activities
Yong Xin Development Limited (“Yong Xin”)	British Virgin Islands 23 January 2008	Hong Kong	US\$1,000	100%	Investment holding
Ever Link Creation Limited (“Ever Link”)	Hong Kong 9 October 2008	Hong Kong	HK\$2	100%	Investment holding
Shandong Taifeng Textile Co., Ltd. (“Shandong Taifeng”)* 山東泰豐紡織有限公司	People’s Republic of China (the “PRC”) 9 January 2001	The PRC	RMB180,000,000	100%	Production and distribution of cotton yarns and bedding products
Shanghai Taifeng Home Textile Co., Ltd. (“Shanghai Taifeng”)* 上海泰豐家紡有限公司	The PRC 2 July 2008	The PRC	RMB1,000,000	100%	Distribution of cotton yarns and bedding products

* English translated name is for identification only.

Except for Yong Xin, all of the above subsidiaries are indirectly held by the Company. All of the above subsidiaries are limited liability companies established in their respective place of incorporation/ establishment.

The financial year end date of the companies now comprising the Group is 31 December.

No audited financial statements have been prepared for the Company since its date of incorporation as there is no such statutory requirement, and the Company has not carried on any business, other than those transactions relating to the Corporate Reorganisation.

No statutory audited financial statements have been prepared for Yong Xin as it was incorporated in a country where there is no statutory audit requirement.

No audited financial statements have been prepared for Ever Link as its first statutory financial statements are not yet due to be issued.

No statutory financial statements have been prepared for Shanghai Taifeng for the year ended 31 December 2008 as there is no statutory audit requirement for this subsidiary since its establishment.

The statutory financial statements of Shandong Taifeng for each of the three years ended 31 December 2009 were audited by 青島華海會計師事務所 (Qingdao Huahai Certified Public Accountants), certified public accountants registered in the PRC. The statutory financial statements of Shanghai Taifeng for the year ended 31 December 2009 were audited by 萊蕪公允會計師事務所 (Laiwu Gongyun Finity Duty Certified Public Accountants Ltd.), certified public accountants registered in the PRC. These statutory financial statements were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC.

The directors of Shandong Taifeng have prepared the financial statements of Shandong Taifeng for the year ended 31 December 2007 in accordance with Singapore Financial Reporting Standards. The financial statements of Shandong Taifeng for the year ended 31 December 2007 were audited by Moore Stephens LLP, certified public accountants registered in Singapore (“Pre-2008 Underlying Financial Statements”). For the purpose of this report, the directors of the Company have also prepared the consolidated financial statements of the Group for each of the two years ended 31 December 2009 in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) (“Post-2008 Underlying Financial Statements”). We have undertaken an independent audit on Post-2008 Underlying Financial Statements of the Group for each of the two years ended 31 December 2009 in accordance with Hong Kong Standards on Auditing issued by the HKICPA. We have examined the Pre-2008 and Post-2008 Underlying Financial Statements in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information of the Group for the Relevant Periods sets out in this report has been prepared from the Pre-2008 and Post-2008 Underlying Financial Statements on the basis set out in note 1 of Section A below, after making such adjustments as we consider appropriate for the purpose of preparing our report for the inclusion in the Prospectus.

The Pre-2008 and Post-2008 Underlying Financial Statements are the responsibility of the directors of Shandong Taifeng and the Company, respectively who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Pre-2008 and Post-2008 Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 of Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at 31 December 2009 and the Group as at 31 December 2007, 2008 and 2009, and of the consolidated results and consolidated cash flows of the Group for the Relevant Periods.

A. FINANCIAL INFORMATION

Consolidated Statements of Comprehensive Income

	<i>Notes</i>	Year ended 31 December		
		2007	2008	2009
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	5	934,298	1,057,524	1,354,068
Cost of sales		<u>(769,323)</u>	<u>(870,556)</u>	<u>(957,737)</u>
Gross profit		164,975	186,968	396,331
Other income	6	12,186	11,414	11,031
Distribution and selling expenses		(11,590)	(14,470)	(21,609)
Administrative expenses		(16,820)	(23,228)	(33,702)
Listing expenses		(5,465)	—	(26,012)
Finance costs	7	<u>(19,473)</u>	<u>(28,788)</u>	<u>(18,950)</u>
Profit before taxation		123,813	131,896	307,089
Income tax expense	8	<u>—</u>	<u>(24,962)</u>	<u>(58,801)</u>
Profit for the year and total comprehensive income for the year	9	<u>123,813</u>	<u>106,934</u>	<u>248,288</u>
Attributable to:				
Equity holders of the Company		<u>123,813</u>	<u>106,934</u>	<u>248,288</u>
Earnings per share	12			
Basic (RMB)		<u>0.165</u>	<u>0.143</u>	<u>0.331</u>

Consolidated statements of financial position

	Notes	As at 31 December		
		2007 RMB'000	2008 RMB'000	2009 RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	13	423,613	532,562	498,630
Prepaid lease payments	14	8,167	7,964	7,636
Trademark	15	—	—	6,934
Deferred tax asset	24	—	3,023	2,699
		<u>431,780</u>	<u>543,549</u>	<u>515,899</u>
CURRENT ASSETS				
Inventories	16	234,155	153,480	93,075
Trade and other receivables and prepayments	17	77,868	136,038	280,680
Prepaid lease payments	14	207	207	179
Amount due from a related company	18	—	62,349	—
Pledged bank deposits	19	18,173	20,142	24,318
Bank balances and cash	19	88,258	99,703	255,771
		<u>418,661</u>	<u>471,919</u>	<u>654,023</u>
CURRENT LIABILITIES				
Trade and other payables and accruals	20	181,682	180,538	203,011
Amounts due to related companies	21	30,000	31,402	—
Tax payable		2,079	24,701	51,194
Dividend payable	11	—	—	50,000
Bank and other borrowings	22	74,538	118,291	162,806
		<u>288,299</u>	<u>354,932</u>	<u>467,011</u>
NET CURRENT ASSETS		<u>130,362</u>	<u>116,987</u>	<u>187,012</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>562,142</u>	<u>660,536</u>	<u>702,911</u>
NON-CURRENT LIABILITIES				
Amount due to a shareholder	23	196,446	156,557	—
Deferred tax liability	24	—	4,816	16,710
		<u>196,446</u>	<u>161,373</u>	<u>16,710</u>
NET ASSETS		<u>365,696</u>	<u>499,163</u>	<u>686,201</u>
CAPITAL AND RESERVES				
Paid-in capital/share capital	25	180,000	180,000	—
Reserves		<u>185,696</u>	<u>319,163</u>	<u>686,201</u>
TOTAL EQUITY		<u>365,696</u>	<u>499,163</u>	<u>686,201</u>

Consolidated Statements of Changes in Equity

	Attributable to equity holders of the Company								
	Share capital/ paid-in capital RMB'000 (Note 25)	Merger reserve RMB'000 (Note 26)	Special reserve RMB'000 (Note 26)	Contributions from shareholders RMB'000 (Note 1)	Share- based payment reserve RMB'000 (Note 27)	PRC general reserve RMB'000 (Note 26)	Capital reserve RMB'000 (Note 27)	Retained profits RMB'000	Total RMB'000
At 1 January 2007	180,000	—	977	13,289	—	4,425	14,760	39,076	252,527
Total comprehensive income for the year	—	—	—	—	—	—	—	123,813	123,813
Capital reserve arising from non-current interest-free shareholder's loan	—	—	—	—	—	—	10,545	—	10,545
Transfer	—	—	—	—	—	14,625	—	(14,625)	—
Dividend recognised as distribution (Note 11)	—	—	—	—	—	—	—	(21,189)	(21,189)
At 31 December 2007	180,000	—	977	13,289	—	19,050	25,305	127,075	365,696
Total comprehensive income for the year	—	—	—	—	—	—	—	106,934	106,934
Capital reserve arising from non-current interest-free shareholder's loan	—	—	—	—	—	—	26,533	—	26,533
Transfer	—	—	—	—	—	14,321	—	(14,321)	—
At 31 December 2008	180,000	—	977	13,289	—	33,371	51,838	219,688	499,163
Total comprehensive income for the year	—	—	—	—	—	—	—	248,288	248,288
Deemed capital contribution from shareholders	—	—	—	—	5,825	—	—	—	5,825
Reversal of deemed capital contribution arising from change in repayment schedule on non-current interest-free shareholder's loan (note 23)	—	—	—	—	—	—	(17,075)	—	(17,075)
Effect from group reorganisation	(180,000)	180,000	—	—	—	—	—	—	—
Transfer	—	—	—	—	—	30,158	—	(30,158)	—
Dividend recognised as distribution (note 11)	—	—	—	—	—	—	—	(50,000)	(50,000)
At 31 December 2009	—	180,000	977	13,289	5,825	63,529	34,763	387,818	686,201

Consolidated Statements of Cash Flows

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
OPERATING ACTIVITIES			
Profit before taxation	123,813	131,896	307,089
Adjustments for:			
Depreciation of property, plant and equipment	33,214	33,390	40,705
Release of prepaid lease payments	204	203	239
Impairment loss recognised in respect of trade receivables	194	663	507
Addition (reversal) of write-down of inventories	—	12,093	(1,294)
Interest expenses	19,473	28,788	18,950
Share-based payment expense	—	—	5,825
Bank interest income	(236)	(334)	(843)
Interest income from amount due from a related company	—	(6,370)	(5,215)
Gain on disposal of trademark	(5,534)	—	—
Loss (gain) on disposal of property, plant and equipment	258	(29)	8
Operating cash flows before movements in working capital	171,386	200,300	365,971
(Increase) decrease in inventories	(97,139)	68,582	61,699
Increase in trade and other receivables and prepayments	(29,233)	(58,833)	(145,149)
Increase (decrease) in trade and other payables and accruals	32,061	(1,144)	22,473
Cash generated from operations	77,075	208,905	304,994
PRC Enterprise Income Tax paid	—	(547)	(20,089)
NET CASH FROM OPERATING ACTIVITIES	77,075	208,358	284,905

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
INVESTING ACTIVITIES			
Interest received	236	334	843
Increase in pledged bank deposits	(9,363)	(1,969)	(4,176)
Purchase of property, plant and equipment	(13,705)	(22,836)	(6,781)
Proceeds on disposal of property, plant and equipment	—	526	—
Proceeds on disposal of trademark	5,534	—	—
Refund of prepaid lease payments	—	—	117
(Advance to) repayment from a related company	—	(178,379)	60,629
NET CASH (USED IN) FROM INVESTING ACTIVITIES	<u>(17,298)</u>	<u>(202,324)</u>	<u>50,632</u>
FINANCING ACTIVITIES			
New bank loans raised	156,864	174,040	351,584
Repayment of borrowings	(168,862)	(130,287)	(307,069)
Interest paid	(7,119)	(12,093)	(12,582)
Advance from (repayment to) related companies	(54,629)	1,402	(31,402)
Dividend paid	(21,189)	—	—
Advance from (repayment to) a shareholder	83,038	(27,651)	(180,000)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	<u>(11,897)</u>	<u>5,411</u>	<u>(179,469)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	47,880	11,445	156,068
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	<u>40,378</u>	<u>88,258</u>	<u>99,703</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	<u>88,258</u>	<u>99,703</u>	<u>255,771</u>

Notes to the Financial Information

1. CORPORATE REORGANISATION

Throughout the Relevant Periods (or since their respective date of incorporation/establishment to 31 December 2009, if shorter), the group entities were under the control of the seven founding shareholders, namely Mr. Liu Qingping, Mr. Li Dengxiang, Ms. Qi Tongli, Mr. Liu Chunwei, Mr. Zou Shengzhong, Mr. Meng Qingli and Mr. Huang Qige, (the "Founding Shareholders").

As at 1 January 2006, the Founding Shareholders held an aggregate of 53.83% equity interest in Shandong Taifeng. The remaining 46.17% equity interest was held by certain independent third parties which was previously accounted for as minority interests. The Founding Shareholders acquired the remaining 46.17% equity interest from certain independent third parties on 22 August 2006. Pursuant to an acquisition agreement dated 24 August 2006, China Taifeng International Limited ("China Taifeng"), a company incorporated in Singapore on 17 August 2006 with limited liability and wholly-owned by Holistic Development Limited, a company incorporated in British Virgin Islands with limited liability and owned by the Founding Shareholders, acquired the entire equity interest in Shandong Taifeng from the shareholders of Shandong Taifeng. On 25 August 2006, approval was obtained from the relevant authorities for the equity transfers and the resultant conversion of Shandong Taifeng from a domestic limited liability company to a wholly foreign-owned enterprise. Shandong Taifeng was wholly-indirectly held by the Founding Shareholders since that date. Shandong Taifeng obtained its business license on 30 August 2006. Follow the acquisition of Shandong Taifeng from minority shareholders, the minority interests was recognised as contributions from shareholders as at 1 January 2007.

Yong Xin was incorporated on 23 January 2008 in the British Virgin Islands with limited liabilities and was owned by the Founding Shareholders. Ever Link was incorporated on 9 October 2008 in Hong Kong with limited liabilities and was wholly-owned by Yongxin.

On 12 February 2009, China Taifeng entered into an agreement with Ever Link under which China Taifeng transferred its 100% interest in Shandong Taifeng to Ever Link. Shandong Taifeng then became a wholly-owned subsidiary of Ever Link.

On 29 July 2009, a sale and purchase agreement was entered into between (a) Harvest Sun Enterprises Limited ("Harvest Sun"), a company incorporated in the BVI with limited liability on 2 January 2009 which was held by the Founding Shareholders, (b) Fu Sun Development Limited ("Fu Sun"), a company incorporated in BVI with limited liability on 2 January 2009 which was held by Mr. Liu Qinqing, (c) Superior Delight Limited ("Superior Delight"), a company incorporated in the BVI with limited liability on 2 January 2009 which was held by Mr. Huang Quan, an independent third party and (d) the Company. Pursuant to the agreements, the Company was interspersed between the Harvest Sun, Fu Sun, Superior Delight and Yongxin and became the holding company of the companies now comprising the Group since 19 August 2009, the date of the completion of Corporate Reorganisation.

Accordingly, for the purpose of the preparation of the financial information of the Group, the Company has been considered as the holding company of the companies now comprising the Group throughout the Relevant Periods. The Group comprising the Company and its subsidiaries resulting from the Corporate Reorganisation is regarded as a continuing entity. The Group is under the control of the Founding Shareholders prior to and after the Corporate Reorganisation.

The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Relevant Periods which include the results, changes in equity and cash flows of the companies comprising the Group have been prepared as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation/establishment where it is a shorter period.

The consolidated statements of financial position as at 31 December 2007, 2008 and 2009 have been prepared to present the assets and liabilities of the companies comprising the Group as at the respective dates as if the current group structure had been in existence at those dates.

The Financial Information is presented in Renminbi ("RMB"), which is the same as the functional currency of the group entities and the Company.

The principal activity of the Company is investment holding. The Group's subsidiaries are engaged in production and distribution of cotton yarn and bedding products.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Group has consistently adopted Hong Kong Accounting Standard ("HKAS"), HKFRS, amendments and interpretations, which are effective for the accounting periods beginning on 1 January 2009 throughout the Relevant Periods.

At the date of this report, the HKICPA has issued the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRS 5 (Amendments)	Included in Improvements to HKFRSs May 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs April 2009 ²
HKFRSs (Amendments)	Improvements to HKFRSs 2010 ³
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
HKAS 32 (Amendment)	Classification of Right Issues ⁵
HKAS 39 (Amendment)	Eligible Hedged Items ¹
HKAS 24 (Revised)	Related Party Disclosures ⁷
HKFRS 1 (Amendment)	Additional Exemptions for First-Time Adopters ⁴
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS7 Disclosures for First-time Adopters ⁶
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions ⁴
HKFRS 3 (Revised)	Business Combinations ¹
HKFRS 9	Financial Instruments ⁸
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁷
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners ¹
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments ⁶

¹ Effective for annual periods beginning on or after 1 July 2009

² Effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate

³ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

⁴ Effective for annual periods beginning on or after 1 January 2010

⁵ Effective for annual periods beginning on or after 1 February 2010

⁶ Effective for annual periods beginning on or after 1 July 2010

⁷ Effective for annual periods beginning on or after 1 January 2011

⁸ Effective for annual periods beginning on or after 1 January 2013

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards, amendments and interpretations will have no material effect on how the results and financial position of the Group are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis, as explained in the accounting policies set out below which conform with HKFRSs issued by the HKICPA.

In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") and by the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated Financial Information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the Relevant Periods are included in the consolidated statements of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Merger accounting for business involving entities under common control

The consolidated financial information incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs 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 are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the 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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Subcontracting income is recognised when services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress) over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purpose. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments are carried at cost and amortised over the lease term on a straight-line basis.

Intangible assets

Intangible assets acquired separately and with indefinite useful lives are stated at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible assets below).

Gain or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of comprehensive income when the asset is derecognised.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying asset, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Impairment loss on tangible assets and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised as income immediately.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability of the Group for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred taxation assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to settle the carrying amount of its liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Foreign currencies

In preparing the financial statements of the each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currency) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to the profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Retirement benefit costs

Payments to the defined contribution scheme are charged as expenses when employees have rendered service entitling them to the contributions.

Payments made to state-managed retirement benefits schemes are dealt with as payments to defined contribution schemes where the Group's objectives under the schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

Share-based payment transactions

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of shares transferred at the date of transfer is expensed on a straight-line basis over the service period with a corresponding increase in equity (Share-based payment reserve).

Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from a related company, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected. Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

Financial liabilities

The Group's financial liabilities including trade and other payables, amounts due to related companies, bank and other borrowings, dividend payable and amount due to a shareholder are measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

Estimated allowance for receivables

Management regularly reviews the recoverability of trade and other receivable and amount due from a related company. Allowance for these receivables is made based on the evaluation of collectability and on management's judgment by reference to the estimation of the future cash flows discounted at an effective interest rate to calculate the present value.

A considerable amount of judgment is required in assessing the ultimate realization of these debtors, including their current creditworthiness. If the actual future cash flows were less than expected, additional allowance may be required.

Inventory valuation method

Inventory is valued using the cost method, which values inventory at the lower of cost and net realisable value. Cost is determined using the weighted average method. The net realisable value is estimated by reference to selling price of inventory subsequent to the end of the reporting period. The Group reviews its inventory levels in order to identify slow-moving merchandise and use markdown to clear merchandise.

5. REVENUE AND SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the directors, also the chief operating decision makers that are used to make strategic decisions.

The Group has two reportable segments, the manufacture and distribution of cotton yarns and bedding products. The segments are managed separately as each business offers different products and requires different information technology systems and marketing strategies. The following summary describes the operations in each of the Group's reportable segments:

The manufacture and distribution of cotton yarns segment refers to the operation of cotton yarns tailored to the specific requirements of customers, such as different texture, thickness, sheen and elasticity. Its income mainly comprises sales revenue of cotton yarns to textile manufacturers in both the domestic and overseas markets. Cotton yarns are used in the production of cotton textile used in garments and furnishings.

The manufacture and distribution of bedding products segment refers to the manufacture and distribution of bedding products such as bed covers, flat sheets, pillow cases, bed sheets and quilt covers, as well as combination sets of such bedding products. Its income mainly comprises sales revenue of bedding products from products sold under the "TAIFENG" brand in the PRC market and products sold to overseas OEM customers under their international brands.

An analysis of the Group's reportable segment profit before taxation, assets, liabilities, and other selected financial information for the Relevant Periods by operating segment is as follows:

	For the year ended 31 December 2007		
	Manufacture and distribution of cotton yarns RMB'000	Manufacture and distribution of bedding products RMB'000	Combined RMB'000
Revenue from external customers	785,226	149,072	934,298
Depreciation of property, plant and equipment	(31,156)	(331)	(31,487)
Release of prepaid lease payments	(179)	—	(179)
Other operating expenses	(602,312)	(143,907)	(746,219)
Reportable segment profit before taxation	<u>151,579</u>	<u>4,834</u>	<u>156,413</u>
Other material non-cash items:			
Impairment loss recognised in respect of trade receivables	(194)	—	(194)
Loss on disposal of property, plant and equipment	(258)	—	(258)
Reportable segment assets as at 31 December 2007	<u>642,514</u>	<u>73,575</u>	<u>716,089</u>
Expenditures for reportable segment non-current assets	<u>10,594</u>	<u>440</u>	<u>11,034</u>

For the year ended 31 December 2008

	Manufacture and distribution of cotton yarns <i>RMB'000</i>	Manufacture and distribution of bedding products <i>RMB'000</i>	Inter- segment elimination <i>RMB'000</i>	Combined <i>RMB'000</i>
Revenue from external customers	785,862	271,662	—	1,057,524
Inter-segment sales	—	2,063	(2,063)	—
Depreciation of property, plant and equipment	(31,639)	(345)	—	(31,984)
Write-down of inventories	(4,515)	(7,578)	—	(12,093)
Release of prepaid lease payments	(179)	—	—	(179)
Other operating expenses	(652,416)	(186,720)	—	(839,136)
Reportable segment profit before taxation	<u>97,113</u>	<u>79,082</u>	<u>(2,063)</u>	<u>174,132</u>
Other material non-cash items:				
Impairment loss recognised in respect of trade receivables	<u>(663)</u>	<u>—</u>	<u>—</u>	<u>(663)</u>
Reportable segment assets as at 31 December 2008	<u>704,840</u>	<u>89,163</u>	<u>—</u>	<u>794,003</u>
Expenditures for reportable segment non-current assets	<u>140,160</u>	<u>440</u>	<u>—</u>	<u>140,600</u>

For the year ended 31 December 2009

	Manufacture and distribution of cotton yarns <i>RMB'000</i>	Manufacture and distribution of bedding products <i>RMB'000</i>	Inter- segment elimination <i>RMB'000</i>	Combined <i>RMB'000</i>
Revenue from external customers	736,938	617,130	—	1,354,068
Inter-segment sales	—	1,058	(1,058)	—
Depreciation of property, plant and equipment	(38,923)	(363)	—	(39,286)
Reversal of written-down of inventories	1,294	—	—	1,294
Release of prepaid lease payments	(224)	—	—	(224)
Other operating expenses	(619,166)	(319,728)	—	(938,894)
Reportable segment profit before taxation	<u>79,919</u>	<u>298,097</u>	<u>(1,058)</u>	<u>376,958</u>
Other material non-cash items:				
Impairment loss recognised in respect of trade receivables	<u>507</u>	<u>—</u>	<u>—</u>	<u>507</u>
Reportable segment assets as at 31 December 2009	<u>663,438</u>	<u>192,179</u>	<u>—</u>	<u>855,617</u>
Expenditures for reportable segment non-current assets	<u>6,302</u>	<u>22</u>	<u>—</u>	<u>6,324</u>

- (a) Performance is measured based on segment profit before taxation. Income tax expense is not allocated to reportable segments.

(b) Reconciliation of reportable segment profit before taxation

Segment profit represents the profit caused by each segment without the allocation of central administrative costs, interest income and interest expenses. This is the measure reported to the chief operating decision makers for the purpose of resource allocation and assessment of segment performance.

Reportable segment profit before taxation are reconciled to profit before taxation of the Group as follows:

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Reportable segment profit before taxation	156,413	174,132	376,958
Unallocated income:			
Interest income	236	6,704	6,058
Other income	7,485	369	534
Unallocated expenses:			
Depreciation of property, plant and equipment	(1,727)	(1,406)	(1,419)
Release of prepaid lease payments	(25)	(24)	(15)
Interest expenses	(19,473)	(28,788)	(18,950)
Listing expenses	(5,465)	—	(26,012)
Other expenses	<u>(13,631)</u>	<u>(19,091)</u>	<u>(30,065)</u>
Profit before taxation	<u>123,813</u>	<u>131,896</u>	<u>307,089</u>

(c) Reconciliation of reportable segment assets

The assets of the Group are allocated based on the operations of the segments. However, property, plant and equipment, prepaid lease payments, trade and other receivables and prepayments, amount due from a related company, pledged bank deposits, bank balances and cash, are not entirely allocated to the segments.

Reportable segment assets are reconciled to total assets of the Group as follows:

	As at 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Reportable segment assets	716,089	794,003	855,617
Unallocated assets:			
Property, plant and equipment	24,561	25,279	21,535
Prepaid lease payments	156	132	—
Deferred tax asset	—	3,023	2,699
Trade and other receivables and prepayments	3,204	10,837	9,982
Amount due from a related company	—	62,349	—
Pledged bank deposits	18,173	20,142	24,318
Bank balances and cash	<u>88,258</u>	<u>99,703</u>	<u>255,771</u>
Total assets per consolidated statements of financial position	<u>850,441</u>	<u>1,015,468</u>	<u>1,169,922</u>

(d) Information about geographical areas

In determining the Group's information about geographical areas, revenue are attributed to the segments based on the location of the customers.

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods.

	Turnover by geographical market		
	Year ended 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
PRC (country of the domicile)	839,354	912,303	1,255,636
Hong Kong & Macau	34,858	51,355	3,584
Australia, Japan & Malaysia	20,277	17,817	10,560
Europe	13,219	27,312	2,388
United States & Brazil	24,804	44,962	77,193
Others	<u>1,786</u>	<u>3,775</u>	<u>4,707</u>
	<u>934,298</u>	<u>1,057,524</u>	<u>1,354,068</u>

The Group's non-current assets mainly represents property, plant and equipment which majority of them are located in the PRC.

(e) Information about major customers

The revenue from the Group's largest customer which involved in both cotton yarns and bedding products segments was approximately RMB361,821,000, RMB196,728,000 and RMB214,807,000, representing 38.7%, 18.6% and 15.9% to the total sales of the Group for the year ended 31 December 2007, 2008 and 2009 respectively.

In addition to the largest customer, there are two customers in the bedding products segment with their respectively revenue during the year ended 31 December 2009 contributing about 13% and 10% to the total sales of the Group. The revenue for these two customers was approximately RMB178,164,000 and RMB136,969,000 respectively. Apart from the largest customer, there was no single customer contributing more than 10% to the total sales of the Group for the year ended 31 December 2007 and 2008.

6. OTHER INCOME

An analysis of the Group's other income is as follows:

	Year ended 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Exchange gain	1,554	—	—
Gain on disposal of scrap materials	4,437	3,933	4,416
Subcontracting income	9	388	9
Gain on disposal of trademark	5,534	—	—
Bank interest income	236	334	843
Interest income from amount due from a related company	—	6,370	5,215
Others	<u>416</u>	<u>389</u>	<u>548</u>
	<u>12,186</u>	<u>11,414</u>	<u>11,031</u>

7. FINANCE COSTS

	<u>Year ended 31 December</u>		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest on:			
Bank and other borrowings wholly repayable within five years	7,119	12,093	12,582
Amount due to a related company	—	2,400	—
Imputed interest expense on non-current interest-free shareholder's loan	<u>12,354</u>	<u>14,295</u>	<u>6,368</u>
	<u>19,473</u>	<u>28,788</u>	<u>18,950</u>

The interest on amount due to a related company represents the interest charged on the outstanding balance due to Taifeng Textile Group Company Limited (“TTG”) 泰豐紡織集團有限公司, in which Mr. Liu Qingping, a director of the Company, has significant influence before 7 July 2009. The directors of the Company represented that TTG has become an independent third party since 7 July 2009 as Mr. Liu Qingping resigned as a director of TTG at that date.

8. INCOME TAX EXPENSE

	<u>Year ended 31 December</u>		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current tax:			
PRC Enterprise Income Tax	—	23,169	46,583
Deferred tax (<i>note 24</i>):			
Current year	<u>—</u>	<u>1,793</u>	<u>12,218</u>
	<u>—</u>	<u>24,962</u>	<u>58,801</u>

Shandong Taifeng became a wholly foreign-owned enterprise as detailed in note 1 since 25 August 2006. Pursuant to the relevant laws and regulations in the PRC, Shandong Taifeng was thereafter entitled to exemption from the PRC enterprise income tax (“EIT”) for the first two years commencing from its first profit-making year of operation and thereafter, it is entitled to a 50% relief from the PRC enterprise income tax for the following three years. The first profit-making year of Shandong Taifeng is the year of 2006. Accordingly, Shandong Taifeng was exempted from EIT for the period from 25 August 2006 to 31 December 2007, followed by a 50% reduction from 2008 to 2010.

On 16 March 2007, the National People's Congress promulgated the Law of the PRC on Enterprise Income Tax (the “New Law”) by order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changed the tax rate from 33% to 25% for Shandong Taifeng from 1 January 2008. Under the grandfather rule, Shandong Taifeng will apply the tax rate of 12.5% for 2008, 2009 and 2010 and 25% since 2011 when the tax relief period as described above is expired.

Shanghai Taifeng was newly established in 2008 and is subject to a tax rate of 25% under the New Law.

The tax charge for the Relevant Periods can be reconciled to the profit before tax per the statements of comprehensive income as follows:

	Year ended 31 December		
	2007 RMB'000	2008 RMB'000	2009 RMB'000
Profit before tax	123,813	131,896	307,089
Tax at PRC Enterprise Income Tax rate of 33% for the year ended 31 December 2007 and 25% for the year ended 31 December 2008 and 2009	40,858	32,974	76,772
Tax effect of expenses not deductible for tax purpose (<i>note</i>)	4,077	3,772	1,456
Tax effect of tax losses not recognised	—	476	429
Tax effect on withholding tax arising on undistributed profits of the PRC subsidiary	—	4,816	11,894
(Utilization) tax effect of deductible temporary difference recognised on allowance on inventories	—	(3,023)	324
Effect of tax exemption granted to Shandong Taifeng	(44,935)	(14,053)	(32,074)
Tax charge for the year	—	24,962	58,801

Note: The tax effect of expenses not deductible for tax purpose mainly represented imputed interest expenses on the non-current interest-free shareholder's loan.

9. PROFIT FOR THE YEAR

	Year ended 31 December		
	2007 RMB'000	2008 RMB'000	2009 RMB'000
Profit for the year/period has been arrived at after charging (crediting):			
Directors' emoluments (<i>note 10</i>)	—	584	6,759
Other staff costs	53,737	61,871	73,343
Retirement benefit scheme contributions, excluding those of directors	1,898	1,874	3,094
Total staff costs	55,635	64,329	83,196
Auditor's remuneration	2,034	885	1,617
Depreciation of property, plant and equipment	33,214	33,390	40,705
Release of prepaid lease payments	204	203	239
Loss (gain) on disposal of property, plant and equipment	258	(29)	8
Impairment loss recognised in respect of trade receivables	194	663	507
Net exchange loss	—	981	398
Cost of inventories recognised as an expense (<i>Note</i>)	769,323	870,556	957,737

Note: Included in cost of inventories recognised as an expense is an amount of Nil, RMB12,093,000 and (RMB1,294,000) as write-down (reversal) of inventories for the year ended 31 December 2007, 2008 and 2009, respectively.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

Details of the emoluments paid to the directors of the Group for the Relevant Periods are as follows:

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
		(note)	
Fee	—	—	—
Salaries and other allowances	—	552	876
Retirement benefit scheme contributions	—	32	58
Share-based payment expense (note 27)	—	—	5,825
	<u>—</u>	<u>584</u>	<u>6,759</u>
Executive directors:			
Mr. Liu Qingping	—	251	6,070
Ms. Qi Tongli	—	156	158
Mr. Liu Chunwai	—	177	222
Mr. Li Dengxiang	—	—	153
Mr. Zou Shengzhong	—	—	156
	<u>—</u>	<u>584</u>	<u>6,759</u>

Note: The directors received all their remuneration from TTG instead of the Group for their services provided to TTG and the Group for the year ended 31 December 2007. Given the amounts of emoluments to the directors are not material compared to the revenue and profits of the Group, the directors are of the view that non-recognition of any portion of the above payment of the directors' emoluments in connection with their services provided to Shandong Taifeng did not significantly distort the results of the Group.

Employees

The five highest paid individuals of the Group for the Relevant Periods included one director for the years ended 31 December 2008 and 2009. The remuneration of the remaining four individuals for the year ended 31 December 2008 and 2009, and the five individuals for the year ended 31 December 2007 are as follows:

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Salaries and other allowances	1,785	1,412	1,267
Retirement benefit scheme contributions	<u>9</u>	<u>10</u>	<u>19</u>
	<u>1,794</u>	<u>1,422</u>	<u>1,286</u>

Note: The emolument of each of the above employees is below HK\$1,000,000 (equivalent to approximately RMB880,000).

During the Relevant Periods, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the Relevant Periods.

11. DIVIDENDS/DIVIDEND PAYABLE

During the Relevant Periods, dividends of RMB21,189,000 were paid by Shandong Taifeng during the year ended 31 December 2007 to its then shareholders prior to the Corporate Reorganisation.

In accordance with a resolution in writing of the shareholders of the Company passed on 28 November 2009, the Company declared special dividend of RMB50,000,000 to the existing shareholders. In accordance with a resolution in writing of the shareholders of the Company passed on 25 January 2010, the Company declared special dividend of RMB80,000,000 to the existing shareholders.

Except for the disclosure above, no dividends have been paid or declared by the Company since its incorporation up to the date of this report.

The rate of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the equity holders of the Company for the Relevant Periods is based on the following data:

	Year ended 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year attributable to equity holders of the Company	<u>123,813</u>	<u>106,934</u>	<u>248,288</u>
	<i>'000</i>	<i>'000</i>	<i>'000</i>
Weighted average number of shares for the purpose of basic earnings per share	<u>750,000</u>	<u>750,000</u>	<u>750,000</u>

The weighted average number of shares for the purpose of basic earnings per share represents 1,000 shares in issue and 749,999,000 shares to be issued upon the capitalisation issue as described in "Statutory and General Information" in Appendix VII to the prospectus which assume to occur on the first day of the Relevant Periods.

No diluted earnings per share is presented for the Relevant Periods as there were no potential dilutive shares in issue.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>RMB'000</i>	Plant and equipment <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
COST						
At 1 January 2007	55,795	423,317	1,126	447	4,730	485,415
Additions	—	11,464	183	—	2,058	13,705
Transfer	—	5,757	—	—	(5,757)	—
Disposals	(326)	—	—	—	—	(326)
At 31 December 2007	55,469	440,538	1,309	447	1,031	498,794
Additions	—	138,951	1,724	418	1,743	142,836
Disposal	—	(560)	—	(488)	—	(1,048)
At 31 December 2008	55,469	578,929	3,033	377	2,774	640,582
Additions	—	1,919	708	—	4,155	6,782
Transfer	6,929	—	—	—	(6,929)	—
Disposal	—	—	(11)	—	—	(11)
At 31 December 2009	62,398	580,848	3,730	377	—	647,353
DEPRECIATION						
At 1 January 2007	6,103	34,893	741	298	—	42,035
Provided for the year	1,921	31,043	165	85	—	33,214
Eliminated on disposal	(68)	—	—	—	—	(68)
At 31 December 2007	7,956	65,936	906	383	—	75,181
Provided for the year	1,754	31,430	161	45	—	33,390
Eliminated on disposal	—	(174)	—	(377)	—	(551)
At 31 December 2008	9,710	97,192	1,067	51	—	108,020
Provided for the year	1,822	38,514	301	68	—	40,705
Eliminated on disposal	—	—	(2)	—	—	(2)
At 31 December 2009	11,532	135,706	1,366	119	—	148,723
CARRYING VALUES						
At 31 December 2009	50,866	445,142	2,364	258	—	498,630
At 31 December 2008	45,759	481,737	1,966	326	2,774	532,562
At 31 December 2007	47,513	374,602	403	64	1,031	423,613

The above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis at the following years:

Buildings	15–30 years
Plant and equipment	5–15 years
Office equipment	5–10 years
Motor vehicles	10 years

14. PREPAID LEASE PAYMENTS

	As at 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Prepaid lease payments comprise:			
Leasehold land in the PRC under medium-term lease	<u>8,374</u>	<u>8,171</u>	<u>7,815</u>
Analysed for reporting purposes as:			
Current assets	207	207	179
Non-current asset	<u>8,167</u>	<u>7,964</u>	<u>7,636</u>

Prepaid lease payments are amortised over the term of the rights on a straight-line basis of 10 to 50 years for three years ended 31 December 2009. Follow the termination of lease arrangement on certain leasehold land during the year ended 31 December 2009, the remaining prepaid lease payment is amortised over the term of the rights on a straight-line basis of 50 years.

15. TRADEMARK

The trademark represents brand name of “TAIFENG” and its graph, which was acquired during the year ended 31 December 2009 from TTG at its fair value of RMB6,934,400 in accordance with the valuation report from an independent valuer, 北京中金浩資產評估有限責任公司. The trademark has a legal life of 10 years expiring in May 2019, but is renewable every 10 years at minimal cost.

The directors of the Company are of the opinion that the Group would renew the trademark continuously and has the ability to do so. Various studies including product life cycle studies, market, competitiveness and environmental trends, and brand extension opportunities have been performed by management of the Group, which supports that the trademark has no foreseeable limit to its legal life of 10 years expiring at May 2019 and the trademark products are expected to generate net cash inflows for the Group.

As a result, the trademark is considered by management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trademark will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

16. INVENTORIES

	As at 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
At cost			
Raw materials	163,410	72,230	51,775
Work-in-progress	25,348	18,909	17,795
Finished goods	<u>45,397</u>	<u>62,341</u>	<u>23,505</u>
	<u>234,155</u>	<u>153,480</u>	<u>93,075</u>

17. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Trade receivables	65,741	112,709	184,771
Less: allowance for doubtful debts	<u>(637)</u>	<u>(951)</u>	<u>(1,047)</u>
	65,104	111,758	183,724
Bills receivables	9,560	13,443	5,050
Prepayments for expenses	1,103	4,966	7,121
Prepayments to suppliers	1,260	4,198	83,696
Other receivables	<u>841</u>	<u>1,673</u>	<u>1,089</u>
	<u>77,868</u>	<u>136,038</u>	<u>280,680</u>

Included in the trade receivables as at 31 December 2009 is an amount of approximately RMB4,329,000 which represents trade balances due from TTG.

Apart from the cash sales from its retail business, the Group generally allows an average credit period of 30 to 90 days to its trade customers. The aged analysis of the Group's trade receivables (net of allowance for doubtful debts) at the end of each reporting period is as follows:

	As at 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Trade receivables:			
0–30 days	37,374	80,963	130,658
31–60 days	20,330	18,171	33,638
61–90 days	5,320	8,126	11,473
91–180 days	1,352	4,012	4,769
Over 180 days	<u>728</u>	<u>486</u>	<u>3,186</u>
	<u>65,104</u>	<u>111,758</u>	<u>183,724</u>

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines its credit limits based on results from investigation of historical credit records of these customers.

Aging of trade receivables which are past due but not impaired

	As at 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
91–180 days	1,352	4,012	4,769
Over 180 days	<u>728</u>	<u>486</u>	<u>3,186</u>
	<u>2,080</u>	<u>4,498</u>	<u>7,955</u>

The Group does not hold any collateral over the above balances, but management considers that there is no impairment in view of the continuing repayments from these customers.

Movement in the allowance for doubtful debts

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Balance at beginning of the year	538	637	951
Impairment losses recognised in trade receivables	194	663	507
Amounts written-off as uncollectible	(95)	(349)	(411)
	<u>637</u>	<u>951</u>	<u>1,047</u>
Balance at end of the year	<u>637</u>	<u>951</u>	<u>1,047</u>

Included in trade receivables as at 31 December 2008 was an amount of approximately RMB11,695,000 due from Laiwu Runfeng Textile Company Limited (“Laiwu Runfeng”) 萊蕪市潤豐紡織有限公司, a related company which Mr. Liu Qing Ping has significant influence. There were no such balances as at 31 December 2007 and 31 December 2009.

All bills receivables of the Group were aged within 60 days at the end of each reporting period.

Included in trade and other receivables, there were approximately RMB43,618,000, RMB33,713,000 and RMB19,765,000 denominated in United States Dollars (“US\$”) as at 31 December 2007, 2008 and 2009, respectively.

18. AMOUNT DUE FROM A RELATED COMPANY

The amount due from a related company at 31 December 2008 represented the funds advance to TTG, which carried interest at the fixed rate of 6% per annum and was fully settled during the year ended 31 December 2009. The Group does not hold any collateral over this balance.

The maximum outstanding balances during the Relevant Periods are as follows:

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Amount due from TTG	<u>102,679</u>	<u>186,699</u>	<u>62,349</u>

19. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

Bank balances of the Group carry interest at market rates as follows:

	Year ended 31 December		
	2007	2008	2009
Range of interest rates per annum	0.70% to <u>1.15%</u>	0.36% to <u>1.15%</u>	0.01% to <u>0.36%</u>

Pledged bank deposits represent deposits pledged to banks to secure bills payables and as requested by the PRC Custom Authority.

The pledged bank deposits of the Group carrying interest at the following various interest rates per annum:

	Year ended 31 December		
	2007	2008	2009
Interest rates per annum	<u>0% to 0.81%</u>	<u>0% to 0.72%</u>	<u>0.01% to 0.36%</u>

Included in bank balances and pledged bank deposits, there were approximately RMB277,000, RMB6,000 and RMB4,325,000 denominated in US\$ as at 31 December 2007, 2008 and 2009, respectively.

20. TRADE AND OTHER PAYABLES AND ACCRUALS

The aged analysis of the trade payables of the Group is as follows:

	As at 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Trade payables:			
— third parties	75,389	93,520	67,785
— related parties	<u>30,824</u>	<u>572</u>	<u>—</u>
	106,213	94,092	67,785
Bills payables	25,000	25,000	40,000
Accruals	21,033	18,787	31,014
Receipts in advance	3,786	7,053	6,795
Other tax payables	14,316	20,576	29,248
Others	<u>11,334</u>	<u>15,030</u>	<u>28,169</u>
	<u>181,682</u>	<u>180,538</u>	<u>203,011</u>

The aged analysis of the Group's trade payable as at the end of each reporting period is as follows:

	As at 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
0–30 days	86,085	65,930	54,476
31–60 days	7,485	20,862	2,266
61–90 days	10,329	2,135	2,086
91–180 days	1,744	1,844	3,320
Over 180 days	<u>570</u>	<u>3,321</u>	<u>5,637</u>
	<u>106,213</u>	<u>94,092</u>	<u>67,785</u>

All bills payables of the Group are aged between 91 to 180 days and are not yet due at the respective end of each reporting period.

Bills payables with aggregate amount of approximately RMB10,000,000 and RMB10,000,000 as at 31 December 2007 and 2008, respectively, were guaranteed by an independent third party, Shandong Taishan Paper Manufacturing Limited 山東泰山造紙有限公司 (“Taishan Paper”). Bills payables as at 31 December 2009 with aggregate amount of RMB10,000,000 are guaranteed by Taishan Paper and the remaining bills payables of RMB30,000,000 are guaranteed by an independent third party, Laiwu City Economic Development and Investment Co., Ltd. 萊蕪市經濟開發投資有限公司 (“Laiwu City”). The directors of the Company represented that the guarantee provided by Taishan Paper will be released upon the listing of the shares of the Company on the Stock Exchange (the “Listing”).

Included in trade and other payables and accruals, there were approximately nil, nil and RMB19,796,000 denominated in US\$ as at 31 December 2007, 2008 and 2009 respectively.

21. AMOUNTS DUE TO RELATED COMPANIES

	As at 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Amounts due to:			
— Laiwu Runfeng	30,000	30,000	—
— Shandong Taifeng Properties Company Limited (“Taifeng Properties”) 山東泰豐置業有限公司	—	1,402	—
	<u>30,000</u>	<u>31,402</u>	<u>—</u>

The amounts due to the above related parties represent the fund advance from Laiwu Runfeng and Taifeng Properties, which are unsecured, interest-free and the amounts have been fully repaid during the year ended 31 December 2009. Taifeng Properties is a subsidiary of TTG.

22. BANK AND OTHER BORROWINGS

	As at 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Bank loans	74,194	118,091	162,806
Other loan	344	200	—
	<u>74,538</u>	<u>118,291</u>	<u>162,806</u>
Analyzed as:			
Secured	12,000	10,000	24,000
Unsecured	<u>62,538</u>	<u>108,291</u>	<u>138,806</u>
	<u>74,538</u>	<u>118,291</u>	<u>162,806</u>
The exposure of the Group's borrowings are as follows:			
Fixed-rate borrowings	43,000	83,000	150,106
Variable-rate borrowings	<u>31,538</u>	<u>35,291</u>	<u>12,700</u>
	<u>74,538</u>	<u>118,291</u>	<u>162,806</u>

The range of effective interest rates (which are also equal to contracted interest rates) of the Group's borrowings are as follows:

	6.57% to 12.312% per annum	8.2% to 13.446% per annum	4.374% to 10.62% per annum
Fixed-rate borrowings			
	LIBOR+ 1.18% to LIBOR+2% per annum	LIBOR+ 5% per annum	LIBOR+ 1.1% per annum
Variable-rate borrowings			
Denominated in:			
RMB	45,764	97,760	150,106
US\$	<u>28,774</u>	<u>20,531</u>	<u>12,700</u>
	<u>74,538</u>	<u>118,291</u>	<u>162,806</u>

All borrowings are repayable within one year of the end of each reporting period.

Other loan represented an advance from an independent third party, Beijing City Development Group Company Limited 北京城市開發集團有限公司. The loan carried an interest rate of 8.62% and was fully settled during the year ended 31 December 2009.

The average interest rates for the bank and other borrowings are 7.90%, 11.50% and 6.98% as at 31 December 2007, 2008 and 2009, respectively.

Bank borrowings with an aggregate amount of approximately RMB62,194,000, RMB101,706,000 and RMB33,806,000 as at the year ended 31 December 2007, 2008 and 2009, respectively, are guaranteed by Taishan Paper. In addition, bank borrowings with an aggregate amount of RMB57,000,000 as at 31 December 2009 are guaranteed by Laiwu City.

The guarantee provided by Taishan Paper was because the Group has provided financial guarantees to banks in respect of banking facilities to the extent of RMB160,000,000 and RMB60,000,000 granted to TTG as at 31 December 2008 and 2009 respectively as disclosed in note 32, and TTG has extended financial supports to Taishan Paper in transactions unrelated to the Group.

Details of bank borrowings guaranteed by related parties are set out in note 29(I).

23. AMOUNT DUE TO A SHAREHOLDER

The principal amount of the loan from Mr. Liu Qingping as at 31 December 2007, 2008 and 2009 was RMB207.6 million, RMB180 million and nil, respectively. It represented three loans as below:

	Principal amount RMB'000	Loan period
Loan 1	124,600	October 2006 to October 2008
Loan 2	83,000	January 2007 to December 2008
Loan 3	180,000	October 2008 to October 2010

Loan 1 and Loan 2 have been fully repaid in October 2008. Loan 3 has been fully repaid in June 2009.

The shareholder's loans were unsecured and interest free. The shareholder's loans were initially recognised at fair value, determined based on the present value of the estimated future cash outflows discounted using the effective interest rate of 6.32% for loan 1, 6.81% for loan 2 and 8% for loan 3, respectively.

In accordance with the contractual terms of the shareholder's loan agreement, the interest-free amount for Loan 3 will be repayable by the end of October 2010. However, the Group repaid the principal amount of RMB180,000,000 during the year ended 31 December 2009. The related imputed interest accrued for the year ended 31 December 2009 of approximately RMB6,368,000 has been included in the finance costs as disclosed in note 7. The difference between the principal amount and the carrying amounts of Loan 3 of approximately RMB17,075,000 which represented the interest to be accrued from July 2009 to October 2010 was adjusted to the capital reserve in June 2009 due to the earlier repayment of such loan.

24. DEFERRED TAX

The following table shows the major deferred tax liabilities and assets recognised by the Group and movements thereon during the Relevant Periods:

	Allowance on Inventories <i>RMB'000</i>	Undistributed earnings of PRC's subsidiaries from 1 January 2008 <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2007 and 2008	—	—	—
(Credit) charge to profit and loss	<u>(3,023)</u>	<u>4,816</u>	<u>1,793</u>
At 31 December 2008	<u>(3,023)</u>	<u>4,816</u>	<u>1,793</u>
(Credit) charge to profit and loss	<u>324</u>	<u>11,894</u>	<u>12,218</u>
At 31 December 2009	<u>(2,699)</u>	<u>16,710</u>	<u>14,011</u>

The following table is the analysis of the deferred tax balances for financial reporting purposes:

	As at 31 December		
	2007 <i>RMB'000</i>	2008 <i>RMB'000</i>	2009 <i>RMB'000</i>
Deferred tax asset	—	3,023	2,699
Deferred tax liability	—	<u>(4,816)</u>	<u>(16,710)</u>
	<u>—</u>	<u>(1,793)</u>	<u>(14,011)</u>

Deferred tax has been provided for withholding tax in respect of the undistributed profits attributable to the Group as earned by the Group's PRC subsidiaries starting from 1 January 2008. Under the New Law, distribution of such profits to their shareholders outside the PRC are subject to withholding tax.

No unused tax losses are available at 31 December 2007. The Group has unused tax losses of RMB1,904,000 and RMB3,619,000 available for offset against future profits at 31 December 2008 and 2009, respectively. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. The tax losses of RMB1,904,000 and RMB1,715,000 will expire in 2013 and 2014 respectively.

25. PAID-IN CAPITAL/SHARE CAPITAL

For the purpose of the preparation of the consolidated financial position, the balances of the paid-in/share capital at 31 December 2007 and 2008 represent the paid-in capital of its subsidiary, Shandong Taifeng. The Company was incorporated in Cayman Islands as an exempted company with limited liability under the Cayman Companies Law on 21 May 2009 with an authorised share capital of HK\$380,000 divided into 3,800,000 shares of HK\$0.1 each and 1,000 shares were issued thereafter.

Pursuant to a resolutions in writing of the shareholders of the Company passed on 18 November 2009, the authorised share capital of the Company was increased from HK\$380,000 to HK\$150,000,000 by the creation of 1,496,200,000 new shares.

26. MERGER RESERVE/SPECIAL RESERVE/PRC GENERAL RESERVE

Merger reserve represents the difference between the issued and fully paid up share capital of Yong Xin and the paid up capital of Shandong Taifeng under the Corporate Reorganisation.

The special reserve relates to Shandong Taifeng and represents the difference between registered capital and the net assets contributed by its shareholders prior to 1 January 2007.

According to the relevant requirements in the memorandum of the Group's PRC subsidiaries, a portion of their profits after taxation is transferred to PRC general reserve. The transfer to this reserve must be made before the distribution of a dividend to equity owners. The general reserve fund can be used to offset the previous years' losses, if any. The general reserve fund is non-distributable other than upon liquidation.

27. CAPITAL RESERVE/SHARE-BASED PAYMENT RESERVE

The capital reserve represents the difference between the fair value of the interest-free advances from shareholders and the principal amounts at inception.

At 17 April 2009, Mr. Liu, the director and the shareholder of the Company acquired an additional 5.14% equity interest in Yong Xin from the Founding Shareholders at a nominal consideration of US\$100 as token of appreciation of his standing commitment, continuous support and contribution to the Group. Mr. Liu will have beneficial interest of such additional 5.14% equity interest in Yong Xin upon the completion of a two-year service as a director of the Company from 17 April 2009.

The fair value of the additional 5.14% equity interest at the date of transfer was approximately RMB17,476,000 in accordance with the valuation report from an independent valuer, Jones Lang LaSalle Sallmanns Limited. The share-based payment reserve represents the amount recognised as share-based payment expense which is calculated with reference to the difference between the above nominal consideration paid by Mr. Liu and fair value of the shares at the date of transfer, and is expensed on a straight-line basis over two years service period since 17 April 2009. The share-based payment expense of approximately RMB5,825,000 has been included in the directors' emoluments for the year ended 31 December 2009 as disclosed in note 10.

28. RETIREMENT BENEFIT PLANS

The Group mainly participates in retirement benefit schemes organised by the local government authority in the PRC. The local government authority in the PRC is responsible for managing the pension liabilities to these retired employees. For the pension liabilities to these retired employees, the Group is required to make monthly contributions at 12%, 16% and 16% of the local standard basic salaries for each of the three years ended 31 December 2009, respectively.

29. RELATED PARTY DISCLOSURES

(I) Related party transactions

During the Relevant Periods, the Group entered into the following transactions and balances with related parties:

Name of related party	Nature of transactions/balances	Year ended 31 December		
		2007 RMB'000	2008 RMB'000	2009 RMB'000
TTG	Sales of goods	363,948	233,718	118,386
	Purchase of materials	306,076	277,023	122,862
	Utility expenses paid	76,478	81,713	39,583
	Rental expenses under operating leases paid	9,300	10,000	6,765
	Purchase of property, plant and equipment	—	137,592	—
	Disposal of trademark	5,534	—	—
	Interest expenses paid	—	2,400	—
	Interest income received	—	6,370	4,412
	Trade payables (note)	26,162	572	—
	Acquisition of trademark	—	—	6,934
Laiwu Runfeng	Sales of goods	43,863	39,409	—
	Purchase of materials	4,918	12,414	—
	Subcontracting income received	—	314	—
	Trade receivables (note)	—	11,695	—
	Trade payables (note)	4,662	—	—

Note: These are the balances of trade receivables and trade payables as at the end of relevant reporting period.

As disclosed in note 7, following the resignation of Mr. Liu Qinqing as a director of TTG on 7 July 2009, the directors represented that TTG is not the related company of the Company. The above transactions with TTG for the year ended 31 December 2009 represented the transactions occurred during the period from 1 January 2009 to 6 July 2009. There were approximately RMB4,329,000 trade receivables from TTG at 31 December 2009 (2007 and 2008: Nil).

The significant transactions with TTG for the period from 7 July 2009 to 31 December 2009 are as follows:

	<i>RMB'000</i>
Sales of goods	97,941
Purchase of materials	81,192
Utility expenses paid	18,922
Rental expenses under operating leases paid	6,765
Interest income received	803

TTG also provided corporate guarantee of approximately RMB36,194,000, RMB33,706,000 and RMB81,860,000 to the Group in respect of the bank borrowings as at 31 December 2007, 2008 and 2009, respectively.

Mr. Liu Qinqing has also provided personal guarantees of RMB8,000,000, RMB68,000,000 and Nil to financial institution in respect of the Group's bank borrowings as at 31 December 2007, 2008 and 2009 respectively. The personal guarantees of RMB60,000,000 from Mr. Liu Qinqing as at 31 December 2008 has been released in January 2009.

As at 31 December 2008 and 2009, the Group has provided financial guarantees to banks in respect of banking facilities to the extent of RMB160,000,000 and RMB60,000,000 granted to TTG respectively. Details of the financial guarantee are set out in note 32.

The directors represented that the corporate guarantee provided by TTG will be released upon the Listing.

Details of operating lease commitments under rental agreements with related parties are set out in note 31.

In the opinion of the directors of the Group, sales of goods, purchase of material and rental of properties with TTG are expected to be continued after the Listing.

(II) Related party balances

Details of outstanding balances with related parties of the Group are set out in notes 17, 18, 20, 21 and 23.

(III) Compensation of key management personnel

The emoluments of directors who are also identified as members of key management of the Group during the Relevant Periods are set out in note 10.

30. PLEDGE OF ASSETS

At the end of each reporting period, the following assets were pledged to banks to secure the banking borrowings and bills payable or as requested by the PRC Custom Authority. In addition, as required by a bank, the Group needs to maintain inventories at a level at least equal to approximately RMB25 million and RMB63 million to secure the relevant bank borrowings as at 31 December 2008 and 31 December 2009, respectively.

	As at 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Bank deposits	18,173	20,142	24,318
Plant and equipment	32,757	—	—
Buildings	—	45,759	44,006
Prepaid lease payments	—	8,038	7,815
	<u>—</u>	<u>8,038</u>	<u>7,815</u>
Total pledged assets	<u>50,930</u>	<u>73,939</u>	<u>76,139</u>

All buildings and prepaid lease payments with an aggregate carrying amount of approximately RMB53,797,000 and RMB51,821,000 as at 31 December 2008 and 2009, respectively, were pledged to secure certain bank borrowings of TTG.

31. OPERATING LEASES

The Group as lessee

The minimum lease payments paid under operating lease during the Relevant Periods are as follows.

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Paid for premises to:			
— third parties	—	282	1,529
— a former related company: TTG	9,300	10,000	13,530
	<u>9,300</u>	<u>10,282</u>	<u>15,059</u>

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Within one year	9,300	15,125	14,902
In the second to fifth year inclusive	37,200	43,111	14,113
Over five years	<u>34,100</u>	<u>24,800</u>	<u>—</u>
	<u>80,600</u>	<u>83,036</u>	<u>29,015</u>
Operating lease commitments payable to:			
— third parties	—	3,261	1,963
— a former related company: TTG	<u>80,600</u>	<u>79,775</u>	<u>27,052</u>
	<u>80,600</u>	<u>83,036</u>	<u>29,015</u>

Operating lease payments represent rentals payable by the Group for certain of its office premises and production plants. Leases are negotiated and rentals are fixed for a period of one to two years.

32. CONTINGENT LIABILITIES

As at 31 December 2008 and 2009, the Group has provided financial guarantees to banks in respect of banking facilities to the extent of RMB160,000,000 and RMB60,000,000 respectively granted to TTG, of which RMB106,150,000 and RMB60,000,000 have been utilized, respectively.

The directors represented that the corporate guarantee provided by the Group to TTG will be released upon Listing.

There were no such financial guarantees as at 31 December 2007.

33. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2008, certain plant and equipment amounting to RMB120,000,000 was acquired from TTG and the amount was directly deducted from the balance due from TTG.

During the year ended 31 December 2009, a trademark was acquired from TTG at a consideration of RMB6,934,000 and the amount was directly deducted from the amount due from TTG.

During the year ended 31 December 2009, the Company recognised share-based payment expenses of approximately RMB5,825,000 and the amount was included in the directors' emoluments.

34. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group companies will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of the Group consists of amounts due to related companies, amount due to a shareholder, bank and other borrowings and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

The directors of the Group review the capital structure regularly. As part of this review, the directors consider the cost and the risks associates with each class of the capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt or the redemption of existing debt.

35. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Financial assets			
Loans and receivables (including cash and cash equivalents)	181,937	308,761	469,762
Financial liabilities			
Amortised cost	<u>443,531</u>	<u>440,371</u>	<u>348,760</u>

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from/to related companies, pledged bank deposits, bank balances, trade and other payables, amount due to a shareholder, and bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with certain of these financial instruments include interest rate risk, foreign currency risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate amount due from a related company, bank deposits, fixed-rate borrowings, amounts due to related companies and amount due to a shareholder. In addition, the Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of each reporting period. The directors consider that the exposure to interest rate risk on bank deposits is insignificant. For variable-rate bank borrowings, the analysis is prepared assuming the amount of asset outstanding at the end of each reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The effect of an increase in interest rates by 50 basis points, with all other variables held constant, on the Group's profit for each of the three years ended 31 December 2009 would be insignificant.

Currency risk

The Group have certain trade receivables, bank balances and bank and other borrowings denominated in foreign currencies, hence risk exposure to exchange rate fluctuations arise.

The Group has not entered into any forward contract to hedge against these foreign currencies risk exposure. However, the management of the Group will consider to hedge these balances should the need arises.

The carrying amount of the Group's foreign currency denominated monetary assets at the reporting date is as follows:

	As at 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Trade receivables			
US\$	<u>43,618</u>	<u>33,713</u>	<u>19,765</u>
Bank balances and pledged bank deposits			
US\$	<u>277</u>	<u>6</u>	<u>4,325</u>
Trade payables			
US\$	<u>—</u>	<u>—</u>	<u>19,796</u>
Bank and other borrowings			
US\$	<u>28,774</u>	<u>20,531</u>	<u>12,700</u>

Sensitivity analysis

The Group is mainly exposed to exchange rate fluctuation on United States Dollars. The following table details the Group's sensitivity to a 5% strengthening of RMB against US\$. 5% is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in US\$. For a 5% weakening of RMB against US\$, there would be an equal and opposite impact on the profit.

	USD Impact		
	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Increase (decrease) in profit	<u>(756)</u>	<u>(659)</u>	<u>(420)</u>

In the opinion of the directors of the Company, the sensitivity analysis is not necessarily representative of the inherent foreign exchange risk as the exposure at the end of each reporting period does not reflect the exposure during the years.

Credit risk

At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position and the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in note 32.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt, amount due from a related company and the amount of contingent liabilities in relation to financial guarantee issued by the Group at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the credit risk of the Group is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation or high credit ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both contractual interest and principal cash flows.

Liquidity table

As at 31 December 2007

	Weighted average of contractual interest rate						Total undiscounted cash flows	Carrying amount at 31.12.2007
		Less than 1 month	1-3 months	3 months to 1 year	1-2 years	2-5 years		
		%	RMB'000	RMB'000	RMB'000	RMB'000		
Non-interest bearing	—	85,675	86,872	—	—	207,600	380,147	368,993
Variable interest rate instrument	7.74	—	—	33,979	—	—	33,979	31,538
Fixed interest rate instrument	7.41	—	—	46,445	—	—	46,445	43,000
		<u>85,675</u>	<u>86,872</u>	<u>80,424</u>	<u>—</u>	<u>207,600</u>	<u>460,571</u>	<u>443,531</u>

As at 31 December 2008

	Weighted average of contractual interest rate						Total undiscounted cash flows	Carrying amount at 31.12.2008
		Less than 1 month	1-3 months	3 months to 1 year	1-2 years	2-5 years		
		%	RMB'000	RMB'000	RMB'000	RMB'000		
Non-interest bearing	—	99,015	66,508	—	—	180,000	345,523	322,080
Variable interest rate instrument	9.31	—	—	38,577	—	—	38,577	35,291
Fixed interest rate instrument	10.21	—	—	93,314	—	—	93,314	83,000
		<u>99,015</u>	<u>66,508</u>	<u>131,891</u>	<u>—</u>	<u>180,000</u>	<u>477,414</u>	<u>440,371</u>
Financial guarantee contracts		<u>106,150</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>106,150</u>	<u>—</u>

As at 31 December 2009

	Weighted average of contractual interest rate %	Less than	1-3	3 months	1-2	2-5	Total	Carrying
		1 month RMB'000	months RMB'000	to 1 year RMB'000	years RMB'000	years RMB'000	undiscounted cash flows RMB'000	amount at 31.12.2009 RMB'000
Non-interest bearing	—	106,478	79,476	—	—	—	185,954	185,954
Variable interest rate instrument	1.35	—	12,742	—	—	—	12,742	12,700
Fixed interest rate instrument	6.98	48,267	89,584	14,977	—	—	152,828	150,106
		<u>154,745</u>	<u>181,802</u>	<u>14,977</u>	<u>—</u>	<u>—</u>	<u>351,524</u>	<u>348,760</u>
Financial guarantee contracts		<u>60,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>60,000</u>	<u>—</u>

The amounts included above for financial guarantee contracts are the maximum amounts of the Group could be acquired to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee as disclosed in note 32. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

(c) **Fair value**

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised costs in the Financial Information approximate their fair values.

B. FINANCIAL INFORMATION OF THE COMPANY

The Company was incorporated on 21 May 2009 with an authorised capital of HK\$380,000 divided into 3,800,000 shares of HK\$0.1 each and 1,000 shares were issued thereafter. At 31 December 2009, 1,000 shares were issued and fully paid. The Company did not carry on any business except for acting as an investment holding company during the period from the date of incorporation to 31 December 2009.

Its statement of financial position at 31 December 2009 is as follows:

	<i>Notes</i>	<i>RMB'000</i>
NON-CURRENT ASSET		
Investment in a subsidiary		7
CURRENT ASSET		
Dividend receivable from a subsidiary		50,000
CURRENT LIABILITY		
Dividend payable to shareholders		<u>50,000</u>
NET ASSETS		<u><u>7</u></u>
CAPITAL AND RESERVE		
Share capital	(i)	—
Other reserve	(ii)	<u>7</u>
TOTAL EQUITY		<u><u>7</u></u>

Notes:

- (i) Details of share capital are set out in note 25 of Section A of this report.
- (ii) Other reserve represents the difference between the nominal value of share capital issued by the Company and the underlying net assets of Yong Xin at the date of acquisition.

C. DIRECTORS' REMUNERATION

Save as disclosed in this report, no remuneration was paid or is payable by the Group to the directors of the Group in respect of the Relevant Periods.

D. SUBSEQUENT EVENTS

The following events have occurred subsequent to 31 December 2009:

In accordance with a resolution in writing of the shareholders of the Company passed on 25 January 2010, the Company declared special dividend of RMB80,000,000 to the existing shareholders. The dividend has been fully paid on 20 May 2010.

E. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group have been prepared in respect of any period subsequent to 31 December 2009.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

For illustrative purpose only, the unaudited pro forma financial information prepared in accordance with paragraph 4.29 of the Listing Rules is set forth below to provide the prospective investors with further information on (i) how the proposed listing might have affected the financial position of our Group after the completion of the Global Offering; (ii) how the proposed listing might have affected the unaudited pro forma forecast earnings per share for the six months ending 30 June 2010.

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 our Group during the Relevant Periods or any further date.

The information set forth in this appendix does not form part of the Accountants' Report prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set forth in Appendix I to 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' Report set forth in Appendix I to this prospectus.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purpose only, and is set out here to illustrate the effect of the Global Offering on our net tangible assets as of 31 December 2009 as if it had taken place on 31 December 2009.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustration purpose only and, because of its hypothetical nature, it may not give a true picture of our net tangible assets as of 31 December 2009 or any future date following the Global Offering. It is prepared based on our net assets as of 31 December 2009 as set out in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountants' Report in Appendix I to this prospectus.

Based on an Offer Price of HK\$2.06 per Share	Audited consolidated net tangible assets attributable to equity holders of our Company as at 31 December 2009 <i>RMB'000</i> <i>(Note 1)</i>	Estimated net proceeds from the New Issue <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\$ equivalent)</i> <i>(Note 4)</i>
	<u>679,267</u>	<u>417,738</u>	<u>1,097,005</u>	<u>1.097</u>	<u>1.245</u>
Based on an Offer Price of HK\$3.09 per Share	<u>679,267</u>	<u>626,672</u>	<u>1,305,939</u>	<u>1.306</u>	<u>1.483</u>

Notes:

- (1) The audited consolidated net tangible assets attributable to equity holders of our company as of 31 December 2009 has been derived from the net assets of the Group after deducting the trademark of approximately RMB6,934,000 as set out in the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the New Issue are based on the Offer Shares and the Offer Price of HK\$2.06 or HK\$3.09 per Share, being the low or high end of the stated Offer Price range, after deduction of the underwriting fees and related expenses payable by our Company (excluding other related expenses of approximately RMB26,012,000 which have been paid or accrued as of 31 December 2009). The estimated net proceeds from the New Issue are converted from Hong Kong dollars into Renminbi at an exchange rate of RMB0.8809 to HK\$1.00.
- (3) The unaudited pro forma adjusted net tangible assets per Share is calculated based on 1,000,000,000 Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering.
- (4) The unaudited pro forma adjusted net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of RMB0.8809 to HK\$1.00. No representation is made that the Renminbi amounts have been, could have or may be converted to Hong Kong dollars, or vice versa, at that rate.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- (5) The unaudited pro forma net adjusted tangible assets of the Group does not take into account the special dividend of RMB80,000,000 declared by the Board on 25 January 2010, which was paid to the then eligible Shareholders on 20 May 2010. The unaudited pro forma net tangible assets per share would have been reduced to HK\$1.155 and HK\$1.392 per share based on the Offer Price of HK\$2.06 and HK\$3.09 respectively, after taking into account the payment of the special dividend in the sum of RMB80 million.
- (6) By comparing the valuation of the Group's property interests including buildings and prepaid lease payments as at 31 March 2010 of RMB82,250,000 as set out in Appendix IV to this prospectus, the net valuation surplus is approximately RMB24,104,000 as compared to the carrying amounts of the Group's property interest as of 31 March 2010, which has not been included in the above pro forma adjusted net tangible assets of the Group attributable to the equity holders of the Company as at 31 December 2009. The valuation of the Group's property interests will not be incorporated in the Group's financial statements. If the net valuation surplus is to be included in the Group's financial statements, an additional depreciation charge of approximately RMB161,000 would be recorded per annum.

B. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast earnings per Share for the six months ending 30 June 2010 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 1 January 2010. This unaudited pro forma forecast 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 our Group following the Global Offering.

For the six months ending 30 June 2010

Unaudited forecast consolidated profit attributable to equity holders of the Company ⁽¹⁾⁽³⁾	not less than RMB140 million (approximately HK\$159 million)
Unaudited pro forma forecast earnings per Share ⁽²⁾⁽³⁾	not less than RMB0.14 (approximately HK\$0.16)

Notes:

- (1) The unaudited forecast consolidated profit attributable to equity holders of the Company for the six months ending 30 June 2010 is extracted from the section headed “Financial Information — Profit Forecast for the six months ending 30 June 2010” in this prospectus. The bases and assumptions on which the above profit forecast for the six months ending 30 June 2010 has been prepared are set out in Appendix III to this prospectus.
- (2) The calculation of unaudited pro forma forecast earnings per Share for the six months ending 30 June 2010 is based on the above unaudited forecast consolidated profit attributable to equity holders of the Company for the six months ending 30 June 2010, assuming the Global offering and capitalisation issue had been completed on 1 January 2010 and a total of 1,000,000,000 Shares were issued and outstanding during the entire period. This calculation assumes that the Over-allotment Option will not be exercised. The Directors confirm that the Company’s consolidated financial statements for the six months ending 30 June 2010 will be audited, pursuant to Rule 11.18 of the Listing Rules.
- (3) The unaudited forecast consolidated profit attributable to equity holders of the Company and the unaudited pro forma forecast earnings per Share are converted into Hong Kong dollars at an exchange rate of RMB0.8809 to HK\$1.00. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

C. ACCOUNTANTS' REPORT FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the accountants' report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company prepared for the purpose of incorporation in this prospectus.

Deloitte.
德勤

德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF INTERNATIONAL TAIFENG HOLDINGS LIMITED

We report on the unaudited pro forma financial information of International Taifeng Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed global offering of 280,000,000 comprising 250,000,000 new shares and 30,000,000 existing shares of HK\$0.1 each in the Company might have affected the financial information presented, for inclusion in Section A and Section B in Appendix II to the Prospectus dated 31 May 2010 (the "Prospectus"). The basis of preparation of the unaudited pro forma financial information is set out in Appendix II to the Prospectus.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 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.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 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 engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

APPENDIX II 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 Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Our work has not been carried out in accordance with the auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it has been carried out in accordance with those standards.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Group as at 31 December 2009 or any future date; or
- the earnings per share, of the Group for the six months ending 30 June 2010 or any future period.

Opinion

In our opinion:

- a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

31 May 2010

The forecast combined profit attributable to equity holders of the Company for the six months ending 30 June 2010 is set out in the section headed “Financial Information — Profit Forecast for the six months ending 30 June 2010” in this prospectus.

(A) BASES

The Directors have prepared the forecast consolidated profit attributable to equity holders of the Company for the six months ending 30 June 2010 based on the results shown in unaudited management accounts of the Group for three month ended 31 March 2010 and a forecast of the consolidated results of the Group for the remaining three months ending 30 June 2010. Our Directors are not aware of any extraordinary items which have arisen or are likely to arise during the six months ending 30 June 2010.

The profit forecast has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by the Group as summarised in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus.

(B) PRINCIPAL ASSUMPTIONS

Principal assumptions adopted by the Directors in the preparation of the profit forecast are as follows:

- a. there will be no significant changes in the Group’s structure;
- b. there will be no material changes in existing government policies, political, legal, regulatory, financial and economic conditions in the PRC, Hong Kong and Macau;
- c. there will be no material changes in foreign currency exchange rates of Renminbi from those currently prevailing as at the Latest Practicable Date;
- d. there will be no material changes in the bases or rates of taxation applicable to the Group in the respective jurisdictions in which we operate;
- e. there will be no significant fluctuations in the inflation rate and interest rates of bank loans and deposits from those currently prevailing; and
- f. the Group’s business and operation will not be materially and adversely affected by factors that are set out in the section headed “Risk Factors” in this prospectus.

(C) LETTER FROM THE REPORTING ACCOUNTANTS

The following is the text of a letter from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, prepared for the purpose of incorporation in this prospectus in connection with the forecast consolidated profit attributable to equity holders of the Company for the six months ending 30 June 2010.

Deloitte.
德勤

德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

31 May 2010

The Directors
International Taifeng Holdings Limited
CIMB Securities (HK) Limited

Dear Sirs,

We have reviewed the accounting policies adopted and calculations made in arriving at the forecast of the consolidated profit of International Taifeng Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the six months ending 30 June 2010 attributable to equity holders of the Company (the “Forecast”), for which the directors of the Company are solely responsible, as set out in the prospectus dated 31 May 2010 issued by the Company (the “Prospectus”). The Forecast is prepared based on the results shown in the unaudited management accounts of the Group for three months ended 31 March 2010, and a forecast of the results for the remaining three months ending 30 June 2010.

In our opinion the Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions made by the directors of the Company as set out in part A of Appendix III to 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 on the financial information of the Group for the three years ended 31 December 2009 as set out in Appendix I to the Prospectus.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

LETTERS FROM THE SOLE SPONSOR

The following is text of a letter prepared by the Sole Sponsor, for the purpose of incorporation in this prospectus, in connection with the forecast consolidated profit attributable to equity holders of our Company for the six months ending 30 June 2010.



The Directors
International Taifeng Holdings Limited

31 May 2010

Dear Sirs,

We refer to the forecast of the consolidated profit of International Taifeng Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the six months ending 30 June 2010 attributable to equity holders of the Company (the “Profit Forecast”) as set out in the prospectus issued by the Company dated 31 May 2010 (the “Prospectus”).

The Profit Forecast, for which you as the directors of the Company (the “Directors”) are solely responsible, has been prepared based on the audited results of the Group for the year ended 31 December 2009, the results shown in the unaudited management accounts of the Group for the three months ended 31 March 2010 and a forecast of the results of the Group for the remaining three months ending 30 June 2010.

We have discussed with you the bases and assumptions made by the Directors as set out in Appendix III to the Prospectus upon which the Profit Forecast has been made. We have also considered the letter dated 31 May 2010 addressed to you and us from Deloitte Touche Tohmatsu, regarding the accounting policies and calculations upon which the Profit Forecast has been based.

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 Deloitte Touche Tohmatsu, we are of the opinion that the Profit Forecast, for which you as Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
CIMB Securities (HK) Limited
Alex Lau
Director
Head of Corporate Finance

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 March 2010 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

31 May 2010

The Board of Directors
International Taifeng Holdings Limited

Dear Sirs,

In accordance with your instructions to value the properties in which International Taifeng Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31 March 2010 (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".

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 replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. 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, 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 outgoing 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 shown copies of various title documents including a State-owned Land Use Rights Certificate, Building Ownership Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers – Tian Yuan Law Firm, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

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 summarized 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 27 years' experience in the valuation of properties in the PRC and 30 years of property valuation experience in Hong Kong and the United Kingdom as well as relevant experience in the Asia-Pacific region, France and Germany.

SUMMARY OF VALUES

Group I — Property interest held and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at 31 March 2010 <i>RMB</i>	Interest attributable to the Group	Capital value attributable to the Group as at 31 March 2010 <i>RMB</i>
1.	A parcel of land, various buildings and ancillary structures located at the northern side of Huiyuan Street Economic and High-technology Development Zone Laiwu City Shandong Province The PRC	82,250,000	100%	82,250,000
Sub-total:		<u>82,250,000</u>		<u>82,250,000</u>

Group II — Property interests leased and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at 31 March 2010 <i>RMB</i>	Interest attributable to the Group	Capital value attributable to the Group as at 31 March 2010 <i>RMB</i>
2.	Portions of 2 parcels of land and various buildings located at the northern side of Lianhe Street Economic and High-technology Development Zone Laiwu City Shandong Province The PRC	No commercial value	100%	No commercial value

No.	Property	Capital value in existing state as at 31 March 2010 <i>RMB</i>	Interest attributable to the Group	Capital value attributable to the Group as at 31 March 2010 <i>RMB</i>
3.	2 parcels of land and various buildings located at both sides of Panlonghe Street and western side of Yuntaishan Road Economic and High-technology Development Zone Laiwu City Shandong Province The PRC	No commercial value	100%	No commercial value
4.	4 retail shops No. 63 Daqiao South Road Laicheng District Laiwu City Shandong Province The PRC	No commercial value	100%	No commercial value
5.	Units 1035 to 1039 of Jia Zhou Bu Xing Jie located at the junction of Fengcheng West Street and Shengli South Road Laicheng District Laiwu City Shandong Province The PRC	No commercial value	100%	No commercial value
6.	Unit 105 of Springs Plaza No. 9 Xianxi Lane Lixia District Jinan City Shandong Province The PRC	No commercial value	100%	No commercial value

No.	Property	Capital value in existing state as at 31 March 2010 <i>RMB</i>	Interest attributable to the Group	Capital value attributable to the Group as at 31 March 2010 <i>RMB</i>
7.	Ground floor of a 2-storey commercial building No. 138 Zhangzhou Road Shinan District Qingdao City Shandong Province The PRC	No commercial value	100%	No commercial value
8.	Units A and B on Level 32 of Jiali Mansion No. 2 Lane 1228 of Yan'an West Road Changning District Shanghai The PRC	No commercial value	100%	No commercial value
9.	A single-storey warehouse No. 1488 Laohumin Road Minhang District Shanghai The PRC	No commercial value	100%	No commercial value
	Sub-total:	<u>Nil</u>		<u>Nil</u>
	Grand total:	<u><u>82,250,000</u></u>		<u><u>82,250,000</u></u>

VALUATION CERTIFICATE

Group I — Property interest 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 March 2010 RMB																								
1.	A parcel of land, various buildings and ancillary structures located at the northern side of Huiyuan Street Economic and High-technology Development Zone Laiwu City Shandong Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 124,703 sq.m., and 22 buildings and various ancillary structures erected thereon which were completed in various stages between 2001 and 2009.</p> <p>The buildings have a total gross floor area of approximately 79,159.68 sq.m. and the details of uses and their respective gross floor areas are set out as follows:</p> <table border="1"> <thead> <tr> <th>Use</th> <th>No. of Item</th> <th>Gross Floor Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Production</td> <td>4</td> <td>44,210.20</td> </tr> <tr> <td>Storage</td> <td>4</td> <td>12,190.89</td> </tr> <tr> <td>Office</td> <td>3</td> <td>5,049.85</td> </tr> <tr> <td>Residential</td> <td>5</td> <td>11,676.93</td> </tr> <tr> <td>Research & Exhibition</td> <td>1</td> <td>3,568.00</td> </tr> <tr> <td>Ancillary</td> <td><u>5</u></td> <td><u>2,463.81</u></td> </tr> <tr> <td>Total</td> <td><u>22</u></td> <td><u>79,159.68</u></td> </tr> </tbody> </table>	Use	No. of Item	Gross Floor Area (sq.m.)	Production	4	44,210.20	Storage	4	12,190.89	Office	3	5,049.85	Residential	5	11,676.93	Research & Exhibition	1	3,568.00	Ancillary	<u>5</u>	<u>2,463.81</u>	Total	<u>22</u>	<u>79,159.68</u>	<p>The property is currently occupied by the Group for production, storage, office, residential, research, exhibition and ancillary purposes.</p>	<p>82,250,000</p> <p>100% interest attributable to the Group: RMB82,250,000</p>
Use	No. of Item	Gross Floor Area (sq.m.)																										
Production	4	44,210.20																										
Storage	4	12,190.89																										
Office	3	5,049.85																										
Residential	5	11,676.93																										
Research & Exhibition	1	3,568.00																										
Ancillary	<u>5</u>	<u>2,463.81</u>																										
Total	<u>22</u>	<u>79,159.68</u>																										
		<p>The structures mainly include bicycle sheds, boundary fences and gates.</p> <p>The land use rights of the property have been granted for a term of 50 years expiring in December 2053 for industrial use.</p>																										

Notes:

- Pursuant to a State-owned Land Use Rights Certificate — Lai Wu Shi Guo Yong (2008) Di No. 0021, the land use rights of the property with a site area of approximately 124,703 sq.m. have been granted to Shandong Taifeng Textile Co., Ltd. (山東泰豐紡織有限公司, “Shandong Taifeng”), an indirect wholly-owned subsidiary of the Company, for a term of 50 years expiring in December 2053 for industrial use.
- Pursuant to 21 Building Ownership Certificates — Lai Fang Quan Zheng Lai Cheng Qu Zi Di Nos. 0107763 to 0107783, 21 buildings of the property with a total gross floor area of approximately 75,591.68 sq.m. are owned by Shandong Taifeng.

3. Pursuant to a Real Estate Mortgage Contract — (2010) Jin Chu Yin (Qing Mai Xin Di) Zi Di No. 278, a Land Other Rights Certificate — Lai Wu Shi Ta Xiang (2010) Di No. 0039 and a PRC Building Other Rights Certificate — Lai Fang Ta Zheng Lai Cheng Qu Zi Di No. 011674, the land use rights of the property and the buildings under the above mentioned Building Ownership Certificates are subject to a mortgage in favour of The Export-import Bank of China Qingdao Branch (the “Bank”), as security to guarantee the principal obligation under a loan contract (contract No. 2070001992010110119) entered into between the Bank and Shandong Taifeng for an amount of RMB60,000,000 with the security term from 9 February 2010 to 27 January 2011.
4. In the valuation of this property, we have attributed no commercial value to the remaining building with a gross floor area of approximately 3,568 sq.m. which has not obtained any proper title certificate. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the building (excluding the land) as at the date of valuation would be RMB6,732,000 assuming all relevant title certificates had been obtained and the building could be freely transferred.
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 is legally and exclusively in possession of the land use rights of the property and therefore has the rights to occupy, use, lease, transfer or mortgage the land use rights of the property;
 - b. The Group legally and exclusively owns the buildings mentioned in note 2 and therefore has the rights to occupy, use, transfer, lease or mortgage such buildings in accordance with the Building Ownership Certificates and the PRC laws and regulations;
 - c. The Mortgage Contract with respect to the subject buildings and land use rights as mentioned in note 3 is legal and valid and has been registered with the local authority. During the mortgage period, Shandong Taifeng should obtain the written consent from the mortgagee when transferring, leasing or otherwise disposing of such buildings and land use rights of the property; and
 - d. According to a Confirmation Letter issued by the Real Estate Administration Bureau of Laiwu City dated 11 March 2010, Shandong Taifeng is applying for building ownership certificate of the building mentioned in note 4 (the “Building”) and there will be no legal impediment for Shandong Taifeng to obtain it. Shandong Taifeng legally owns the Building and can utilize the Building for production and operation activities before obtaining building ownership certificate.

VALUATION CERTIFICATE

Group II — Property interests 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 March 2010 <i>RMB</i>															
2.	Portions of 2 parcels of land and various buildings located at the northern side of Lianhe Street Economic and High-technology Development Zone Laiwu City Shandong Province The PRC	<p>The property comprises portions of 2 parcels of land with a total site area of approximately 44,512.82 sq.m. and 2 industrial buildings, a warehouse and Levels 2 to 5 of a dormitory erected thereon which were completed in various stages between 2004 and 2007.</p> <p>The buildings have a total gross floor area of approximately 47,088.69 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: right;">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;">41,996.64</td> </tr> <tr> <td>Storage</td> <td style="text-align: center;">1</td> <td style="text-align: right;">1,713.90</td> </tr> <tr> <td>Residential</td> <td style="text-align: center;"><u>1</u></td> <td style="text-align: right;"><u>3,378.15</u></td> </tr> <tr> <td>Total</td> <td style="text-align: center;"><u>4</u></td> <td style="text-align: right;"><u>47,088.69</u></td> </tr> </tbody> </table>	Use	No. of Item	Gross Floor Area (sq.m.)	Production	2	41,996.64	Storage	1	1,713.90	Residential	<u>1</u>	<u>3,378.15</u>	Total	<u>4</u>	<u>47,088.69</u>	The property is currently occupied by the Group for production, storage and residential purposes.	No commercial value
Use	No. of Item	Gross Floor Area (sq.m.)																	
Production	2	41,996.64																	
Storage	1	1,713.90																	
Residential	<u>1</u>	<u>3,378.15</u>																	
Total	<u>4</u>	<u>47,088.69</u>																	
		<p>The property is leased to Shandong Taifeng Textile Co., Ltd. (“Shandong Taifeng”) from Taifeng Textile Group Co., Ltd. (“TTG”) (泰豐紡織集團有限公司) for a term of 20 years commencing from 22 May 2009 and expiring on 21 May 2029 at a monthly rent of RMB350,000, exclusive of water, electricity and gas charges and other outgoings.</p>																	

Notes:

- Pursuant to a Tenancy Agreement, the property is leased to Shandong Taifeng, an indirect wholly-owned subsidiary of the Company, from TTG for a term of 20 years commencing from 22 May 2009 and expiring on 21 May 2029 at a monthly rent of RMB350,000, exclusive of water, electricity and gas charges and other outgoings.

As stipulated in the Tenancy Agreement, the aforesaid rent might be adjusted 3 years after the commencement of the lease based on the then market rent level and Shandong Taifeng has the priority to renew the lease of the property upon expiration of the Tenancy Agreement thereafter from 21 May 2029. Moreover, Shandong Taifeng has the option to purchase the property under the Tenancy Agreement from TTG during the aforesaid lease term.

- Pursuant to a Supplementary Agreement entered into between TTG and Shandong Taifeng dated 16 November 2009, Shandong Taifeng has the exclusive rights to solely decide whether to terminate the Tenancy Agreement commencing from 31 December 2011.

3. Pursuant to 2 State-owned Land Use Rights Certificates — Lai Wu Shi Guo Yong (2007) Di Nos. 0444 and 0445, the land use rights of 2 parcels of land with a total site area of approximately 165,209.7 sq.m. (including the land where the property is situated) have been granted to TTG for a term of 50 years expiring on 30 December 2056 for industrial use.
4. As advised by the Group, the land use rights of the property are subject to a mortgage.
5. TTG has not obtained any Building Ownership Certificates with respect to the buildings of the property. Pursuant to a Confirmation Letter issued by the Real Estate Administration Bureau of Laiwu City dated 22 May 2009, the Building Ownership Certificates of the buildings were under application by TTG and there will be no legal impediment for TTG to obtain such Building Ownership Certificates, and TTG has the rights to lease out the property and to enter into and execute the Tenancy Agreement.
6. We have been provided with a legal opinion on the legality of the Tenancy Agreement and the Supplementary Agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. The Real Estate Administration Bureau of Laiwu City has the authority to issue the Confirmation Letter mentioned in note 5;
 - b. The Tenancy Agreement and the Supplementary Agreement with respect to the property are legal, valid and binding and the Group has the rights to occupy and use the property in accordance with the Tenancy Agreement and the Supplementary Agreement; and
 - c. The Tenancy Agreement and the Supplementary Agreement have not been registered with the local authority. However, the lack of lease registration will not affect the legality and validity of the Tenancy Agreement and the Supplementary Agreement and the Group will not be subject to any penalty arising from the absence of registration.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2010 RMB																					
3.	2 parcels of land and various buildings located at both sides of Panlonghe Street and western side of Yuntaishan Road Economic and High-technology Development Zone Laiwu City Shandong Province The PRC	<p>The property comprises 2 parcels of land with a total site area of approximately 159,552.9 sq.m. and 16 buildings erected thereon which were completed in various stages between 2003 and 2004.</p> <p>The buildings have a total gross floor area of approximately 108,458.57 sq.m. 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;">9</td> <td style="text-align: right;">96,084.25</td> </tr> <tr> <td>Storage</td> <td style="text-align: center;">1</td> <td style="text-align: right;">3,422.51</td> </tr> <tr> <td>Office</td> <td style="text-align: center;">1</td> <td style="text-align: right;">910.49</td> </tr> <tr> <td>Residential</td> <td style="text-align: center;">4</td> <td style="text-align: right;">6,466.00</td> </tr> <tr> <td>Ancillary</td> <td style="text-align: center;"><u>1</u></td> <td style="text-align: right;"><u>1,575.32</u></td> </tr> <tr> <td>Total</td> <td style="text-align: center;"><u>16</u></td> <td style="text-align: right;"><u>108,458.57</u></td> </tr> </tbody> </table>	Use	No. of Item	Gross Floor Area (sq.m.)	Production	9	96,084.25	Storage	1	3,422.51	Office	1	910.49	Residential	4	6,466.00	Ancillary	<u>1</u>	<u>1,575.32</u>	Total	<u>16</u>	<u>108,458.57</u>	The property is currently occupied by the Group for production, storage, office, residential and ancillary purposes.	No commercial value
Use	No. of Item	Gross Floor Area (sq.m.)																							
Production	9	96,084.25																							
Storage	1	3,422.51																							
Office	1	910.49																							
Residential	4	6,466.00																							
Ancillary	<u>1</u>	<u>1,575.32</u>																							
Total	<u>16</u>	<u>108,458.57</u>																							

The property is leased to Shandong Taifeng Textile Co., Ltd. ("Shandong Taifeng") from Taifeng Textile Group Co., Ltd. ("TTG") for a term of 20 years commencing from 22 May 2009 and expiring on 21 May 2029 at a monthly rent of RMB775,000, exclusive of water, electricity and gas charges and other outgoings.

Notes:

- Pursuant to a Tenancy Agreement, the property is leased to Shandong Taifeng, an indirect wholly-owned subsidiary of the Company, from TTG for a term of 20 years commencing from 22 May 2009 and expiring on 21 May 2029 at a monthly rent of RMB775,000 exclusive of water, electricity and gas charges and other outgoings.

As stipulated in the Tenancy Agreement, the aforesaid rent might be adjusted 3 years after the commencement of the lease based on the then market rent level and Shandong Taifeng has the priority to renew the lease of the property upon expiration of the Tenancy Agreement thereafter from 21 May 2029. Moreover, Shandong Taifeng has the option to purchase the property under the Tenancy Agreement from TTG during the aforesaid lease term.

- Pursuant to a Supplementary Agreement entered into between TTG and Shandong Taifeng dated 16 November 2009, Shandong Taifeng has the exclusive rights to solely decide whether to terminate the Tenancy Agreement commencing from 31 December 2011.

3. Pursuant to 2 State-owned Land Use Rights Certificates — Lai Wu Shi Guo Yong (2005) Di No. 0158 and Lai Wu Shi Guo Yong (2007) Di No. 0359, the land use rights of the property with a total site area of approximately 159,552.9 sq.m. have been granted to TTG for various terms expiring on 26 May 2055 and in December 2053 respectively for industrial use.
4. Pursuant to 4 Building Ownership Certificates — Lai Fang Quan Zheng Gao Xin Qu Zi Di No. 0091147 and Fang Quan Zheng Lai Fang Zi Di Nos. 001745-1, 001745-2 and 001745-3, 16 buildings of the property with a total gross floor area of approximately 108,458.57 sq.m. are owned by TTG for industrial use.
5. As advised by the Group, the property is subject to mortgages.
6. We have been provided with a legal opinion on the legality of the Tenancy Agreement and the Supplementary Agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. The Tenancy Agreement and the Supplementary Agreement with respect to the property are legal, valid and binding and the Group has the rights to occupy and use the property in accordance with the Tenancy Agreement and the Supplementary Agreement; and
 - b. The Tenancy Agreement and the Supplementary Agreement have not been registered with the local authority. However, the lack of lease registration will not affect the legality and validity of the Tenancy Agreement and the Supplementary Agreement and the Group will not be subject to any penalty arising from the absence of registration.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2010 RMB
4.	4 retail shops No. 63 Daqiao South Road Laicheng District Laiwu City Shandong Province The PRC	<p>The property comprises 4 retail shops on the ground floor of a 3-storey industrial building completed in about 1993.</p> <p>The property has a total lettable area of approximately 120 sq.m.</p> <p>The property is leased to Shandong Taifeng Textile Co., Ltd. ("Shandong Taifeng") from Taifeng Textile Group Co., Ltd. ("TTG") for a term of 3 years commencing from 10 July 2008 and expiring on 10 July 2011 at an annual rent of RMB30,000, exclusive of management fee, water and electricity charges.</p>	The property is currently occupied by the Group for retail purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement, the property is leased to Shandong Taifeng, an indirect wholly-owned subsidiary of the Company, from TTG for a term of 3 years commencing from 10 July 2008 and expiring on 10 July 2011 at an annual rent of RMB30,000 exclusive of management fee, water and electricity charges.
2. Pursuant to a Building Ownership Certificate — Fang Quan Zheng Lai Fang Zi Di No. 001760-3, 5 industrial buildings (including the building where the property is situated) with a total gross floor area of approximately 5,662.68 sq.m. are owned by TTG.
3. 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. As the existing use of the property is not consistent with its prescribed use, there would be a risk that the Tenancy Agreement with respect to the property might be considered invalid in case of any dissent. However, the Group's operation will not be materially affected; and
 - b. The Tenancy Agreement has not been registered with the local authority. However, the lack of lease registration will not affect the legality and validity of the Tenancy Agreement and the Group will not be subject to any penalty arising from the absence of registration.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2010 RMB
5.	Units 1035 to 1039 of Jia Zhou Bu Xing Jie located at the junction of Fengcheng West Street and Shengli South Road Laicheng District Laiwu City Shandong Province The PRC	<p>The property comprises 5 retail units on the ground floor of a 6-storey commercial and residential building completed in about 2008.</p> <p>The property has a total gross floor area of approximately 265.43 sq.m.</p> <p>The property is leased to Shandong Taifeng Textile Co., Ltd. ("Shandong Taifeng") from an independent third party for a term of 3 years commencing from 31 August 2008 and expiring on 30 August 2011 at a monthly rent of RMB20,263 for the first 2 years and RMB21,478.7 for the third year, exclusive of management fee, water and electricity charges.</p>	The property is currently occupied by the Group for retail purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement, the property is leased to Shandong Taifeng, an indirect wholly-owned subsidiary of the Company, from Wang Mai Lan (王麥蘭, the "Lessor"), an independent third party to the Group, for a term of 3 years commencing from 31 August 2008 and expiring on 30 August 2011 at a monthly rent of RMB20,263 for the first 2 years and RMB21,478.7 for the third year, exclusive of management fee, water and electricity charges.
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 obtained any title certificate of the property and therefore the legality and validity of the Tenancy Agreement can not be ascertained. However, the Group's operation will not be materially affected; and
 - b. The Tenancy Agreement has not been registered with the local authority. However, the lack of lease registration will not affect the legality and validity of the Tenancy Agreement and the Group will not be subject to any penalty arising from the absence of registration.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2010 RMB
6.	Unit 105 of Springs Plaza No. 9 Xianxi Lane Lixia District Jinan City Shandong Province The PRC	<p>The property comprises a retail unit on the ground floor of a 3-storey commercial building completed in about 2007.</p> <p>The property has a gross floor area of approximately 135.11 sq.m.</p> <p>The property is leased to Shandong Taifeng Textile Co., Ltd. (“Shandong Taifeng”) from an independent third party for a term commencing from 1 October 2008 and expiring on 1 October 2010 at an annual rent of RMB450,000, exclusive of management fee, water and electricity charges.</p>	The property is currently occupied by the Group for retail purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement, the property is leased to Shandong Taifeng, an indirect wholly-owned subsidiary of the Company, from Jia Ai Lian (賈愛蓮), an independent third party to the Group, for a term commencing from 1 October 2008 and expiring on 1 October 2010 at an annual rent of RMB450,000, exclusive of management fee, water and electricity charges.
2. Pursuant to a Building Ownership Certificate — Ji Fang Quan Zheng Li Zi Di No. 119350, the property with a gross floor area of approximately 135.11 sq.m. is owned by Jia Ai Lian.
3. 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 Tenancy Agreement with respect to the property is legal, valid and binding and the Group has the rights to use the property in accordance with the Tenancy Agreement; and
 - b. The Tenancy Agreement has been registered with the relevant local authority.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2010 RMB
7.	Ground floor of a 2-storey commercial building No. 138 Zhangzhou Road Shinan District Qingdao City Shandong Province The PRC	<p>The property comprises the ground floor unit of a 2-storey commercial building completed in about 2001.</p> <p>The property has a gross floor area of approximately 170 sq.m.</p> <p>The property is leased to Shandong Taifeng Textile Co., Ltd. ("Shandong Taifeng") from an independent third party for a term of 3 years commencing from 31 August 2008 and expiring on 30 August 2011 at an annual rent of RMB500,000 for the first 2 years and RMB530,000 for the third year, exclusive of management fee, water and electricity charges.</p>	The property is currently occupied by the Group for retail purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement, the property is leased to Shandong Taifeng, an indirect wholly-owned subsidiary of the Company, from Huang Dong Ping (黄棟平), an independent third party to the Group, for a term of 3 years commencing from 31 August 2008 and expiring on 30 August 2011 at an annual rent of RMB500,000 for the first 2 years and RMB530,000 for the third year, exclusive of management fee, water and electricity charges.
2. Pursuant to a Real Estate Title Certificate — Qing Fang Di Quan Shi Zi Di No. 326210, 2 retail units (including the property) with a total gross floor area of approximately 333.02 sq.m. are owned by Huang Dong Ping.
3. 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 Tenancy Agreement with respect to the property is legal, valid and binding and the Group has the rights to use the property in accordance with the Tenancy Agreement; and
 - b. The Tenancy Agreement of the property has been registered with the relevant local authority.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2010 RMB
8.	Units A and B on Level 32 of Jiali Mansion No. 2 Lane 1228 of Yan'an West Road Changning District Shanghai The PRC	<p>The property comprises 2 units of a 35-storey office building completed in about 2002.</p> <p>The property has a total gross floor area of approximately 269.17 sq.m.</p> <p>The property is leased to Shanghai Taifeng Home Textile Co., Ltd. (上海泰豐家紡有限公司, "Shanghai Taifeng") from two independent third parties for a term of one year commencing from 1 August 2009 and expiring on 31 July 2010 at a total monthly rent of RMB17,820, inclusive of management fee but exclusive of water and electricity charges.</p>	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement, the property is leased to Shanghai Taifeng, an indirect wholly-owned subsidiary of the Company, from Fei Le Yuan (費樂園) and Huang Ya Qin (黃亞琴), two independent third parties to the Group, for a term of one year commencing from 1 August 2009 and expiring on 31 July 2010 at a total monthly rent of RMB17,820, inclusive of management fee but exclusive of water and electricity charges.
2. Pursuant to a Real Estate Title Certificate — Hu Fang Di Chang Zi (2006) Di No. 002862, the property with a total gross floor area of approximately 269.17 sq.m. are owned by Fei Le Yuan and Huang Ya Qin.
3. 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 Tenancy Agreement with respect to the property is legal, valid and binding and the Group has the rights to use the property in accordance with the Tenancy Agreement; and
 - b. The Tenancy Agreement has not been registered with the local authority. However, the lack of lease registration will not affect the legality and validity of the Tenancy Agreement and the Group will not be subject to any penalty arising from the absence of registration.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2010 RMB
9.	A single-storey warehouse No. 1488 Laohumin Road Minhang District Shanghai The PRC	<p>The property comprises a single-storey warehouse completed in about 2001.</p> <p>The property has a gross floor area of approximately 450 sq.m.</p> <p>The property was subleased to Shanghai Taifeng Home Textile Co., Ltd. (“Shanghai Taifeng”) from an independent third party for a term of one year commencing from 27 April 2009 and expiring on 26 April 2010 at an annual rent of RMB106,763, exclusive of management fee, water and electricity charges.</p>	The property was occupied by the Group for storage purpose as at the date of valuation.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement, the property was subleased to Shanghai Taifeng, an indirect wholly-owned subsidiary of the Company, from Shanghai Haoguang Storage and Transportation Co., Ltd. (上海豪光倉儲運輸有限公司, “Shanghai Haoguang”), an independent third party to the Group, for a term of one year commencing from 27 April 2009 and expiring on 26 April 2010 at an annual rent of RMB106,763, exclusive of management fee, water and electricity charges.

We noted that the Tenancy Agreement had expired on 26 April 2010. As advised by the Group, the Tenancy Agreement has not been renewed after its expiration and the property is currently not leased and occupied by the Group.

2. Pursuant to a Real Estate Title Certificate — Hu Fang Di Min Zi (2001) Di No. 046570, 7 warehouses (including the property) with a total gross floor area of approximately 3,014.01 sq.m. are owned by Shanghai Hangnan Nong Gong Shang Industry Corporation (上海行南農工商實業總公司, “Shanghai NGS”).
3. Pursuant to a Land Use Rights Use Contract with Consideration (土地使用權有償使用合同) entered into between Shanghai NGS and Shanghai Haoguang dated 18 September 2001, the land use rights of a parcel of land together with the buildings erected thereon (including the property) were leased to Shanghai Haoguang for a term of 20 years expiring on 30 March 2021.
4. Pursuant to a Consent Letter issued by Shanghai NGS dated 23 November 2009, Shanghai Haoguang was permitted to sublet the property to Shanghai Taifeng. The Tenancy Agreement mentioned in note 1 entered into between Shanghai Haoguang and Shanghai Taifeng was confirmed by Shanghai NGS and Shanghai Taifeng has the rights to lease and use the property.
5. 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 Tenancy Agreement with respect to the property is legal and valid and the Group has the rights to use the property in accordance with the Tenancy Agreement during the lease term; and
 - b. The Tenancy Agreement has not been registered with the local authority during the lease term. However, the lack of lease registration will not affect the legality and validity of the Tenancy Agreement and the Group will not be subject to any penalty arising from the absence of registration.

Set out below is a summary of certain provisions of the Memorandum of Association and the Articles of Association and of Cayman Islands Companies Law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 21 May 2009 under the Cayman Islands Companies Law (referred to in this Appendix V as 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 conditionally adopted on 18 November 2009 and will take effect on the Listing Date. 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, the Memorandum and the 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 and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by 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 9 June 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 or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the

property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court

within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, 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.

1. THE PRC LEGAL SYSTEM

The PRC legal system is based on the PRC Constitution (中華人民共和國憲法) (“PRC Constitution”) and is made up of written laws, regulations and directives. Decided court cases do not constitute binding precedents.

The National People’s Congress (“NPC”) and the Standing Committee are empowered by the PRC Constitution to exercise the legislative power of the state. The NPC has the power to amend the PRC Constitution and to enact and amend primary laws governing the state organs, civil and criminal matters. The Standing Committee is empowered to interpret, enact and amend laws other than those required to be enacted by the NPC.

The State Council is the highest organ of state administration and has the power to enact administrative rules and regulations. Ministries and commissions under the State Council are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. Administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must not be in conflict with the PRC Constitution or the national laws and, in the event that any conflict arises, the Standing Committee has the power to annul such administrative rules, regulations, directives and orders.

At the regional level, the people’s congresses of provinces and municipalities and their standing committees may enact local rules and regulations and the people’s government may promulgate administrative rules and directives applicable to their own administrative area. These local laws and regulations may not be in conflict with the PRC Constitution, any national laws or any administrative rules and regulations promulgated by the State Council.

Rules, regulations or directives may be enacted or issued at the provincial or municipal level or by the State Council or its ministries and commissions in the first instance for experimental purposes. After sufficient experience has been gained, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee for enactment at the national level.

The power to interpret laws is vested by the PRC Constitution in the Standing Committee. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (全國人民代表大會常務委員會關於加強法律解釋工作的決議) passed on 10 June 1981, the Supreme People’s Court has the power to give general interpretation on application of laws in judicial proceedings apart from its power to issue specific interpretation in specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretation of the rules and regulations promulgated by them. At the regional level, the power to give interpretation of regional laws is vested in the regional legislative and administration organs that promulgate such laws. All such interpretations carry legal effect.

2. JUDICIAL SYSTEM

The People’s Courts are the judicial organs of the PRC. Under the PRC Constitution and the Law of Organization of the People’s Courts of the PRC (中華人民共和國法院組織法) originally promulgated on 1 July 1979 and amended on 31 October 2006 which became effective as of 1 January 2007, the People’s Courts comprise the Supreme People’s Court, the local people’s courts, military courts and other special people’s courts.

The local people's courts are divided into three levels, namely, basic people's courts, intermediate people's courts and higher people's courts. The basic people's courts are divided into civil, criminal, administrative and economic divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and, where the circumstances so warrant, may have other special divisions (such as intellectual property divisions). The judicial functions of people's courts at lower levels are subject to supervision of people's courts at higher levels. The people's procuratorates also have the right to exercise legal supervision over the proceedings of people's courts of the same and lower levels. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the people's courts of all levels.

The people's courts adopt a two-tier final appeal system. A party may before the taking effect of a judgment or order appeal against the judgment or order of the first instance of a local people's court to the people's court at the next higher level. Judgments or orders of the second instance of the same level and at the next higher level are final and binding.

Judgments or orders of the first instance of the Supreme People's Court are also final and binding. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a final and binding judgment which has taken effect in any people's court at a lower level, or the presiding judge of a people's court finds an error in a final and binding judgment which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the judicial supervision procedures.

The PRC civil procedures are governed by the Civil Procedure Law of the PRC (中華人民共和國民事訴訟法) ("Civil Procedure Law") originally adopted on 9 April 1991 (and amended on 28 October 2007 which became effective on 1 April 2008). The Civil Procedure Law contains regulations on the institution of a civil action, the jurisdiction of the people's courts, the procedures in conducting a civil action, trial procedures and procedures for the enforcement of a civil judgment or order. All parties to a civil action conducted within the territory of the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The jurisdiction may also be selected by express agreement by the parties to a contract provided that the jurisdiction of the people's court selected has some actual connection with the dispute, that is to say, the plaintiff or the defendant is located or domiciled, or the contract was executed or implemented in the jurisdiction selected, or the subject-matter of the proceedings is located in the jurisdiction selected. A foreign national or foreign enterprise is accorded the same litigation rights and obligations as a citizen or legal person of the PRC. If any party to a civil action refuses to comply with a judgment or order made by a people's court or an award made by an arbitration body in the PRC, the aggrieved party may apply to the people's court to enforce the judgment, order or award. And the time limit for aggrieved party to apply for such enforcement is 2 years.

A party seeking to enforce a judgment or order of a people's court against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or order. A foreign judgment or ruling may also be recognized and enforced according to the PRC enforcement procedures by the people's courts in accordance with the principle of reciprocity or if there exists an international or bilateral treaty with or acceded to by the foreign country that provides for such recognition and enforcement, unless the people's court considers that the recognition or enforcement of the judgment or ruling will violate fundamental legal principles of the PRC or its sovereignty, security or social or public interest.

3. ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

The Arbitration Law of the PRC (中華人民共和國仲裁法) (“Arbitration Law”) was promulgated by the Standing Committee on 31 August 1994 and came into effect on 1 September 1995. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association (中國仲裁協會) of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the Civil Procedure Law.

Where the parties have by an agreement provided arbitration as a method for dispute resolution, the parties are not permitted to institute legal proceedings in a people’s court. Under the Arbitration Law, an arbitral award is final and binding on the parties and if a party fails to comply with an award, the other party to the award may apply to the people’s court for enforcement. A people’s court may refuse to enforce an arbitral award made by an arbitration committee if there were mistakes, absences of material evidence or irregularities over the arbitration proceedings, or the jurisdiction or constitution of the arbitration committee. A party seeking to enforce an arbitral award of a foreign affairs arbitration body of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC.

In respect of contractual and non-contractual commercial-law-related disputes which are recognized as such for the purposes of the PRC law, the PRC has acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Award (“New York Convention”) adopted on 10 June 1958 pursuant to a resolution of the Standing Committee passed on 2 December 1986. The New York Convention provides that all arbitral awards made by a state which is a party to the New York Convention shall be recognized and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee at the time of the accession of the PRC that (1) the PRC would only recognize and enforce foreign arbitral awards on the principle of reciprocity and (2) the PRC would only apply the New York Convention in disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations.

4. FOREIGN EXCHANGE CONTROL

Prior to 31 December 1993, enterprises in the PRC requiring foreign currency were required to obtain approval from the State Planning Committee and the China Ministry of Foreign Trade and Economic Cooperation before it could convert Renminbi into foreign currency, and such conversion had to be effected at the official rate prescribed by SAFE. Renminbi reserved by foreign investment enterprises could also be converted into foreign currency at swap centers with the prior examination and verification by SAFE. The exchange rates used by swap centers were largely determined by the supply of and demand for foreign currencies and Renminbi.

On 28 December 1993, the PBOC announced that the dual exchange rate system for Renminbi against foreign currencies would be abolished with effect from 1 January 1994 and be replaced by the unified exchange rate system. Under the new system, the PBOC publishes the Renminbi exchange rate against the US dollar daily. The daily exchange rate is set by reference to the Renminbi/US dollar trading price on the previous day on the “inter-bank foreign exchange market”.

On 1 April 1996, the Foreign Exchange Control Regulations of the PRC (中華人民共和國外匯管理條例) by the State Council (as amended on 14 January 1997 and 1 August 2008) came into effect. On 20 June 1996, the PBOC issued the Announcement on the Implementation of Sale and Purchase of Foreign Exchange for the Foreign Investment Enterprises (中國人民銀行關於對外商投資企業實行銀行結售匯的公告) which allows foreign-invested enterprises (“FIEs”) to settle their foreign exchange related transactions at designated banks or at swap centers from 1 July 1996. (This Announcement was abolished on 1 December 2002 by the Interim Measures for the Administration of Foreign Exchange Settlement and Sales Operations by Designated Foreign Exchange Banks (外匯指定銀行辦理結匯、售匯業務管理暫行辦法)). On 20 June 1996, the Regulations on Settlement and Sales of and Payment in Foreign Exchange (結匯、售匯及付匯管理規定) were promulgated by the PBOC and came into effect on 1 July 1996.

On 25 October 1998, the PBOC and SAFE issued the Joint Announcement on Abolishment of Foreign Exchange Swap Business (中國人民銀行、國家外匯管理局關於停辦外匯調劑業務的通知) which stated that from 1 December 1998, foreign exchange transactions for FIEs may only be conducted at designated banks. In addition, some of the swap centers would be abolished, while the others which are already linked up with the China Foreign Exchange Trading Centre (the “CFETC”) by the computerized network will be merged with the CFETC and sub-centers to the CFETC.

On 21 July 2005, the PBOC issued the public announcement regarding reforming the Renminbi exchange rate regime. With effect from 21 July 2005:

- (a) The PRC will reform the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies and the Renminbi will no longer be pegged to the US dollar;
- (b) The PBOC will announce the closing price of foreign currencies including but not limited to the US dollar traded against Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and will make it the central price for the trading against Renminbi on the following day;
- (c) The exchange rate of the US dollar against the RMB will be adjusted to 8.11 RMB per US dollar at the time of 19:00 hours of 21 July 2005, which will be made as the central price for the trading against the RMB on the following working day. The foreign exchange designated banks may since then adjust quotations of foreign currencies to their customers;
- (d) The daily trading price of the US dollar against the RMB in the inter-bank foreign exchange market will continue to be allowed to float within a band of $\pm 0.3\%$ around the central parity published by the PBOC, while the trading prices of the non-US\$ currencies against the RMB will be allowed to move within a certain band announced by the PBOC.

In the future, the PBOC will make adjustment of the RMB exchange rate band when necessary according to market development as well as the economic and financial situation.

The Foreign Exchange Control Regulations of China was amended on 1 August 2008. Pursuant to this amendment, (1) the compulsory requirements for PRC enterprises to transfer their foreign exchange income back into PRC territory is abolished; (2) control and inspection over cross-border capital flow are further strengthened; and (3) the foreign exchange approval over direct investment overseas is simplified.

In summary, the present position under PRC laws relating to foreign exchange control, taking into account the promulgation of the recent new regulations and the extent the existing provisions stipulated in previous regulations do not contradict these new regulations, are as follows:

- (a) The previous dual exchange rate system for RMB was abolished and a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies was introduced. The PBOC will announce the closing price of foreign currencies including but not limited to the US dollar traded against the RMB in the inter-bank foreign exchange market after the closing of the market on each working day, and will make it the central parity for the trading against the RMB on the following working day.
- (b) Foreign exchange receipts and payments shall be based on true and lawful transactions. PRC enterprises may retain or sell their foreign exchange earnings to financial institutions which are allowed to conduct foreign exchange businesses and use their own retained foreign exchange or purchase foreign exchange at financial institutions which are allowed to conduct foreign exchange businesses for current account transactions.
- (c) Capital foreign exchange receipts of PRC enterprises, upon SAFE approval (unless no approvals required), may be retained or sold to financial institutions which are allowed to conduct foreign exchange businesses. PRC enterprises may use their retained foreign exchange or purchase foreign exchange at financial institutions which are allowed to conduct foreign exchange businesses for capital account transactions.
- (d) Despite the relaxation of foreign exchange control over current account transactions, the approval of SAFE is still required before an enterprise may receive a foreign currency loan, provide a foreign exchange guarantee, make an investment outside the PRC or enter into any other capital account transaction that involves the purchase of foreign exchange.
- (e) FIEs which require foreign exchange for their ordinary trading activities such as trade services and payment of interest on foreign debts may purchase foreign exchange from designated foreign exchange banks if the application is supported by proper payment notices or supporting documents.
- (f) FIEs may require foreign exchange for the payment of dividends that are payable in foreign currencies under applicable regulations, such as distributing profits to their foreign investors. They can withdraw funds in their foreign exchange bank accounts kept with designated foreign exchange banks, subject to the due payment of tax on such dividends. Where the

amount of the funds in foreign exchange is insufficient, the enterprise may, upon the presentation of the resolutions of the directors on the profit distribution plan of the particular enterprise, purchase foreign exchange from designated exchange banks.

- (g) FIEs may apply to designated foreign exchange banks to remit the profits out of the PRC to the foreign parties to equity or cooperative joint ventures or the foreign investors in wholly foreign-owned enterprises if the requirements provided by PRC laws, rules and regulations are met.

5. TAXATION

The applicable income tax laws, regulations, notices and decisions (collectively referred to as “Applicable FIEs Tax Law”) related to FIEs and their investors include the following:

- (1) New EIT Law;
- (2) Implementing Rules of the Enterprise Income Tax Law of PRC (中華人民共和國企業所得稅法實施細則) promulgated by the State Council on 6 December 2007 which came into effect on 1 January 2008;
- (3) Notice on the Implementation of the Transitional Preferential Policies in respect of Enterprise Income Tax (國務院關於實施企業所得稅過渡優惠政策的通知) (“Notice”) promulgated by the State Council on 26 December 2007 which came into effect on the same date;
- (4) Notice relating to Taxes Applicable to Foreign Investment Enterprises/Foreign Enterprises and Foreign Nationals in Relation to Dividends and Gains obtained from Holding and Transferring of Shares (國家稅務總局關於外商投資企業、外國企業和外籍個人取得股票(股權)轉讓收益和股息所得稅收問題的通知) promulgated by the State Tax Bureau on 21 July 1993;
- (5) Income Tax Law Applicable to Individuals of PRC (中華人民共和國個人所得稅法) promulgated by the Standing Committee of the NPC on 10 September 1980 and last amended on 29 December 2007 and its latest Implementation Regulations promulgated on 18 February 2008; and
- (6) Notice on Relevant Policies Concerning Individual Income Tax (關於個人所得稅若干政策問題的通知) issued by the Ministry of Finance and the State Tax Bureau on 13 May 1994.

PRC Enterprise Income Tax

(a) *Taxpayer*

The taxpayer of income tax of foreign invested enterprises refers to Sino-foreign equity joint ventures, Sino-foreign contractual joint ventures and foreign-capital enterprises that are established in the PRC.

(b) Tax Rate

In accordance with the New EIT Law, a unified enterprise income tax rate of 25% and unified tax deduction standards will be applied equally to both domestic-invested enterprises and foreign-invested enterprises. In accordance with the Notice, the EIT rate applicable to foreign-invested enterprises which are currently subject to a deducted rate will be gradually increased up to 25% within five years commencing from 1 January 2008.

(c) Preferential Treatment*Income Tax on foreign investment enterprise*

The income tax on enterprises with foreign investment established in Special Economic Zones, foreign enterprises which have establishments or places in Special Economic Zones engaged in production or business operations, and on enterprises with foreign investment of a production nature in Economic and Technological Development Zones, shall be levied at the reduced rate of 15%.

The income tax on enterprises with foreign investment 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 shall be levied at the reduced rate of 24%.

The income tax on enterprises with foreign investment in coastal economic open zones, in the old urban districts of cities where the Special Economic Zones or the Economic and Technological Development Zones are located or in other regions defined by the State Council, within the scope of energy, communications, harbor, wharf or other projects encouraged by the State, may be levied at the reduced rate of 15%.

Any enterprise with foreign investment of a production nature scheduled to operate for a period of not less than 10 years shall, from the year beginning to make profit, be entitled to be exempted from income tax in the first and second years and allowed a 50% reduction in the third to fifth years. However, the exemption from or reduction of income tax on enterprises with foreign investment engaged in the exploitation of resources such as petroleum, nature gas, rare metals, and precious metals shall be regulated separately by the State Council.

Enterprises with foreign investment which have actually operated for a period of less than 10 years shall repay the amount of income tax exempted or reduced already. Any enterprise with foreign investment which is engaged in agriculture, forestry or animal husbandry and any other enterprise with foreign investment which is established in remote underdeveloped areas may, upon approval by the competent department for tax affairs under the State Council of an application filed by the enterprise, be allowed a 15% to 30% reduction of the amount of income tax payable for a period of another 10 years following the expiration of the period for tax exemption or reduction as provided for in the preceding two paragraphs.

Losses incurred in a tax year may be carried forward for not more than five years

Losses incurred in a tax year by any enterprise with foreign investment and by an establishment or a place set up in the PRC by a foreign enterprise to engage in production or business operations may be made up by the income of the following tax years. Should the income of the following tax year be insufficient to make up for the said losses, the balance may be made up by its income of the further subsequent year, and so on, over a period not exceeding five years.

Any enterprise with foreign investment shall be allowed, when filing a consolidated income tax return, to deduct from the amount of tax payable the foreign income tax already paid abroad in respect of the income derived from sources outside the PRC. The deductible amount shall, however, not exceed the amount of income tax otherwise payable under the New EIT Law in respect of the income derived from sources outside the PRC.

Pursuant to the New EIT Law, the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得稅法) and its Implementing Rules shall be abolished, and the rate of EIT applicable to all resident enterprises, including foreign invested enterprises and domestic companies in the PRC shall be at a uniform rate of 25% in five years. According to the New EIT Law, any enterprise established prior to the promulgation of the New EIT Law and is currently enjoying tax incentives, shall be entitled to continue to enjoy such incentives till the date of expiry. In the case of an enterprise that has been established before the New EIT Law, but has not declared its first profitable year, the term of any entitlement to tax incentives shall commence from 1 January 2008 for a transition period of five years.

According to the Notice which was promulgated and came into effect on 26 December 2007, commencing from 1 January 2008, enterprises that previously enjoy the preferential policies of low tax rates shall be gradually transited to enjoy the statutory tax rate within 5 years after the implementation of the New EIT Law. Among them, the enterprises that enjoy the EIT rate of 15% shall be subject to the EIT rate of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012. The enterprises that previously enjoy the tax rate of 24% shall be subject to the tax rate of 25% commencing from 2008. As of 1 January 2008, enterprises that previously enjoy “2-year exemption and 3-year half payment”, “5-year exemption and 5-year half payment” of the enterprise income tax and other preferential treatments in the form of periodic tax deductions and exemptions may, after the implementation of the New EIT Law, continue to enjoy the relevant preferential treatments under the preferential measures and the time period prescribed in the former tax law, administrative regulations and relevant documents until the expiration of the said time period. However, if such an enterprise has not enjoyed the preferential treatments yet because of its failure to make profits, its preferential time period shall be calculated from 2008. The expression “enterprises enjoying the preferential policies” as mentioned above refers to the enterprises established and registered in the industrial and commercial administrative department and in other registration administrative departments prior to 16 March 2007.

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) promulgated by the State Council and amended on 5 November 2008 came into effect on 1 January 2009. Under these regulations and the Implementing Rules of

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實施細則), 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, 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%.

The value-added tax rates for small scale taxpayer shall be 3%.

Business Tax

With effect from 1 January 2009, 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 tax payable shall be calculated in RMB. Taxpayers that settle their amounts of business income in foreign exchange shall convert the amounts into RMB at the foreign exchange market rate.

PRC Customs Duties

According to the Customs Law of the PRC (中華人民共和國海關法), 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 PRC Customs is the authorities in charge of the collection of customs duties.

The customs duties in the PRC mainly fall under ad valorem duties, namely 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, commencing from 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 (國務院關於調整進口設備稅收政策的通知), in respect of the foreign investment projects that fall under Encouraging Category and Restricted B Category of the Industrial Guidance Catalogue of Foreign Investment (《外商投資產業指導目錄》鼓勵類和限制乙類) 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 (外商投資項目不予免稅的進口商品目錄).

Tax on Dividends from PRC Enterprise with Foreign Investment

According to the Applicable FIEs Tax Law, income such as dividends and profits distribution from the PRC derived from a foreign enterprise which has no establishment in the PRC is subject to a 20% withholding tax, subject to reduction as provided by any applicable double taxation treaty, unless the relevant income is specifically exempted from tax under the Applicable FIEs Tax Law. The profit derived by a foreign investor from a PRC enterprise with foreign investment is exempted from PRC tax according to the Applicable FIEs Tax Law. However, following the enforcement of the EITL from 1 January 2008, dividends of the year 2008 and the years afterwards distributed from foreign investment enterprises to foreign investors shall be subject to the

Enterprise Income Tax. Profits accumulated by foreign investment enterprises before 1 January 2008 but distributed to foreign investors after 1 January 2008 are exempted from the Enterprise Income Tax.

Apart from the above, the Applicable Foreign Enterprise Tax Law provides that:

- (a) pursuant to the Notice on Reduction of Income Tax on Such Income as Interest etc from China for Foreign Enterprises (關於外國企業來源於我國境內的利息等所得減徵所得稅問題的通知) promulgated by the State Council commencing on 1 January 2000, 10% withholding tax is applicable to dividends payable from a foreign enterprise which has no establishment in the PRC to investors that are “non-resident enterprises” (and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business); and
- (b) pursuant to the Notice concerning Tax Rates for Dividends Declared (關於下發協定股息稅率情況一覽表的通知) issued by the State Administration of Taxation, 5% withholding tax is applicable to dividends payable from the PRC subsidiary to its Hong Kong holding company, pursuant to an arrangement for the avoidance of double taxation between Mainland China and Hong Kong which provides for a withholding tax at a rate of 5% for dividend payments the Hong Kong holding company receives from the PRC entities in which it holds an interest of 25% or more, to the extent such dividends have their source within the PRC.

In addition, the Applicable FIEs Tax Law also provides that dividends received by a qualified PRC tax resident from another PRC tax resident are exempted from withholding tax.

6. WHOLLY FOREIGN-OWNED ENTERPRISE (“WFOE”)

A WFOE is governed by the Law of the People’s Republic of China on Wholly Foreign-owned Enterprises (中華人民共和國外資企業法), which was promulgated on 12 April 1986 and revised on 31 October 2000, and its Implementation Regulations promulgated on 12 December 1990 and revised on 12 April 2001 (“WFOE Law”).

(1) Procedures for establishment of a WFOE

The establishment of a WFOE must be approved by the MOFCOM. If two or more foreign investors jointly apply for the establishment of a WFOE, a copy of the contract between the parties must also be submitted to the MOFCOM (or its delegated authorities) for its record. A WFOE must also obtain a business licence from the relevant local Administration for Industry and Commerce before it can commence business operation.

(2) Nature of WFOE

A WFOE is a limited liability company under the WFOE Law. A WFOE is a legal person who is entitled to independently assume civil obligations, enjoy civil rights and own, use and dispose of property. It is required to have a registered capital contributed by the foreign investor(s). The liability of the foreign investor(s) is limited to the amount of registered capital it

subscribed to contribute. A foreign investor is permitted to make its contributions by instalments and the registered capital shall be contributed within the required time period as approved by the MOFCOM (or its delegated authorities) in accordance with relevant PRC laws and regulations.

(3) Profit distribution

The WFOE Law provides that a WFOE shall withdraw reserve fund and employee bonus and benefit fund from the after-tax profit. The allocation ratio for the employee bonus and welfare fund shall be determined by the enterprise. However, at least 10% of the after-tax profits must be allocated to the reserve fund. If the cumulative total of allocated reserve funds reaches 50% of the enterprise's registered capital, the enterprise will not be required to make any additional contribution. The enterprise is prohibited from distributing dividends unless the losses (if any) of previous years have been made up.

7. LABOUR LAWS AND SAFETY MATTERS

Relevant labour and safety laws and regulations in the PRC include the PRC Labour Law (中華人民共和國勞動法), the PRC Labour Contract Law (中華人民共和國勞動合同法), the Decision of the State Council on Establishing the Unified Basic Pension Insurance System for the Employees of Enterprises (國務院關於建立統一的企業職工基本養老保險制度的決定), the Decision of the State Council on Establishing the Basic Medical Insurance System for the Urban Employees (國務院關於建立城鎮職工基本醫療保險制度的決定), the Regulation on Work-related Injury Insurance (工傷保險條例), the Regulation on Unemployment Insurance (失業保險條例), the Provisional Insurance Measures for Maternity of Employees (企業職工生育保險試行辦法), the Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法), the Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例) and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time are applicable to our operations in the PRC.

According to the PRC Labour Law (中華人民共和國勞動法) and the PRC Labour Contract Law (中華人民共和國勞動合同法), labour contracts in written form shall be executed to establish labour relationships between employees and employers. The employers must provide wages which are no lower than local minimum wage standards to the employees from time to time. The employers are required to establish a system for labour safety and sanitation, strictly abide by State rules and standards and provide relevant education to the employees. The employers are also required to provide the employees with labour safety and sanitation conditions meeting State rules and standards and carry out regular health examinations of the employees engaged in hazardous occupations.

As required under the Decision of the State Council on Establishing the Unified Basic Pension Insurance System for the Employees of Enterprises, the Decision of the State Council on Establishing the Basic Medical Insurance System for the Urban Employees, the Regulation on Work-related Injury Insurance, the Provisional Insurance Measures for Maternity of Employees, the Interim Regulation on the Collection and Payment of Social Insurance Premiums and the Interim Provisions on Registration of Social Insurance, the employers are obliged to provide the employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance.

The PRC Production Safety Law (中華人民共和國安全生產法) requires that the employers maintain safe production conditions as required by the PRC Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. It further provides that any entity that is not sufficiently equipped to ensure safe production may not engage in production and business operation activities, and that companies must provide production safety education and training programs to employees. The design, manufacture, installation, use, checking and maintenance of the safety equipment are required to conform to applicable national or industrial standards. In addition, it is required that labour protection equipment must meet the national or industrial standards and that companies must supervise and educate their employees to wear or use such equipment according to the prescribed rules.

Social Insurances and Housing Fund

Pursuant to the relevant rules and regulations under the PRC law, enterprises and employees both are required to make contribution payment to provide employees for pension insurance, medical insurance, unemployment insurance and housing fund at respective rate. At the same time, enterprises shall make contribution to provide employees with coverages for work-related injury insurance and maternity insurance. As the economics and social development levels vary in different part of the PRC, the implementation of laws and regulations of relevant social insurances and housing fund vary among each local government.

As at 31 December 2009, the Company had a total of 4,908 full-time employees (consisting of 4,904 employees of Shandong Taifeng and 4 employees of Shanghai Taifeng). The Company have entered into labour contracts with 993 of the 4,908 full-time employees while the remaining 3,915 employees were dispatched by the local labour stations pursuant to the relevant labour employment agreements with such local labour stations.

According to the labour employment agreements entered into by Shandong Taifeng with the above mentioned local labour stations and confirmation letters signed by each of the relevant local labour stations, Shandong Taifeng shall make contribution for work-related injury insurance for those outsourced employees, while the other social insurance (including the pension insurance, medical insurance, unemployment insurance and maternity insurance) and the housing fund shall be contributed by each of the relevant local labourer stations in relation to the employees they respectively dispatched to Shandong Taifeng.

Shandong Taifeng should make contribution to all social insurance payments (including pension insurance, medical insurance, unemployment insurance, maternity insurance and work-related injury insurance) and housing fund for the employees that have direct contractual arrangement with it, which amounted to 993 staff as at 31 December 2009 and make contribution to work-related injury insurance for the 3,915 employees dispatched by the local labour stations.

Shandong Taifeng has not made social insurances contribution, including work-related injury insurance contribution, and housing fund contribution for the employees who have entered into the labour contract with the Company and the workforce it sourced from local labour stations as and/or when required. As at 31 December 2009, the outstanding amount for social insurances contribution, including work-related injury insurance contribution, for the employees who entered into labour

contracts with the Company as well as the workforce sourced from local labour stations was RMB11.52 million. The outstanding amount for housing fund contribution for the employees who entered into labour contracts with the Company was RMB1.0 million.

According to “Interim Regulation on the Collection and Payment of Social Insurance Premiums” promulgated by the State Council on 22 January 1999, enterprises should make social insurance registration with relevant local authorities. Enterprises which have not paid the social insurance contributions or have not contributed to social insurance payments on behalf of employees according to the rules will be required to pay such amounts by the relevant labour insurance administrative departments or tax authorities within required period. If the payment is not made within the required period, in addition to payment of the outstanding amount, a late charge calculated at 0.2% per day of the outstanding amount will be charged from the date of the default payment. For those enterprises which fail to make payment of any social insurance contributions and (or) any late charges, the relevant government agencies will apply to the People’s Court to make a collection enforceable by law.

According to “Administrative Requirements for Housing Fund” (住房公積金管理條例) promulgated by the State Council on 3 April 1999 (amended on 24 March 2002), enterprises should register with the Housing Fund Management Centre (住房公積金管理中心) and open a housing fund account. The housing fund contributed by enterprises and employees shall not be less than 5% of the average monthly wages of the previous year. Enterprises which do not make requisite registration or complete procedures to open relevant accounts to make housing fund contributions for their employees will be ordered by the Housing Fund Management Centre to make such payment or complete such procedures within a required period, or be subject to a penalty of no less than RMB10,000 and no more than RMB50,000. Enterprises which have not paid or fully paid the housing fund will be ordered by the Housing Fund Management Centre to made such payment within a required period or potentially be subject to the People’s Court’s possible ruling to enforce such payment obligation.

Shandong Taifeng obtained a confirmation letter issued by the Labour and Social Insurance Bureau (人事勞動和社會保障局) of Laicheng District, Laiwu City (“Laicheng Social Insurance Bureau”) on 2 February 2010, which confirmed that Shandong Taifeng (i) was permitted to make outstanding social insurance contributions in installments starting from 31 December 2009; (ii) would not be subject to any penalties; and (iii) had complied with the relevant social insurance laws and regulations prior to 31 December 2006. It was agreed that Shandong Taifeng should make full contribution to each of the social insurance contributions according to the relevant laws and regulations, policies and the requirements of Laicheng Social Insurance Bureau starting from the date of the confirmation letter.

On 1 February 2010, Shandong Taifeng obtained a confirmation letter issued by the Housing Fund Management Centre of Laiwu City (“Laiwu Housing Fund Management Centre”), which confirmed that (i) Shandong Taifeng had made the housing fund registration with Laiwu Housing Fund Management Centre in October 2009 and had been making housing fund contribution starting from 1 October 2009; (ii) Laiwu Housing Fund Management Centre had waived the right to seek outstanding housing fund contributions, including any penalties, payable prior to 1 October 2009; and (iii) save for the above, Shandong Taifeng had complied with the relevant national and local housing fund laws and regulations and no penalty had been imposed on Shandong Taifeng due to the outstanding housing fund contributions.

Save for disclosed above, Shandong Taifeng complies with all relevant laws and regulations related to social insurance and housing fund payment. As at the Latest Practicable Date, Shandong Taifeng did not receive any complaints or requests from its employees requiring payment for the social insurance and housing fund, and did not receive any relevant legal documents issued by any organization handling employment disputes or any court in respect of disputes related to the social insurance and housing fund payments.

8. ENVIRONMENTAL PROTECTION REGULATIONS

In accordance with the Environmental Protection Law (環境保護法) adopted by the Standing Committee on 26 December 1989, the Administration Supervisory Department of Environmental Protection sets the national guidelines for the discharge of pollutants. The provincial and municipal governments of provinces, autonomous regions and municipalities may also set their own guidelines for the discharge of pollutants within their own provinces or districts in the event that the national guidelines are inadequate.

A company or an enterprise which causes environmental pollution and discharges other polluting materials which endanger the public should implement environmental protection methods and procedures into their business operations. This may be achieved by setting up a system of accountability within the company's business structure for environmental protection; adopting effective procedures to prevent environmental hazards such as waste gases, water and residues, dust powder, radioactive materials and noise arising from production, construction and other activities from polluting and endangering the environment. The environmental protection system and procedures should be implemented simultaneously with the commencement of and during the operation of construction, production and other activities undertaken by the company. Any company or enterprise which discharges environmental pollutants should report and register such discharge with the Administration Supervisory Department of Environmental Protection and pay any fines imposed for the discharge. A fee may also be imposed on the company for the cost of any work required to restore the environment to its original state. Companies which have caused severe pollution to the environment are required to restore the environment or remedy the effects of the pollution within a prescribed time limit. If a company fails to report and/or register the environmental pollution caused by it, it will receive a warning or be penalized. Companies which fail to restore the environment or remedy the effects of the pollution within the prescribed time will be penalized or have their business licenses terminated. Companies or enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, as well as to compensate for any losses or damages suffered as a result of such environmental pollution.

Under the Prevention and Control of Water Pollution Law (水污染防治法), companies which discharge pollutants directly or indirectly into bodies of water must register with the environmental protection department of the local government at county level or above in the area where they are situated. Such companies must provide information on their facilities which discharge such pollutants, their treatment plants, the type, amount and concentration of the pollutants discharged under normal business operations, in accordance with regulations set by the Administration Supervisory Department of Environmental Protection. If there are significant changes to the type, amount or concentration of pollutants being discharged, such changes must be reported immediately.

The dismantling or non-usage of pollution treatment plants also require the approval of the environmental protection department of the local government at county level or above.

Under the Prevention and Control of Atmospheric Pollution Law (大氣污染防治法), companies which discharge pollutants into the atmosphere must provide details of the discharge to the environmental protection department of the local government. Such details must include the facilities which discharge such pollutants, their treatment plants, the type, amount and concentration of the pollutants discharged under normal business operations, in accordance with regulations made by the Administration Supervisory Department of Environmental Protection. If there are significant changes to the type, amount or concentration of pollutants being discharged, such changes must be reported immediately. The dismantling or non-usage of pollution treatment plants also requires the approval of the environmental protection department of the local government.

Under the Prevention and Control of Solid Waste Pollution Law (固體廢物污染環境防治法), companies which discharge solid waste pollution shall be responsible for their pollution. Companies must register with the local relevant authority for their solid waste pollution, and must provide information in relation to the type, amount, discharge and treatment of such pollution, in accordance with regulations made by the Administration Supervisory Department of Environmental Protection. If there are significant changes to the type, amount or concentration of pollutants being discharged, such changes must be reported immediately. The dismantling or non-usage of pollution treatment plants also requires the approval of the environmental protection department of the local government.

9. LAWS, REGULATIONS AND POLICIES RELATED TO THE TEXTILE INDUSTRY

There are currently no specific laws or regulations governing the production and distribution of textile industry in the PRC. Foreign-invested enterprises engaging in such businesses are subject to the requirements prescribed in various legislations applicable to textile products.

According to the Catalogue of Industries for Guiding Foreign Investment (Revised 2007) (外商投資產業指導目錄) (2007年修訂) issued by MOFCOM and NDRC on 31 October 2007, which became effective on 1 December 2007, the production of textile products belongs to the “Encouraged” category.

On 19 November 2008, the PRC government declared 6 measures below to promote the healthy development of light textile industry:

(a) Fiscal subsidies to stimulate domestic consumption

The PRC government will introduce fiscal subsidies with the key objective to stimulate domestic consumption and promote production in the PRC for domestic consumption. These include offering fiscal subsidies to peasants for buying domestic appliances, and increasing financial support to the quake-stricken areas and frontier ethnic minority regions.

(b) Setting aside special funds to support small and medium textile enterprises

The PRC government will set aside special funds to support small and medium textile enterprises with the key objective of creating job opportunities, economic and social efficiency and also to attract more investment in the light textile industry.

(c) Reducing tax burden and increasing export tax rebate

The PRC government plans to reduce the tax burden on small and medium textile enterprises so as to ease cost pressure. It will also continue to increase export tax rebate on textiles, clothing and light industrial products.

The export tax rebate for certain textile products, garments and home furnishing products such as curtains and bed linens has been increased from 11% to 13% commencing from 1 August 2008, then to 14% with effect from 1 November 2008 and is now expected to be increased to 17%.

(d) Strong support for enterprises to develop international markets and trade development fund to support merger and acquisitions, research and development and marketing activities

To strengthen the light textile industry, the PRC government has expressed strong support for small and medium enterprises in the light textile industry to develop international markets. Further, a trade development fund will be set up to support merger and acquisition, research and development and marketing activities in the industry.

(e) Encouraging bank support

The PRC government encourages and will guide financial institutions to enhance the financial support for small and medium enterprises in the PRC. This will include measures such as advocating financial institutions to provide more lending and simplify approval process, and developing the export credit insurance business to small and medium textile enterprises.

(f) Funds set aside to promote technological transformation

The PRC government will emphasize on the technological transformation of light textile industry and promote industrial upgrading. Small and medium textile enterprises are encouraged to strengthen their research and development capability and improve market competitiveness. A central budget fund will be set aside for this purpose.

10. SUMMARY OF RELEVANT LAWS AND REGULATIONS ON IMPORTS OF COTTON AND EXPORTS OF TEXTILE PRODUCTS

(1) Relevant Regulations on Imports of Cotton

According to the “Regulation of the People’s Republic of China on the Administration of Import and Export of Goods” (《中華人民共和國貨物進出口管理條例》) promulgated by the State Council of the People’s Republic of China (“State Council”) on 10 December 2001, enterprise that import goods which are subject to tariff and quotas should apply for quotas with quotas administration department to obtain certificates for tariff and quotas.

In order to fulfil the commitments to reduce tariff made by the PRC when entering into the World Trade Organization and Bangkok Agreement (曼谷協定), on 21 December 2001, the Customs Tariff Commission of the State Council (“Customs Tariff Commission”) issued the “Notice of the Customs Tariff Commission of the State Council on the Implementation of the

Customs Tariff of 2002” (《國務院關稅稅則委員會關於2002年關稅實施方案的通知》) (“Notice”), pursuant to the Notice, starting from 1 January 2002, imported cotton will subject to tariff quotas management, and corresponding in-quota rates and out-of-quota rates were also came into effect. Imported cotton within tariff quotas were subject to applicable 1% tax rate, while the imported cotton not that out of the tariff quotas were subject to applicable 54.4% Most Favoured Nation rate and 125% general tax rate.

According to the “Interim Measures for the Administration of Import Tariff Quotas of Agricultural Products” (《農產品進口關稅配額管理暫行辦法》) (“Interim Measures”) promulgated by the Ministry of Commerce and the State Development and Reform Commission (《國家發展和改革委員會》) (“Development and Reform Commission”) on 27 September 2003, cotton is one of the agricultural products that subject to import tariff quota . Except for foreign products that went to bonded warehouses, bonded areas and export processing zones can be waived to obtain the “Certificates of Import Tariff Quotas for Agricultural Products” (《農產品進口關稅配額證》), enterprises that import cotton for normal trade, process trade, barter trade, small scale border trade, subsidy, donation, etc. should apply for import tariff quotas for agricultural products with the organizations authorised by the Development and Reform Commission and obtain the Certificates of Import Tariff Quotas for Agricultural Products (effective for one calendar year).

Pursuant to the above interim measures, the organizations authorised by the Development and Reform Commission will allocate the import tariff quotas of agricultural products according to the application amounts and the historical import record, productivity, other related business standard of the applicants or using the first-come-first-serve method.

If end-users holding the import tariff quotas for agricultural products could not fully use up the quotas they applied in that year, they should return the unused quotas to the original issue organizations.

On 26 April 2005, the Customs Tariff Commission issued “Notice on the problem using limited interim tariffs to import cotton that exceeds tariff quotas 2005” (關於2005年在關稅配額外以有數量限制的暫定關稅方式進口棉花問題的通知). According to the notice, from 1 May 2005 to 31 December 2005, imported cotton which declared as out-of tariff quota will subject to import tariff based on the “limited interim tariff rate” (有數量限制的暫定關稅稅率), the interim tariff rate will be determined using sliding duties method, the tax rate slid range from 5% to 40%.

The Group strictly complied with the relevant requirement when importing cotton, and has obtained the “Certificates of Import Tariff Quotas for Agricultural Products” and the “Certificates of importing cotton with preferential out-of quota rate” (《關稅配額外優惠稅率進口棉花配額證》).

(2) Relevant Regulations on Exports of Textile Products

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

According to the “Measures on the Administration of Passive Quotas for Textile Products” (紡織品被動配額管理辦法) (“Measures”) promulgated by the Ministry of Foreign Trade and Economic Cooperation of the People’s Republic of China on 20 December 2001, export quotas and export licenses system were implemented on textile products that export to countries which has imposed restrictions, such as the European Union and the United States. The systems are subject to the supervision of the Customs and under the examination of the entry-exit inspection and quarantine authorities according to relevant requirements. Exporting companies may acquire the export quotas through various means such as tendering, self-applications and allocation by performance. Exporting companies should return any unused export quotas to the original issue authority. Quotas acquired through tendering, self- applications and allocation by performance may be transferred in accordance with the above Measures and relevant provisions.

According to the 2004 Announcement No. 82 of the Ministry of Commerce and General Administration of Customs, under the relevant provisions stipulated in the “Agreement on textile products and clothing” (《紡織品與服裝協議》) of the World Trade Organization in respect of the integration of textile products quotas and China’s World Trade Organization Accession Protocol (中國加入世界貿易組織議定書), countries previously imposing restrictions on textiles export from China, such as the European Union and the United States, had lifted the export quota imposed on China since 1 January 2005.

On 18 September 2006, the Ministry of Commerce promulgated the “Measures for the Administration of the Export of Textiles (Provisional)” (紡織品出口管理辦法 (暫行)) (“Provisional Measures”). According to the Provisional Measures, interim export control had been implemented on textiles products listed in the “Catalogue of Textile Exports Subject to Provisional Administration” (紡織品出口臨時管理商品目錄) (“Exports Catalogue”). While exporting textile products listed in the Exports Catalogue, foreign trade companies should apply to the local commerce authorities for a “Provisional Export License for Textile Products”. As for commodities that subject to the provisional export license administration, foreign trade companies should apply to the organizations authorised by the General Administration of Quality Supervision, Inspection and Quarantine (“General Administration of Quality Supervision”) for the certificate of country of origin for the products after acquiring the “Provisional Export License for Textiles Products” (紡織品臨時出口許可證).

Provisional export quotas on textile products is assigned to foreign trade companies by commerce authorities through various means such as allocation by performance and tendering agreement. Provisional export quotas for textile products are allowed to transfer through the transfer platform of provisional export quotas. Should the provisional export quotas were not fully used up within the valid period of the provisional export quota, foreign trade companies should return the remaining provisional quotas to the commerce authorities.

On 14 December 2006, the Ministry of Commerce, General Administration of Customs and General Administration of Quality Supervision issued the 2006 Announcement No. 106, announcing a new “Catalogue of Textile Exports to the United States Subject to Provisional Administration” (輸美紡織品出口臨時管理商品目錄) and “Catalogue of Textile Exports to the European Union Subject to Provisional Administration” (輸歐盟紡織品出口臨時管理商品目錄) to replace the above Export Catalogue.

The United States and the European Union imposed import restrictions on textiles from China to reduce the impact of an influx of Chinese textiles imports according to the relevant provisions of the special safeguards on importing textiles from China stipulated under the paragraph 242 of the Report of the Working Party on the Accession of China to the WTO (中國加入世貿組織工作組報告書). To settle the trade disputes with both the United States and European Union, the PRC government entered into memoranda of understanding with the United States and European Union respectively in 2005 which prescribed annual quotas and caps on annual increases of quotas on 21 categories and 10 categories of Chinese textiles imports into the United States and European Union.

According to the memoranda of understanding entered into between the European Union and China, management over the export quantity of 10 categories of textile products exported to European Union will be lifted as from 1 January 2008 and export license management over 8 categories of textile products exported to European Union members shall be carried out as from 1 January 2008, and shall be ended as from 31 December 2008.

On 31 December 2008, the memoranda of understanding entered into between the European Union and China, and the United States and China expired. Since 1 January 2009, the Ministry of Commerce no longer imposed administration on the export amount and quota license on the 21 categories of textile products exported to the United State and the 8 categories of textile products under bilateral control exported to the European Union.

1. FURTHER INFORMATION ABOUT THE COMPANY AND ITS SUBSIDIARIES**A. Incorporation**

Our Company was incorporated in the Cayman Islands under the Cayman Islands Companies Law as an exempted company with limited liability on 21 May 2009 with an authorised share capital of HK\$380,000 divided into 3,800,000 Shares with a nominal value of HK\$0.1 per share.

Our Company has established a place of business in Hong Kong at 18th Floor, Edinburgh Tower, The Landmark, 15 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 9 November 2009. Mr. Pang Wai Hong has been appointed as the authorised representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company is incorporated in the Cayman Islands, it operates subject to the Cayman Islands Companies Law and to its constitution comprising the memorandum and articles of association. A summary of certain provisions of the Articles and relevant aspects of the Cayman Islands Companies Law is set out in Appendix V to this prospectus.

B. Change in share capital

- (a) The authorised share capital of our Company as at the date of its incorporation was HK\$380,000 divided into 3,800,000 Shares of HK\$0.1 each.
- (b) On 21 May 2009, one subscriber share in nil paid form with the par value of HK\$0.1 of our Company was transferred to Harvest Sun. On 21 May 2009, 679, 220 and 100 Shares with par value of HK\$0.1 each of our Company were allotted and issued in nil paid form to Harvest Sun, Super Delight and Fu Sun respectively.
- (c) Pursuant to the Reorganisation, on 18 August 2009, our Company credited as fully paid the 1,000 Shares in aggregate already held by Harvest Sun, Superior Delight and Fu Sun in consideration for the acquisition by our Company of the entire shareholding interest of Yong Xin and the assignment of the Shareholder's Loan from Harvest Sun to our Company.
- (d) Pursuant to the resolutions in writing of the shareholders of our Company passed on 18 November 2009, the authorised share capital of our Company was increased from HK\$380,000 to HK\$150,000,000 by the creation of an additional 1,496,200,000 Shares.
- (e) Immediately following 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, the issued share capital of our Company will be HK\$100,000,000 divided into 1,000,000,000 Shares, all fully paid or credited as fully paid and 500,000,000 Shares will remain unissued.

- (f) Save as aforesaid and as mentioned in the paragraph headed “Resolutions in writing of the shareholders of our Company passed on 18 November 2009 and 21 April 2010”, there has been no alteration in the share capital of our Company since its incorporation.

C. Resolutions in writing of the shareholders of our Company passed on 18 November 2009 and 21 April 2010

Pursuant to the written resolutions passed by the shareholders of our Company on 18 November 2009:

- (a) our Company conditionally adopted the Articles of Association to take effect on the Listing Date;
- (b) the authorised share capital of our Company was increased from HK\$380,000 to HK\$150,000,000 by the creation of an additional 1,496,200,000 Shares;

Pursuant to the written resolutions passed by the shareholders of the Company on 21 April 2010:

- (a) conditional on (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option); (ii) the execution and delivery of the agreement on the Offer Price between the Sole Sponsor, the Sole Global Coordinator and our Company (for ourselves and on behalf of the Selling Shareholder) 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 new 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 and to approval the transfer of the Sale Shares;
- (iii) conditional upon the share premium amount of the Company being credited as a result of the Global Offering, the Directors were authorised to capitalize the amount of HK\$74,999,900 standing to the credit of the share premium account of the Company to pay up in full at par 749,999,000 Shares for allotment and issue to the person(s) whose name(s) appears on the register of members of the Company at the close of business on the date of this prospectus (or as the Directors may direct) pro-rata (as nearly as possible without involving fractions) to its/their then existing shareholdings in the Company (the “Capitalisation Issue”) and the Directors were authorised to effect the same and to allot and issue Shares pursuant thereto.

- (b) 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 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 per cent. of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering and Capitalisation Issue (but taking no account of any Shares which may be issued and allotted pursuant to the exercise of the Over-allotment Option), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles 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;
- (c) a general unconditional mandate was given to the Directors authorising them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other approved stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10 per cent. of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering (but taking no account of any Shares which may be issued and allotted pursuant to the exercise of the Over-allotment Option), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles 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
- (d) the general unconditional mandate mentioned in paragraph (b) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (c) above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of the Company in issue and to be issued immediately following completion of the Global Offering and the Capitalisation Issue (excluding the aggregate nominal value of the share capital of the Company which may be issued pursuant to the exercise of the Over-allotment Option).

2. CORPORATE REORGANISATION

In preparation for the listing of the Shares on the Stock Exchange, the companies comprising the Group underwent the Reorganisation to rationalize the structure of our Group. The following steps were taken by our Group:

- (a) On 23 January 2008, Yong Xin was incorporated in the BVI. On 22 July 2008, 486 shares, 146 shares, 132 shares, 86 shares, 75 shares, 55 shares and 20 shares of US\$1 each were allotted and issued at par to Mr. Liu Qingping, Mr. Li Dengxiang, Ms. Qi Tongli, Mr. Liu Chunwei, Mr. Zou Shengzhong, Mr. Meng Qingli and Mr. Huang Qige respectively;
- (b) On 9 October 2008, Ever Link was incorporated in Hong Kong. On 6 January 2009, Yong Xin acquired one share of HK\$1 at par, being the entire issued share capital of Ever Link, from the then subscriber;
- (c) On 2 January 2009, Harvest Sun was incorporated in the BVI. On 3 April 2009, 486 shares, 146 shares, 132 shares, 86 shares, 75 shares, 55 shares and 20 shares of US\$1 each were allotted and issued at par to Mr. Liu Qingping, Mr. Li Dengxiang, Ms. Qi Tongli, Mr. Liu Chunwei, Mr. Zou Shengzhong, Mr. Meng Qingli and Mr. Huang Qige respectively;
- (d) On 2 January 2009, Fu Sun was incorporated in the BVI. On 3 April 2009, 100 shares of US\$1 each were allotted and issued at par to Mr. Liu Qingping;
- (e) On 12 February 2009, Ever Link and China Taifeng entered into a share transfer agreement whereby Ever Link acquired from China Taifeng its entire equity interest in Shandong Taifeng and the consideration was agreed at Singapore Dollars 40,972,501.00, which is set by reference to the then acquisition cost paid by China Taifeng to Shandong Taifeng's shareholders in 2006;
- (f) On 8 April 2009, Harvest Sun acquired from the 7 Individual Shareholders their entire shareholding in Yong Xin, the consideration was satisfied by Harvest Sun allotted and issued an additional 486 shares, 146 shares, 132 shares, 86 shares, 75 shares, 55 shares and 20 shares of US\$1 each were allotted and issued at par to Mr. Liu Qingping, Mr. Li Dengxiang, Ms. Qi Tongli, Mr. Liu Chunwei, Mr. Zou Shengzhong, Mr. Meng Qingli and Mr. Huang Qige respectively;
- (g) On 17 April 2009, Harvest Sun, Fu Sun and Superior Delight entered into a share transfer agreement, whereby Harvest Sun transferred 100 shares and 220 shares of Yong Xin to Fu Sun and Superior Delight at a consideration of US\$100 and HK\$78,000,000 respectively;
- (h) On 21 May 2009, the Company with an authorised share capital of HK\$380,000 divided into 3,800,000 Shares of HK\$0.1 each was incorporated in the Cayman Islands as an exempted company with limited liability whereby one subscriber's share in nil paid form in the Company was transferred to Harvest Sun, and on the same date 679 shares, 100 shares and 220 shares were allotted and issued to Harvest Sun, Fu Sun and Superior Delight in nil paid form respectively;

- (i) On 26 May 2009, Ever Link and China Taifeng entered into a supplemental share transfer agreement in which, amongst other things, the parties agreed that China Taifeng shall have the right to assign the right to receive the consideration for the transfer of Shandong Taifeng to a nominee;
- (j) On 29 July 2009, Ever Link, China Taifeng and Harvest Sun entered into a loan assignment, in which China Taifeng assigned the Shareholder's Loan to Harvest Sun;
- (k) On 29 July 2009, (i) Harvest Sun, Fu Sun, Superior Delight and our Company entered into a sale and purchase agreement, and (ii) the Company, Harvest Sun and Ever Link entered into a loan assignment in which Harvest Sun assigned the Shareholder's Loan to our Company, pursuant to those two agreements our Company acquired the entire issued capital of Yong Xin from Harvest Sun, Fu Sun and Superior Delight and the Shareholder's Loan from Harvest Sun in consideration of which our Company credited (i) the 680 Shares already allotted and issued to Harvest Sun as fully paid, (ii) the 100 Shares already allotted and issued to Fu Sun as fully paid and (iii) the 220 Shares already allotted and issued to Superior Delight as fully paid; and
- (l) On 16 November 2009, Ever Link issued one share in its share capital to Yong Xin which in turn issued one share in its share capital to our Company to settle the payment obligation under the Shareholder's Loan.

3. CHANGES IN SHARE CAPITAL OF SUBSIDIARIES

Our Company's subsidiaries are referred to in the Accountants' Report, the text of which is set out in Appendix I to this prospectus. There were no changes in the share capital made by the subsidiaries of our Company during the two years preceding the date of this prospectus.

Save for the subsidiaries mentioned in Appendix I to this prospectus, our Company has no other subsidiaries.

4. PARTICULARS OF SUBSIDIARIES

The Group has interests in two major PRC subsidiaries. Set out below is a summary of the corporate information of these PRC subsidiaries:

山東泰豐紡織有限公司 SHANDONG TAIFENG TEXTILE CO., LTD*

Date of Establishment	:	9 January 2001
Place of Establishment	:	PRC
Nature	:	Company with limited liability (wholly owned by Taiwan, Hong Kong and Macau investors (台港澳法人獨資))
Legal Representative	:	Liu Qingping

(* for identification purpose only)

Registered Capital	:	RMB180,000,000
Shareholder	:	Ever Link Creation Limited
上海泰豐家紡有限公司 SHANGHAI TAIFENG TEXTILE CO., LTD*		
Date of Establishment	:	2 July 2008
Place of Establishment	:	PRC
Nature	:	Company with limited liability (wholly individually owned (法人獨資))
Legal Representative	:	Liu Qingping
Registered Capital	:	RMB1,000,000
Shareholder	:	Shandong Taifeng

5. REPURCHASE BY OUR COMPANY OF ITS OWN SECURITIES

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 summarized below :

(a) Shareholders' approval

The Listing Rules provide that all on-market repurchases of securities by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of a specific approval in relation to specific transactions or by a general mandate to the directors of the company to make such repurchases.

Note: Pursuant to the resolutions in writing passed by all our Shareholders on 21 April 2010, a general unconditional mandate (the "Repurchase Mandate") was given to our Directors authorizing them to exercise all powers of our Company to repurchase our Shares on the Stock Exchange or on any other stock exchange on which our Shares may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue and to be issued immediately following the completion of the Global Offering and the Capitalisation Issue, such mandate to expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by any applicable law or the articles of association of the Company to be held, or the passing of an ordinary resolution by our Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first.

(b) Connected parties

The Listing Rules prohibit a company from knowingly purchasing securities on the Stock Exchange from a connected person (as defined in the Listing Rules) and a connected person is prohibited from knowingly selling his/her securities to the company. No connected persons (as

defined in the Listing Rules) of our Company have notified it of a present intention to sell securities to our Company and no such persons have undertaken not to sell any such securities to our Company in the event that the Repurchase Mandate is granted by the shareholders.

(c) Exercise of Repurchase Mandate

Exercise in full of the Repurchase Mandate, on the basis of 1,000,000,000 Shares in issue immediately after the completion of the Global Offering and the Capitalisation Issue (assuming that the Over-allocation Option is not exercised), could accordingly result in up to 100,000,000 Shares which are fully paid, being repurchased by our Company during the period until (i) the conclusion of the next annual general meeting of our Company; (ii) the expiration of the period within which the next annual general meeting of our Company is required by the articles of association of the Company or any applicable law to be held; or (iii) the date on which the Repurchase Mandate is revoked or varied by an ordinary resolution of the shareholders in general meeting, whichever occurs first.

(d) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and the Shareholders for our Directors to have a general authority from our Shareholders to enable our Directors to repurchase securities on the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net assets of our Company and/or its earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and the Shareholders.

(e) Funding of repurchases

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with its memorandum and articles of association and applicable laws and regulations of the Cayman Islands. Pursuant to the Repurchase Mandate, repurchases will be made out of funds of our Company legally permitted to be utilized in this connection, including profits of our Company or out of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by its articles of association and subject to the Cayman Islands Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, if authorised by its articles of association and subject to the Cayman Islands Companies Law, out of capital of our Company.

(f) Impact on repurchases

There may be a material adverse impact on the working capital or gearing position of our Company (as compared with the position disclosed in this prospectus) in the event that the Repurchase Mandate is exercised in full. However, our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital of our Company or its gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(g) Share repurchases made by our Company

No repurchase of Shares has been made by our Company since its incorporation.

(h) General

None of our Directors nor, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates, has any present intention, in the event that the Repurchase Mandate is granted by the shareholders, to sell any Shares to our Company or its subsidiaries. Our Directors have undertaken to the Stock Exchange to exercise the power of our Company to make repurchases pursuant to the Repurchase Mandate only in accordance with the Listing Rules and the laws of the Cayman Islands.

(i) Takeovers Code

If as a result of a repurchase of Shares, a Shareholders' proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). As a result, a Shareholder or a group of Shareholders acting in concert (within the meaning under the Takeovers Code) depending on the level of increase in the interest of the Shareholder(s), could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of a repurchase of Shares made immediately after the listing of the Shares on the Stock Exchange.

Save as aforesaid, our Directors are not aware of any other consequence under the Takeovers Code as a result of a repurchase of Shares made immediately after the listing of the Shares.

6. FURTHER INFORMATION ABOUT THE BUSINESS**A. Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by our Company or any of its subsidiaries within the two years preceding the date of this prospectus and are or may be material:








- (a) a strategic cooperation agreement and its supplemental agreement dated 7 May 2008 and 2 July 2009 respectively entered into between IBENA Shanghai and Shandong Taifeng in respect of licence of the use of the "IBENA" brand from 1 July 2008 to 30 June 2013 at an annual licence fee of 8% out of the sales of IBENA related products in each year;
- (b) an asset transfer agreement dated 29 October 2008 entered into between Shandong Taifeng and TTG in relation to the transfer of certain machineries for production from TTG to Shandong Taifeng at a consideration of RMB137,592,300;

- (c) a share transfer agreement dated 12 February 2009 and its supplemental agreement dated 26 May 2009 entered into between Ever Link and China Taifeng in relation to the transfer of the entire equity interest of Shandong Taifeng from China Taifeng to Ever Link at a consideration of Singapore Dollars 40,972,501.00;
- (d) a lease agreement dated 22 May 2009, and its supplemental agreement dated 16 November 2009, entered into between TTG and Shandong Taifeng pursuant to which TTG leased to Shandong Taifeng two parcels of land and buildings located in Economic and High-technology Development Zone, Laiwu City in Shandong Province, the PRC having a total site area of 159,552.9 sq.m. and gross floor area of 108,458.57 sq.m. from 22 May 2009 to 21 May 2029 at a rate of RMB775,000 per month;
- (e) a lease agreement dated 20 August 2008, as amended by a lease agreement dated 22 May 2009, and further supplemented by a supplemental agreement dated 16 November 2009, entered into between TTG and Shandong Taifeng pursuant to which TTG leased to Shandong Taifeng portions of two parcels of land and buildings located in Economic and High-technology Development Zone, Laiwu City in Shandong Province, the PRC having a total site area of 44,512.82 sq.m. and gross floor area of 47,088.69 sq.m. from 22 May 2009 to 21 May 2029 at a rate of RMB350,000 per month;
- (f) a trademark transfer agreement dated 5 June 2009 entered into between Shandong Taifeng and TTG in which Shandong Taifeng acquired a “TAIFENG” trademark (registration number 3152091) from TTG at a consideration of RMB6,934,400 and another “TAIFENG” trademark (application number 6494981) at nil consideration, details of the two trademarks are set out in the paragraph headed “B. Intellectual property rights of our Group — (a) registered trademarks owned by our Group” in this section;
- (g) a trademark licence agreement dated 3 July 2009 entered into between Shandong Taifeng and TTG in which TTG granted a licence to Shandong Taifeng for the use of the two “TAIFENG” trademarks (registration number 3152091 and application number 6494981) at nil consideration from 21 June 2007 until the completion of the transfers of trademarks contemplated under item (f) above, details of the trademark are set out in the paragraph headed “B. Intellectual property rights of our Group — (a) registered trademarks owned by our Group” in this section;
- (h) an agreement of loan assignment dated 29 July 2009 entered into between Ever Link, China Taifeng and Harvest Sun, in which China Taifeng assigned the Shareholder’s Loan to Harvest Sun in consideration of which Harvest Sun issued a promissory note in favour of China Taifeng;
- (i) an agreement of loan assignment dated 29 July 2009 entered into between Ever Link, Harvest Sun and our Company in which Harvest Sun assigned the Shareholder’s Loan to the Company in consideration of which the Company credited (i) the 680 Shares already held by Harvest Sun as fully paid; (ii) the 100 Shares already held by Fu Sun as fully paid; and (iii) the 220 Shares already held by Superior Delight as fully paid;

- (j) a share sale and purchase agreement dated 29 July 2009 entered into between Harvest Sun, Fu Sun, Superior Delight, the 7 Individual Shareholders, Mr. Huang Quan and our Company in relation to the acquisition of the entire capital interest of Yong Xin by our Company from Harvest Sun, Fu Sun and Superior Delight in consideration of which the Company credited (i) the 680 Shares already held by Harvest Sun as fully paid; (ii) the 100 Shares already held by Fu Sun as fully paid; and (iii) the 220 Shares already held by Superior Delight as fully paid;
- (k) a cooperation agreement dated 28 December 2009 entered into between Combest and Shandong Taifeng, in which the parties agreed that (i) Shandong Taifeng intends to send its “Taifeng” branded bedding products in 100 designated Combest stores for trial operation by the second quarter of 2010 which will be increased to 300 stores by the third quarter of the same year, and eventually in all the stores of the franchised network of Combest by 2011, (2) Shandong Taifeng will be designated manufacturer and supplier of the non-functional parts of the healthy bedding products series of Combest, and (3) Shandong Taifeng and Combest will jointly develop new products and new brand name for the bedding product market and jointly enjoy the resulting benefits of the newly developed brand names and relevant trademarks.
- (l) a deed of undertaking dated 19 May 2010 entered into between Superior Delight, Mr. Huang Quan and the Company in relation to the lock up arrangements of the Shares made with Superior Delight and Mr. Huang Quan;
- (m) a deed of non-competition dated 28 May 2010 executed by the Controlling Shareholders, Holistic and Laiwu Runfeng in favour of our Company, pursuant to which each of them has given certain non-competition undertakings as referred to in the paragraph headed “Relationship with Controlling Shareholders — Non-competition undertakings given by the Controlling Shareholders and entities controlled by them” of this prospectus;
- (n) a deed of indemnity dated 28 May 2010, executed by the Controlling Shareholders in favour of the Company (on its behalf and as trustee for its subsidiaries) in relation to certain tax liabilities and claims which may arise; and
- (o) Hong Kong Underwriting Agreement dated 28 May 2010.


B. Intellectual property rights of our Group*(a) Registered Trademarks owned by our Group*

As at the Latest Practicable Date, our Group was a proprietor of the following registered trademarks:

Trademark	Place of registration	Class	Registration/ Application number	Renewal Date
	Hong Kong	23	301424484	9 September 2019
	Hong Kong	24	301379944	7 July 2019
(A)  (B) 	Hong Kong	23	301424501	9 September 2019
(A)  (B) 	Hong Kong	24	301379953	7 July 2019
(A) 泰豐 (B) 泰丰	Hong Kong	23, 24	301424475	9 September 2019
	the PRC	24	3152091	6 August 2013


(b) *Trademarks owned by our Group pending registration*

As at the Latest Practicable Date, our Group had applied for the registration of the following trademark:

Trademark	Place of registration	Class	Application number	Application Date
	the PRC	24	6494981	7 January 2008

(c) *Trademarks licenced for the use by our Group*

As at the Latest Practicable Date, our Group held licences for the use of the following trademarks:

Trademark	Place of registration	Registration number	Trademark owner	Class	Licence period
IBENA	Germany	977239	Ibena Textilwerke GmbH	24	1 July 2008 to 30 June 2013
	the PRC	4273746	Ibena Textilwerke GmbH	24	1 July 2008 to 30 June 2013
IBENA <small>IBENA</small>	the PRC	G774677	Ibena Textilwerke GmbH	24	1 July 2008 to 30 June 2013

(d) *Domain Name*

As at the Latest Practicable Date, our Group was a registered proprietor of the following domain name in the PRC:

Registered owner	Domain name	Date of registration	Expiry Date
Shandong Taifeng	www.taifeng.cc	21 June 2005	21 June 2011

7. FURTHER INFORMATION ABOUT DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

A. Directors

- (a) *Disclosure of interest* — interests and short positions of the Directors and the chief executives of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations

Immediately following completion of the Global Offering and the Capitalisation Issue and assuming the Over-allotment Option is not exercised, the interest or short position of Directors or chief executives of our Company in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to Model Code for Securities Transactions by Directors of Listed Companies, once the Shares are listed are as follows:

(i) *Directors' interests in the Shares*

Name of Director	Number of shares				Interest in underlying Shares	Total	Approximate percentage of shareholding
	Personal interests	Family interests	Corporate interests	Other interests			
Mr. Liu Qingping	—	—	555,000,000	—	555,000,000	555,000,000	55.5

Note:

- Mr. Liu Qingping holds 48.6% of the issued share capital of Harvest Sun. Therefore, Mr. Liu Qingping is deemed to be interested in 480,000,000 Shares held directly by Harvest Sun and 75,000,000 Shares held directly by Fu Sun on trust for the benefit of Harvest Sun under the SFO.

(ii) *Directors' interests in the shares of associated corporations*

Name of associated corporation	Name of director	Number of shares			Interest in underlying Shares	Total	Approximate percentage of shareholding
		Personal interests	Family interests	Corporate interests			
Harvest Sun	Mr. Liu Qingping	486	—	—	—	486	48.6
	Mr. Li Dengxiang	146	—	—	—	146	14.6
	Ms. Qi Tongli	132	—	—	—	132	13.2
	Mr. Liu Chunwei	86	—	—	—	86	8.6
	Mr. Zou Shengzhong	75	—	—	—	75	7.5

(b) *Particulars of service contracts*

Each of the executive Directors has entered into a service contract with our Company for a term of 3 years commencing from the date of listing, which may be terminated by not less than 3 months' notice in writing served by either party on the other.

(c) Directors' remuneration

Each of the executive Directors is entitled to a director's fee. Each executive Director shall be paid a remuneration on the basis of twelve months in a year. In addition, each of the executive Directors is also entitled to a discretionary bonus provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of our Company may not exceed 10 per cent. of the audited combined or consolidated net profit of our Group (after taxation and minority interests and payment of such bonuses but before extraordinary items) in respect of that financial year of our Company. An executive Director may not vote on any resolution of the Directors regarding the amount of the bonus payable to him. With effect from the Listing Date, the annual director's fees and remuneration of the executive Directors are as follows:

Name	Annual Directors' Remuneration (RMB)
Mr. Liu Qingping	9,738,000 ^(Note)
Mr. Li Dengxiang	800,000
Ms. Qi Tongli	800,000
Mr. Liu Chunwei	800,000
Mr. Zou Shengzhong	800,000

Note: Including director's fee of RMB1,000,000 per annum and the share based payment of RMB8,738,000 per annum until the completion of a two-year service as a Director from 17 April 2009. For details, please refer to Note 10 to the Financial Information in Appendix I of this prospectus.

The independent non-executive Directors have been appointed for a term of three years. Our Company intends to pay an aggregate amount of approximately RMB517,000 per annum (including the director's fees) to the independent non-executive Directors as remuneration.

Under the arrangement currently in force, the aggregate amount of emoluments payable by our Group to the Directors for the year ending 31 December 2010 will be approximately RMB11.8 million.

Further details of the terms of the above service contracts are set out in the paragraph headed "Particulars of service contracts" in the subsection entitled "Directors" in this Appendix.

B. Substantial Shareholders

So far as our Directors are aware, immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised at all) and the Capitalisation Issue, without taking into account the Offer Shares that may be taken up under the Global Offering, the following persons will have interests or short positions in 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 or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name	Capacity/ Nature of interest	Number of Shares directly or indirectly held immediately following completion of the Global Offering	Approximate percentage of issued Share immediately following completion of the Global Offering
Harvest Sun ¹	Registered and beneficial owner; beneficiary of a trust	555,000,000	55.5%
Superior Delight	Registered and beneficial owner	165,000,000	16.5%
Fu Sun ²	Trustee	75,000,000	7.5%
Mr. Liu Qingping ³	Interest in a controlled corporation	555,000,000	55.5%
Huang Quan ⁴	Interest in a controlled corporation	165,000,000	16.5%

Notes:

1. Harvest Sun is owned as to 48.6% by Mr. Liu Qingping and therefore, Mr. Liu Qingping is deemed to be interested in 480,000,000 Shares directly held by Harvest Sun and 75,000,000 Shares held by Fu Sun on a trust for its benefit under the SFO.
2. Fu Sun is wholly-owned by Mr. Liu Qingping. Fu Sun holds on trust the 75,000,000 Shares for the benefit of Harvest Sun. Upon the completion of a 2-year service as director of the Company from April 2009 by Mr. Liu Qingping, Fu Sun will be beneficial owner of the 75,000,000 Shares.
3. Mr. Liu Qingping is deemed to be indirectly interested in 555,000,000 Shares, ie. 55.5% of the issued capital of the Company through his direct interests in Harvest Sun under the SFO.
4. Superior Delight is wholly-owned by Mr. Huang Quan and Mr. Huang Quan is therefore deemed to be interested in 165,000,000 Shares held by Superior Delight under the SFO.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the Global Offering and the Capitalisation Issue, have interests or short positions in 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 or, who are, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Group (other than our Company).

C. Personal guarantees

None of our Directors has provided any person guarantee in favour of any banks for banking facilities granted to any member of our Group.

D. Agency fees or commissions

Save as disclosed in this prospectus, no commissions, discounts, brokerages or other special terms were granted within the two years preceding the date of this prospectus in connection with the issue or sale of any capital of any member of our Group.

E. Disclaimers

Save as disclosed herein:

- (a) none of the Directors or chief executives of our Company has any interest or short position in the Shares, underlying Shares or debentures of our Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed 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 our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of 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 our Group taken as a whole;
- (d) none of the Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (e) taking no account of Shares which may be taken up under the Global Offering, none of the Directors knows of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Global Offering, have an

interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 10 per cent. 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 our Group;

- (f) none of the experts referred to under the heading “Consents of experts” in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (g) so far as is known to the Directors, none of the Directors, their respective associates (as defined under the Listing Rules) or shareholders of our Company who are interested in more than 5 per cent. of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group.

8. OTHER INFORMATION

A. Litigation

As at the Latest Practicable Date, save as disclosed in this prospectus, no member of our Group was engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation or claim of material importance is pending or threatened by or against any member of our Group.

B. Sole Sponsor

The Sole Sponsor has made an application on behalf of our 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).

C. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately USD18,800 and are payable by our Company.

D. Promoter

There are no promoters of our Company.

E. Indemnities

Our Controlling Shareholders (the “Indemnifiers”) have entered into a deed of indemnity in favor of our Group (being a material contract referred to in the paragraph headed “Summary of material contracts” of this Appendix) to provide the following indemnities in favor of the Company (for itself and as trustee for its subsidiaries).

Under the deed of indemnity, amongst others, each of the Indemnifiers irrevocably, jointly and severally agrees, covenants and undertakes with each of the member of the Group that he/it will indemnify each of the members of our Group against taxation falling on any member of our Group resulting from or by reference to any income, profits or gains, transactions, events, acts, omissions, matters or things earned, accrued or received, entered into (or deemed to be so earned, accrued, received or entered into) or occurring on or before the date when the Global Offering becomes unconditional (the “Effective Date”).

The Indemnifiers will, however, not be liable under the deed of indemnity for taxation where, among others, (a) provision has been made for such taxation in the audited accounts of our Group for each of the three financial years ended 31 December 2009 as set out in the Accountants’ Report in Appendix I to this prospectus and provision, reserve or allowance for which will be made in the audited accounts of our Company and the subsidiaries covering the period from 1 January 2010 to the Effective Date on a basis consistent with that made in the said audited accounts; and (b) the taxation arises or is incurred as a result of a retrospective change in law or the interpretation or practice by the relevant tax authority coming into force after the Effective Date or to the extent that the taxation arises or is increased by an increase in rates of taxation after the Effective Date with retrospective effect.

The Directors have been advised that no material liability for estate duty is likely to fall on any member of the Group in the Cayman Islands.

F. Qualification of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
CIMB	A licensed corporation under the SFO for Type 1 regulated activity (dealing in securities), Type 4 regulated activity (advising on securities) and Type 6 regulated activity (advising on corporate finance)
Tian Yuan Law Firm	PRC legal advisers
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Deloitte Touche Tohmatsu	Certified Public Accountants
Jones Lang LaSalle Sallmanns Limited	Chartered surveyors and valuers

G. Consents of experts

Each of CIMB, Tian Yuan Law Firm, Conyers Dill and Pearman, Deloitte Touche Tohmatsu and Jones Lang LaSalle Sallmanns Limited 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.

H. 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.

I. Particulars of the Selling Shareholder

The particulars of the Selling Shareholder are set out as below:

Name	: Harvest Sun Enterprises Limited
Place of incorporation	: the British Virgin Islands
Date of incorporation	: 2 January 2009
Registered office	: Akara Building, 24 De Castro Street, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands
Sale Shares	: 30,000,000 Shares

Harvest Sun is owned as to 48.6% by Mr. Liu Qingping, 14.6% by Mr. Li Dengxiang, 13.2% by Ms. Qi Tongli, 8.6% by Mr. Liu Chunwei and 7.5% by Mr. Zou Shengzhong, all of them are Directors of our Company.

Save as disclosed herein, none of the Directors is interested in the Sale Shares.

J. 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 Hong Kong Companies Ordinance (Exemption of Companies and Prospectus from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

K. Miscellaneous

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries;
 - (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 our Company or any of its subsidiaries;
- (b) save as disclosed in this prospectus, there are no founder, management or deferred shares nor any debentures in our 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 our Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of our Group;
- (d) the Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2009 (being the date to which the latest audited combined financial statements of our Group were made up);
- (e) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus;
- (f) the register of members of our Company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. All transfer and other documents of title of Shares must be lodged for registration with and registered by our Company’s share register in Hong Kong. All necessary arrangements have been made to enable the Shares to be admitted to CCASS; and
- (g) no company within our Group is presently listed on any stock exchange or traded on any trading system.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of each of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) the written consents referred to in the paragraph headed “8. Other Information — G. Consents of experts” in Appendix VII;
- (c) the statement of particulars of the Selling Shareholder in the paragraph headed “8. Other Information — I. Particulars of the Selling Shareholder” in Appendix VII.
- (d) a copy of each of the material contracts referred to in the paragraph headed “6. Further Information about the Business — A. Summary of material contracts” in Appendix VII; and
- (e) the statement of adjustments to the Accountants’ Report prepared by Deloitte Touche Tohmatsu.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of DLA Piper Hong Kong at 17th Floor, Edinburgh Tower, the Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- the Memorandum and Articles of Association;
- the Accountants’ Report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I, and the related statement of adjustments;
- the audited financial statements of the companies now comprising our Group for each of the financial years ended 31 December 2007, 2008 and 2009;
- the letter relating to the unaudited pro forma financial information of our Group, the text of which are set out in Appendix II;
- the letter dated 31 May 2010, summary of values and valuation certificates relating to our Group’s property interests prepared by Jones Lang LaSalle Sallmanns Limited, the texts of which are set out in Appendix IV, and the full valuation report of Jones Lang LaSalle Sallmanns Limited referred to in Appendix IV;
- the letter dated 31 May 2010, relating to the rental rates of the properties subject to the First Lease Agreement, the Second Lease Agreement and the Third Lease Agreement;
- the letter relating to the profit forecast, the texts of which are set out in Appendix III;

- the statement of particulars of the Selling Shareholder including its name, address and description;
- the material contracts referred to in the paragraph headed “6. Further Information about the Business — A. Summary of material contracts” in Appendix VII;
- the written consents referred to in the paragraph headed “8. Other Information — G. Consents of Experts” in Appendix VII;
- the service contracts referred to in the paragraph headed “7. Further Information about Directors and Substantial Shareholders — A. Directors — (b) Particulars of service contracts” in Appendix VII;
- the letter prepared by Conyers Dill and Pearman, our Cayman Islands legal advisers, summarizing certain aspects of Cayman Islands company law as referred to in Appendix V to this prospectus;
- the PRC legal opinions issued by Tian Yuan Law Firm in connection with the Global Offering and the property interests of our Group in the PRC; and
- the Cayman Islands Companies Law.



International Taifeng Holdings Limited
國際泰豐控股有限公司