OVERVIEW

We are a manufacturer of polyester yarns, polyester-cotton blended yarns and cotton yarns and a leading enterprise in the textile industry in Jiangxi Province. We ranked fourth among all enterprises in the textile industry in Jiangxi Province in terms of revenue for the year ended 31 December 2010, according to the *Textile Industries Department of the Jiangxi Province Industrial and Information Committee (江西省工業和信息化委員會紡織工業處)*.

We offer a comprehensive range of pure yarn and blended yarn products in the PRC, mainly producing fine-count and medium-count yarns, to meet the various product specifications of our customers. We offer more than 15 combinations of blended yarn products, some of which have advanced features, such as combed cotton fibres and knotless, to provide our yarns with additional functional properties. According to the classification of industrial enterprises in the industry by the *National Bureau of Statistics of China*, cotton textile companies of over 100,000 spindles are considered as large-scaled businesses. As at 30 June 2011, our production capacity was approximately 321,000 spindles, which could be allocated to produce any of our yarn products according to our production plan from time to time. According to the *China Textile Industry Development Reports*, Jiangxi Province is ranked ninth in the PRC for the year ended 31 December 2010 in terms of aggregate yarn production volume, which accounted for 2.7% of national yarn production volume in 2010. Our yarn production volume was 58,443 tonnes for the year ended 31 December 2010. Our Directors estimate that our market share in terms of yarn production volume in 2010 was approximately 7.8% of Jiangxi Province and approximately 0.2% of China.

Our Expansion Plan

We plan to further diversify our product portfolio to include the production of coloured polyester-cotton blended yarns and open-end spun yarns. We plan to construct two workshops with an aggregate production capacity of approximately 60,000 spindles for the production of coloured polyester-cotton blended yarns and 20,000 spindles for the production of open-end spun yarns. We expect to implement our production capacity expansion plan in two phases. The first phase is expected to be completed by the second quarter of 2012 to increase our production capacity by approximately 20,000 spindles for open-end spun yarns, and the second phase is expected to be completed by the end of the first quarter of 2013 to increase our production capacity by approximately 60,000 spindles for colour polyester-cotton blended yarns. We expect to generate additional revenue from the introduction of new products to our portfolio.

Our Location

We are strategically located in Fengtian Economic Development Zone of Fengxin County, Yichun City, Jiangxi Province, allowing us to enjoy a steady supply and low cost of labour, electricity and water, which are crucial to our production process. We also benefit from developed infrastructure and convenient access to roadway, railway and waterway transportation, thereby reducing our logistics and transportation costs, and enabling us to offer our customers timely delivery at competitive prices.

Our Suppliers

We engage in the manufacture and sale of yarn products. Our main raw materials are polyester staple fibre and raw cotton. We source our polyester staple fibres mainly from Jiangsu Province and Fujian Province for the production of our polyester yarns and polyester-cotton blended yarns. We use both domestic and overseas raw cotton in our polyester-cotton blended yarns and cotton yarns production. We generally do not enter into any long-term supply agreement with our raw material suppliers, except for certain framework supply agreements with a few suppliers. As such, we are free to source raw materials from a number of suppliers. We believe that this enables us to source raw materials that are available to us at the highest quality and the most competitive pricing.

Our Procurement and Pricing Strategy

We believe our procurement strategy allows us to maintain flexibility in terms of product choice and pricing and effectively manage our cost of sales. Our yarn products are produced through the process of ring spinning, it is then packaged, sold and transported to end customers. Our pricing strategy is based on a variety of factors, including raw material prices, production costs and market conditions, our inventory level and the quality of the yarn products required by our customers. The prices of our raw materials fluctuated during the Track Record Period. We could generally pass on a certain degree of fluctuation in the cost of raw materials to our customers during the three years ended 31 December 2008, 2009 and 2010 as shown by the significant increases in our gross profit margins from 5.5% to 13.1% and further to 16.1%, respectively. During the six months ended 30 June 2011, we did not fully pass on such increase for certain sales of our yarn products due to market conditions such as the rapid increase in the market price of raw cotton, and our effort to maintain good relationship with our customers and our competitiveness, especially in the polyester-cotton blended yarn market.

In the event of anticipated significant decrease in the market price of our yarn products, we may reduce our level of finished goods inventory to reduce our exposure to adverse movement in market price of our yarn products, and therefore we may not be able to fully pass on the cost of raw materials to our customer. Our management monitors market prices of our raw materials and our level of finished goods inventory to keep itself abreast of the latest development in outlook of market conditions in respect of such prices. Depending on the outlook of market conditions, we would increase or decrease our purchase of raw materials and the level of our raw material inventory from time to time in anticipation of increases or decreases in raw material prices, respectively, to mitigate the impact of such price fluctuations. We typically deliver our yarn products within one to two days after we enter into sales orders, as we implement inventory policies to maintain at least the required level of raw material inventory and the required level of finished goods inventory, respectively, at our storage facilities. Our customers typically pay our selling price before we deliver our yarn products, although we may grant credit periods of up to 90 days on a case-by-case basis. We outsource the transportation of our yarn products within China to third-party logistics service providers.

Our Equipment, Machinery and Production Facility

We use advanced equipment and machinery to produce our products. We import automatic winding machines, which are key to our production process, from Italian textile machinery manufacturers. We have invested in our plant and machinery to enhance our production capabilities. As at 30 June 2011, the original cost of all our plant and machinery in production was approximately RMB291.0 million, of which approximately RMB108.1 million, or 37.1%, was spent on equipment and machinery imported from Italy. Our production facilities operate 24 hours a day with three shifts and for 358 days per year. Our production facilities operated at an average utilisation rate of 95.2%, 98.1%, 93.6% and 91.2% for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively. We will continue to further expand our product offerings, improve our product quality and increase our production efficiency, and all of which contribute to our overall profitability.

Our Customers

Our customers are primarily fabric and textile manufacturers who use our yarn products to produce and supply fabrics and textiles to manufacturers of apparel and other consumer products, such as fabrics and textiles used in home furnishing and clothing. We have a large and diversified customer base. All of our customers are based in the PRC and mainly situated in Zhejiang Province, Guangdong Province, Jiangxi Province and Jiangsu Province, from where over 46%, 26%, 6% and 1% of our revenue, respectively, for each year/period during our Track Record Period were generated. For the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, we had approximately 1,360, 1,490, 1,700 and 1,190 customers, respectively. During the Track Record Period, all of our sales were conducted by our sales department directly with our customers. We enter into individual sales orders with our customers for sales of our products. We believe our sales strategy allows us to tailor our product features and meet the specifications of our customers.

Our Management Team

We are led by an experienced management team, which possesses extensive industry knowledge and has been instrumental to our development. Our management team has won recognitions and awards in the textile industry. The dedication of our senior management team has contributed to the stability of our senior management. Most of our senior management members have an established track record in the textile industry, enabling us to build our production facilities and ramp up our production capacities in a short period of time to become the leading enterprise in the textile industry in Jiangxi Province in terms of revenue.

Our Competitive Environment

We mainly compete with domestic and international polyester yarn and polyester-cotton blended yarn manufacturers based on product quality, product differentiation, brand recognition, production capacity, production technology and proximity to customers. We believe that substantial capital commitments are normally required in order to stay competitive in the yarn industry. In particular, construction of yarn production facilities require substantial capital commitments to achieve production volumes that provide a reasonable economic return, and new market entrants without a track record face obstacles in obtaining customer acceptance.

COMPETITIVE STRENGTHS

We believe that our growth is largely attributable to the following competitive strengths:

We benefit from our strategic location and enjoy competitive operating cost.

We are strategically located in Yichun City (宜春市) of Jiangxi Province, which benefits from being one of the provinces with the lowest labour costs in China. Jiangxi Province has abundant land available, allowing us to maintain a large production base covering a total site area of 297,600.0 m^2 and placing us in a favourable position to further expand our production facilities. Our strategic location allows us to enjoy a steady supply and low cost of labour, electricity and water, which are crucial to our production process. We also benefit from developed infrastructure and convenient access to roadway, railway and waterway transportation, thereby reducing our logistics and transportation costs, and enabling us to offer our customers timely delivery at competitive prices. We are located approximately 100 km to 150 km away from the Nanchang train station and the Nanchang Longyan port. We believe that the cost-efficient and timely delivery of our products also help us to reduce our inventory risk from capital tied-up in inventory and facilitates our easy access to market information, allowing us to establish and maintain customer relationships. In addition, we benefit from local government grants on purchase of land use rights. We believe that the access to available land, labour, energy and utility resources, convenient transportation and favourable local government policies at our strategic location in Jiangxi Province provide us with competitive operating cost and are key to our success.

Our advanced equipment and machinery and high utilisation rate of our production facilities enable us to produce quality products efficiently and cost-effectively.

We use advanced equipment and machinery to produce our products. We import automatic winding machines, which are key to our production process, from Italian textile machinery manufacturers. We believe that substantial capital commitments are normally required in order to stay competitive in the polyester yarn and polyester-cotton blended yarn industry. The technical features of equipment and machinery determine product quality and production capacity. We have invested in our equipment and machinery to enhance our production process. For example, we increased our production capacity from approximately 280,000 spindles in 2008 to approximately 316,000 spindles in 2009, to approximately 321,000 spindles in 2010. Our production capacity remained at approximately 321,000 spindles for the six months ended 30 June 2011. For the years ended 31 December 2008, 2009 and 2010, our capital expenditure in plant and machinery was RMB74.8 million, RMB11.5 million, RMB17.4 million, respectively. As at 30 June 2011, the original cost of all our plant and machinery in production was approximately RMB291.0 million, out of which approximately RMB108.1 million, or 37.0%, was spent on equipment and machinery imported from Italy.

We select our equipment and machinery based on its efficiency, flexibility to cater to different product specifications and ability to enhance our profits. We provide our personnel with appropriate training such that they are equipped with the requisite technical capabilities to operate and maintain our equipment and machinery.

In addition, we believe that maintaining a high utilisation rate of our production facilities is essential to reduce the unit cost of our products and allows us to remain competitive. Our production facilities operate 24 hours a day with three shifts and for 358 days per year. Our production facilities operated at an average utilisation rate of 95.2%, 98.1% and 93.6% for the years ended 31 December 2008, 2009 and 2010, respectively. As at 30 June 2011, our average utilisation rate was 91.2%, which was slightly lower than our full year utilisation rate for each of the years ended during the Track Record Period, this was mainly due to the impact of the Chinese New Year holidays on our utilisation rate for a six-month period as compared to that for a 12-month period. We will continue to further expand our product offerings, improve our product quality and increase our production efficiency, and all of which contribute to our overall profitability.

We are a leading enterprise in the textile industry in Jiangxi province capable of producing significant quantities of yarn products and achieving economies of scale.

We are a leading enterprise in the textile industry in Jiangxi Province. We ranked fourth among all enterprises in the textile industry in Jiangxi Province in terms of revenue for the year ended 31 December 2010, according to the *Textile Industries Department of the Jiangxi Province Industrial and Information Committee (江西省工業和信息化委員會紡織工業處)*.

We operate a large-scaled business that enables us to enjoy synergies arising from economies of scale. According to the classification of industrial enterprises in the industry by the *National Bureau of Statistics of China*, cotton textile companies of over 100,000 spindles are considered as large-scaled businesses compared to manufacturers who do not operate in a large scale. As at 30 June 2011, our production capacity was approximately 321,000 spindles, which could be allocated to produce any of our yarn products according to our production plan from time to time. According to the *China Textile Industry Development Reports*, Jiangxi Province is ranked ninth in the PRC for the year ended 31 December 2010 in terms of aggregate yarn production volume, which accounted for 2.7% of national yarn production volume in 2010. Our yarn production volume was 58,443 tonnes for the year ended 31 December 2010. Our Directors estimate that our market share in terms of yarn production volume in 2010 was 7.8% of Jiangxi Province and 0.2% of China. Leveraging on the benefits from economies of scale, we grew rapidly during the Track Record Period, with revenue increasing from RMB545.3 million in 2008 to RMB663.4 million in 2009 and further to RMB930.7 million in 2010, and from RMB411.2 million for the six months ended 30 June 2010 to RMB526.6 million for the six months ended 30 June 2011.

We have established a large and diversified customer base for the sale of our yarn products. We believe that 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. In addition, we believe that the economies of scale from our large-scaled business compared to manufacturers who do not operate in a large scale, will provide us with more flexibility in pricing our products competitively.

We have a diverse product portfolio that enables us to adapt quickly to changing market demands.

We offer a comprehensive range of pure yarn and blended yarn products in the PRC, mainly producing fine-count and medium-count yarns, to meet the various product specifications of our customers. We specialise in the production of polyester yarns and polyester-cotton blended yarns. We offer more than 15 combinations of blended yarn products, some of which have advanced features, such as combed cotton fibres and knotless, to provide our yarns with additional functional properties. Our equipment and machinery for each of our production process are capable of implementing the relevant production process for any type of our products, such that our total production capacity can be allocated to produce any of our products according to our production plan from time to time. For the year ended 31 December 2010, fine-count, medium-count and coarse-count yarns accounted for 74.7%, 21.3% and 4.0%, respectively, of our total production volume. For the six months ended 30 June 2011, products with the same yarn-count accounted for 68.8%, 29.0% and 2.2%, respectively, of our total production volume.

Our sales team monitors the trend and price of our yarn products as well as complementary and substitute products that are available on the market and maintain up-to-date information exchange with all of our departments, in particular our production team. Our product offering of more than 15 combinations of blended yarn products enable our production team to react quickly to the changing market conditions and customer demands. Accordingly, we believe that our diverse product range and flexibility enable us to effectively adapt to varying product and technical adjustments according to changes in the market and customers' needs.

We are led by an experienced management team with extensive industry knowledge and experience, and a proven track record.

Our senior management team is led by Mr. Zheng Hong, who is one of our founders and our chairman, with 12 years of experience and knowledge in the textile industry. Mr. Zheng Hong was awarded the *China Textile Outstanding Model Worker Award* (中國紡織勞動模範) in 2010. In addition, Mr. Zheng Hong is a member of the standing committee (常務理事) of the *China Cotton and Textile Industry Association* (中國棉紡織行業協會) since 2010. Other members of our senior management team include Mr. Zheng Yongxiang, Mr. Liu Weimin and Mr. Chen Yuhan. Mr. Liu Weimin has over 20 years of experience in the textile industry while all of them have over five years of experience in the textile industry and have been instrumental to our development. The dedication of our senior management team has contributed to the stability of our senior management. Most of our senior management members have an established track record in the textile industry, enabling us to build our production facilities and ramp up our production capacities in a short period of time to become the leading enterprise in the textile industry in Jiangxi Province in terms of revenue. For further details of the biographies and relevant industry experience of our management team, see the section headed ''Directors, Senior Management and Employees'' in this Prospectus. We believe that an experienced management team as well as dedicated members of staff will contribute significantly to our future growth.

BUSINESS STRATEGIES

Our goal is to maintain our leading position in the textile industry in Jiangxi Province in terms of revenues and to continue to increase our market presence in China. We will continue to seek opportunities for further business growth and prospect. We plan to achieve our goal through the following strategies:

Further diversify our product portfolio to include the production of coloured polyester-cotton blended yarns and open-end spun yarns, which contribute to an environmentally friendly and energy-efficient textile industry

We plan to engage in the production of coloured polyester-cotton blended yarns, which are synthetic products produced from coloured-polyester fibre. Coloured-polyester fibres are synthetically produced to contain colour pigments. Our new product line of coloured polyester-cotton blended yarns is less harmful to the environment as further dyeing, a process which is the most detrimental to the environment among the different production stages in the textile manufacturing industry, is not required during the upstream or downstream production stage of coloured polyester-cotton blended yarns, and therefore reducing pollution which is generated from the discharge of waste water containing carcinogenic or cancer-causing substances, exhaust gas, such as sulphur dioxide, and industrial solid waste, such as waste packaging materials and waste fibre. In addition, the absence of the dyeing during the downstream production stage means that the demand for coal for heating and the demand for clean industrial water is significantly reduced creating a more energy-efficient production chain in the textile industry. We believe that yarns and weaving materials that are produced through more environmentally friendly process may be one of the future development trends in the textile industry.

Furthermore, we plan to use the open-end spinning method to recycle waste materials from our existing production process to facilitate a more energy-efficient and cost-effective line of production. Open-end spun yarns are by-products of our existing product portfolio as it is coarser in yarn count and its fibres are of less parallel structure. By utilising cotton noil, yarn stubs and roving stubs recycled from our production process, we intend to produce open-end spun yarns with yarn count of seven to ten counts to supply to denim textile manufacturers as raw materials for their production of denim fabric.

We plan to construct two workshops with an aggregate production capacity of approximately 60,000 spindles for the production of coloured polyester-cotton blended yarns and 20,000 spindles for the production of open-end spun yarns. We mainly plan to purchase equipment and machinery, including carding machines, spinning machines, drawing machines, open-end spinning machines imported from Germany and automatic winding machines imported from Italy. We plan to further spend approximately RMB213.5 million on new equipment and machinery to be installed in our new production facilities, out of which approximately RMB81.4 million, or 38.1%, will be spent on equipment and machinery manufactured in Germany and Italy. We expect to generate additional revenue from the introduction of new products to our portfolio.

Expand our production capacities through further expansion and selective acquisitions

As part of our future plans for acquisitive growth, we plan to continue to carefully evaluate and identify selective expansion and acquisition opportunities. We plan to seek acquisition targets in both upstream and downstream products. We believe that, due to our large-scaled operation in Jiangxi Province, we are well-positioned to consolidate smaller yarn manufacturing plants in Jiangxi with high production potential. Furthermore, we continue to evaluate acquisition opportunities with high production capabilities outside of Jiangxi Province. We believe that under the leadership and supervision of our highly experienced senior management team we will be able to significantly increase our yarn production in the future.

In executing our plans for expansion and acquisition, we will consider the following criteria: (i) return on acquisition; (ii) the potential synergies that can be achieved through the acquisition; and (iii) the enhancement of the overall sustainability of our existing and future businesses. We expect to identify more acquisition targets that will enable us to efficiently and effectively enlarge and enhance our resources, equipment and machinery and achieve even higher production capacities, as well as significant returns on our investment.

Further expand production capacity and improve our production efficiency and product quality

We seek to maintain our leading position in the textile industry in Jiangxi Province in terms of revenues and to continue to increase our sales in the domestic market by expanding our production capacities and our product portfolio for our yarn products. We plan to further increase our production capacity beyond approximately 321,000 spindles after the Listing. We plan to expand our production capacity by constructing two workshops, the relevant infrastructure and installation of equipment and machinery with an aggregate production capacity of approximately 60,000 spindles for the production of coloured polyester-cotton blended yarns and 20,000 spindles for the production of open-end spun yarns. We further plan to import major equipment and machinery from overseas manufacturers and source other equipment and machinery from domestic manufacturers. See the section headed "— Production Process, Facilities and Capacities — Production Facilities and Capacities" in this Prospectus for our implementation plan.

We believe that the increase in production capacity will provide us with additional cost-saving advantages from economies of scale as well as allow us to meet the additional demand for our products and further expand our sales and coverage. Together with our operating expertise, we expect to employ our new equipment and machinery to improve our production efficiency, utilisation rate and product quality, as well as lower our production costs.

Further enhance our marketing network and strengthen our relationships with suppliers and customers to enhance our brand awareness and reputation

We have a large and diversified customer base. We have established and maintained long-term and close relationships with our regular customers, which are customers who satisfied one of the following criterion: (i) entered into ten or more transactions with us in the year and the annual aggregate transaction amount was no less than RMB0.8 million or the annual aggregate transaction amount was no less than RMB1.0 million for each of the years ended 31 December 2008, 2009 and 2010; or (ii) entered into five or more transactions with us in the period and the aggregate transaction amount for the period was no less than RMB0.4 million or the aggregate transaction amount for the period was no less than RMB0.5 million for the six months ended 30 June 2011. We continuously provide consistent quantity and high quality products to such customers. We plan to continue to strengthen our sales and marketing efforts and our customer service, to enhance our market reputation and customers' loyalty. We encourage our sales department to participate in industry conferences and familiarise themselves with industry trends and ongoing research and development of new materials. Before we launch a new product, we research the product and its potential market thoroughly to ensure that it meets our quality and environmental friendliness standards. We plan to closely monitor the progress of our customers' needs and adjust our production accordingly so that we are well-positioned to meet the new demands from our customers.

We plan to expand our customer base to include manufacturers who require coloured polyester-cotton blended yarns and open-end spun yarns in their production. We intend to further increase the size of our sales force in support of our expansion plans. In terms of our geographical reach, all of our customers are based in the PRC and mainly situated in Zhejiang Province, Guangdong Province, Jiangxi Province and Jiangsu Province, from where over 46%, 26%, 6% and 1% of our revenue, respectively, for each year/period during our Track Record Period were generated. We may expand our sales to other parts of China to further enlarge our customer base. In addition, we plan to further market our products and promote our brand recognition and reputation by increasing our participation in exhibitions industry-related and academic conferences, and visiting relevant industry participants. Through these activities, we expect to enhance our brand recognition in the fabric and textile industry and expand our sales to cover new customers.

OUR PRODUCTS

We are principally engaged in the production, sales and distribution of polyester yarns, polyester-cotton blended yarns and cotton yarns. The majority of our total sales volume during the Track Record Period was attributable to the sales of polyester yarns.

Polyester yarns, polyester-cotton blended yarns and cotton yarns are used in fabric manufacturing. The quality of the manufactured fabric depends on the quality of the yarns utilised. Luxury textile products require the use of high quality fabrics and therefore the use of high quality yarns. The functional properties of manufactured fabrics and textile products are also dependent on the functional properties of the yarns used.

We offer a comprehensive range of pure yarn and blended yarn products in the PRC, mainly producing fine-count and medium-count yarns, to meet the various product specifications of our customers. We specialise in the production of polyester yarns and polyester-cotton blended yarns. We offer more than 15 combinations of blended yarn products, some of which have advanced features, such as combed cotton fibres and knotless, to provide our yarns with additional functional properties. Our equipment and machinery are capable of implementing the relevant production process for any type of our products, such that our total production capacity can be allocated to produce any of our products according to our production plan from time to time. We sell fine-count, medium-count and coarse-count yarns, producing yarns mainly ranging from 40 to 7 counts. Fine-count yarns are a class of count that is most commonly used in the polyester yarn and polyester-cotton blended yarn industry. For the year ended 31 December 2010, fine-count, medium-count and coarse-count yarns accounted for 74.7%, 21.3% and 4.0%, respectively, of our total production volume. For the six months ended 30 June 2011, products with the same yarn-count accounted for 68.8%, 29.0% and 2.2%, respectively, of our total production volume. In general, the profit margin of yarns increases in line with the increase in yarn count and are generally higher for yarns with additional characteristics.

The following table sets forth our sales volume for each of our yarn products for the periods indicated:

	Year ended 31 December						Six months ended 30 June	
	2008		2009		2010		2011	
	tonnes	%	tonnes	%	tonnes	%	tonnes	%
Polyester yarns	26,198	63.4	34,511	62.9	39,160	63.4	15,539	58.2
Polyester-cotton blended yarns	14,658	35.4	18,517	33.8	20,289	32.8	10,403	38.9
Cotton yarns	494	1.2	1,795	3.3	2,324	3.8	779	2.9
Total	41,350	100.0	54,823	100.0	61,773	100.0	26,721	100.0

Polyester Yarns

We offer pure polyester yarns. Polyester is a form of polymer or synthetic fibre developed from water, petroleum and coal when a combination of these elements reacts with acid or alcohol. Polyester staple fibre is one of the most commonly used chemical fibres in the textile industry. We purchase polyester staple fibres to process and manufacture our polyester yarns. Polyester yarns are strong, easily washed, quick drying and are wrinkle-, stretch- and shrink-resistant. In addition, the favourable characteristics of polyester yarns make it suitable for producing fabric and textiles for apparel, home furnishing and industrial usage.

We mainly offer polyester yarns with yarn count of 7 counts to 40 counts.

Polyester-cotton Blended Yarns

Polyester-cotton blended yarns are a type of blended yarn, twisted together from varying combinations of polyester staple fibre and raw cotton. Polyester-cotton blended yarns have higher tensile strength than normal cotton yarns, have high elasticity and wash and wear resistance properties. In addition, the soft and comfortable-wear properties of polyester-cotton blended yarns make it suitable for producing fabric and textiles for high-end apparel, high-end sportswear and car seat fabric.

We also offer advanced features to our polyester-cotton blended yarns, such as combed cotton fibres and knotless yarns, to provide our yarns with additional functional properties. For combed cotton features, the cotton fibre is specially treated, or combed, before it is spun into yarn. When cotton is combed, fine brushes are used to remove the short cotton fibres along with any remaining impurity and arrange the fibres in a flat bundle and in the same direction. Approximately 15% of the volume is removed, leaving behind long, straight fibres which are even and aligned. The slivers of combed cotton are then blended with our polyester staple fibres and spun into yarn. Combed cotton features of our polyester-cotton blended yarns are extremely soft and strong, suitable for producing fabric and textiles for high-end apparel, high-end sportswear, high-end home furnishing.

We mainly offer polyester-cotton blended yarns with yarn count of 15 counts to 40 counts.

Cotton Yarns

We also offer pure cotton yarns. Our cotton yarns are produced from the natural cotton fibres of raw cotton and spun from twisting or otherwise bonding staple fibres together into a cohesive thread. Our cotton yarns are spun from carded cotton. Cotton yarns are suitable for use in the production of textiles, sewing, crocheting, embroidery, knitting, weaving and rope-making.

We mainly offer cotton yarns with yarn count of 21 counts to 32 counts.

New Products to Be Launched

We plan to engage in the production of coloured polyester-cotton blended yarns and open-end spun yarns after Listing.

Coloured Polyester-Cotton Blended Yarns

Coloured polyester-cotton blended yarns are blended yarns produced from coloured-polyester fibres, which are less harmful to the environment as further dyeing is not required during the upstream or downstream production stage. Coloured-polyester fibres are synthetically produced to contain colour pigments. Traditionally processed yarns are bleached and then dyed which often contains heavy metals, producing significant amounts of contaminated waste water. Our existing production facilities and equipment and machinery are capable of manufacturing coloured polyester-cotton blended yarns. We plan to engage in the production of medium-count and fine-count coloured polyester-cotton blended yarns of mainly 21 to 45 counts.

Open-End Spun Yarns

The production of open-end spun yarns employs the open-end spinning method. We plan to use the open-end spinning method to recycle waste materials from our existing production process to facilitate a more energy-efficient and cost-effective line of production. Open-end spun yarns are by-products of our existing product portfolio as it is coarser in yarn count and its fibres are of less parallel structure. By utilising cotton noil, yarn stubs and roving stubs, we intend to produce open-end spun yarns with yarn count of seven to ten counts to supply to denim textile manufacturers as raw materials for their production of denim fabric. We plan to mainly engage in the production of course-count open-end spun yarns of mainly 12 and 16 counts.

PRODUCTION PROCESS, FACILITIES AND CAPACITIES

Production Process

We engage in the manufacture and sale of yarn products. Our yarn products are produced through the process of ring spinning, it is then packaged, sold and transported to end customers. The production of our yarn products uses polyester staple fibre and/or raw cotton as raw materials. The production process for polyester yarns, polyester-cotton blended yarns without combed cotton features and cotton yarns involves five main steps which generally take a total of three days for each of the types of our products. The production process for polyester-cotton blended yarns with combed cotton features is the same as that for our other yarn products except for the additional step of cotton combing. Our production processes are set forth below:

- *Step 1*: The blowing room process loosens the polyester staple fibre/raw cotton from packed bale into loose tufts to remove dirt and foreign matters. The loosened clean tufts are then reformed into a polyester staple fibre/cotton sheet suitable for carding.

- *Step 2*: Carding separates the sheets of tufts into individual short fibres and removes trash particles. This process orientates the fibres lengthwise and evenly distributes them before reassembling the fibres into a net-like and sliver form. Within this process fibres slowly turn from individual uneven short fibres into uniform long fibres, the final product of this process is called "drawn sliver". Drawing process is a process within the carding process. Polyester and cotton are blended during the drawing process for polyester-cotton blended yarns. The process increases the parallelism of the fibres and combines polyester with carded cotton slivers into one drawn sliver. Production of polyester-cotton blended yarns and cotton yarns without the process of combing require cotton to be in its original form after blowing and carding.

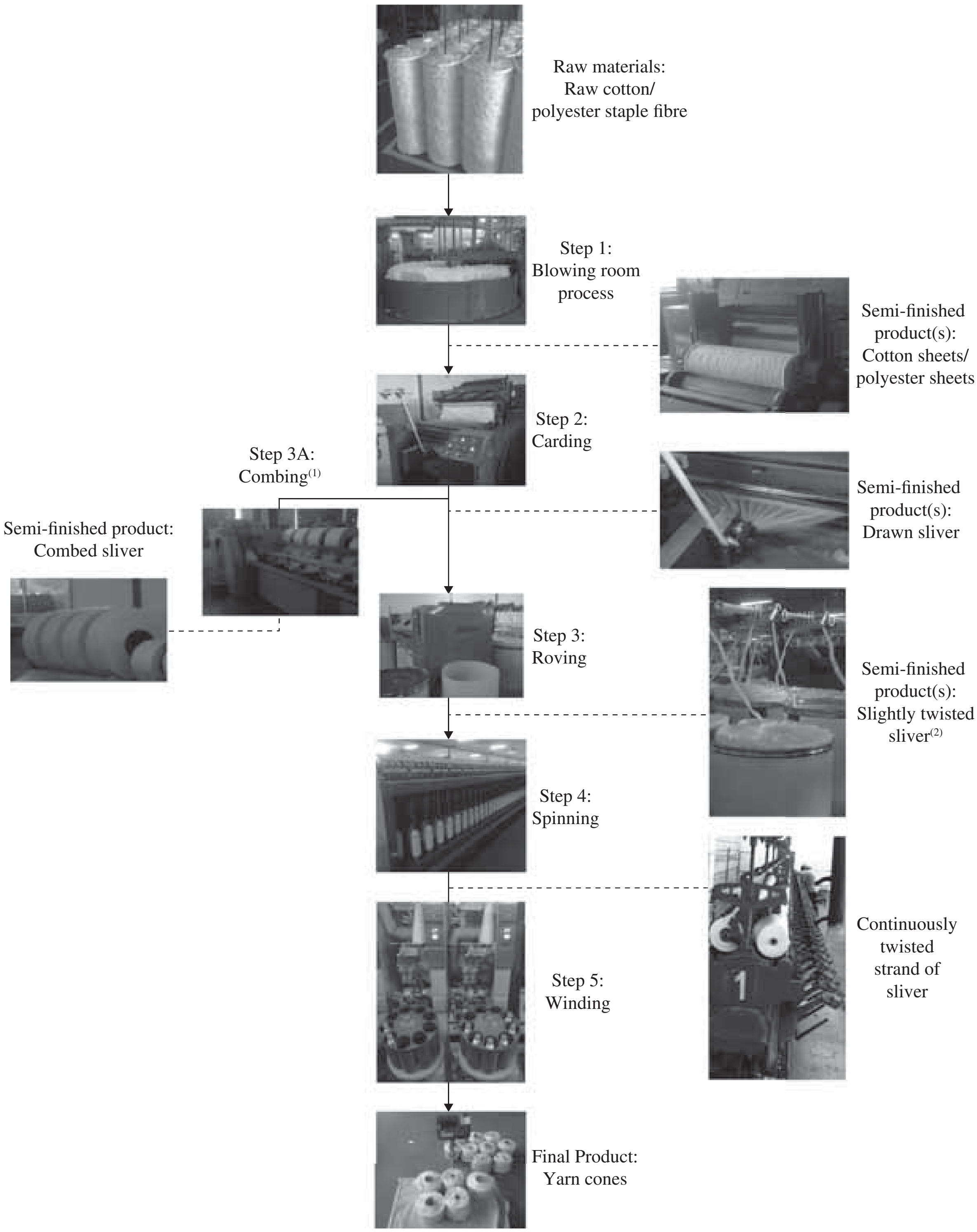
- *Step 3*: Cotton strands are taken straight from the carding process to the roving process. Cotton fibres are normally shorter and less parallel and uniform than cotton fibres which have been combed. Slivers are then roved to reduce the size of the drawn sliver and increase the parallelism of the fibres which are twisted to be suitable for spinning.

- *Step 3A*: For the production of polyester-cotton blended yarns with combed cotton features, the drawn sliver is combed again in the combing process where short fibres are removed so that the fibres will be uniform in length. After the combing process, all cotton slivers should be the same length or well blended in the same length together with polyester. Normally during the process of combing, the natural colour of cotton slowly blends in with polyester until it forms a light beige-yellow coloured yarn.

- *Step 4*: The final product of roving is known as "slightly twisted sliver". Spinning then further attenuates and twists the fibres to produce a continuously twisted strand of sliver.

- *Step 5*: Finally, the yarns are subject to winding by automatic winding machines in order to increase the length of the yarn on the package, control its quality and to eliminate impurities and defects. By this stage, the final product is formed and is known as the yarn cone.

The chart below sets forth our production processes for our yarn products:



Notes:

(1) Process for production of polyester-cotton blended yarns with cotton combing features.

(2) Also known as roving.

Production Facilities and Capacities

We are strategically located in the Fengtian Economic Development Zone of Fengxin County, Yichun City, Jiangxi Province (江西省宜春市奉新縣馮田經濟開發區). The following map sets forth our location in China:

Our production facilities occupy a total site area of 297,600.0 m^2. We have two production facilities, which manufacture our yarn products. Facility One had a production capacity of approximately 121,000 spindles and Facility Two had a production capacity of approximately 200,000 spindles as at 30 June 2011.

According to the classification of industrial enterprises in the industry by the *National Bureau of Statistics of China*, cotton textile companies of over 100,000 spindles are considered as large-scaled businesses. As at 30 June 2011, our production capacity was approximately 321,000 spindles, which could be allocated to produce any of our yarn products according to our production plan from time to time. Our average utilisation rate decreased from 98.1% for the year ended 31 December 2009 to 93.6% for the year ended 31 December 2010, mainly due to our effort to reduce our finish goods inventory level by lowering our production activities towards the end of 2010 in order to reduce our exposure to adverse movements in the average unit selling price of our yarn products. For the six months ended 30 June 2011, our average utilisation rate was 91.2%, which was slightly lower than our full year utilisation rate for each of the years ended during the Track Record Period, this was mainly due to the impact of the Chinese New Year holidays on our utilisation rate for a six-month as period compared to that for a 12-month period.

The following table sets forth our production capacities, designed production capacities, actual production volumes, converted actual production volumes and average utilisation rates during the Track Record Period:

	As at/Years ended 31 December			As at/Six months ended 30 June
	2008	2009	2010	2011
Production capacity (spindles) . .	280,000	316,000	321,000	321,000
Designed production capacity(1) (tonnes)	63,075	86,176	88,803	43,393
Actual production volume (tonnes)	41,216	57,645	58,443	27,817
Converted actual production volume(2) (tonnes).	60,037	84,507	83,095	39,552
Average utilisation rate(3) (%). . .	95.2	98.1	93.6	91.2

Notes:

(1) The designed production capacity is calculated based on speed and efficiency of our equipment and machinery and number of days worked. For the purpose of this Prospectus, it is assumed that polyester yarn of 21 counts are used as standardisation for all yarns and all production facilities operate 24 hours per day for 358 days a year and for 174 days for the first six-month period.

(2) The converted actual production volume is calculated based on the speed and efficiency of our equipment and machinery, colour and classification of the yarn, and the technology used. For the purpose of this Prospectus, it is assumed that polyester yarn of 21 counts are used as standardisation for all yarns.

(3) The average utilisation rate is determined based on converted actual production volume divided by designed production capacity, which is calculated based on the assumptions as disclosed above.

Our engineers carry out regular inspections and maintenance of our equipment and machinery on a monthly basis or more frequently in order to ensure optimum performance of our equipment and machinery. Regular repair and maintenance does not affect the daily operation of our business.

We plan to expand our production capacity by constructing two workshops and the relevant infrastructure, as well as installation of equipment and machinery with an aggregate production capacity of approximately 60,000 spindles for the production of coloured polyester-cotton blended yarns and 20,000 spindles for the production of open-end spun yarns. The two workshops will be constructed on a new production base. We expect to enter into an agreement with the *Land Acquisition and Exchange Office of Fengxin County* (奉新縣土地收購儲備交易中心) before the end of December 2011, to purchase six adjacent parcels of land planned for the textile industry with a total area covering approximately 312,000 m^2 within the Fengtian Economic Development Zone, located approximately two km away from our existing facilities, for RMB18.7 million. We will fully settle the purchase price for each of the six parcels of land being acquired before the end of January 2012 and apply for the land use right certificates as soon as practical after we have signed the purchase agreement. We expect to receive the land use right certificates for at least one parcel of land after payment of the relevant purchase price before the end of December 2011. Subject to payment of the said purchase price and execution of the relevant purchase agreement and related documents, our PRC legal adviser, Commerce & Finance, advised that there will be no material legal impediment for us to obtain the relevant land use right certificates. We further plan to import major equipment and machinery from overseas manufacturers and source other equipment and machinery from domestic manufacturers. Based on our current plan, we estimate that an aggregate expected future capital expenditure of approximately RMB401.4 million will be required to fund the construction of our new workshops. We expect to utilise the aggregate projected capital expenditure over a period of approximately 16 months depending on market conditions. We expect that the projected capital expenditure will be partly funded by the proceeds of the Global Offering and partly from our internal resources and/or bank borrowings.

We plan to implement the abovementioned production capacity expansion in two phases. The implementation of the first phase of our expansion plan is expected to commence in December 2011 and be completed by the second quarter of 2012, which is expected to increase our production capacity by approximately 20,000 spindles of open-end spun yarns upon completion. The implementation of the second phase of our expansion plan is expected to commence in the second quarter of 2012 and be completed by the end of the first quarter of 2013, which is expected to further increase our production capacity by approximately 60,000 spindles of colour polyester-cotton blended yarns at its completion.

Details of our production capacity expansion plan and expected future capital expenditure are set out below:

	Expected Construction Time Frame [1]	Estimated Investment Amount [2]	Estimated Production Capacity
		(RMB million)	(Spindles)
First Phase			
Open-end spun yarns	December 2011 to 2nd quarter of 2012	62.3	20,000
Second Phase			
Coloured polyester-cotton blended yarns	2nd quarter of 2012 to the end of the 1st quarter of 2013	245.9	60,000
Common Area	December 2011 to 1st quarter of 2013	44.9	N/A

Notes:

(1) Including workshop construction and purchase and installation of equipment and machinery.

(2) Not including the cost of land use rights of RMB18.7 million and estimated preparatory and other miscellaneous expenses of approximately RMB29.6 million.

SALES AND MARKETING

Our sales department is responsible for the development of new and maintenance of existing customer relationships in different regions within China. We intend to further increase the size of our sales force in support of our expansion plans.

Sales

Our yarn products are sold to domestic customers in China. Our sales personnel are directly employed by our sales department to directly contact our customers and communicate with them regularly to collect information on their preferences, special requirements and general demands with respect to our yarn products. Based on these information, we are able to process varying combinations of polyester fibres and cotton fibres into blended yarns to meet our customers' requirements in a timely manner. We are committed to providing quality service to our customers and our sales team visit our customers from time to time. In addition, our sales department communicates regularly with each of our other departments to ensure up to date information exchange.

Pricing Strategy

We set the selling prices of our yarn products based on a variety of factors, including raw material prices, production costs and market conditions, our inventory level and the quality of the yarn products required by our customers. As polyester staple fibres are crude oil-based commodities and the prices of polyester yarns and polyester-cotton blended yarns are indirectly affected by the fluctuations in crude oil prices, we adjust our selling prices from time to time to pass on the expected increase in our raw material costs to our customers. In addition, we also monitor the movement of international and domestic cotton prices and members from our management, sales department and procurement department meet on a frequent basis to review the selling prices of our yarn products in order to respond to the changes of the various factors affecting our selling price. Depending on the outlook of market conditions, we would increase or decrease our level of finished goods inventory from time to time in anticipation of increases or decreases in market prices of our yarn products, respectively, to mitigate the impact of such price fluctuations. Nevertheless, if the market prices for our finished goods materially decrease subsequent to our purchase of the raw materials for the production of such products, the selling prices of our products may need to follow such reduced market prices such that we would absorb the relatively high raw material costs at the expense of our gross profit margins.

The following table sets forth our average unit selling prices for each of our yarn products for the periods indicated:

	Year ended 31 December			Six months ended 30 June
	2008	2009	2010	2011
	RMB/tonnes	RMB/tonnes	RMB/tonnes	RMB/tonnes
Polyester yarns	12,213	11,038	13,483	16,753
Polyester-cotton blended yarns	14,819	13,685	17,293	23,118
Cotton yarns	16,425	16,221	22,306	33,037

We offer uniform selling prices to most of our customers and give small discounts to long-term customers with large sales orders or first time trial customers with small sales orders.

Our yarn products are not subject to any pricing control under PRC laws and regulations.

Payment and Credit Terms

We enter into individual sales orders with our customers for sales of our products. The terms included in these sales orders usually include a specification of the product, unit price, volume, delivery terms and payment terms. We typically deliver our yarn products within one to two days after we enter into sales orders, as we implement inventory policies to maintain at least the required level of raw material inventory and the required level of finished goods inventory, respectively, at our storage facilities. Our customers typically pay our selling price before we deliver our yarn products, although we may grant credit periods of up to 90 days on a case-by-case basis. Our sales orders with our customers provide for mutually agreed selling price and do not provide for price adjustment mechanism. When the demand for a particular yarn product outpaces our capacity, we typically enter into contracts with priority allocations to our strategic and long-term customers.

Product Delivery

We do not maintain any delivery team or delivery vehicles. We outsource the transportation within China to third-party logistics service providers. Through these arrangements, we are able to reduce our capital investment in logistics and eliminate the risk of liability for loss during transit. For the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, our transportation cost in contracting third-party logistics service providers represented 1.9%, 2.0%, 1.6% and 1.1%, respectively, of our total revenue. Our Directors confirm that we did not experience any material disruption to our transportation and delivery during the Track Record Period.

Marketing and Promotion

Our sales department is also responsible for conducting marketing activities and building relationships with potential customers. We use various marketing channels to promote our brand recognition and reputation, including participating in event sponsorships within Jiangxi Province and online advertising. Through these activities, we expect to enhance our brand recognition in the fabric and textile industry and expand our sales to cover new customers. For the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, our advertising expenses and business development and entertainment expenses represented 0.1%, 0.1%, 0.2% and 0.2%, respectively, of our total revenue.

Customers

Our customers are primarily fabric and textile manufacturers who use our yarn products to produce and supply fabrics and textiles to manufacturers of apparel and other consumer products, such as fabrics and textiles used in home furnishing and clothing.

We have a large and diversified customer base. All of our customers are based in the PRC and mainly situated in Zhejiang Province, Guangdong Province, Jiangxi Province and Jiangsu Province, from where over 46%, 26%, 6% and 1% of our revenue, respectively, for each year/period during our Track Record Period were generated, respectively. For the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, revenue generated from customers situated in Zhejiang Province accounted for 50.6%, 50.7%, 53.3% and 46.6% of our total revenue, respectively, while revenue generated from customers situated in Guangdong Province accounted for 26.6%, 32.1%, 26.3% and 28.6% of our total revenue, respectively. For the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, we had approximately 1,360, 1,490, 1,700 and 1,190 customers, respectively. Customers were considered as regular customers if they satisfied one of the following criterion: (i) entered into ten or more transactions with us in the year and the annual aggregate transaction amount was no less than RMB0.8 million or the annual aggregate transaction amount was no less than RMB1.0 million for the years ended 31 December 2008, 2009 and 2010; or (ii) entered into five or more transactions with us in the period and the aggregate transaction amount for the period was no less than RMB0.4 million or the aggregate transaction amount for the period was no less than RMB0.5 million for the six months ended 30 June 2011. The number of our regular customers for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 was approximately 160, 160, 250 and 300, respectively. For the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, revenue from our five largest customers was RMB41.9 million, RMB48.2 million, RMB56.9 million and RMB43.4 million, which accounted for 7.7%, 7.3%, 6.1% and 8.2%, respectively, of our total revenue. For each year/period during the Track Record Period, all of our five largest customers had more than two years of relationship with us. For the year ended 31 December 2010, out of our five largest customers, one customer had over four years of relationship with us, another customer had over three years of relationship with us and the remaining three customers had over two years of relationship with us. Of all the five largest customers, two of them remained as our top five customers for more than one year during the Track Record Period. For the same periods, revenue from our largest customer was RMB12.8 million, RMB10.7 million, RMB13.4 million and RMB14.7 million, which accounted for 2.3%, 1.6%, 1.4% and 2.8%, respectively, of our total revenue. The following table sets forth our revenue breakdown from our customers situated in Zhejiang, Guangdong, Jiangxi, Jiangsu and other provinces:

Province	Year ended 31 December			Six months ended 30 June
	2008	2009	2010	2011
	%	%	%	%
Zhejiang	50.6	50.7	53.3	46.6
Guangdong	26.6	32.1	26.3	28.6
Jiangxi	7.6	7.3	6.7	6.9
Jiangsu	1.5	1.0	4.0	10.0
Others	13.6	8.7	9.7	8.0

We intend to maintain these relationships in order to stabilise and grow our revenue. To the best knowledge of our Directors, none of our Directors, their associates or any of our shareholders holding more than 5% of our issued capital, is related to or owns any interest in any of our five largest customers.

PROCUREMENT

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

Raw Materials

Our main raw materials are polyester staple fibre and raw cotton. We source our polyester staple fibres mainly from Jiangsu Province and Fujian Province for our polyester yarns and polyester-cotton blended yarns. We use both domestic and overseas raw cotton in our polyester-cotton blended yarns and cotton yarns production. We source domestically produced raw cotton mainly from major cotton producing provinces in China, such as Xinjiang Autonomous Region, Hubei Province and Shandong Province. We also source overseas produced raw cotton mainly from the United States, Australia and India through distributors in China.

We operate a continuous procurement and production cycle, generally maintaining an average inventory level to meet four weeks of production demand for polyester staple fibre and four to five weeks of production demand for raw cotton. Our management monitors market prices of our raw materials and our level of finished good inventory to keep itself abreast of the latest development in outlook of market conditions in respect of such prices. Depending on the outlook of market conditions, we would increase or decrease our purchase of raw materials and the level of our raw material inventory from time to time in anticipation of increases or decreases in raw material prices, respectively, to mitigate the impact of such price fluctuations. Accordingly, we were able to ensure that we possessed sufficient raw materials to satisfy the sales orders we accepted during the Track Record Period.

The average unit purchase price of polyester staple fibre and raw cotton fluctuated during the Track Record Period, decreasing from 2008 to 2009 before increasing in 2010 through to 30 June 2011, in particular, for the average unit purchase price of raw cotton. The decrease in 2009 was mainly due to economic downturn and the increase since 2010 was mainly due to economic recovery and increasing prices of crude oil and international prices of raw cotton. During the Track Record Period, as we had a relatively short sales cycle, which generally takes one to two days from the placing of sales order to delivery, and we had sufficient raw material inventory to satisfy our sales orders we accepted, the impact of movements in the prices of raw materials on our performance was mitigated. We could generally pass on a certain degree of fluctuation in the cost of raw materials to our customers. During the six months ended 30 June 2011, we did not fully pass on such increase for certain sales of our yarn products due to market conditions such as the rapid increase in the market price of raw cotton, and our effort to maintain good relationship with our customers and our competitiveness, especially in the polyester-cotton blended yarn market. In the event of anticipated significant decrease in the market price of our yarn products, we may reduce our level of finished goods inventory to reduce our exposure to adverse movement in market price of our yarn products, and therefore we may not be able to fully pass on the cost of raw materials to our customer. Our management monitors market prices of our raw materials and our level of finished goods inventory to keep itself abreast of the latest development in outlook of market conditions in respect of such prices. Depending on the outlook of market conditions, we would increase or decrease our purchase of raw materials and the level of our raw material inventory from time to time in anticipation of increases or decreases in raw material prices, respectively, to mitigate the impact of such price fluctuations. For further details, see "Financial Information — Factors Affecting Our Financial Condition and Results of Operations — Pricing of Our Products and Product Mix" and "Financial Information — Principal Components of Combined Statement of Comprehensive Income — Gross Profit and Gross Profit Margin." We did not engage in any hedging activity or enter into any future contract to manage price fluctuations of our raw materials during the Track Record Period. For the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, cost of polyester staple fibres accounted for 68.9%, 62.1%, 62.4% and 56.4% respectively, of our total cost of sales. For the same periods, cost of raw cotton accounted for 13.4%, 16.2%, 19.3% and 26.8%, respectively, of our total cost of sales.

Suppliers

Our suppliers are primarily manufacturers, traders or wholesalers of polyester staple fibres or raw cotton, mainly based in southern regions of China. In order to maintain flexibility in terms of product choice and pricing, we generally do not enter into any long-term supply agreement with our raw material suppliers, except for certain framework supply agreements with a few suppliers. As such, we are free to source raw materials from a number of suppliers. We believe that this enables us to source raw materials that are available to us at the highest quality and the most competitive pricing.

We have an established network of suppliers with whom we have had stable relationships. We have had minimum of two years and maximum of four years of relationship with each of our top five suppliers. We relied on a small number of suppliers to supply us with raw materials for our production during the Track Record Period because these suppliers provided us with continuous and timely supply of raw materials and have had a good relationship with us. Our Directors believe that although we have had a solid relationship with our suppliers, we may nevertheless diversify our supplier range, who are readily available in the market if necessary. As we are not locked into any long-term sales agreement and we generally do not require specifications for our raw materials, we do not anticipate any material impediment or switching cost in the event we need to replace our existing suppliers for any reason. We may also seek to enter into relationships with new suppliers in the market that meet our selection criteria. As at the Latest Practicable Date, we considered our existing portfolio of suppliers adequate in fulfilling our requirements for raw materials in terms of quality and quantity and we did not consider it of significant benefit for us to increase the number of suppliers significantly in the near future. Our procurement department selects our suppliers through investigations, including from the potential suppliers' peers, publicly available sources and on-site visits, where our staff will inspect potential suppliers' production facilities and assess their scale of production. Our senior management assesses and approves all suppliers before we enter into contracts with them.

To minimise disruptions to our production operations, our procurement team visits our suppliers regularly. Our procurement personnel also communicate regularly with each of our departments to ensure up-to-date information exchange. During the Track Record Period, we did not encounter any material production disruption due to shortages of raw materials. Given our broad sourcing 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 disruption in supply or any cessation of business with any of our major suppliers. Polyester staple fibre and raw cotton are commodities that are widely available in China as well as from overseas suppliers. Therefore, in the event that any of our raw material suppliers cease their supplies to us, we will be able to obtain raw material supplies from alternative sources.

Payments to Suppliers

We are usually required to make advance payments or issue note payables to our suppliers as payment for our purchases before raw materials are received. For some of our purchases, our suppliers may allow a credit period on a case-by-case basis with an average credit period on purchase of goods of 30 days, and on note payables of up to 180 days. Purchases of raw materials, both domestically and overseas sourced, were denominated and settled in Renminbi during the Track Record Period.

For the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, purchases from our five largest suppliers was RMB344.4 million, RMB402.1 million, RMB453.5 million and RMB281.2 million, which accounted for 72.4%, 72.9%, 59.5% and 69.3%, respectively, of our total purchases. For the same periods, purchase from our largest supplier was RMB162.6 million, RMB178.3 million, RMB154.9 million and RMB112.7 million, which accounted for 34.2%, 32.3%, 20.3% and 27.8%, respectively, of our total purchases.

To the best knowledge of our Directors, save as disclosed in the paragraph headed "Relationship with Controlling Shareholders — Independence from the Controlling Shareholders — Operational Independence" in this Prospectus, none of our Directors, their associates or any of our shareholders holding more than 5% of our issued capital, is related to or owns any interest in any of our five largest suppliers.

GLOBAL AND CHINA ECONOMIC OUTLOOK

The global economic slowdown and financial crisis will affect global economic activity and potentially affect economic growth in China. The demand for our yarn products is largely driven by the growth in fabric and textile industries in China. The potential economic slowdown of China may ultimately affect the demand for yarn products in China, which may adversely affect our sales volumes, average unit selling prices of our yarn products, business prospects, financial condition and results of operations. In addition, a continuation of the global financial crisis may also result in a low level of liquidity in many financial markets, including China, and increased volatility in credit and equity markets, which may adversely affect our ability to secure financing to fund our acquisition activities to expand our production capacities and overall business as well as our customers' capital expenditure plans. See "Risk Factors — Risks Relating to the Industry — Our Business Depends on China's Economic and the Global Economic Growth" for more details.

As at the Latest Practicable Date, our Directors were not aware of any material cancellation of the confirmed purchase orders and default in payment by our customers, slowing down of sales or difficulty in obtaining or withdrawal of the bank facilities resulting from recent economic downturn in the United States and some European countries, as well as the potential credit crisis in China arising from the liquidity issues for corporations in Wenzhou of Zhejiang Province. In addition, we did not experience any increase in interest rates and our existing loans were not recalled as at the Latest Practicable Date. The average selling prices of our yarn products between 31 October 2011 and the Latest Practicable Date remained in line with our assumptions in respect of such prices for the purpose of our profit forecast. Despite these global and China economic volatility, our Directors believe that such prices will not significantly deviate from our assumptions in respect of such prices for the purpose of our profit forecast for the period between the Latest Practicable Date and 31 December 2011.

UTILITIES

Our primary utilities used for the production of our yarn products are electricity and water, which are crucial to our production process. Water is mainly used for the production of steam to maintain optimum temperature and humidity at our processing facilities. We have experienced intermittent power supply disruption in our production due to the ice storm in southern China from late January to early February 2008, which also caused intermittent interruption to our production. As a result, our production volume in January 2008 was slightly reduced and our production was also suspended for four days in early February 2008. After the ice storm, we took appropriate measures to increase our production volume, therefore, our overall production volume for the year ended 31 December 2008 was not materially affected. Other than the interruption caused by the ice storm, we did not experience any material interruption of operation as a result of electricity, steam or water suspension during the Track Record Period.

Electricity

We require a significant amount of electricity in our production processes. Our consumption of electricity accounted for 7.3%, 9.5%, 7.7% and 6.7% of total cost of sales for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively. Our electricity is supplied through a designated power line that is directly connected to our production base. We do not have any contingency plan in the event of power cut.

Water

Our consumption of water accounted for 0.06%, 0.01%, 0.03% and 0.05% of total cost of sales for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively. We rely on the local municipal water supply system for the water used in our production.

INVENTORY AND QUALITY CONTROL SYSTEMS

Inventory

We monitor and control the inventory levels of our raw materials and finished products to optimise our operations, sales and delivery of our products. Our inventory primarily consists of raw materials and finished products of polyester yarns, polyester-cotton blended yarns and cotton yarns. Our storage facilities are located at our production base, which consists of two raw material storage facilities and one finished product storage facility.

We operate a continuous production cycle, maintaining an average inventory level to meet four weeks of production demand for polyester staple fibre and four to five weeks of production demand for raw cotton. Our appointed staff conducts daily inspection of the inventory levels at the production base.

We implement consistent policies to maintain the required level of inventory at our storage facilities. Our production manager is responsible for maintaining communications with the procurement department on a regular basis to ensure sufficient level of raw materials for production. We also implement inventory policies to ensure the lowest level of finished goods inventory is maintained.

Quality Control Policies and Standards

We adopt a set of quality control procedures in some stages of our production process to ensure product quality. Our quality control system ensures that our finished products comply with the various standards set by us as well as industrial standards. We have ISO 9001 and ISO 14001 and other certifications for the production of our polyester yarns. In addition, Mr. Liu Weimin, deputy general manager of Jinyuan, completed the internal auditor training in 2011 provided by *Nan Chang Sino Enterprise Management Consulting Centre* according to the ISO 9001: 2008 and GB/T24001-2004 (ISO 14001: 2004) Standard.

We implement a policy to conduct random inspections together with regular inspections. Random inspections are conducted frequently and regular inspections are conducted two to three times every month depending on the production process.

All raw materials must be inspected by our procurement department immediately after receiving such raw materials. All finished products must be inspected and approved by the production manager before delivery. In addition, different types of finished products are categorised through different coloured packaging for the purpose of quality control.

Our warehouses follow strict fire safety standards required by the Fengxin County. We install fire extinguishing facilities and fire hydrants in all our warehouses and conduct regular inspections to ensure functionality of the facilities.

Staffing Arrangements for Quality Control

The production manager adopts and maintains a comprehensive set of quality standards. Our quality control staffs are responsible for establishing standards and maintaining consistent quality yarn production. They are also responsible for issuing daily quality control reports for the production manager's review. As at the Latest Practicable Date, we had nine staff in the production department who are responsible for quality control. Our quality control team is led by Mr. Chen Yunhui (陳雲輝) and Mr. Yang Jian (楊健). Mr. Chen Yunhui graduated with a bachelor's degree in textile engineering from Wuyi University (五邑大學) in June 2005 and has been working in the field of cotton textile quality management after graduation. Mr. Yang Jian graduated from Sichuan Open University (四川廣播電視大學) with a diploma in mechanical engineering in February 1991 and had been working in the field of cotton textile quality management after graduation. Mr. Yang was certified by the *Office of the Professional Qualification Reform Leading Group, Chengdu City Economic Committee* (成都市經濟委員會職稱改革工作領導小組辦公室) as an engineer in the field of cotton textile technology in November 1998. During the Track Record Period and up to the Latest Practicable Date, we had not encountered any product recall or material claim from customers relating to our product quality that would have a material and adverse effect on our operations.

COMPETITION

We mainly compete with domestic and international polyester yarn and polyester-cotton blended yarn manufacturers based on product quality, product differentiation, brand recognition, production capacity, production technology and proximity to customers.

We believe that substantial capital commitments are normally required in order to stay competitive in the polyester yarn and polyester-cotton blended yarn industry. In particular, construction of yarn production facilities require substantial capital commitments to achieve production volumes that provide a reasonable economic return, and new market entrants without a track record face obstacles in obtaining customer acceptance.

Domestic competition has been growing over the years together with expansions in production capacity for the major enterprises in the textile industry. According to the *China National Textile and Apparel Council*, the average production capacity for the top ten polyester manufacturing enterprises increased from 262,000.0 tpa in 2000 to 980,000.0 tpa in 2009. As at 31 December 2009, according to the *China National Textile and Apparel Council*, there were 25 domestic polyester manufacturing enterprises with an annual production volume of over 400,000.0 tonnes, and their aggregate production capacity reached 16.0 million tpa, accounting for 59.7% of the total domestic production capacity. China textile industry has become increasingly competitive. According to the *China National Textile and Apparel Council*, in order to become a market leader in the future, enterprises engaged in the textile industry should focus on strengthening their brand names and developing cutting-edge products that foresee the market demand.

Furthermore, a number of PRC-based textile companies have been listed on the stock exchange in Hong Kong or the PRC. These companies may have larger production capacities and customer base and employ more advanced production equipment than us.

We believe that we are well-positioned to compete effectively in China and that our strengths and strategies will distinguish us from our competitors. See the section headed "— Competitive Strengths" in this Prospectus for a discussion of our competitive strengths.

AWARDS AND RECOGNITIONS

We received various awards for our achievements as listed below:

- an *Excellent Foreign Trade Enterprise* (優秀外貿企業) in 2008 as awarded by the *People's Government of Fengxin County* to enterprises with annual import amount reaching over US$1.0 million. Jinyuan was awarded based on its importations of equipment and machinery.

- *A Level Credible Tax Paying Enterprise* (A級納稅信用企業) for the amount of VAT Jinyuan paid in 2008 and 2009, jointly awarded by the *State Tax Bureau* and *Local Tax Bureau of Jiangxi Province* to all qualifying taxpaying privately-owned enterprises who, among other things, have duly registered themselves with the relevant tax bureaus, filed tax returns and paid taxes on time in accordance with the *Tax Credit Rating Management Scheme* (State Tax [2003] No. 92) (《納稅信用等級評定管理試行辦法》) and supplementary policies issued by the same authorities.

- one of the *Top One Hundred Taxpaying Enterprises* (納稅100強) in Yichun City in 2008 and 2009 as awarded by the *People's Government of Yichun City* to the top one hundred privately-owned enterprises in Yichun City ranked and selected in accordance with the amount of total tax contribution, including both income tax and VAT, they made during the year. Although Jinyuan did not pay any income tax in 2008 and 2009, it was still ranked based on the amount of VAT Jinyuan paid alone.

- one of the *Top Ten Industrial Enterprises* (工業十強企業) in Yichun City in 2008 and 2009 as awarded by the *People's Government of Yichun City* to the top ten privately-owned enterprises in Yichun City ranked and selected in accordance with their profits for the year and other criteria, such as compliance with tax, social insurance, safety production and worker-interest requirements.

Our Directors believe that these awards reflect our financial performance and prominence in the local market where it operates.

EMPLOYEES

We had a total of 1,964, 2,078, 1,859 and 1,855 employees as at 31 December 2008, 2009 and 2010 and 30 June 2011, respectively. The number of our employees increased by 114 employees from 2008 to 2009 primarily as a result of the increase in our production staff to support our production capacity expansion. The number of our employees decreased by 219 from 2009 to 2010, mainly as a result of further deployment of 13 automatic winding machines in 2010 primarily as replacement for our manual winding machines, which reduced our requirement for the number of production staff and increased our production efficiency at the same time. The following table sets forth our employees as at 30 June 2011:

Function	**Number of Employees as at 30 June 2011**
Managerial positions	4
Production and other technical staff	1,808
Administration and support staff	15
Inventory and quality control staff	9
Human resource staff	6
Finance and accounting staff	4
Sales staff	5
Procurement staff	4
Total Number of Employees	**1,855**

The remuneration package of our employees includes salary and bonuses. In order to achieve our recruitment goals, we will approach employment agencies, set up online recruitment advertisements and consider referrals from our staff or industry peers.

We generally provide an initial training period of approximately three months for production and other technical so that they are equipped with the requisite technical capabilities to operate and maintain our equipment and machinery. We also provide regular training to all of our employees to improve their skills and enhance their technical knowledge as well as their knowledge of relevant quality standards and work safety standards.

Our Directors believe that we maintain a good working relationship with our employees, and we have established a labour union since 2006. We had not experienced any significant problem or dispute with our employees or suffered disruptions due to any labour dispute during the Track Record Period.

Social Insurance

Social Insurance and Housing Fund

During the Track Record Period, we had contributed to social insurance and housing funds to the extent required by the local authorities where we operate our business. We have been making payments to selected social welfare schemes, based on the local interpretation and implementation of relevant social insurance and housing fund policies and regulations by the local authority, including the *Notice on the City Labour and Social Security Bureau's, Approved by the People's Government of Yichun City, Suggestions to Further Promote Industrial Enterprises to Participate in Social Insurance (YIFUFA[2008] No. 20)* (the "Social Insurance Notice") (《宜春市人民政府批轉市勞動和社會保障局關於進一步促進工業園區企業參加社會保險的幾點意見的通知》(宜府發[2008]20號)). Our contributions to such social welfare schemes are charged to the consolidated profit and loss account as and when incurred. For the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, our total payment under the social insurance and housing fund plans were approximately RMB5,702, RMB19,444, RMB37,716 and RMB71,793, respectively. If we had contributed to the social insurance and housing fund plans in accordance with applicable national administrative regulations, the additional amount of contributions made would have been RMB1.0 million, RMB1.0 million, RMB0.6 million and RMB0.1 million for the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively. According to the *PRC Social Insurance Law*, which came into effect on 1 July 2011, employers are required to make contributions to, and employees are required to participate in, all social insurance schemes promulgated at the national level. According to our PRC legal adviser, Commerce & Finance, and confirmation by our Directors, since 1 July 2011 and as at the Latest Practicable Date, we were in compliance with the *PRC Social Insurance Law*.

We are a typical manufacturing enterprise located in the county areas of China which employs migrant workers from the rural areas. The Social Insurance Notice allows us to pay for social insurance funds in steps and to pay for our senior employees as a priority and gradually include payments for other employees. Further, the *Fengxin Human Resources and Social Insurance Office* (奉新縣人力資源和社會保障局) had issued written confirmation on 16 August 2011 that we had applied all relevant social insurance in methods appropriate for social insurance laws and regulations, and we were not subject to any investigation or fine imposed by the *Fengxin Human Resources and Social Insurance Office*. Additionally, the *Guidance on Certain Housing Fund Management Issues by Ministry of Construction, Ministry of Finance and People's Bank (JIANJIGUAN[2005]NO.5)* (《建設部、財政部、中國人民銀行關於住房公積金管理若干具體問題的指導意見》 (建金管[2005]5號)) provides no mandatory requirements to pay housing funds on enterprises which employ migrant workers from the rural areas who work in the cities. According to the *Fengxin County Office of the Housing Fund Management Centre of Yichun City* (宜春市住房公積金管理中心奉新縣辦事處) written confirmation on 5 December 2011, we have applied in methods appropriate for local housing fund laws and regulation, and we were not liable for any outstanding housing fund contributions and not subject to any investigations or fines imposed by the *Fengxin County Office of the Housing Fund Management Centre of Yichun City*. According to our PRC legal adviser, Commerce & Finance, the *Fengxin Human Resources and Social Insurance Office* is the competent government authority to issue the written confirmation regarding payment for social insurance funds and the *Fengxin County Office of the Housing Fund Management Centre of Yichun City* is the competent authority to issue the written confirmation regarding housing fund contributions.

According to clause 20 of *the Labour and Social Security Inspection Ordinance* (《勞動保障監察條例》), any violation or breach of the labour and social security laws and regulations which have not been discovered or charged by, or complained to the administrative office of the *Labour and Social Security Bureau* (勞動保障行政部門) within two years of such violation or breach, the *Labour and Social Security Authority* will not pursue further actions. According to clause 27 of *the Labour Dispute Mediation & Arbitration Law* (《勞動爭議調解仲裁法》), the right to claim under arbitration is within one year since the claimant's knowledge of the infringement of such rights. Nevertheless, if there are any such claim against us, our Controlling Shareholder, Mr. Zheng Hong, undertakes to fully indemnify us from any loss or obligation arising from our social insurance and housing fund contributions and to fully compensate us for such losses or obligation. According to our PRC legal adviser, Commerce & Finance, and confirmation by our Directors, as at the Latest Practicable Date, (i) we were in compliance with the *PRC Social Insurance Law* and the relevant local laws and regulations; (ii) we will not be required to make further contributions; (iii) no penalty will be imposed on us; (iv) we did not receive any social insurance or housing fund contribution related claim, complaint, notice and/or order from the *Labour and Social Security Bureau* or the *Housing Fund management Centre* (住房公積金管理部門), and did not receive any arbitration notice from the labour dispute arbitration institution and/or any mandatory enforcement order from the *People's Courts of the PRC*. Our PRC legal adviser, Commerce & Finance, also advised us that the *PRC Social Insurance Law* will not have any retrospective effect. Accordingly, we do not consider it is necessary to make a provision for the difference between social insurance and housing fund contributions required under relevant local policies and regulations.

According to our PRC legal adviser, Commerce & Finance, even if we are required to make retrospective contributions to social insurance and housing fund for our employees, it will not have material adverse effect on us.

Research and Development

Our research and development of products are conducted by the staff in our quality control department and production department. We did not incur any significant research and development expenses during the Track Record Period.

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, we had registered the trademark “ ” and we were in the process of registering the trademark “ ” with *Trademark Office of the State Administration for Industry and Commerce of the PRC*, which was opposed by a third party and pending the ruling of *Trademark Office of the State Administration for Industry and Commerce of the PRC*. According to our PRC legal adviser, Commerce & Finance, because we have not used the trademark “ ” in relation to our business or granted other parties the right to use this trademark, we will not be materially and adversely affected in the event that our application for registration is rejected by the *Trademark Office of the State Administration for Industry and Commerce of the PRC*. As at the Latest Practicable Date, we were in the process of registering the trademark “ ” with the Hong Kong Trademark Registry of the Intellectual Property Department of Hong Kong. For additional information on our registered trademark and trademark for which we are in the process of registering, see the section headed “Statutory and

General Information — Further Information About the Business of our Group — Intellectual Property Rights of our Group — (a) Trademarks" attached in Appendix VI to this Prospectus.

As at the Latest Practicable Date, save as disclosed in this Prospectus, we were not involved in any actual or potential dispute relating to the infringement of intellectual property rights.

PROPERTY AND FACILITIES

Owned Properties

We own the land use rights for our production base in Jiangxi Province, which comprises five parcels of land covering a total site area of 297,600.0 m^2. We constructed and own all the buildings on it, which include 31 buildings with a total gross floor area of 208,916.72 m^2 and various ancillary structures, mainly water tanks, boundary fences, roadways and gates. We have obtained building ownership certificates for all of the 31 buildings, which mainly include production facilities, dormitories, warehouses and an office building. For further detail on our buildings, see the Property Valuation Report attached as Appendix IV to this Prospectus.

We expect to enter into an agreement with the *Land Acquisition and Exchange Office of Fengxin County* (奉新縣土地收購儲備交易中心) before the end of December 2011, to purchase six adjacent parcels of land planned for the textile industry with a total area covering approximately 312,000 m^2 within the Fengtian Economic Development Zone, located approximately two km away from our existing facilities, for RMB18.7 million. We will fully settle the purchase price for the six parcels of land being acquired before the end of January 2012 and apply for the land use right certificates as soon as practical after we have signed the purchase agreement. We expect to receive the land use right certificates for at least one parcel of land after payment of the relevant purchase price before the end of December 2011. Subject to payment of the said purchase price and execution of the relevant purchase agreement and related documents, our PRC legal adviser, Commerce & Finance, advised that there will be no legal material impediment for us to obtain the relevant land use right certificates.

ENVIRONMENTAL AND SAFETY MATTERS

Our operations are subject to various PRC laws and regulations concerning environmental protection. Although we do not engage in a highly-polluted industry and our production processes primarily involve technical processing and manufacturing, we believe that compliance with environmental standards is important to our operations. Our operations are mainly subject to, among other relevant environmental protection laws and regulations, the following: (i) the *Environmental Protection Law*; (ii) the *Prevention and Control of Water Pollution Law*; (iii) the *Prevention and Control of Atmospheric Pollution Law*; and (iv) the *Prevention and Control of Solid Waste Pollution*, see the section headed "Regulatory Overview" in this Prospectus. Under the PRC law, we are not permitted to commence a construction project until we register or file an environmental impact assessment for such project and obtain approval from the relevant environmental authorities.

Our Directors believe that our operations currently do not generate any pollutant which may cause significant adverse impact on the environment. During Track Record Period, since no dyeing was involved in our production process and our production had not created environmentally harmful by-products, no special waste treatment had been considered necessary. Where applicable, we have implemented environmental standards for our production processes and have set out environmental procedures, such as those related to recycling of loosened cotton/polyester tufts with impurity from the blowing process. With regard to our operations, we are committed to strict and full compliance with the relevant PRC environmental protection requirements. In the event that the environment may be negatively affected as a result of our operations and we will strive to reduce the adverse impact on the environment by using technologies to conserve and efficiently use resources in our production process. During the Track Record Period, we did not engage in operations that created environmentally harmful by-products or otherwise polluted the environment. Our annual cost of compliance with the applicable environmental rules and regulations during the Track Record Period was immaterial because our operations did not require any special waste treatment.

According to our PRC legal adviser, Commerce & Finance and based on the confirmation letter we received from the *Fengxin County Environmental Protection Bureau* dated 2 December 2011, we complied with all applicable environmental protection laws and regulations during the Track Record Period and had not been subject to any material environmental claim, lawsuit, penalty or disciplinary action as of the Latest Practicable Date. As further advised by our PRC legal adviser, Commerce & Finance, *Fengxin County Environmental Protection Bureau* is the competent and appropriate authority to issue the relevant confirmation letter.

OCCUPATIONAL HEALTH AND SAFETY

We are subject to certain PRC laws and regulations on occupational health and safety, including the *Production Safety Law of the PRC*, the *Law of the PRC on Administrative Penalties for the Illegal Acts regarding Safe Production*, the *Regulations on Production Safety Permits* and *the Law of the PRC on the Prevention and Treatment of Occupational Diseases*. We have personnel responsible for safety production to oversee our compliance with relevant laws, conduct regular safety performance reviews, identify safety risks, organise accident prevention and management training, issue internal safety procedures and policies.

We established our safety procedures and policies to ensure that our working environment is safe for our employees. We implement and ensure that all of our employees are aware of our safety procedures and policies, which include guidelines for safety management, emergency situations and the proper operation of equipment and machinery. Our Director confirm that no serious or material work-related injuries or fatalities occurred at our production facilities during the Track Record Period.

According to a confirmation letter issued by the *Fengxin County Safety Production Supervision Bureau* (奉新縣安全生產監督局) dated 1 December 2011, our PRC subsidiary, Jinyuan, was in compliance with the relevant PRC laws and regulations on safety production since its incorporation on 10 October 2005. The *Fengxin County Safety Production Supervision Bureau* also confirmed that Jinyuan has not been subject to any penalty in relation to safety production and it is not in dispute with them. As advised by our PRC Legal adviser, Commerce & Finance, the *Fengxin County Safety Production Supervision Bureau* is the competent and appropriate authority to issue the relevant confirmation letter. Other than as disclosed in the section headed "Regulatory Overview — Labour Laws and Safety Matters", we had complied with all applicable health and safety laws and regulations during the Track Record Period and have not been subject to any material occupational health and safety claim, lawsuit, penalty or disciplinary action as of the Latest Practicable Date, according to our PRC legal adviser, Commerce & Finance.

INSURANCE

We maintain all risk property insurance for the buildings in our production base, equipment and machinery and vehicles used in our operations.

We do not maintain product liability insurance, business interruption insurance or third-party liability insurance for claims of personal injury or property damage arising from accidents relating to our operations. These insurance policies are not mandatory under PRC laws and would impose additional costs to our operations, which may reduce our competitiveness. See the section headed "Risk Factors — Risks Relating to Our Business — Our Operations Are Subject to Uncertainties and We May Not Have Sufficient Insurance Coverage For All the Risks Related to Our Operations" in this Prospectus. As at the Latest Practicable Date, we have not been subject to any claim for product liability or any other litigation, nor have we experienced any material business interruption. Our Directors believe that our current level of insurance coverage is adequate and in line with the practise of the yarn industry in China.

LEGAL COMPLIANCE AND PROCEEDINGS

Our Company or our subsidiaries may from time to time be involved in litigation incidental to the conduct of their business. As at the Latest Practicable Date, to the best of our knowledge, we were not aware of any pending or threatened litigation, arbitration or administrative proceeding against our Company or our subsidiaries that could have a material adverse effect on our financial condition or results of operations. According to our PRC legal adviser, Commerce & Finance, we have obtained all requisite permits, licences and approvals for our business scopes set out under our business licence. We are permitted to operate such business scopes under such permits, licences and approvals and are in compliance with all relevant laws and regulations of the PRC, save as disclosed below under the paragraph headed "Non-Compliant Bill Financing".

NON-COMPLIANT BILL FINANCING

Background

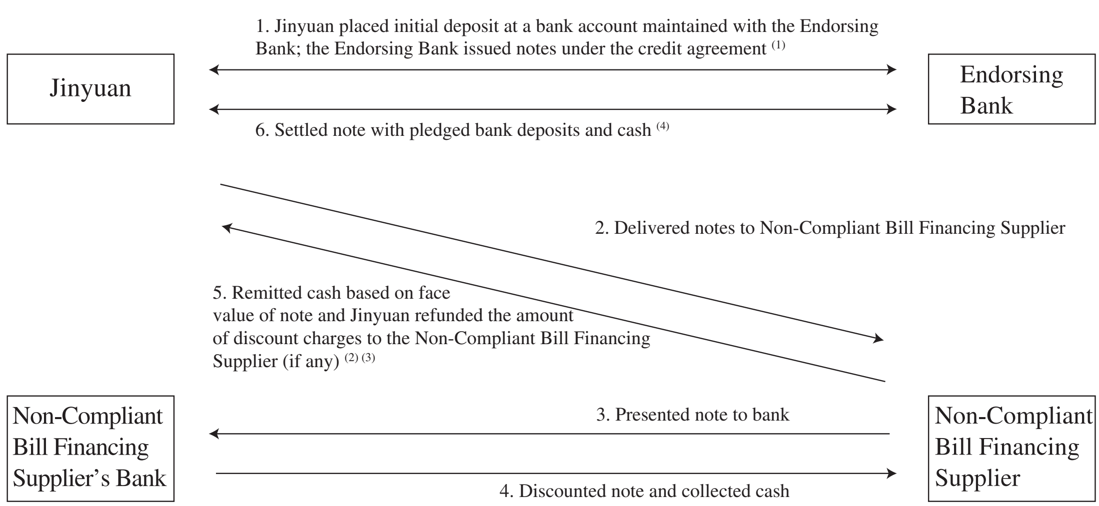
From May 2008 to August 2009, we entered into credit agreements with seven commercial banks in the PRC (the "Endorsing Banks") for issuance of bank acceptance notes as a type of credit facility. We were entitled to issue bank acceptance notes with a term of three to six months to our suppliers as payments for our purchases from such suppliers within the stipulated credit limits under such credit agreements. The credit agreements generally include provisions relating to the limit, terms and types of credit facilities, including the issuance of bank acceptance notes, to be granted by the Endorsing Banks and the guarantees required for such credit facilities. Within the stipulated credit limits, we can issue bank acceptance notes to our suppliers as payments for our purchases of raw materials. Under such agreements, we were required to place certain initial deposits with the Endorsing Bank generally of 20% to 50% of the face value of the bank acceptance notes to be issued by us. During 2008 and 2009, the aggregate amount of initial deposits placed for the issuance of such bank acceptance notes were RMB45.4 million and RMB11.2 million, respectively. Our Directors have confirmed that all required initial deposits were maintained with the Endorsing Banks at all times during the Track Record Period and all remaining amounts of the bank acceptance notes issued by us during the same period were paid to the Endorsing Banks on or before their maturity dates. At any time prior to the maturity date, the bank acceptance notes may be presented by the relevant suppliers to PRC banks for discounting and payment. These relevant suppliers will obtain an amount equal to the face value of the bank acceptance notes after deducting discounted charges. At maturity, the bank acceptance notes may be presented to the Endorsing Banks for settlement. We were required to repay the remaining balance of the face value of the issued bank acceptance notes to the Endorsing Banks upon maturity of the relevant notes.

During the Track Record Period, Jinyuan entered into framework supply agreements with Jinlun and two other suppliers of Jinyuan (collectively the "Non-Compliant Bill Financing Suppliers") setting out the maximum purchase amount from each of these suppliers. Such framework supply agreements were submitted to the Endorsing Banks for issuance of bank acceptance notes for purchasing raw materials from these suppliers. The maximum transaction amount contemplated in the relevant framework supply agreements between the suppliers determined the maximum amount of bank acceptance notes Jinyuan might issue to the Non-Compliant Bill Financing Suppliers from time to time.

Non Compliance with the Credit Agreements through Non-Compliant Bill Financing

As the discount rates of bank acceptance notes were lower than the then prevailing interest rates for short-term bank loans during 2008 and 2009, to take advantage of these lower interest rates, Jinyuan obtained funds through issuing such bank acceptance notes (within the credit limits stipulated by the Endorsing Banks and supported by the initial deposits made by Jinyuan) to the Bill Financing Suppliers but used certain of the proceeds for purposes other than for payment of the purchases from the Non-Compliant Bill Financing Suppliers (the "Non-Compliant Bill Financing"), which did not comply with the terms of the credit agreements and Article 10 of the *PRC Negotiable Instruments Law* and were made without the prior written approval from the relevant Endorsing Banks. These arrangements resulted in the total amount of notes issued during 2008 and 2009 exceeded the amount of actual purchase from the Non-Compliant Bill Financing Suppliers. Our Directors believe while bank acceptance notes and short-term bank loans may not be directly comparable as we may not use short-term bank borrowings as a direct substitute for any bank acceptance notes we obtain from Endorsing Banks through Non-Compliant Bill Financing. For illustrative purposes, the discount rates of bank acceptant notes in 2008 and 2009 were 3.09% and 3.23%, respectively, whereas the prevailing interest rates for short-term bank loans in the same periods were 7.79% and 5.77%, respectively.

The diagram below illustrates the typical details of a Non-Compliant Bill Financing arrangement:



Notes:

(1) Face value of the notes was accounted for as note payables to supplier. Deposits are generally placed at 20% to 50% of face value of the note and was accounted for as pledged bank deposit.

(2) the Non-Compliant Bill Financing Supplier remitted back cash worth the face value of the notes to Jinyuan.

(3) The relevant discount charges were recognised as finance costs in our combined financial statements during the relevant period.

(4) Notes are typically settled within three months to six months. Upon maturity, the Endorsing Bank deducted the pledged bank deposit and the remaining were repaid by Jinyuan.

The principal reason for our Non-Compliant Bill Financing arrangements was to lower our overall financing costs, and to increase our overall interest income on bank deposits. Such arrangements were approved by Mr. Zheng Yongxiang, the general manager of Jinyuan and one of our executive Directors, in 2008 and 2009. Under these arrangements, Jinyuan opened accounts and pledged deposits with our seven Endorsing Banks, which in turn issued bank acceptance notes to us at certain face values. The amount of pledged deposits required by the bank generally ranged from 20% to 50% of the face value of the bank acceptance notes issued. As a result, our pledged bank deposits were lower in aggregate than the total face value of the bank acceptance notes. These bank acceptance notes typically have a term of three to six months. Our suppliers may present such notes to other commercial banks for discounting to obtain an amount equal to the face value of the bank acceptance note after deducting discounting charges for remittance to Jinyuan. Such bank acceptance notes were ultimately settled by Jinyuan with the Endorsing Banks by deducting the pledged deposit and the remaining face value of the bank acceptance notes against the bank account of Jinyuan.

To the best knowledge and belief of our Directors, the Non-Compliant Bill Financing Suppliers were willing to engage in the Non-Compliant Bill Financing arrangements because of their business relationships with our PRC subsidiary, Jinyuan, and were willing to advance funds to us to meet our working capital needs. Our Directors confirmed that we had not been involved in any similar bill financing activity for the benefit of the Non-Compliant Bill Financing Suppliers during the Track Record Period. Our Directors and each of the Non-Compliant Bill Financing Suppliers confirmed that they or any of their respective directors or associates did not receive any amount as rebate or benefits in connection with the Non-Compliant Bill Financing activities during the Track Record Period. Our PRC legal adviser, Commerce & Finance, has confirmed that no bribery activities under the PRC Criminal Law were involved in the Non-Compliant Bill Financing.

Our Directors confirmed that Jinyuan ceased issuing the notes for the purpose of the Non-Compliant Bill Financing in August 2009 and fully settled all bank acceptance notes involved in February 2010. Our Directors have confirmed that no fraudulent, bribery or other illegal activities under the *PRC Negotiable Instruments Law* were involved in obtaining the Non-Compliant Bill Financing. In addition, the Endorsing Banks have confirmed that they did not incur any loss as a result of Jinyuan's business activities with them and will not take legal actions against Jinyuan, its Shareholders, our directors and senior management staff.

Our Directors, on the following bases, and among others, are of the view that no fraudulent activities as prescribed under the *PRC Negotiation Instrument Laws* were involved in the Non-Compliant Bill Financing arrangements:

(a) the written confirmations from the Endorsing Banks stating that (a) they did not incur any loss as a result of Jinyuan's business activities with them, (b) they will not take legal actions against Jiangxi Jinyuan, our management and directors and (c) that no fraud was involved in the Non-Compliant Bill Financing arrangement; and

(b) the view of our PRC legal adviser, Commerce & Finance that as stated in the PRC legal opinion that neither fraudulent activities (such as falsified bills) as prescribed by the *PRC Negotiable Instrument Law* were involved in obtaining bill financing.

Having considered, among others, (i) our Directors' view above; (ii) the advice from our PRC legal adviser, Commerce & Finance set out above; (iii) the confirmation from the Endorsing Banks; and (iv) the legal advice from the Sole Sponsor's PRC legal adviser, Beijing Kangda Law Firm, the Sole Sponsor concurs with our Directors' view that no fraudulent activities as prescribed under the *PRC Negotiation Instrument Laws* were involved in the Non-Compliant Bill Financing arrangements.

Save for Mr. Zheng Yongxiang who was involved in the authorisation of the Non-Compliant Bill Financing, none of our Directors or senior management was involved in the Non-Compliant Bill Financing arrangement. Mr. Zheng Yongxiang confirmed that he has not obtained any personal benefit directly or indirectly from the Non-Compliant Bill Financing and that he authorised such Non-Compliant Bill Financing because he did not have the relevant legal knowledge at the time when he authorised such Non-Compliant Bill Financing and was not adequately advised by professionals on matters pertaining to bill financing. Our Directors (including our non-executive Directors) have undertaken to procure us not to engage in or not to permit the engagement in Non-Compliant Bill Financing activities in future. We have also taken a series of actions to address and rectify this issue. Please see the paragraph headed " — Strengthening Our Internal Control System and Corporate Governance Measures" in this Prospectus.

Our Directors and the Sole Sponsor, based on the due diligence which it has conducted, are of the view that Mr. Zheng Yongxiang, who was involved in the Non-Compliant Bill Financing, has the character, experience and integrity required of a Director under rule 3.08 and rule 3.09 of the Listing Rules on the following bases: (a) Mr. Zheng Yongxiang has not obtained any personal benefit directly or indirectly from the Non-Compliant Bill Financing; (b) the advice of our PRC legal adviser, Commerce & Finance, that no fraudulent activities were involved in obtaining the Non-Compliant Bill Financing and did not constitute fraud under the *PRC Negotiable Instruments Law*; (c) the confirmation from the seven Endorsing Banks that the Non-Compliant Bill Financing did not constitute fraud and they will not take any action against the Group as a result of the Non-Compliant Bill Financing; (d) the confirmation from Yichun Branch of PBOC and Yichun Bureau of CBRC that they will not impose any administrative punishment on or take any punitive or other measure against our PRC subsidiaries, our Directors or senior management involved in the Non-Compliant Bill Financing and that they did not incur any loss arising from the Non-Compliant Bill Financing activities; (e) as at the Latest Practicable Date, to the best of our knowledge having made reasonable enquiry, there were no legal proceedings against Mr. Zheng Yongxiang in the PRC and Hong Kong; (f) Mr. Zheng Yongxiang's substantial experience in the textile industry; and (g) the undertaking by Mr. Zheng Hong and Mr. Zheng Yongxiang that he will attend training courses regarding relevant laws and regulations to be conducted by professional training providers accredited by the relevant professional bodies in the areas of financial management, corporate governance and the Listing Rules during each of the two years after the Listing.

Effect on our Financial Position

The total amount of funds obtained from the Non-Compliant Bill Financing which were used for purposes other than for payment of the purchases from the Non-Compliant Bill Financing Suppliers amounted to RMB124.4 million and RMB26.0 million for the years ended 31 December 2008 and 2009, respectively out of which approximately RMB45.4 million and RMB11.2 million were deposited with the relevant Endorsing Banks as pledged deposits, and the balance of approximately RMB79.0 million and RMB14.8 million represented the funding for our business operations obtained from the Endorsing Banks through the Non-Compliant Bill Financing for the years ended 31 December 2008 and 2009, respectively.[1] The aggregate amount of actual purchases of raw materials from the Non-Compliant Bill Financing Suppliers during the same period were approximately RMB110.3 million and RMB112.0 million, respectively.

Notes:

(1) Since we were required to place initial deposits with the Endorsing Bank generally of 20% to 50% of the face value of such bank acceptance notes, the funding for our business operations obtained through Non-Compliant Bill Financing was estimated to be the face value of such bank acceptance notes related to the Non-Compliant Bill Financing deducted by the initial deposits related to the amount of Non-Compliant Bill Financing.

For illustrative purposes, based on the then prevailing interest rates for short-term bank loans for 7.79% and 5.77% for the year ended 31 December 2008 and 2009, respectively, we estimated that our interest expenses incurred and saved from the Non-Compliant Bill Financing arrangements for the years ended 31 December 2008 and 2009 are as follows:

	Year ended 31 December	
	2008	2009
	RMB'000	RMB'000
Interest Incurred by Non-Compliant Bill Financing	706	1,640
Interest Saved from Non-Compliant Bill Financing	1,073	1,290

As at 31 December 2008, the balance of the amount of Non-Compliant Bill Financing was RMB102.1 million. As at 31 December 2009, the balance of the amount of Non-Compliant Bill Financing was RMB5.0 million, which was fully settled on 12 February 2010 upon maturity.

We maintained cash and bank balances of approximately RMB26.2 million and RMB46.2 million, respectively, as of 31 December 2008 and 2009. In addition, we obtained new bank loans of approximately RMB100.9 million and RMB271.6 million, respectively, in 2008 and 2009. Since the full settlement of all outstanding bank acceptance notes involved in the Non-Compliant Bill Financing arrangements in February 2010, we have demonstrated that we have sufficient funding to support our business operations based on our operating income, credit facilities and established relationships with PRC commercial banks and our ability to raise capital. Based on the foregoing, our Directors consider that we would have had sufficient funding for our business operations in 2008 and 2009, assuming that there were no such Non-Compliant Bill Financing activities during the same period.

Confirmation from Relevant Government Authorities

In October 2011, we, together with our PRC legal adviser, Commerce & Finance initiated meetings and consulted with the *Yichun Branch of the People's Bank of China* ("Yichun Branch of PBOC") and the *Yichun Bureau of the China Banking Regulatory Commission* ("Yichun Bureau of CBRC"), regarding our Non-Compliant Bill Financing. The PBOC is responsible for drafting the *PRC Negotiable Instruments Law* and other relevant laws and regulations, and the CBRC is the regulatory authority overseeing commercial banks and their operations in China. Our PRC legal adviser advised us that the PBOC and CBRC are the only two regulatory authorities who may determine whether there is any breach of PRC laws and regulations, or impose any liability, in relation to the Non-Compliant Bill Financing. Since Jinyuan was incorporated in Jiangxi Province, Yichun City, the Yichun Branch of PBOC and the Yichun Bureau of CBRC are the competent and appropriate government authorities to approach and consult on this matter. The Yichun Bureau of CBRC confirmed in its written letter dated 25 October 2011 that the banking regulatory authorities are not required to impose any administrative penalty to companies in relation to the Non-Compliant Bill Financing under the current PRC laws and regulations, and they would not impose any punitive measure against Jinyuan, its affiliates, directors and senior management involved in the Non-Compliant Bill Financing. The Yichun Branch of PBOC confirmed in its written letter dated 25 October 2011 that no administrative penalty is promulgated in relation to the Non-Compliant Bill Financing under the current PRC laws and regulations, and would not impose any administrative penalty or take any legal action against Jinyuan, its shareholder, directors and senior management. These written confirmation letters represent the government authorities' view and assessment of actions to be taken by them on issues related to the Non-Compliant Bill Financing. As advised by our PRC legal adviser, Commerce & Finance, based on these confirmation letters, we will not be liable for any criminal or administrative liability and the Yinchun Branch of PBOC and Yichun Bureau of CBRC will not impose any administrative penalty on us. As at the Latest Practicable Date, we had not received any notice of formal investigation or inquiry regarding the Non-Compliant Bill Financing from these government authorities.

Confirmations from the Relevant Endorsing Banks

We have met with each of the Endorsing Banks involved in the Non-Compliant Bill Financing, which have confirmed in writing that: (i) all the bank acceptance notes in respect of the Non-Compliant Bill Financing have matured and settled; (ii) our payments to them related to the Non-Compliant Bill Financing were made in full and on time; (iii) the Non-Compliant Bill Financing did not constitute fraud under the *PRC Negotiable Instruments Law*; (iv) the Non-Compliant Bill Financing will not have adverse effect on any future business between the relevant Endorsing Banks and Jinyuan; (v) they did not incur any loss as a result of the Non-Compliant Bill Financing; (vi) they will not take any legal action against us, the shareholders, directors and senior management of Jinyuan in connection with the Non-Compliant Bill Financing. As advised by our PRC legal adviser, Commerce & Finance, such confirmations of the Endorsing Banks were duly issued by the relevant personnel with the appropriate authority.

Opinion from our PRC Legal Adviser

Our PRC legal adviser, Commerce & Finance, advised that although the amounts specified in the bank acceptance notes Jinyuan issued in respect of the Non-Compliant Bill Financing were beyond the actual purchasing amounts of the transactions, which was not in compliance with Article 10 of the *PRC Negotiable Instruments Law* requiring that the issuance of a bank acceptance note shall be treated as a real act of trading or debt payment, bank acceptance notes issued by us in respect of the Non-Compliant Bill Financing were for the purpose of our working capital and not for the purpose of illegal possession and all the relevant fund has been fully repaid to the related banks, and as a result, there were no acts of criminal fraudulent activities (such as forgery and issuance of dishonoured cheque) prescribed by the Article 102 of the *PRC Negotiable Instruments Law*.

According to our PRC legal adviser, Commerce & Finance, there are no specific provisions in the *PRC Negotiable Instruments Law* prescribing definitive administrative penalties for such issuance of bank acceptance notes, and the PBOC or CBRC has not promulgated any administrative penalty for such Non-Compliant Bill Financing. In addition, according to Article 29 of the *Law of the PRC on Administrative Penalty*, where an illegal act is not discovered within two years of its commission, administrative penalty shall no longer be imposed. The last issuance of the bank acceptance notes in respect of the Non-Compliant Bill Financing occurred on 12 August 2009, which means that the time limit for administrative penalties in relation to the issuance of those bank acceptance notes has lapsed.

Furthermore, the full amounts of the bank acceptance notes in respect of the Non-Compliant Bill Financing have been repaid to the Endorsing Banks, without causing any damage or loss to the Endorsing Banks. There are no dispute or civil claim between Jinyuan and the Endorsing Banks or any other third parties. Our Controlling Shareholder, Mr. Zheng Hong, has undertaken to reimburse our Group all liabilities arising from the Non-Compliant Bill Financing and provide full compensation if required.

To obtain an assessment of the potential legal implications of the Non-Compliant Bill Financing for us, our Directors and senior management, we have sought legal advice from our PRC legal advisor, Commerce & Finance. Our PRC legal adviser has advised that (1) the Non-Compliant Bill Financing arrangements entered into by our Group did not involve any fraud, bribery or other illegal activities and we will not have any legal liability under any civil claim arising from the Non-Compliant Bill Financing, (2) our Controlling Shareholders, Directors and senior management will not be personally liable for any civil claim or be imposed upon any administrative punishment, and (3) there are no relevant PRC laws or regulations, nor are there any relevant rules promulgated by the PBOC or the CBRC imposing administrative or criminal liability in respect of such bill financing arrangements. Overall, there is no legal basis for any PRC regulatory authority to impose administrative or criminal liability on us, our Directors or senior management in relation to the Non-Compliant Bill Financing.

On the basis of (i) the principle described in Article 3 of the *PRC Criminal Law* that "a criminal act not expressly defined by law shall not be convicted and sentenced"; (ii) principle described in Article 4 of the *PRC Administrative Penalty Law* that "rules governing the offences which are subject to administrative penalty must be promulgated and rules not promulgated shall not become the basis for administrative penalty"; (iii) principle described in Article 112 of the *PRC General Principles of the Civil Law* that "the party that breaches a contract shall be liable for damages equal to the losses suffered by the other party"; and (iv) the confirmations from the relevant Endorsing Banks as described below, confirmations from the Yichun Branch of PBOC and Yichun Bureau of CBRC, being the relevant government authorities, and the undertaking provided by Mr. Zheng Hong to fully compensate us for all liabilities arising from the Non-Compliant Bill Financing, our PRC legal adviser, Commerce & Finance, is of the opinion that the PRC regulatory authority will not impose criminal or administrative liability on us and our Directors and senior management in relation to the Non-Compliant Bill Financing arrangement. Our PRC legal adviser, Commerce & Finance, is of the opinion that the Non-Compliant Bill Financing will not have material adverse effects on our financial position, productions and operations.

Strengthening our Internal Control System and Corporate Governance Measures

We engaged RSM Nelson Wheeler Consulting Limited ("RSM"), an independent internal control advisor, to execute an agreed set of review procedures ("Review") on the financial procedures, systems and controls (including accounting and management systems) adopted by us before the Listing. The objectives of the Review were to assess the adequacy and effectiveness of internal control systems, identify if there are significant internal control weaknesses and suggest recommendations to us for rectification. The Review also assisted the Sole Sponsor in conducting reasonable due diligence review on our management and accounting systems and internal control environment as required under the Listing Rules. RSM did not identify any material weakness or deficiency in our internal control systems, and recommended a number of actions to be taken to further improve the existing internal control processes. RSM has also made several recommendations for the prevention of the Non-Compliant Bill Financing. We have adopted a series of rectifying measures and the status of rectification work performed is as follows:

Suggested rectifying measures	Status of rectification work
• The management team of Jinyuan to adopt a written internal control policies and procedures for Non-Compliant Bill Financing and to circulate to all Directors and relevant staff	• Completed in July 2011
• The finance manager and the manager of the procurement department of Jinyuan to ensure that approval by the general manager is required for each note payable amount supported by the actual purchase transaction amount, all future financings are properly supported by actual transactions and used only for the designated purpose of paying for the purchase of goods from suppliers	• Procedure implemented since July 2011
• The finance manager of Jinyuan to perform periodic independent check to identify any discrepancy between the note payables issued and the actual underlying transactions	• Procedure implemented since July 2011

Suggested rectifying measures	Status of rectification work
• The finance manager of Jinyuan to discuss and report the reasons of the discrepancies to general manager for seeking further preventive measures	• No discrepancy is noted for reporting since July 2011
• Our legal advisers and our trained management personnel to provide relevant training to all newly appointed Directors or relevant staff	• On-going

RSM has performed follow-up checks in this respect in mid-September and early November 2011 and confirmed that the relevant rectifying measures have been duly implemented with no material exception noted, based on the information provided by us. Taking into account the above rectifying measures and the results from RSM's follow-up checks, RSM believed that our internal control was adequate and effective as at the Latest Practicable Date.

In order to ensure that our Directors will be fully aware of their duties and responsibilities as directors of a publically listed company, and keep abreast of the Listing Rules and legal requirements in Hong Kong and the PRC, we have established a compliance manual setting the corporate governance policies for compliance with the Listing Rules and provided training conducted by our Hong Kong legal advisers to our Directors on the duties and responsibilities under the Listing Rules and legal requirements in Hong Kong. On-going training on the Listing Rules, and in particular the respective duties and responsibilities of directors and senior management of a listed company, will be provided by our Hong Kong legal adviser to our Directors and senior management after the Listing.

We will appoint legal advisers as to the laws of Hong Kong and the PRC, respectively, after the Listing to advise our Group on the laws and regulations of Hong Kong (in particular the requirements under the Listing Rules) and the PRC, respectively. We will also appoint Guotai Junan Capital Limited as our compliance adviser to assist us with compliance matters and issues in relation to the Listing Rules and seek external legal advice where appropriate and necessary on the compliance matters after the Listing.

In addition, we will retain an independent external consultant for at least next 24 months after the Listing to examine and monitor the bill financing activities periodically for compliance with the rectifying measures upon the Listing and provide reports for the Audit Committee to review and inclusion in our Company's annual internal control review report, and the findings of the consultant will be disclosed in the corporate governance report of our annual reports for the two full financial years after the Listing.

In accordance with the relevant rule 3A.15(5), the Sole Sponsor has made reasonable due diligence inquiries and has reasonable grounds to believe and does believe that our Company has established procedures, systems and controls (including accounting and management systems) which are adequate and effective.

Indemnity from Controlling Shareholder

Our Controlling Shareholder, Mr. Zheng Hong, has undertaken to fully indemnify us from any and all liabilities arising from the Non-Compliant Bill Financing.