

HISTORY AND CORPORATE STRUCTURE

BUSINESS MILESTONES

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

Time	Event
October 2005	Establishment of Jinyuan
December 2008	Completed production capacity expansion to approximately 280,000 spindles
December 2009	Completed production capacity expansion to approximately 316,000 spindles
December 2010	Completed production capacity expansion to approximately 321,000 spindles

CORPORATE HISTORY

Our Company

Our Company was incorporated as an exempted company in the Cayman Islands on 4 May 2011. Please refer to the paragraph headed “Further Information about our Company and our Subsidiaries — Change in Share Capital of our Company” of Appendix VI to this Prospectus for details of changes of in the share capital of our Company. As a result of the Corporate Reorganisation, our Company became the holding company of our Group.

Jiangxi Jinyuan

Jiangxi Jinyuan is a wholly foreign-owned enterprise established in the PRC on 10 October 2005 with an initial registered capital of HK\$50,000,000 of which Mr. Zheng would contribute HK\$33,500,000 (representing 67% of the registered capital) and Mr. Sze would contribute HK\$16,500,000 (representing 33% of the registered capital).

On 15 April 2006, Mr. Zheng, Mr. Sze, Mr. Lin and Ms. Chow entered into an equity interest transfer agreement where: (a) Mr. Zheng transferred 14.09% equity interest in Jiangxi Jinyuan to Mr. Lin and 2.21% equity interest in Jiangxi Jinyuan to Ms. Chow at nil consideration; and (b) Mr. Sze transferred 4.83% equity interest in Jiangxi Jinyuan to Ms. Chow at nil consideration. As a result of the transfer, Jiangxi Jinyuan was owned as to 50.7% by Mr. Zheng, 28.17% by Mr. Sze, 14.09% by Mr. Lin and 7.04% by Ms. Chow.

On 15 April 2006, board resolutions of Jiangxi Jinyuan were passed whereby the registered capital of Jiangxi Jinyuan was increased to HK\$71,000,000 of which Mr. Zheng, Mr. Sze, Mr. Lin and Ms. Chow would each contribute HK\$36,000,000 (representing 50.7% of the registered capital), HK\$20,000,000 (representing 28.17% of the registered capital), HK\$10,000,000 (representing 14.09% of the registered capital) and HK\$5,000,000 (representing 7.04% of the registered capital), respectively. By 15 April 2006, Mr. Zheng, Mr. Sze and Mr. Lin have each contributed HK\$18,800,000, HK\$16,000,000 and HK\$10,000,000, respectively, to the registered capital of Jiangxi Jinyuan. Accordingly on 15 April 2006, the registered capital of Jiangxi Jinyuan paid up was HK\$44,800,000 while the amount of registered capital outstanding was HK\$26,200,000. The registered capital of Jiangxi Jinyuan of HK\$71,000,000 was fully paid up by 26 May 2006, out of which Mr. Zheng, Mr. Sze, Mr. Lin and Ms. Chow had

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contributed HK\$36,000,000, HK\$20,000,000, HK\$10,000,000 and HK\$5,000,000, respectively. The Directors confirmed that the transfer of equity interests by Mr. Zheng and Mr. Sze to Mr. Lin and Ms. Chow on 15 April 2006 were made at nil consideration because at the time of the transfers, the registered capital of Jiangxi Jinyuan was not fully paid up and its registered capital was increased from HK\$50,000,000 to HK\$71,000,000, Mr. Lin and Ms. Chow have to contribute to the outstanding registered capital in the sum of HK\$10,000,000 and HK\$5,000,000, respectively, which are in proportion to their shareholdings in Jiangxi Jinyuan after the transfers.

On 9 November 2006, board resolutions of Jiangxi Jinyuan were passed whereby the registered capital of Jiangxi Jinyuan was increased to HK\$143,000,000 and the increased portion of the registered capital was contributed as to HK\$61,955,000 by Mr. Zheng, HK\$5,740,000 by Mr. Sze, HK\$2,870,000 by Mr. Lin and HK\$1,435,000 by Ms. Chow. Consequently, Jiangxi Jinyuan was owned as to 68.5% by Mr. Zheng, 18% by Mr. Sze, 9% by Mr. Lin and 4.5% by Ms. Chow.

Each of Mr. Zheng, Mr. Sze, Mr. Lin and Ms. Chow are independent of and not connected with each other and their respective associates. Mr. Zheng, Mr. Sze and Mr. Lin are merchants in Hong Kong. Mr. Sze is principally engaged in the trading of textile raw materials. Mr. Lin is principally engaged in the trading of chemical raw materials. Mr. Zheng and Mr. Sze acquainted with each other through introduction of friends in their business circle in about 2002. Mr. Zheng and Mr. Lin also acquainted with each other through introduction of friends in their business circle in about 2002. Ms. Chow runs insurance agency business. Through the provision of insurance services to Mr. Zheng, both Mr. Zheng and Ms. Chow became friends in about 2005. The source of funding of Mr. Zheng, Mr. Sze, Mr. Lin and Ms. Chow in establishing the Group's business came from the wealth accumulated over the years from their respective businesses.

Mr. Sze, Mr. Lin and Ms. Chow invested in Jiangxi Jinyuan as passive investors and they do not actively participate in the operation and management of Jiangxi Jinyuan. The Directors confirmed that there is no shareholders' agreement between Mr. Zheng, Mr. Sze, Mr. Lin and Ms. Chow.

As a result of the Corporate Reorganisation, Jiangxi Jinyuan became a wholly-owned subsidiary of our Company.

Treasure Resources

Treasure Resources is a company with limited liability incorporated in Hong Kong on 13 April 2011 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each, of which, one share was issued to the subscriber for cash at par.

On 10 June 2011, the subscriber transferred the one share to Jolly Success for cash at par. On 13 June 2011, Treasure Resources allotted and issued 999 shares to Jolly Success for cash at par. Upon completion of the allotment, Treasure Resources was 100% owned by Jolly Success.

As a result of the Corporate Reorganisation, Treasure Resources became a wholly-owned subsidiary of our Company.

Jolly Success

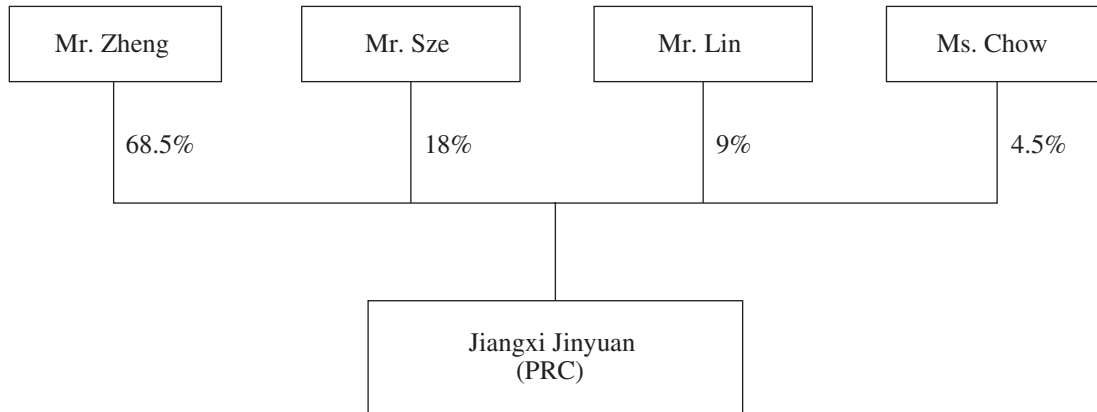
Jolly Success is a company incorporated in BVI on 3 March 2011. On 13 June 2011, Jolly Success allotted and issued 685 shares to Popular Trend, 180 shares to Flourish Talent, 90 shares to Da Yu Investments and 45 shares to Integrity Technology for cash at par.

As a result of the Corporate Reorganisation, Jolly Success became a wholly-owned subsidiary of our Company.

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CORPORATE REORGANISATION

The following chart set out the corporate and shareholding structure of Jiangxi Jinyuan prior to the Corporate Reorganisation:



We underwent the Corporate Reorganisation in preparation for the listing of our Shares on the Stock Exchange which involved the following major steps:

Incorporation of our Company

On 4 May 2011,

- (a) our Company was incorporated in the Cayman Islands as an exempted company with an authorised share capital of HK\$380,000 divided into 3,800,000 Shares;
- (b) one Share was allotted and issued as nil paid to the initial subscriber;
- (c) the subscriber transferred its one Share to Popular Trend as nil paid Share; and
- (d) our Company allotted and issued 68,499 Shares to Popular Trend, 18,000 Shares to Flourish Talent, 9,000 Shares to Da Yu Investments and 4,500 Shares to Integrity Technology, all nil-paid.

Incorporation of Jolly Success

On 3 March 2011, Jolly Success was incorporated in BVI as our intermediate holding company.

On 13 June 2011, Jolly Success allotted and issued 685 shares to Popular Trend, 180 shares to Flourish Talent, 90 shares to Da Yu Investments and 45 shares to Integrity Technology for cash at par.

Incorporation of Treasure Resources

On 13 April 2011, Treasure Resources was incorporated in Hong Kong with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each, of which, one share was issued to the subscriber for cash at par.

On 13 June 2011, the subscriber transferred the one share to Jolly Success for cash at par. On the same date, Treasure Resources allotted and issued 999 shares to Jolly Success for cash at par.

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Transfer of Shares to the Pre-IPO Investor

Pursuant to the Pre-IPO Investment Agreement, on 7 May 2011, each of Popular Trend, Flourish Talent, Da Yu Investments and Integrity Technology transferred Shares to the Pre-IPO Investor as directed by Mr. Zheng, Mr. Sze, Mr. Lin and Ms. Chow. Please refer to the paragraph headed “History and Corporate Structure — Pre-IPO Investment” in this Prospectus.

Upon completion of the transfers of Shares to the Pre-IPO Investor, our Company was held as to 62.34% by Popular Trend, 16.38% by Flourish Talent, 8.19% by Da Yu Investments, 4.09% by Integrity Technology and 9% by the Pre-IPO Investor.

Acquisition of Jolly Success by our Company

On 13 June 2011, Popular Trend, Flourish Talent, Da Yu Investments and Integrity Technology transferred all their interests in Jolly Success to our Company in consideration of:

- (a) the crediting as fully paid up at par by our Company of the 62,335 Shares held by Popular Trend, 16,380 Shares held by Flourish Talent, 8,190 Shares held by Da Yu Investments, 4,095 Shares held by Integrity Technology and 9,000 Shares held by the Pre-IPO Investor;
- (b) the allotment and issue of 561,015 Shares to Popular Trend, 147,420 Shares to Flourish Talent, 73,710 Shares to Da Yu Investments and 36,855 Shares to Integrity Technology, all credited as fully paid; and
- (c) as directed by Popular Trend, Flourish Talent, Da Yu Investments and Integrity Technology, the allotment and issue of 55,485 Shares, 14,580 Shares, 7,290 Shares and 3,645 Shares to the Pre-IPO Investor, respectively, all credited as fully paid.

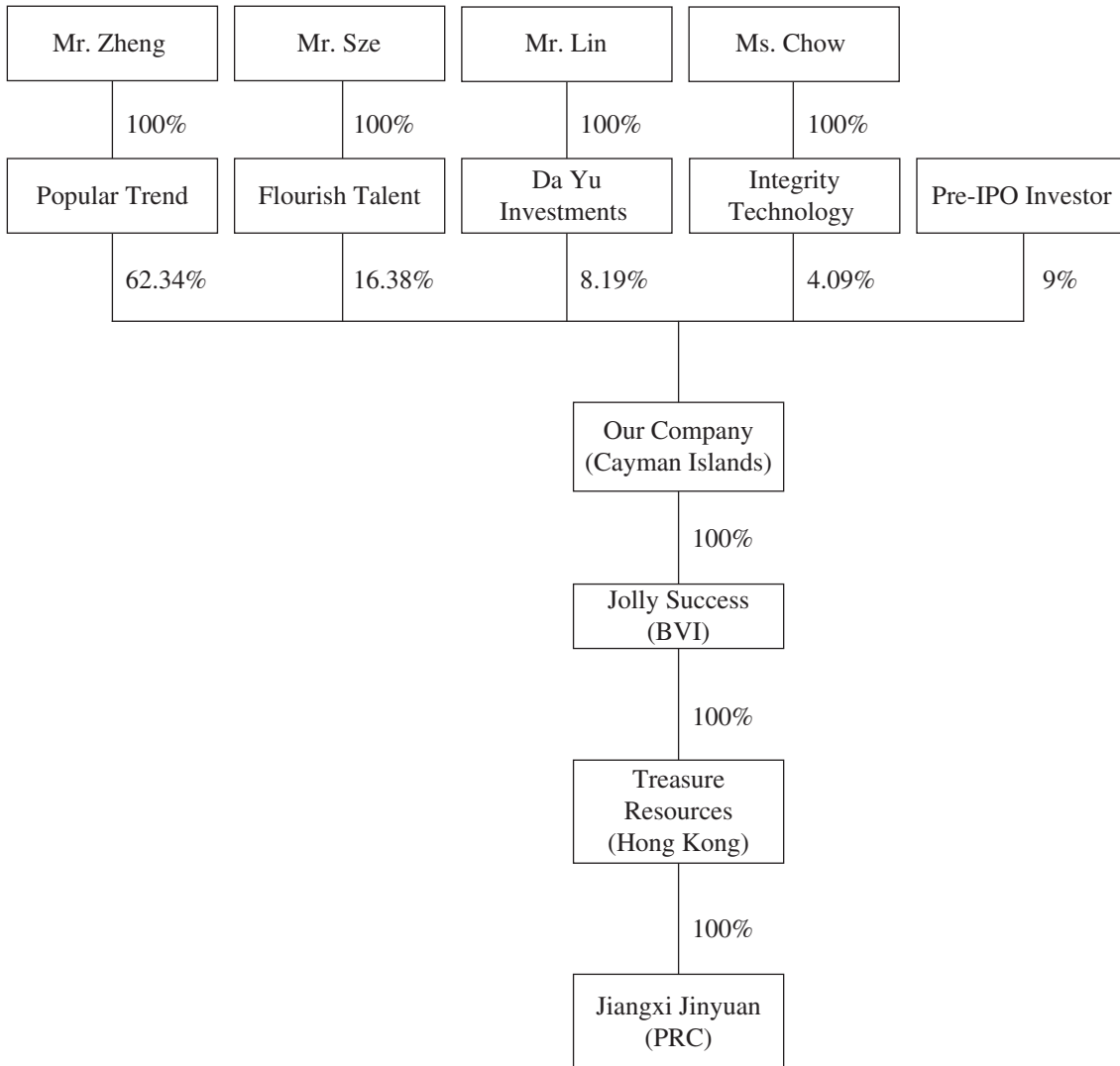
Acquisition of Jiangxi Jinyuan

On 14 October 2011, Mr. Zheng, Mr. Sze, Mr. Lin and Ms. Chow transferred all their equity interest in Jiangxi Jinyuan to Treasure Resources at a consideration of RMB224,003,881.82, which was the net asset value of Jiangxi Jinyuan as at 31 December 2010.

In settlement of the consideration of the transfer and as directed by Mr. Zheng, Mr. Sze, Mr. Lin and Ms. Chow, Treasure Resources allotted and issued 685 shares, 180 shares to 90 shares and 45 shares to Jolly Success, respectively.

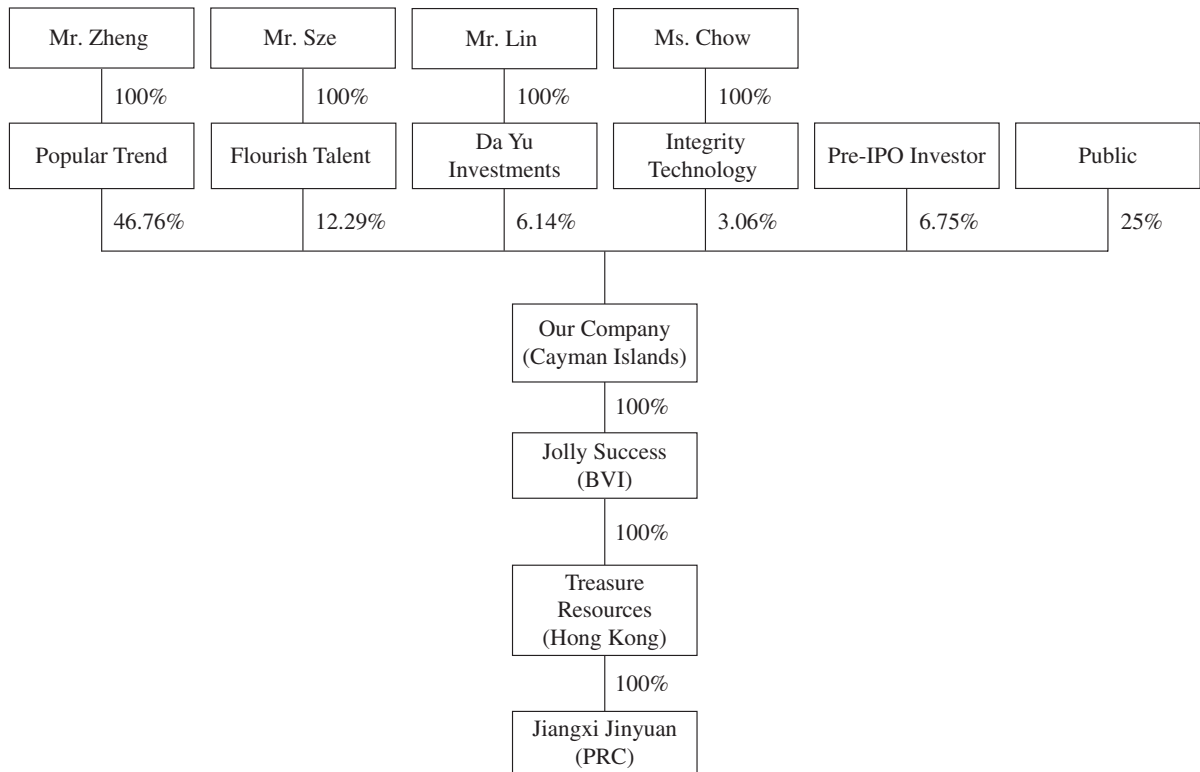
HISTORY AND CORPORATE STRUCTURE

The following chart set out our corporate and shareholding structure immediately before the completion of Capitalisation Issue and Global Offering, assuming the Over-allotment Option has not been exercised:



HISTORY AND CORPORATE STRUCTURE

The following chart set out our corporate and shareholding structure immediately after the completion of the Capitalisation Issue and the Global Offering, assuming the Over-allotment Option has not been exercised:



Should the Over-allotment Option is exercised in full, our Company will be held as to 45.07% by Popular Trend, 11.86% by Flourish Talent, 5.91% by Da Yu Investments, 2.94% by Integrity Technology, 6.51% by the Pre-IPO Investor and 27.71% by the public.

Each of Mr. Sze, Mr. Lin, Ms. Chow, Flourish Talent, Da Yu Investments and Integrity Technology severally undertakes to our Company that he/she/it shall not in the six months from the Listing Date dispose of nor enter into any agreement to dispose of our Shares.

PRC LEGAL COMPLIANCE

Our PRC legal adviser, Commerce & Finance, confirmed that no approval from the China Securities Regulatory Commission for Corporate Reorganisation is required to list our securities in an overseas stock exchange. In addition, given that our Controlling Shareholders are not domestic residents who raise funds through special purpose vehicles, they are not required to carry out the foreign exchange registration with local foreign exchange authority under the SAFE Circular No. 75. Our PRC legal adviser, Commerce & Finance, advised that approval by the CSRC under the M&A Rules for the Corporate Reorganisation is not required.

Our PRC legal adviser, Commerce & Finance, has confirmed that all approvals, permits and licences required under the PRC laws and regulations in connection with the Corporate Reorganisation have been obtained, and the Corporate Reorganisation has complied with all applicable PRC laws and regulations.

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PRE-IPO INVESTMENT

On 23 December 2009, each of Mr. Zheng, Mr. Sze, Mr. Lin, Ms. Chow (together, the “Existing Shareholders”) and the Pre-IPO Investor entered into the Pre-IPO Investment Agreement. Pursuant to the Pre-IPO Investment Agreement, the Pre-IPO Investor agreed to purchase and the Existing Shareholders agreed to transfer 9% interests in our Company at a consideration of HK\$30,000,000, which was reached by the parties after arm’s length negotiation and based on the following calculation agreed by the parties:

$$C = EP \times PE \times 9\%$$

where “C” is the investment amount

“EP” is the estimated profits of Jiangxi Jinyuan as at 31 December 2009 of
HK\$70,000,000

“PE” is the price to earnings ratio of approximately 5 times

The Pre-IPO Investment Agreement is subject to the conditions that: (a) the reorganisation of our Group has been carried out in accordance with the requirements of the Listing Rules and the Existing Shareholders have become interested in 100% of the interest of our Company; and (b) all approvals, consents and permits have been obtained for the transactions contemplated under the Pre-IPO Investment Agreement. Completion of the transfers will take place as soon as possible after the fulfilment of the conditions but in any event not later than the time limit as required by the Listing Rules, the Stock Exchange and other competent regulatory authority. Pursuant to these conditions and terms of the Pre-IPO Investment Agreement, completion of the transfers took place on 31 March 2011.

If the market capitalisation of our Shares is less than HK\$1,000,000,000, the Existing Shareholders have the right to postpone the Global Offering. Should the Listing do not take place by the end of 2012, the Existing Shareholders have the right to require the Pre-IPO Investor to transfer back the 9% interests in our Company. However, the Existing Shareholders will not refund to the Pre-IPO Investor the expenses of the Global Offering paid out of the investment amount under the Pre-IPO Investment Agreement. The Pre-IPO Investment Agreement provides that the investment amount paid by the Pre-IPO Investor under the Pre-IPO Investment Agreement will be placed in a separate bank account where the Existing Shareholders and the Pre-IPO Investor will be the authorised signatories. The Existing Shareholders and the Pre-IPO Investor agreed that the investment amount paid under the Pre-IPO Investment Agreement will be applied for payment of expenses in connection with the Global Offering in priority. The Pre-IPO Investment Agreement does not expressly provide how the expenses of the Global Offering will be shared between the Existing Shareholders and the Pre-IPO Investor. Should the Global Offering proceed by the end of 2012, the expenses of the Global Offering will be: (a) borne by our Company if there is no offering by sale shares; or (b) borne by our Company if there is an offering of sale shares.

Notwithstanding the aforesaid, if the Listing does not take place by the end of 2012 is due to the following reasons, the Pre-IPO Investor has the right to transfer back the 9% interests in our Company to the Existing Shareholders and the Existing Shareholders will refund the HK\$30,000,000 consideration paid by the Pre-IPO Investor with an interest at a rate of 12% per annum:

- (a) the Existing Shareholders and our management fail to abide by the Listing timetable, including the failure to provide to the professional parties involved in the Global Offering documents and information in a timely manner;
- (b) the information is inaccurate or materially omitted as a result of any breach of rules and regulations of the Existing Shareholders and our management or any legal dispute with third parties;
- (c) the after tax profits of our Group experienced a decrease so that the market capitalisation of our Shares is less than HK\$1,000,000,000.

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Pursuant to the Pre-IPO Investment Agreement, on 31 March 2011, the Pre-IPO Investor paid the consideration of HK\$30,000,000. On 7 May 2011, each of Popular Trend, Flourish Talent, Da Yu Investments and Integrity Technology transferred the following Shares to the Pre-IPO Investor as directed by Mr. Zheng, Mr. Sze, Mr. Lin and Ms. Chow respectively:

Transferor	Transferee	Number of Shares transferred	Consideration (HK\$)
Popular Trend	Pre-IPO Investor	6,165 Shares	20,550,000
Flourish Talent	Pre-IPO Investor	1,620 Shares	5,400,000
Da Yu Investments	Pre-IPO Investor	810 Shares	2,700,000
Integrity Technology	Pre-IPO Investor	405 Shares	1,350,000
Total:		9,000 Shares	30,000,000

Upon completion of the Global Offering, the Pre-IPO Investor will be interested in 6.75% of the issued share capital of our Company (assuming the Over-allotment Option is not exercised) with a cost of HK\$0.44 per Share being paid by it. The discount of the investment cost per Share of the Pre-IPO Investor to the Offer Price is equivalent to approximately 36.36% based on the lowest Offer Price at HK\$0.60 and 65.91% on the highest Offer Price at HK\$0.73. At present, the Shares held by the Pre-IPO Investor will not be subject to any lock-up requirement after the Listing and will be part of the public float for the purpose of rule 8.08 of the Listing Rules. Our Company confirmed that no other special rights are granted to the Pre-IPO Investor pursuant to the Pre-IPO Investment Agreement.

Mr. Liu Shu Fa, the ultimate beneficial shareholder of the Pre-IPO Investor, was introduced to Mr. Zheng by a friend in 2009. Since then, Mr. Liu Shu Fa and through companies controlled by him and/or his associates provide consultancy and advisory services to Jiangxi Jinyuan. Such services include the provisions of consultations services and advice on: (a) the improvements of financial and control system; (b) operational and management policies and procedures; (c) corporate reorganisation; and (d) business expansion and development direction and strategies.

The Pre-IPO Investor is principally engaged in providing consultancy services, including financial, industry and management advisory services. Other than being a shareholder holding 6.75% of the issued share capital of our Company upon completion of the Global Offering, the Pre-IPO Investor and its ultimate beneficial owners are Independent Third Parties and has no past or present relationship with our Group, our shareholders, Directors, senior management, or any of their respective associates. Our Directors confirmed that the terms of the Pre-IPO Investment Agreement were determined on arm's length basis with reference to the estimated financial performance of the Jiangxi Jinyuan for 2009.

Our Directors are of the view that since the Pre-IPO Investor is principally engaged in consultancy services, the Pre-IPO Investment will enhance our relationship with the Pre-IPO Investor and broaden our Shareholders' base, which in turn will benefit our Company and our Shareholders as a whole.

On the basis that the investment by the Pre-IPO Investor pursuant to the Pre-IPO Investment Agreement (the "Pre-IPO Investment") was completed more than 28 clear days before the date of the first submission of the first listing application form in respect of the Listing, Guotai Junan, confirmed that the Pre-IPO Investment complied with the Interim Guidance on Pre-IPO Investments announced by the Listing Committee on 13 October 2010.