You should read the following discussion and analysis of our Group's financial condition and results of operations together with our combined financial statements as at and for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 and the accompanying notes included in the Accountants' Report set out in Appendix I to this Prospectus. The Accountants' Report has been prepared in accordance with IFRS. Potential investors should read the whole of the accountants' report set out in Appendix I to this Prospectus and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk Factors" in this Prospectus.

OVERVIEW

We are a 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 Revenue

The increase in our revenue from the year ended 31 December 2008 to the year ended 31 December 2009 was primarily due to the increase in sales volume of our yarn products. The increase in our revenue from the year ended 31 December 2009 to the year ended 31 December 2010 was mainly due to the increase in the average unit selling price of our yarn products, primarily due to the increases in the average unit purchase prices of our raw materials, as well as the increase in our sales volume following the recovery of market demand after the economic downturn in 2009. The increases in sales volume between 2008 and 2010 was primarily attributable to our enlarged customer base as a result of our business development efforts as well as our production capacity expansion during the relevant periods. The increase in our revenue from the six months ended 30 June 2010 to the six months ended 30 June 2011 was generally attributable to the increases in the average unit selling prices of our yarn products, primarily driven by the strong demand for polyester-related yarns stimulated by the substantial increase in the price of raw cotton, which is the raw material for cotton yarns and may be partially substituted by polyester-related yarns in the production of textiles and fabrics.

Our Gross Profit Margin

The substantial increase in our gross profit margin from 5.5% for the year ended 31 December 2008 to 13.1% for the year ended 31 December 2009 was mainly due to the decrease in cost of polyester staple fibre by 18.1% from 2008 to 2009 as a result of lower crude oil price. Our gross profit margin further increased to 16.1% for the year ended 31 December 2010, mainly due to the increase in the average unit selling prices of our polyester yarns and polyester-cotton blended yarns driven by the strong demand in the domestic market for polyester and polyester-blended yarns and the reduction in the number of our production staff as a result of automation of our equipment and machinery. Our gross profit margin decreased from 14.8% for the six months ended 30 June 2010 to 13.8% for the six months ended 30 June 2011. This was mainly due to the increase in our cost of cotton and polyester staple fibre as a result of the increase in their market prices and our decision to refrain from passing on all raw material cost increase to our customers in order to maintain good relationship with our customers and our competitiveness in the polyester-cotton blended yarn market. For details of our gross profit margins during the Track Record Period, please refer to paragraph headed "Financial Information — Principal Components Of Combined Statement Of Comprehensive Income — Gross Profit and Gross Profit Margin".

Our Net Profit Margin

The significant increase in our net profit margin from 0.2% for the year ended 31 December 2008 to 10.0% for the year ended 31 December 2009 was primarily due to the significant increase in our gross profit as a result of reasons set out above, our investment and other income and decrease in our finance costs, and partially offset by the increase in our distribution and selling expenses, mainly due to the increase in transportation expense as a result of the increase in our sales volume, and the increase in administrative expenses, mainly due to the increase in other taxation related to use of land due to our expansion of operations. The increase in our net profit margin from 10.0% for the year ended 31 December 2009 to 12.6% for the year ended 31 December 2010 was primarily due to the significant increase in our gross profit due to reasons set out above, and partially offset by the increase in our distribution and selling expenses, mainly due to the increase in transportation expenses as a result of the increase in our sales volume, administrative expenses, mainly due to the increase in business development and entertainment expenses and bank charges and other handling fees and finance costs, mainly due to the increase in our interest expense as a result of the increase in our bank borrowings and finance lease obligation. The decrease in our net profit margin from 10.8% for the six months ended 30 June 2010 to 8.6% for the six months ended 30 June 2011 was primarily due to the decrease in our gross profit as a result of the reasons set out above, and also an increase in administrative expenses and other expenses, which comprise expenses in relation to the Listing.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 4 May 2011. In anticipation of the Listing, we underwent the Corporate Reorganisation, pursuant to which our Company became the holding company of the companies now comprising our Group. Our Group comprising our Company and our Subsidiaries resulting from the Corporate Reorganisation is regarded as a continuing entity because the companies that took part in the Corporate Reorganisation and now comprising our Group were controlled by Mr. Zheng before and after the Corporate Reorganisation. The control is not transitory and, consequently, there is a continuation of risks and benefits to the Controlling Shareholders. Therefore, the Corporate Reorganisation is considered a business combination of entities under common control and merger accounting has been applied in the accounting of the Corporate Reorganisation.

The combined statement of comprehensive income, combined statement of changes in equity and combined statement of cash flows for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, include the results and cash flows of the companies comprising our Group and the business of manufacture and sale of polyester yarns, polyester-cotton blended yarns and cotton yarns have been prepared as if the current group structure had been in existence throughout the Track Record Period or since their respective date of incorporation or establishment where this is a shorter period and in accordance with the respective equity interests in the individual companies attributable to the existing shareholders throughout the Track Record Period. Our combined statement of financial position as at 31 December 2008, 2009 and 2010 and 30 June 2011 have been prepared in accordance with the accounting policies in compliance with IFRS.

FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our financial condition and results of operations have been and will continue to be affected by a number of factors, including those discussed below, some of which are beyond our control.

General Economic Conditions and the Growth in Disposable Income of PRC Residents

China's economic growth and its increasing domestic demand for consumer goods are major drivers for the growth of the polyester yarn industry and cotton yarn industry in China. According to the *National Bureau of Statistics of China*, the nominal GDP of China increased from RMB21.6 trillion in 2006 to RMB39.8 trillion in 2010, representing a CAGR of 16.5%. From 2006 to 2010, the GDP per capita of China also increased from RMB16,500.0 to RMB29,678.0, representing a CAGR of 15.8%.

Along with the continuous growth in the economy and the trend towards urbanisation, the income levels of urban households have increased. The increase in the household income has strengthened the purchasing power of the urban population. According to the *National Bureau of Statistics of China*, the annual per capita disposable income of urban households in China increased from RMB11,759.0 in 2006 to RMB19,109.0 in 2010, representing a CAGR of 12.9%. Retail sales of consumer goods in China have experienced rapid growth as a result of the growing economy, the growing urban population, increasing urbanisation rate and increasing level of disposable income of urban households. According to the *National Bureau of Statistics of China*, the retail sales of consumer goods in China increased from RMB7.9 trillion in 2006 to RMB15.7 trillion in 2010, representing a CAGR of 18.7%. The annual urban households' expenditure on apparel per capita in China has also increased from RMB646.7 in 2006 to RMB1,440.0 in 2010, representing a CAGR of 22.2%. We believe that the increase in the purchasing power of PRC residents should drive sentiment towards the purchase of consumer products, including apparels and textiles which should positively affect our results of operations.

We derive all of our revenue from sales within China. In 2010, total industrial output generated by 53,000 enterprises with a scale of over RMB5.0 million in annual revenue in the textile industry amounted to RMB3.7 trillion, representing 9.3% of China's GDP for the same year. With this steady growth, a number of fabric and textile manufacturers have emerged and grown rapidly in the past years. However, the industry was affected by the effect of the economic crisis during early 2009, which resulted in reduced sales and investment in the industry. As the PRC Government implemented a series of measures to revive the textile industry, the textile industry in China gradually recovered during 2009. 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.

Production Capacity and Production Volume

Our results of operations had been affected by our production capacity expansions during the Track Record 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.

We believe our large production capacity and production volume allow us to benefit from economies of scale in various ways, including more favourable purchase prices for raw materials, lower fixed average unit costs for our products, and higher market recognition and awareness as compared to smaller manufacturers in the industry.

Demand and Supply for our Yarn Products

Our main customers are fabric and textile manufacturers based in China which use our yarn products to produce and supply fabrics and textiles to manufacturers of apparel and other consumer products, such as fabric and textiles used in home furnishing and clothing. Accordingly, increasing household income in the PRC is one of the drivers of our revenue, especially coupled with increasing annual urban households' expenditure on apparel per capita in China, which increased from RMB646.7 in 2006 to RMB1,440.0 in 2010, representing a CAGR of 22.2%. The demand for yarn products increased as textile manufacturers expanded their operations during the Track Record Period. The production of polyester yarns, polyester-cotton blended yarns and cotton yarns increased during the Track Record Period to meet the increase in demand in China.

Pricing of our Products and Product Mix

Changes in the prices and product mix of our yarn products sold to our customers will affect our financial position and results of operations. The market prices of the types of products which we sell are highly transparent in the market. We generally set the prices of our products by reference to the prevailing market prices of such products from time to time.

The following table sets out our revenue, gross profit, sales volume and the average unit selling prices of our yarn products during the Track Record Period:

	Year ended 31 December											
	2008				2009				2010			
	Revenue	Gross Profit	Sales Volume	Average Unit Selling Price	Revenue	Gross Profit	Sales Volume	Average Unit Selling Price	Revenue	Gross Profit	Sales Volume	Average Unit Selling Price
	RMB'000	RMB'000	tonnes	RMB/ tonnes	RMB'000	RMB'000	tonnes	RMB/ tonnes	RMB'000	RMB'000	tonnes	RMB/ tonnes
Polyester yarn												
Fine-count yarn	285,453	(4,730)	23,316	12,243	315,095	15,868	28,478	11,065	374,358	28,032	27,352	13,687
Medium-count yarn . .	30,400	(1,883)	2,538	11,978	58,635	1,871	5,351	10,958	118,029	6,082	8,897	13,266
Coarse-count yarn . .	4,114	(334)	344	11,959	7,191	158	682	10,544	35,591	1,209	2,911	12,226
Sub-total	**319,967**	**(6,947)[1]**	**26,198**	**12,213**	**380,921**	**17,897**	**34,511**	**11,038**	**527,978**	**35,323**	**39,160**	**13,483**
Polyester-cotton blended yarn												
Fine-count yarn	152,132	26,524	10,004	15,207	198,149	48,403	14,241	13,914	277,076	73,303	15,797	17,540
Medium-count yarn . .	65,079	8,267	4,652	13,989	55,244	10,493	4,275	12,923	73,708	16,656	4,484	16,438
Coarse-count yarn . .	—	(25)	2	—	7	1	1	7,000	65	7	8	8,125
Sub-total	**217,211**	**34,766**	**14,658**	**14,819**	**253,400**	**58,897**	**18,517**	**13,685**	**350,849**	**89,966**	**20,289**	**17,293**
Cotton yarn												
Fine-count yarn	7,609	2,188	461	16,505	24,293	8,838	1,484	16,370	51,753	24,052	2,319	22,317
Medium-count yarn . .	505	166	33	15,303	4,824	1,601	311	15,511	86	31	5	17,200
Sub-total	**8,114**	**2,354**	**494**	**16,425**	**29,117**	**10,439**	**1,795**	**16,221**	**51,839**	**24,083[2]**	**2,324**	**22,306**
Total	**545,292**	**30,173**	**41,350**	**N/A**	**663,438**	**87,233**	**54,823**	**N/A**	**930,666**	**149,372**	**61,773**	**N/A**

	Six months ended 30 June							
	2010				2011			
	Revenue	Gross Profit	Sales Volume	Average Unit Selling Price	Revenue	Gross Profit	Sales Volume	Average Unit Selling Price
	RMB'000	RMB'000	tonnes	RMB/ tonnes	RMB'000	RMB'000	tonnes	RMB/ tonnes
Polyester yarn								
Fine-count yarn	180,412	14,044	14,009	12,878	162,883	25,258	9,622	16,928
Medium-count yarn . .	58,119	3,792	4,613	12,599	85,988	11,653	5,199	16,539
Coarse-count yarn . .	13,324	467	1,129	11,801	11,458	384	718	15,958
Sub-total	**251,855**	**18,303**	**19,751**	**12,752**	**260,329**	**37,295**	**15,539**	**16,753**
Polyester-cotton blended yarn								
Fine-count yarn	106,958	31,575	6,526	16,390	183,600	27,893	7,778	23,605
Medium-count yarn . .	29,413	6,434	1,904	15,448	56,894	5,575	2,625	21,674
Coarse-count yarn . .	62	(2)	8	7,750	—	—	—	—
Sub-total	**136,433**	**38,007**	**8,438**	**16,169**	**240,494**	**33,468**	**10,403**	**23,118**
Cotton yarn								
Fine-count yarn	22,873	4,386	1,087	21,042	24,834	2,048	752	33,024
Medium-count yarn . .	—	—	—	—	902	11	27	33,407
Sub-total	**22,873**	**4,386[2]**	**1,087**	**21,042**	**25,736**	**2,059**	**779**	**33,037**
Total	**411,161**	**60,696**	**29,276**	**N/A**	**526,559**	**72,822**	**26,721**	**N/A**

Notes:

(1) We recorded a gross loss of RMB6.9 million for our polyester yarns for the year ended 31 December 2008, mainly due to our decision to reduce the level of our inventories by reducing the selling prices of our products to ensure sufficiency of liquidity in view of the financial crisis and market downturn in 2008 and early 2009 by selling at a price lower than its cost of sales.

(2) Our gross profit for cotton yarns increased significantly from RMB4.4 million for the six months ended 30 June 2010 to RMB24.1 million for the year ended 31 December 2010, mainly due to the increasing trends of the prices of raw cotton and cotton yarns during 2010, especially during the second half of 2010, and our production and sales processes where the cotton yarns sold consumed raw materials we had purchased at an earlier time. The average unit selling price of cotton yarns was significantly higher in the second half of 2010 while the average unit purchase price of raw cotton was lower in the second half of 2010 compared to the first half of 2010. As the prices of raw cotton and cotton yarns were generally decreasing during second half of 2011, our Directors believed that such increase of gross profit for cotton yarns during the second half of 2010 would not recur in 2011.

We continuously adjust our product mix in our production with a view to maximise our gross profit, taking into account the conditions in the market for our raw materials and our yarn products from time to time. We actively manage our purchase of raw materials with a view to minimise our cost of raw materials while ensuring sufficient supply of raw materials for our production. During the Track Record Period, we took advantage of the increases in the market prices of yarn products by applying such increases in the prices of our products while managing our cost of sales to stay at a stable level or to rise at a slower rate than the prices of our products. As a result, our gross profit margins increased for the year ended 31 December 2008 through to the year ended 31 December 2010. Our gross profit margin decreased slightly from the six months ended 30 June 2010 to the six months ended 30 June 2011 primarily due to the substantial increase in the market price of our raw materials. We will continue to monitor and optimise our pricing and product mix in response to changes in market conditions and consumer preferences in order to maximise our gross profit.

Cost of Raw Materials

Our primary raw materials for the production of our yarn products are polyester staple fibre and raw cotton. For the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, cost of raw materials accounted for 82.3%, 78.3%, 81.7% and 83.2%, respectively, of our total cost of sales. The market price of our key raw materials is affected by several factors. In particular, our 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. With the increase of global crude oil prices and increase in demand from downstream polyester yarn manufacturers, the prices of polyester staple fibre fluctuated between RMB7,000.0 per tonne and RMB14,000.0 per tonne during the three-year period from 2008 to 2010 and further fluctuated between RMB12,600.0 per tonne to RMB15,250.0 per tonne from January 2011 to June 2011 according to the *China Chemical Fibre* website. The average price of cotton in China was RMB13,096.8 per tonne, RMB12,804.4 per tonne and RMB19,373.3 per tonne and RMB27,832.3 per tonne for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively, demonstrating a similar trend as that of the international prices of cotton.

The following table sets out our average unit purchase prices of our raw materials during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB/tonne	RMB/tonne	RMB/tonne	RMB/tonne (Unaudited)	RMB/tonne
Polyester staple fibre	10,575	8,657	10,528	10,239	13,731
Raw cotton	13,761	13,332	19,145	16,061	28,177

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 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. 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, while the increase in the cost of raw materials is generally reflected in the average selling prices of our yarn products. 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.

We generally do not enter into long-term supply agreements with our major raw material suppliers, except for certain framework supply agreements with a few suppliers. Fluctuations in the costs of our primary raw materials and our inability to pass on any increase in raw material costs to our customers may materially and adversely affect our cost of sales and our gross profit margins. While we generally do not use long-term purchase contracts to limit our exposure to fluctuations in the prices of our raw materials, we try to manage the impact of such fluctuations on our profitability through adjustments to the unit selling prices of our products from time to time according to prevailing market prices of yarn products and movements in our raw material costs, with a view to pass on any increase in the cost of our raw materials to our customers to an extent that it is commercially practicable. See the section headed "Risk Factors — Risks Relating to Our Business — Our Financial Performance May Be Affected by Fluctuations in Raw Material Prices As We May Not Be Able to Pass On the Increase in Raw Material Costs to Our Customers" in this Prospectus. 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.

Taxation

Pursuant to the EIT Law, a unified EIT rate of 25% is imposed upon both domestically-invested enterprises and foreign-invested enterprises. In accordance with the *Notice on the Implementation of the Transitional Preferential Policies in respect of Enterprise Income Tax* (國務院關於實施企業所得稅過渡優惠政策的通知) (the "EIT Notice"), the EIT rate applicable to foreign-invested enterprises, which is currently subject to a deducted rate, will be gradually increased up to 25% within five years commencing from 1 January 2008. Jinyuan is a wholly foreign invested entity of manufacturing nature. In accordance with the EIT Notice and the *Foreign Enterprise Income Tax Laws* in the PRC, Jinyuan was approved to be exempted from EIT for two years starting from its first profit making year since its establishment and followed by a 50% tax relief for the next three years. Jinyuan's first profit making year was 2006. Jinyuan was therefore entitled to a reduced tax rate of 12.5% from 1 January 2008 to 31 December 2010. Jinyuan was subject to a tax rate of 25% from 1 January 2011 onwards.

Jinyuan purchased certain domestic manufactured equipment and machinery in 2006 and 2007, which amounted to approximately RMB96.0 million in aggregate. In accordance with the *Notice Concerning the Reduction in Enterprise Income Tax for Purchase of Domestic Manufactured Equipment by Enterprises with Foreign Investment and Foreign Enterprises ((2000) No.49)* issued by the *PRC Ministry of Finance* and the SAT, part of the purchase costs of the domestic manufactured equipment and machinery could be utilised to reduce its enterprise EIT. The application of EIT reduction related to the purchase of domestic manufactured equipment and machinery in 2006 and 2007 was approved by the *Jiangxi Administration of State Taxation of Yichun City*. Jinyuan was entitled to a total tax reduction of RMB38.4 million for the years ended 31 December 2006 and 2007 (the "Equipment Tax Reduction"). Among them, RMB0.3 million, RMB8.5 million, RMB14.8 million, RMB5.5 million and RMB12.8 million had been utilised to offset the EIT of Jinyuan in 2008, 2009, 2010 and the six months ended 30 June 2010 and 2011, respectively. Accordingly, no provision for EIT had been made because the tax concession granted to Jinyuan has offset all EIT for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011. The remaining RMB2.0 million of the Equipment Tax Reduction is carried forward for future tax reduction. As advised by our PRC legal adviser, Commerce & Finance, Jinyuan is permitted under relevant rules and regulations of the PRC to utilise the remaining Equipment Tax Reduction to offset the increased amount of EIT before the year ending 31 December 2012 as compared with EIT generated in the year of purchasing such equipment and machinery. According to our PRC legal adviser, Commerce & Finance, *Jiangxi Administration of State Taxation of Yichun City* is the competent authority in the PRC for matters relating to taxations of Jinyuan.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our principal accounting policies are set forth in Section A Note 4 of the Accountants' Report as set out in Appendix I to this Prospectus. Our combined financial statements were prepared in accordance with accounting policies which conform to IFRS. Accounting methods, assumptions and estimates that underlie the preparation of our combined financial statements affect our financial condition and results of operations reported. Such assumptions and estimates are made based on historical cost basis. The results of which form the basis of judgement on our carrying amounts of assets and liabilities and our results may differ under different assumptions or conditions. We have identified below the accounting policies that we believe are the most critical to our combined financial statements and that involve the most significant estimate.

Revenue Recognition

Our revenue is derived from the sale of our yarn products. We measure revenue at fair value of the consideration received or receivable in the normal course of business, net of discount and sales related tax.

Revenue from sales of our yarn products is recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, Plant and Equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administration purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than construction in progress, less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Buildings	3%
Plant and machinery	5% – 10%
Office equipment	5% – 10%
Motor vehicles	10%

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any change in estimate accounted for on a prospective basis.

Construction in progress for production, supply or administrative purposes is carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with our Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant leases.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the assets and is included in the profit or loss.

Assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the asset, the estimated future cash flows of assets have been affected. As at 30 June 2011, all of our equipment and machinery were manufactured in 2005 or later, with the vast majority having an age of less than five years. During the Track Record Period, we were not aware of any event that would require us to recognise any impairment on our equipment and machinery and hence no provision was made.

Depreciation

Depreciation of our property, plant and equipment over their estimated useful lives is calculated using the straight-line method, at rates ranging from 3% to 10% per annum. The estimated useful lives that our Group depreciates the property, plant and equipment reflects our Directors' estimate of the periods that our Group intends to derive future economic benefits from the use of the assets by taking into account of industry normal practice. For any instance where this evaluation process indicates impairment, the appropriate asset's carrying values are written down to the recoverable amount and the amount of the write-down is charged against the profit or loss. The carrying value of property, plant and equipment as at 31 December 2008, 2009 and 2010 and 30 June 2011 was RMB382.3 million, RMB378.1 million, RMB381.4 million and RMB403.9 million, respectively. Depreciation was RMB12.3 million, RMB16.6 million, RMB17.3 million and RMB9.1 million, for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively.

Inventory Valuation Method and Write Down of Inventories

Inventory is valued at the lower of cost and net realisable value. Cost is determined using the "first-in, first-out" method. Where the estimated net realisable value for slow-moving inventories are lower (higher) than expected, a write-down (reversal of write-down) would be recognised in the profit or loss in the period that such a write-down (reversal of write-down) takes place. Our carrying value of inventory as at 31 December 2008, 2009 and 2010 and 30 June 2011 was RMB67.1 million, RMB96.7 million, RMB115.7 million and RMB85.7 million, respectively.

Impairment on Financial Assets

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Trade receivables are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include our Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the due dates, observable changes in national or local economic conditions that correlate with default on receivables and the financial performance of the customers.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of trade receivables is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets carried at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial assets at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

SUMMARY RESULTS OF OPERATIONS

The selected financial information from our combined statement of comprehensive income and combined statement of cash flows for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, as well as our combined statement of financial position as at 31 December 2008, 2009 and 2010 and 30 June 2011, set forth below are derived from our Accountants' Report included in Appendix I to this Prospectus, and should be read in conjunction with the Accountants' Report and this "Financial Information" section.

Summary Combined Statement of Comprehensive Income

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	545,292	663,438	930,666	411,161	526,559
Cost of sales	(515,119)	(576,205)	(781,294)	(350,465)	(453,737)
Gross profit	30,173	87,233	149,372	60,696	72,822
Investment and other income	6,018	10,927	7,027	2,141	1,939
Fair value change on held-for-trading investment	(3,451)	—	—	—	—
Distribution and selling expenses	(10,129)	(12,041)	(12,902)	(6,695)	(5,368)
Administrative expenses	(7,076)	(9,020)	(9,932)	(4,465)	(9,725)
Other expenses	—	—	—	—	(5,973)
Finance costs	(14,417)	(10,907)	(16,009)	(7,434)	(8,432)
Profit and total comprehensive income for the year/period attributable to owners of the Company	1,118	66,192	117,556	44,243	45,263
	RMB (cents)	RMB (cents)	RMB (cents)	RMB (cents)	RMB (cents)
Earnings per share					
— Basic	0.15	8.83	15.67	5.90	6.04

PRINCIPAL COMPONENTS OF COMBINED STATEMENT OF COMPREHENSIVE INCOME

Revenue

Our revenue is mainly derived from the sale of our yarn products. Our customers are primarily fabric and textile manufacturers of apparel and other consumer products, such as fabric and textiles used in home furnishing and clothing.

The following table sets out a breakdown of our revenue by product category during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2008		2009		2010		2010		2011	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (Unaudited)	%	RMB'000	%
Polyester yarn	319,967	58.7	380,921	57.4	527,978	56.7	251,855	61.3	260,329	49.4
Polyester-cotton blended yarn	217,211	39.8	253,400	38.2	350,849	37.7	136,433	33.2	240,494	45.7
Cotton yarn	8,114	1.5	29,117	4.4	51,839	5.6	22,873	5.5	25,736	4.9
Total	545,292	100.0	663,438	100.0	930,666	100.0	411,161	100.0	526,559	100.0

Our revenue increased from RMB545.3 million for the year ended 31 December 2008 to RMB663.4 million for the year ended 31 December 2009, and further to RMB930.7 million for the year ended 31 December 2010. The increase was generally attributable to the increases in our sales volume throughout the Track Record Period and the increases in the average unit selling prices of our products in 2010 compared to 2009. Our revenue increased from RMB411.2 million for the six months ended 30 June 2010 to RMB526.6 million for the six months ended 30 June 2011. The increase was generally attributable to the increases in average unit selling prices of our yarn products.

Our total sales volume increased from approximately 41,350 tonnes for the year ended 31 December 2008 to approximately 54,823 tonnes for the year ended 31 December 2009, and further to approximately 61,773 tonnes for the year ended 31 December 2010. The increase was generally attributable to the gradual recovery of the textile industry from the economic slowdown since the fourth quarter of 2008, expansion of our production capacity, increased recognition of our products in the market and our business development efforts throughout the Track Record Period. The increases in sales volume from 2008 to 2009 were primarily due to expansion of our production capacity. Our total sales volume decreased from approximately 29,276 tonnes for the six months ended 30 June 2010 to approximately 26,721 tonnes for the six months ended 30 June 2011. Such decrease was mainly due to a decreased market demand due to the significant fluctuations in the price of raw materials, namely, polyester staple fibre and raw cotton.

The decrease in sales volume of our polyester yarns from approximately 17,951 tonnes for the six months ended 30 June 2010 to approximately 15,539 tonnes for the six months ended 30 June 2011 was mainly due to our strategy in respect of product mix between polyester-cotton blended yarns and polyester yarns. For the six months ended 30 June 2011 as compared to the same period in 2010, we allocated more resources to the development of the market segment of polyester-cotton blended yarns, which our senior management team believed would be more profitable in the long run taking into consideration the historical performance of the relevant product segment, despite the gross profit margin for polyester-cotton blended yarns was 0.4% lower than that of polyester yarn for the six months period. This was mainly due to our decision to refrain from passing on all increases in raw material cost to our customers in order to maintain good relationship with our customers and our competitiveness in the polyester-cotton yarn market. The decrease in sales volume of cotton yarns was primarily attributable to our sales strategy in response to the volatility and unpredictability of raw cotton prices in the market.

The increase in the average unit selling prices of polyester-related yarns from the year ended 31 December 2009 to the year ended 31 December 2010 and from the six months ended 30 June 2010 to the six months ended 30 June 2011, was primarily driven by the strong demand in the domestic market for polyester-related yarns and was stimulated by the substantial increase in the price of raw cotton, which is a type of raw material for cotton yarns and may be partially substituted by polyester-related yarns in the production of textiles and fabrics.

The average unit selling prices of our yarn products are largely determined by reference to the prevailing market prices for such products from time to time. This is because being in the upstream of the textile industry supply chain, our products are manufactured according to a set of industry specifications, which are also followed by our competitors in manufacturing their products, and are therefore relatively homogeneous. The average unit selling prices of our yarn products for the year ended 31 December 2009 were generally lower than that of the year ended 31 December 2008 because our average unit purchase prices for polyester staple fibre and raw cotton decreased near the end of 2008, which caused downward pressure in the market prices for our yarn products. The average unit selling prices of our yarn products for the year ended 31 December 2009 were generally lower than that of the year ended 31 December 2010 because our average unit purchase prices for polyester staple fibre and raw cotton increased significantly in 2010 compared to their prices in 2009, which we passed on to some of our customers to a certain extent through increased prices of our products. The average unit selling prices of our yarn products for the six months ended 30 June 2011 was higher than that of the six months ended 30 June 2010 due to the significant increase in average unit purchase price of our raw materials, especially for raw cotton. Please refer to the paragraph headed "— Factors Affecting Our Financial Condition and Results of Operations — Pricing of Our Products and Product Mix" for the average unit selling prices of our products during the Track Record Period.

Cost of Sales

By Type

Our cost of sales primarily consists of raw material costs and direct labour and overhead costs. The following table sets forth a breakdown of our Group's cost of sales by cost type and such costs as a percentage of the total cost of sales during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2008		2009		2010		2010		2011	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (Unaudited)	%	RMB'000	%
Raw Materials										
Polyester staple fibre	355,014	68.9	357,648	62.1	487,321	62.4	202,669	57.8	255,877	56.4
Raw Cotton	68,964	13.4	93,688	16.2	151,171	19.3	81,480	23.3	121,547	26.8
Sub-total	423,978	82.3	451,336	78.3	638,492	81.7	284,149	81.1	377,424	83.2
Direct Labour and Overhead	91,141	17.7	124,869	21.7	142,802	18.3	66,316	18.9	76,313	16.8
Total	515,119	100.0	576,205	100.0	781,294	100.0	350,465	100.0	453,737	100.0

Our cost of sales increased by 11.9% from RMB515.1 million for the year ended 31 December 2008 to RMB576.2 million for the year ended 31 December 2009 and further increased by 35.6% to RMB781.3 million for the year ended 31 December 2010. This was mainly attributable to expansion of our production capacity and increased sales volume in 2009 and 2010. Our cost of sales increased by 29.4% from RMB350.5 million for the six months ended 30 June 2010 to RMB453.7 million for the six months ended 30 June 2011. This was mainly attributable to the significant increase in average unit purchase prices of our raw materials, especially for raw cotton. During the Track Record Period, the cost of cotton as a percentage of our total cost of sales increased while the cost of polyester as a percentage of our total cost of sales decreased. Such trends were primarily attributable to the fact that the market prices of raw cotton decreased less significantly from 2008 to 2009 but increased more rapidly than that of polyester stable fibre from 2009 to 2010 as well as our strategy to shift our product mix towards polyester-cotton blended yarn for the six months ended 30 June 2011, which increased our usage of raw cotton.

By Product

The following table sets forth a breakdown of our cost of sales by yarn products and such costs as a percentage of the total cost of sales:

	Year ended 31 December						Six months ended 30 June			
	2008		2009		2010		2010		2011	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (Unaudited)	%	RMB'000	%
Polyester yarn	326,914	63.5	363,024	63.0	492,655	63.1	233,552	66.6	223,034	49.2
Polyester-cotton blended yarn	182,445	35.4	194,503	33.8	260,883	33.4	98,426	28.1	207,026	45.6
Cotton yarn	5,760	1.1	18,678	3.2	27,756	3.5	18,487	5.3	23,677	5.2
Total	515,119	100.0	576,205	100.0	781,294	100.0	350,465	100.0	453,737	100.0

Gross Profit and Gross Profit Margin

Our gross profit was RMB30.2 million, RMB87.2 million, RMB149.4 million and RMB72.8 million for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively. The following table sets forth an analysis of our gross profit and gross profit margins by product category:

	Year ended 31 December						Six months ended 30 June			
	2008		2009		2010		2010		2011	
	Gross Profit	Margin	Gross Profit	Margin	Gross Profit	Margin	Gross Profit	Margin	Gross Profit	Margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (Unaudited)	%	RMB'000	%
Polyester yarn	(6,947)	(2.2)	17,897	4.7	35,323	6.7	18,303	7.3	37,295	14.3
Polyester-cotton blended yarn	34,766	16.0	58,897	23.2	89,966	25.6	38,007	27.9	33,468	13.9
Cotton yarn	2,354	29.0	10,439	35.9	24,083	46.5	4,386	19.2	2,059	8.0
Total	30,173	5.5	87,233	13.1	149,372	16.1	60,696	14.8	72,822	13.8

Our gross profit increased significantly from 2008 to 2009, primarily due to our increase in sales volume and increase in gross profit margin. Our gross profit increased by 188.7% from RMB30.2 million for the year ended 31 December 2008 to RMB87.2 million for the year ended 31 December 2009, mainly due to the increase in our sales volume as a result of the expansion of our production capacity and the increase in our gross profit margins.

Our gross profit increased by 71.3% from RMB87.2 million for the year ended 31 December 2009 to RMB149.4 million for the year ended 31 December 2010, mainly due to (i) the increase in our gross profit margins of our yarn products; and (ii) the increase in our sales volume following the recovery of market demand after the economic downturn in 2009.

Our gross profit increased by 19.9% from RMB60.7 million for the six months ended 30 June 2010 to RMB72.8 million for the six months ended 30 June 2011 due to the increase in the gross profit from our polyester yarns as a result of higher gross profit margin, partially offset by the decrease in the gross profit from our polyester-cotton blended yarns and cotton yarns as a result of lower gross profit margin.

The substantial increase in our gross profit margin from 5.5% for the year ended 31 December 2008 to 13.1% for the year ended 31 December 2009 was mainly due to (i) the increase in average utilisation rate of our production facilities from 95.2% in 2008 to 98.1% in 2009; and (ii) the percentage decrease in cost of raw materials at a faster rate than that of the decrease in average unit selling prices of yarn products, especially for polyester yarns and polyester-cotton blended yarns, which in aggregate accounted for 95.6% of our total revenue for the year ended 31 December 2009. The decrease in the raw materials costs was primarily due to the decrease in the average unit purchase prices of polyester staple fibre by 18.1% from 2008 to 2009 as a result of lower crude oil price, while the average unit selling prices of polyester yarns and polyester-cotton blended yarns decreased respectively, by 9.6% and 7.7%, from 2008 to 2009. Our management team closely monitors the market prices of our raw materials constantly with a view to take advantage of opportunities to purchase our raw materials at relatively low prices.

Our gross profit margin further increased to 16.1% for the year ended 31 December 2010, mainly due to (i) the percentage of increase in the average unit selling prices of our yarn products, especially for polyester yarns and polyester-cotton blended yarns, which in aggregate accounted for 94.4% of our total revenue for the year ended 31 December 2010, increasing at a faster rate than the increase in the average unit cost of raw materials, mainly polyester staple fibre; and (ii) the decrease in our direct labour costs in 2010 as a result of the reduction in the number of our production staff enabled by the replacement of certain manually operated process previously engaged by us with automatic production equipment and machinery. Our average unit selling price of polyester yarns and polyester-cotton blended yarns increased by 22.2% and 26.4% from 2009 to 2010, respectively, while our average unit purchase cost of polyester staple fibre increased by 21.6% from 2009 to 2010. The increase in the average unit selling prices of our polyester yarns and polyester-cotton blended yarns was mainly driven by the strong demand in the domestic market for polyester and polyester-blended yarns and stimulated by the substantial increase in the price of raw cotton, which is the raw material for cotton yarns and may be partially substituted by polyester yarn in the production of textiles and fabrics.

While the trends in respect of the changes in the gross profit and gross profit margin were generally similar among our polyester yarns, polyester-cotton blended yarns and cotton yarns segments for the years ended 31 December 2008, 2009 and 2010, the changes in the gross profit and gross profit margin among these three product segments for the six months ended 30 June 2011 as compared to the six months ended 30 June 2010 diverged, primarily as a result of (i) the significant increase in the market price of our raw materials, in particular, the market price of raw cotton, and (ii) our product mix strategy.

Our gross profit margin decreased from 14.8% for the six months ended 30 June 2010 to 13.8% for the six months ended 30 June 2011. This was primarily due to the decrease in the gross profit margin of our polyester-cotton blended yarns and cotton yarns, which in aggregate accounted for 50.6% of our total revenue for the six months ended 30 June 2011, partially offset by the increase in the gross profit margin of our polyester yarn products. The decrease in the gross profit margin of our cotton yarn products was primarily due to the significant increase in our cost of raw cotton. The decrease in the gross profit margin of our polyester-cotton blended yarns was mainly due to our decision to refrain from passing on all increase in raw material cost to our customers in order to maintain good relationship with our customers and our competitiveness in the polyester-cotton blended yarn market, reflecting our strategy on our product mix. For the six months ended 30 June 2011 as compared to the same period in 2010, we allocated more resources to the development of the market segment of polyester-cotton blended yarns, which our senior management team believed would be more profitable in the long run taking into consideration the historical performance of such segment. According to the Yarn Industry Reports issued by *Qianxun (Beijing) Information Consulting Co., Ltd,* ("Qianinfo"), the gross profit margin for the polyester-cotton blended yarn industry has been consistently higher than that of the polyester yarn industry and the cotton yarn industry for each of the years from 2006 to 2010 and is forecasted by Qianinfo to remain so for each of the years from 2011 to 2015.

The increase in the gross profit margin of our polyester yarn products for the six months ended 30 June 2011 as compared to the same period in 2010 was mainly due to the increase in the average unit selling price of our polyester yarns, which was mainly driven by the strong demand in the domestic market for polyester yarns and was stimulated by the substantial increase in the price of raw cotton, the raw material for cotton yarn, for which polyester yarns may partially substitute in the production of textiles and fabrics. Despite the increase in the gross profit margin for our polyester yarns, the sales volume of our polyester yarns decreased as a result of our strategy in relation our product mix as discussed above.

Investment and Other Income

Investment and other income comprises mainly: (i) interest income on pledged bank deposits and bank balances; (ii) government grants based on value-added tax paid; (iii) government grants on purchase of land use right, which was the amortisation of RMB150,000 per year for the years ended 31 December 2008, 2009 and 2010, respectively, and RMB75,000 for the six months ended 30 June 2010 and 2011, respectively; (iv) other government grant in relation to our energy saving efforts of RMB400,000 for the six months ended 30 June 2011; and (v) income from scrap sales. Investment and other income increased by 81.7% from RMB6.0 million for the year ended 31 December 2008 to RMB10.9 million for the year ended 31 December 2009, primarily because of the increase in government grants based on value-added tax paid and the increase in interest income on pledged bank deposits and bank balances, and decreased by 35.8% to RMB7.0 million as at 31 December 2010, primarily because of the decrease in government grants based on value-added tax paid and the decrease in interest income on pledged bank deposits and bank balances, partially offset by increase in income from scrap sales. Investment and other income decreased by 9.5% from RMB2.1 million for the six months ended 30 June 2010 to RMB1.9 million for the six months ended 30 June 2011, primarily because of the decrease in government grants based on value-added tax paid, partially offset by the increase in other government grant in relation to our energy saving efforts and income from scrap sales. Government grants on refund of value-added tax is based on the amount of value-added tax paid by our Company. Such government grants were not paid regularly and the relevant governmental body has significant discretion as to when and how much such value-added tax based government grants would be paid, if it is to be paid at all.

Fair Value Change on Held-for-Trading Investment

Fair value change on held-for-trading investment was RMB3.5 million for the year ended 31 December 2008. Such fair value change represents Jinyuan's loss on a high-risk non-guarantee floating income investment product (高風險及非保本浮動收益投資產品) which was purchased at a cost of RMB19.5 million in November 2007 and was redeemed at RMB16.3 million in January 2008. The fair-value of this high-risk non-guarantee floating income investment product was linked to the performance of certain stock or stock-related securities of selected PRC-based companies. We bought such investment product on the recommendation of one of our banks and we do not expect to invest in such investment product in the future. We did not incur any fair value change on held-for-trading investment for the years ended 31 December 2009 and 2010 and the six months ended 30 June 2011.

Distribution and Selling Expenses

Distribution and selling expenses was RMB10.1 million, RMB12.0 million, RMB12.9 million and RMB5.4 million, for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively, which represented 1.9%, 1.8%, 1.4% and 1.0% of our revenue, respectively. Distribution and selling expenses primarily comprised transportation expenses, sales and marketing department wages and advertising expenses. The following table sets forth our distribution and selling expenses:

	Years ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Transportation	9,821	11,664	12,335	6,464	5,136
Staff costs	278	346	502	224	232
Advertising expenses	30	31	65	7	—
Total	10,129	12,041	12,902	6,695	5,368

Administrative Expenses

Administrative expenses was RMB7.1 million, RMB9.0 million, RMB9.9 million and RMB9.7 million for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively, which represented 1.3%, 1.4%, 1.1% and 1.8% of our revenue, respectively. Administrative expenses primarily comprised staff and welfare expenses, office expenses, other taxation, business development and entertainment expenses, depreciation and amortisation, bank charges and other handling fees. The following table sets forth our administrative expenses:

	Years ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Staff and welfare expenses	2,135	2,549	2,475	1,111	1,199
Office expenses	1,448	1,836	832	614	707
Other taxation	918	2,515	2,652	1,070	4,593(1)
Business development and entertainment expenses	621	702	1,645	465	1,029
Depreciation and amortisation	949	918	1,058	433	597
Bank charges and other handling fees	746	326	960	480	1,067
Others	259	174	310	292	533
Total	7,076	9,020	9,932	4,465	9,725

Note:

(1) The significant increase in other taxation for the six months ended 30 June 2011 was primarily as a result of new mandatory tax levies of approximately RMB3.4 million, for foreign-invested enterprises in the PRC for city maintenance and construction as well as educational purposes, according to the *Notice of the State Council on Unifying the Urban Construction and Maintenance Tax and Educational Surcharge Systems to Domestic & Foreign Enterprises and Individuals* (《國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》(國發[2010]35號)), which came into effect on 1 December 2010.

Other Expenses

For the six months ended 30 June 2011, our other expenses of RMB6.0 million was mainly composed of expenses incurred in relation to the Listing and the Global Offering of RMB5.0 million. We did not record any other expenses for the years ended 31 December 2008, 2009 and 2010.

Finance Costs

Our finance costs mainly comprise: (i) interest on bank borrowings wholly repayable within five years; (ii) interest on finance leases; and (iii) discounting charges paid on note receivables. Finance costs was RMB14.4 million, RMB10.9 million, RMB16.0 million and RMB8.4 million, respectively, for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, which represented 2.6%, 1.6%, 1.7% and 1.6% of our revenue, respectively. The discount rates on the note receivables were generally higher than the interest rates for our bank borrowings. During the Track Record Period, as we were able to increase our bank borrowings to finance our working capital, we had substituted the discounting of note receivables by drawing bank borrowings in financing our working capital, as the discount rates on the note receivables are generally higher than the interest rates on our bank borrowings.

Tax

Income tax represents amendments of PRC enterprise income tax paid by our Group. Our Group was not subject to Hong Kong profit tax or any income tax in the Cayman Islands or the BVI during the Track Record Period. The applicable income tax rates for Jinyuan were 12.5%, 12.5%, 12.5% and 25% for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively.

The application of EIT reduction related to the purchase of domestic manufactured equipment and machinery in 2006 and 2007 was approved by the *Jiangxi Administration of State Taxation of Fengxin County*. Jinyuan was entitled to the Equipment Tax Reduction, being a total tax reduction of RMB38.4 million, for the years ended 31 December 2006 and 2007. Among them, RMB0.3 million, RMB8.5 million, RMB14.8 million and RMB12.8 million had been utilised to offset the income tax liabilities of Jinyuan in 2008, 2009 and 2010 and the six months ended 30 June 2011 respectively. The remaining RMB2.0 million of the Equipment Tax Reduction as at 30 June 2011 is carried forward for future tax reduction.

No provision for EIT has been made as after applying the tax concession for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, the remaining tax expense was fully reduced by the utilisation of tax credit obtained from domestic manufactured equipment and machinery during each of the relevant years/period.

Dividends

Jinyuan declared to its shareholders dividends of RMB42.9 million and RMB85.8 million for the years ended 31 December 2009 and 2010, respectively. Jinyuan paid these declared dividends of RMB42.9 million and RMB85.8 million in January 2010 and January 2011, respectively. Jinyuan did not declare any dividend for the year ended 31 December 2008 and the six months ended 30 June 2011.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six Months Ended 30 June 2011 Compared to Six Months Ended 30 June 2010

Revenue

Revenue increased by 28.1%, from RMB411.2 million for the six months ended 30 June 2010 to RMB526.6 million for the six months ended 30 June 2011, primarily due to a 3.3% increase in sales revenue of polyester blended yarns, a 76.3% increase in sales revenue of polyester-cotton blended yarns and a 12.2% increase in sales revenue of cotton yarns, generally attributable to the increase in average unit selling prices of our yarn products.

Revenue from sales of our polyester yarns increased by 3.3%, from RMB251.9 million for the six months ended 30 June 2010 to RMB260.3 million for the six months ended 30 June 2011, primarily due to the increase in average unit selling price by 31.4% despite the decrease in sales volume from approximately 19,751 tonnes to 15,539 tonnes.

Revenue from sales of our polyester-cotton blended yarns increased significantly by 76.3% and contributed the most to the overall revenue growth, from RMB136.4 million for the six months ended 30 June 2010 to RMB240.5 million for the six months ended 30 June 2011, primarily due to the increase in sales volume from approximately 8,438 tonnes to 10,403 tonnes and increase in average unit selling price by 43.0%.

Revenue from sales of our cotton yarns increased by 12.2%, from RMB22.9 million for the six months ended 30 June 2010 to RMB25.7 million for the six months ended 30 June 2011, primarily due to the increase in average unit selling price by 57.0% despite the decrease in sales volume from approximately 1,087 tonnes to 779 tonnes.

The decrease in sales volume of our polyester yarns from approximately 17,951 tonnes for the six months ended 30 June 2010 to approximately 15,539 tonnes for the six months ended 30 June 2011 mainly due to our strategy in respect of product mix between polyester-cotton blended yarns and polyester yarns. For the six months ended 30 June 2011 as compared to the same period in 2010, we allocated more resources to the development of the market segment of polyester-cotton blended yarns, which our senior management team believed would be more profitable in the long run taking into consideration the historical performance of the relevant product segment, despite the gross profit margin for polyester-cotton blended yarns was 0.4% lower than that of polyester yarn for the six months period. This was mainly due to our decision to refrain from passing on all increases in raw material cost to our customers in order to maintain our competitiveness in the polyester-cotton blended yarn market. The decrease in sales volume of cotton yarns was primarily attributable to our sales strategy in response to the volatility and unpredictability of raw cotton prices in the market.

The increase in the average unit selling price of polyester-related yarns from the six months ended 30 June 2010 to the six months ended 30 June 2011 was primarily driven by the strong demand in the domestic market for polyester-related yarns and was stimulated by the substantial increase in the price of raw cotton, which is raw material for cotton yarns and may be partially substituted by polyester-related yarns in the production of textiles and fabrics.

Cost of Sales

Cost of sales increased by 29.4%, from RMB350.5 million for the six months ended 30 June 2010 to RMB453.7 million for the six months ended 30 June 2011, primarily due to significant increase in the raw material costs during the period.

Cost of sales of our polyester yarns decreased by 4.5% from RMB233.6 million for the six months ended 30 June 2010 to RMB223.0 million for the six months ended 30 June 2011, primarily due to the decrease in our sales volume as a result of our strategy in respect of product mix between polyester-cotton blended yarns and polyester yarns. For each tonne of our polyester yarn sold, our raw material cost was RMB9,560 and RMB11,521 for the six months ended 30 June 2010 and 2011, respectively.

Cost of sales of our polyester-cotton blended yarns increased by 110.3%, from RMB98.4 million for the six months ended 30 June 2010 to RMB207.0 million for the six months ended 30 June 2011, primarily due to the increase in our sales volume as a result of our change in the structure of the product mix to focus on the development of the market segment of polyester-cotton blended yarns and the increase in the average unit purchase price of both polyester staple fibre and raw cotton. For each tonne of our polyester-cotton blended yarn sold, our raw material cost was RMB9,400 and RMB16,970 for the six months ended 30 June 2010 and 2011, respectively.

Cost of sales of our cotton yarns increased by 28.1%, from RMB18.5 million for the six months ended 30 June 2010 to RMB23.7 million for the six months ended 30 June 2011, primarily due to the significant increase in average unit purchase price of raw cotton, notwithstanding the fact that sales volume of cotton yarns decreased during the six months ended 30 June 2011. For each tonne of our cotton yarn sold, our raw material cost was RMB14,739 and RMB27,541 for the six months ended 30 June 2010 and 2011, respectively.

Gross Profit and Gross Profit Margin

Our gross profit increased by 19.9%, from RMB60.7 million for the six months ended 30 June 2010 to RMB72.8 million for the six months ended 30 June 2011, primarily due to the increase in the gross profit of our polyester yarns, which accounted for 51.2% of our gross profit for the six months ended 30 June 2011.

The gross profit margin of our polyester yarns increased from 7.3% for the six months ended 30 June 2010 to 14.3% for the six months ended 30 June 2011, mainly due to the increase in average unit selling price of polyester yarns. The increase in the average unit selling price of polyester yarns was primarily driven by the strong demand in the domestic market for polyester and polyester blended yarns and was stimulated by the substantial increase in the price of raw cotton, the raw material for cotton yarns, for which polyester yarns may partially substitute in the production of textiles and fabrics.

The gross profit margin of our polyester-cotton blended yarns decreased from 27.9% for the six months ended 30 June 2010 to 13.9% for the six months ended 30 June 2011, primarily due to the 26.3% increase in the average unit purchase price of polyester staple fibre and the 49.2% increase in the average unit purchase price of raw cotton, which was not fully offset by the 43.0% increase in the average unit selling price. The increase in the average unit purchase prices of polyester staple fibre and raw cotton was mainly due to rising crude oil prices and shortage of raw cotton in the PRC, respectively. For the six months ended 30 June 2011 as compared to the same period in 2010, we allocated more resources to the development of the market segment of polyester-cotton blended yarns, which our senior management team believed would be more profitable in the long run taking into consideration the historical performance of such segment.

The gross profit margin of our cotton yarns decreased from 19.2% for the six months ended 30 June 2010 to 8.0% for the six months ended 30 June 2011, primarily due to the significant increase in our cost of raw cotton. Our total gross profit margin decreased as a result of the above, by 1.0 percentage point from 14.8% for the six months ended 30 June 2010 to 13.8% for the six months ended 30 June 2011.

Investment and Other Income

Investment and other income decreased by RMB0.2 million, or 9.5%, from RMB2.1 million for the six months ended 30 June 2010 to RMB1.9 million for the six months ended 30 June 2011, primarily due to the decrease in government grants based on value-added tax paid partially offset by the increase in other government grant in relation to energy saving efforts and income from scrap sales.

Distribution and Selling Expenses

Distribution and selling expenses decreased by RMB1.3 million, or 19.4%, from RMB6.7 million for the six months ended 30 June 2010 to RMB5.4 million for the six months ended 30 June 2011, primarily due to the decrease in our transportation expenses as a result of the decrease in sales volume of our yarn products.

Administrative Expenses

Administrative expense increased by RMB5.2 million, or 115.6%, from RMB4.5 million for the six months ended 30 June 2010 to RMB9.7 million for the six months ended 30 June 2011, primarily due to the increase in other taxation as a result of new mandatory tax levies of approximately RMB3.4 million, for foreign-invested enterprises in the PRC for city maintenance and construction as well as educational purposes, according to the *Notice of the State Council on Unifying the Urban Construction and Maintenance Tax and Educational Surcharge Systems to Domestic & Foreign Enterprises and Individuals* (《國務院關於統一內外資企業和個人城市維護建設税和教育費附加制度的通知》(國發[2010]35號)), which came into effect on 1 December 2010, increase in business development and entertainment expenses and increase in bank charges in relation to the approval process for the application of new bank loans.

Other Expenses

Our other expenses was RMB6.0 million for the six months ended 30 June 2011, mainly composed of expenses incurred in relation to the Listing and the Global Offering of RMB5.0 million.

Finance Costs

Our finance costs increased by RMB1.0 million, or 13.5%, from RMB7.4 million for the six months ended 30 June 2010 to RMB8.4 million for the six months ended 30 June 2011, primarily due to the increase in our interest expense as a result of the increase in bank borrowing interest rates set by the PBOC, increase in lease charges, amortisation of upfront fees from our finance lease, partially offset by the decrease in discount charges for early settlement of note receivables.

Net Profit

Our net profit from operations increased by RMB1.1 million, or 2.5%, from RMB44.2 million for the six months ended 30 June 2010 to RMB45.3 million, primarily due to the decrease in our gross profit as a result of the reasons set out above, and also an increase in administrative expenses and other expenses, which comprise expenses in relation to the Listing. Our net profit margin decreased from 10.8% for the six months ended 30 June 2010 to 8.6% for the year ended 30 June 2011, primarily due to the decrease in our gross profit margin due to reasons set out above.

Year Ended 31 December 2010 Compared to Year Ended 31 December 2009

Revenue

Our revenue increased by 40.3%, from RMB663.4 million for the year ended 31 December 2009 to RMB930.7 million for the year ended 31 December 2010, primarily due to a 38.6% increase in sales revenue of polyester yarn, a 38.4% increase in sales revenue of polyester-cotton blended yarn and a 78.0% increase in sales revenue of cotton yarn.

Our revenue from sales of our polyester yarns increased by 38.6%, from RMB380.9 million for the year ended 31 December 2009 to RMB528.0 million for the year ended 31 December 2010, primarily due to increase in sales volume from approximately 34,511 tonnes to 39,160 tonnes and increase in average unit selling price by 22.2%.

Our revenue from sales of our polyester-cotton blended yarns increased by 38.4%, from RMB253.4 million for the year ended 31 December 2009 to RMB350.8 million for the year ended 31 December 2010, primarily due to increase in sales volume from approximately 18,517 tonnes to 20,289 tonnes and increase in average unit selling price by 26.4%.

Our revenue from sales of our cotton yarns increased by 78.0%, from RMB29.1 million for the year ended 31 December 2009 to RMB51.8 million for the year ended 31 December 2010, primarily due to increase in sales volume from approximately 1,795 tonnes to 2,324 tonnes and increase in average unit selling price of our cotton yarn products by 37.5% following the increase in average unit purchase price of raw cotton.

The above increases in the sales volume of our polyester yarns, polyester-cotton blended yarns and cotton yarns were primarily attributable to our enlarged customer base as a result of our business development effort and increase in demand for our products as a result of the recovery of the textile industry in China after the economic downturn in 2009, as well as our production capacity expansion from approximately 316,000 spindles for the year ended 31 December 2009 to approximately 321,000 spindles for the year ended 31 December 2010. The above increases in the average unit selling prices of our yarn products were primarily due to the increases in the average unit purchase prices of polyester staple fibre and raw cotton as raw materials demand and prices increased due to recovery of market demand after the economic downturn in 2009, which we passed on to some of our customers to a certain extent through raising the selling prices of our yarn products.

Cost of Sales

Cost of sales increased by 35.6%, from RMB576.2 million for the year ended 31 December 2009 to RMB781.3 million for the year ended 31 December 2010, primarily due to increase in sales volume of polyester yarns, polyester-cotton blended yarns and cotton yarns and increase in the average unit purchase price of raw materials. The increases in the average unit purchase price of raw materials were primarily due to increases in the prevailing market prices for polyester staple fibre and raw cotton during 2010.

Cost of sales of our polyester yarns increased by 35.7%, from RMB363.0 million for the year ended 31 December 2009 to RMB492.7 million for the year ended 31 December 2010, primarily due to the increase in our sales volume and the average unit purchase price of polyester staple fibre. For each tonne of our polyester yarn sold, our raw material cost increased by 23.8% from RMB8,053.8 for the year ended 31 December 2009 to RMB9,972.3 for the year ended 31 December 2010.

Cost of sales of our polyester-cotton blended yarns increased by 34.1%, from RMB194.5 million for the year ended 31 December 2009 to RMB260.9 million for the year ended 31 December 2010, primarily due to the increase in our sales volume and the average unit purchase price of polyester staple fibre and raw cotton, respectively. For each tonne of our polyester-cotton blended yarns sold, our raw material cost increased by 29.2% from RMB8,504.3 for the year ended 31 December 2009 to RMB10,986.8 for the year ended 31 December 2010.

Cost of sales of our cotton yarns increased by 48.7%, from RMB18.7 million for the year ended 31 December 2009 to RMB27.8 million for the year ended 31 December 2010, primarily due to the increase in our sales volume and the average unit purchase price of raw cotton. For each tonne of our cotton yarns sold, our raw material cost increased by 21.7% from RMB8,862.7 for the year ended 31 December 2009 to RMB10,785.5 for the year ended 31 December 2010.

Gross Profit and Gross Profit Margin

Gross profit increased by 71.3%, from RMB87.2 million for the year ended 31 December 2009 to RMB149.4 million for the year ended 31 December 2010, primarily due to the increase in the gross profit margin of our yarn products and the increase in our sales volume. The increases in the sales volumes of our products were primarily due to our enlarged customer base as a result of our business development efforts and the increase in demand for our products as a result of the recovery of the textile industry in China after the economic downturn in 2009. Gross profit margin increased from 13.1% for the year ended 31 December 2009 to 16.1% for the year ended 31 December 2010, primarily due to the increase in the average unit selling prices of our yarn products at a faster rate than the cost of raw materials and the decrease in our direct labour costs in 2010 as a result of the reduction in the number of our production staff enabled by the replacement of certain manually operated process previously engaged by us with automatic production equipment and machinery, partially offset by an increase in our cost of sales per unit, as discussed above. We were able to pass the increase in our costs of raw materials on to some of our customers.

The gross profit margin of our polyester yarns increased from 4.7% for the year ended 31 December 2009 to 6.7% for the year ended 31 December 2010, mainly due to increase in the average unit selling price of polyester yarns as a result of economic recovery.

The gross profit margin of our polyester-cotton blended yarns increased from 23.2% for the year ended 31 December 2009 to 25.6% for the year ended 31 December 2010, mainly due to the increase in average unit selling price at a faster rate than the cost of sales. The increase in the average unit selling price of polyester-cotton blended yarns was primarily driven by the strong demand in the domestic market for polyester-related yarns and was stimulated by the substantial increase in the price of raw cotton, the raw material for cotton yarns, which may be partially substituted by polyester and polyester blended yarns in the production of textiles and fabrics.

The gross profit margin of our cotton yarns increased from 35.9% for the year ended 31 December 2009 to 46.5% for the year ended 31 December 2010, mainly due to the increase in average unit selling price at a faster rate than the cost of sales.

Investment and Other Income

Investment and other income decreased by RMB3.9 million, or 35.8%, from RMB10.9 million for the year ended 31 December 2009 to RMB7.0 million for the year ended 31 December 2010, primarily due to the decrease in government grants based on value-added tax paid and the decrease in interest income on pledged bank deposits and bank balances resulting from the decrease in our bank acceptance notes, which were secured by pledged bank deposits, partially offset by increase in income from scrap sales. Our pledged bank deposits carried higher interest rate than the interest rate of bank balances.

Distribution and Selling Expenses

Distribution and selling expenses increased by 7.5% from RMB12.0 million for the year ended 31 December 2009 to RMB12.9 million for the year ended 31 December 2010, primarily due to the increase in our transportation expenses, advertising expenses and salary for our marketing and sales staff.

Administrative Expenses

Administrative expenses increased by RMB0.9 million, or 10.0%, from RMB9.0 million for the year ended 31 December 2009 to RMB9.9 million for the year ended 31 December 2010, primarily due to the increase in other taxation, business development and entertainment expenses, bank charges and other handling fees as well as taxes with respect to our properties, partially offset by the decrease in office expenses and staff and welfare expenses.

Finance Costs

Our finance costs increased by RMB5.1 million, or 46.8%, from RMB10.9 million for the year ended 31 December 2009 to RMB16.0 million for the year ended 31 December 2010 primarily due to the increase in our interest expense as a result of the increase in our bank borrowings and finance lease obligation, partially offset by the decrease in the discount charges on note receivables. The increase in our interest expense was primarily attributable to our increase in bank borrowings and increase in amount of finance lease and our increase in working capital requirements in relation to the expansion of our scale of operations in 2010. The decrease in discounting charges paid on note receivables was primarily attributable to our substitution of note receivables by bank borrowings to finance our working capital.

Income Tax

No income tax expense had been recorded for our Group for each of the years ended 31 December 2009 and 2010 as any EIT payable for each of the years had been offset by the Equipment Tax Reduction. Please refer to section headed "— Principal Components of Combined Statement of Comprehensive Income — Tax" above for further details.

Net Profit

Net profit from operations increased by RMB51.4 million, or 77.6%, from RMB66.2 million for the year ended 31 December 2009 to RMB117.6 million for the year ended 31 December 2010 and net profit margin increased from 10.0% for the year ended 31 December 2009 to 12.6% for the year ended 31 December 2010 primarily due to the significant increase in our gross profit due to reasons set out above, and partially offset by the increase in our distribution and selling expenses, administrative expenses and finance costs.

Year Ended 31 December 2009 Compared to Year Ended 31 December 2008

Revenue

Our revenue increased by 21.7%, from RMB545.3 million for the year ended 31 December 2008 to RMB663.4 million for the year ended 31 December 2009, primarily due to increase in sales of polyester yarns by 19.0%, polyester-cotton blended yarns by 16.7% and cotton yarns by 259.3%.

Our revenue from sales of our polyester yarns increased by 19.0%, from RMB320.0 million for the year ended 31 December 2008 to RMB380.9 million for the year ended 31 December 2009, primarily due to an increase in our sales volume of polyester yarns from approximately 26,198 tonnes to 34,511 tonnes partially offset by a decrease in the average unit selling price by 9.6%.

Our revenue from sales of our polyester-cotton blended yarns increased by 16.7%, from RMB217.2 million for the year ended 31 December 2008 to RMB253.4 million for the year ended 31 December 2009, primarily due to an increase in our sales volume of polyester-cotton blended yarns from approximately 14,658 tonnes to 18,517 tonnes partially offset by a decrease in the average unit selling price by 7.7%.

Our revenue from sales of our cotton yarns increased by 259.3%, from RMB8.1 million for the year ended 31 December 2008 to RMB29.1 million for the year ended 31 December 2009, primarily due to an increase in our sales volume of cotton yarns from approximately 494 tonnes to 1,795 tonnes partially offset by a decrease in the average unit selling price by 1.2%.

The above increases in the sales volume of our polyester yarns, polyester-cotton blended yarns and cotton yarns were primarily attributable to our enlarged customer base as a result of our business development efforts as well as our production capacity expansion from approximately 280,000 spindles for the year ended 31 December 2008 to approximately 316,000 spindles for the year ended 31 December 2009. The above decreases in the average unit selling prices of our products were primarily due to the economic downturn since the fourth quarter of 2008 and the related market downturn in the textile industry in China during 2009, which put downward pricing pressure on our products.

Cost of Sales

Cost of sales increased by 11.9%, from RMB515.1 million for the year ended 31 December 2008 to RMB576.2 million for the year ended 31 December 2009, primarily due to an increase in our sales volume of our yarn products, partially offset by the decrease in the unit cost of our raw materials. The decreases in the average unit purchase price of our raw materials were primarily due to the decreases in the prevailing market prices for polyester staple fibre and raw cotton since the fourth quarter of 2008.

Cost of sales of our polyester yarns increased by 11.0%, from RMB326.9 million for the year ended 31 December 2008 to RMB363.0 million for the year ended 31 December 2009, primarily due to an increase in our sales volume of polyester yarns, partially offset by a decrease in the average unit purchase price of polyester staple fibre. For each tonne of our polyester yarns sold, our raw material cost decreased by 20.9% from RMB10,183.5 for the year ended 31 December 2008 to RMB8,053.8 for the year ended 31 December 2009.

Cost of sales of our polyester-cotton blended yarns increased by 6.6%, from RMB182.4 million for the year ended 31 December 2008 to RMB194.5 million for the year ended 31 December 2009, primarily due to an increase in our sales volume of cotton yarns, partially offset by a decrease in the average unit purchase price of polyester staple fibre and raw cotton. For each tonne of our polyester-cotton blended yarns sold, our raw material cost decreased by 18.1% from RMB10,384.1 for the year ended 31 December 2008 to RMB8,504.3 for the year ended 31 December 2009.

Cost of sales of our cotton yarns increased by 222.4%, from RMB5.8 million for the year ended 31 December 2008 to RMB18.7 million for the year ended 31 December 2009, primarily due to an increase in our sales volume of cotton yarns, partially offset by a decrease in the average unit purchase price of cotton. For each tonne of our cotton yarns sold, our raw material cost decreased by 12.1% from RMB10,080.6 for the year ended 31 December 2008 to RMB8,862.7 for the year ended 31 December 2009.

Gross Profit and Gross Profit Margin

Our gross profit increased significantly by 188.7%, from RMB30.2 million for the year ended 31 December 2008 to RMB87.2 million for the year ended 31 December 2009, primarily due to the increase in our sales volume as a result of the expansion of our production capacity and the increase in our gross profit margins. We recorded a gross loss of RMB6.9 million for our polyester yarns for the year ended 31 December 2008, mainly due to our decision to reduce the level of our inventories by reducing the selling prices of our products to ensure sufficiency of liquidity in view of the financial crisis and market downturn in 2008 and early 2009 by selling at a price lower than its cost of sales. The average unit purchase price of polyester staple fibre remained relatively high throughout the first three quarters of 2008 before it decreased significantly during the fourth quarter of 2008. As the average unit purchase prices of polyester staple fibre and raw cotton decreased during the fourth quarter of 2008 as a result of the economic and textile industry downturn at that time, the market prices of our yarn products faced downward pressure during early 2009. As the market prices for our products as well as our raw materials gradually recovered throughout 2009, our gross profit margin increased as our cost of sales reflected the lower prices that we paid for our raw materials we have stocked up at an earlier time. Gross profit margins for our yarn products increased significantly from 5.5% for the year ended 31 December 2008 to 13.1% for the year ended 31 December 2009, primarily due to (i) the increase in average utilisation rate of our production facilities from 95.2% in 2008 to 98.1% in 2009; and (ii) the percentage decrease in cost of raw materials at a faster rate than that of the decrease in average unit selling prices of yarn products, especially for polyester yarns and polyester-cotton blended yarns, which in aggregate accounted for 95.6% of our total revenue for the year ended 31 December 2009. The decrease in the raw materials costs was primarily due to the decrease in the average unit purchase prices of polyester staple fibre by 18.1% from 2008 to 2009 as a result of lower crude oil price, while the average unit selling prices of polyester yarns and polyester-cotton blended yarns decreased respectively, by 9.6% and 7.7%, from 2008 to 2009.

The gross margin of our polyester yarns of -2.2% for the year ended 31 December 2008 was mainly the result of our decision to secure our working capital in view of economic downturn in 2008 and 2009 by selling at a price lower than its cost of sales.

The gross profit margin of our polyester-cotton blended yarns increased from 16.0% for the year ended 31 December 2008 to 23.2% for the year ended 31 December 2009, mainly due to the decrease in average unit selling price at a slower rate than the cost of sales.

The gross profit margin of our cotton yarns increased from 29.0% for the year ended 31 December 2008 to 35.9% for the year ended 31 December 2009, mainly due to the decreases in average unit selling price at a slower rate than the cost of sales.

Investment and Other Income

Investment and other income increased by 81.7%, from RMB6.0 million for the year ended 31 December 2008 to RMB10.9 million for the year ended 31 December 2009, primarily due to the increase in government grants based on value-added tax paid and the increase in interest income on pledged bank deposits and bank balances.

Fair Value Change on Held-for-trading Investment

Fair value change on held-for-trading investment was RMB3.5 million for the year ended 31 December 2008. Such fair value change represents Jinyuan's loss on a high-risk non-guarantee floating income investment product (高風險及非保本浮動收益投資產品) which it purchased at a cost of RMB19.5 million in November 2007 and was redeemed at approximately RMB16.3 million in January

2008. The fair-value of this high-risk non-guarantee floating income investment product (高風險及非保本浮動收益投資產品) was linked to the performance of certain stock or stock-related securities of selected PRC-based companies. We bought such investment product on the recommendation of one of our banks and we do not expect to invest in such investment product in the future.

Distribution and Selling Expenses

Distribution and selling expenses increased by 18.8% from RMB10.1 million for the year ended 31 December 2008 to RMB12.0 million for the year ended 31 December 2009, primarily due to the increase in our transportation expense and salary for our sales and marketing staff.

Administrative Expenses

Administrative expenses increased by 26.8%, from RMB7.1 million for the year ended 31 December 2008 to RMB9.0 million for the year ended 31 December 2009, primarily due to the increases in our staff costs, office expenses and other taxation as a results of our expansion of operations, partially offset by the decrease in bank charges and other handling fees.

Finance Costs

Our finance costs decreased by 24.3%, from RMB14.4 million for the year ended 31 December 2008 to RMB10.9 million for the year ended 31 December 2009, primarily due to the decrease in discounting charges paid on note receivables, partially offset by the increase in our interest expense. The decrease in discounting charges paid on note receivables was primarily due to our substitution of note receivables by bank borrowing to finance our working capital. The increase in our interest expense was primarily attributable to our increase in bank borrowings for the acquisition of new equipment and machinery and our increase in working capital requirements in relation to the expansion of our scale of operations in 2009.

Income Tax

No income tax expense had been recorded for our Group for each of the years ended 31 December 2008 and December 2009 as any EIT payable for each of the years has been offset by the Equipment Tax Reduction. Please refer to section headed "— Principal Components of Combined Statement of Comprehensive Income — Tax" above for further details.

Net Profit

Net profit from operations increased significantly by RMB65.1 million, or 5,918.2%, from RMB1.1 million for the year ended 31 December 2008 to RMB66.2 million for the year ended 31 December 2009 and net profit margin increased significantly from 0.2% for the year ended 31 December 2008 to 10.0% for the year ended 31 December 2009 primarily due to the significant increase in our gross profit, our investment and other income and decrease in our finance costs due to reasons set out above, and partially offset by the increase in our distribution and selling expenses and administrative expenses.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to satisfy our working capital needs and our capital expenditure needs. Since our establishment, our working capital needs and capital expenditure requirements have been financed through a combination of shareholders' equity, cash generated from operations and bank borrowing. Our Directors confirmed that we did not experience any difficulty in obtaining financing during the Track Record Period.

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

Summary Combined Statements of Cash Flows

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Net cash generated from/(used in) operating activities	106,482	(15,585)	87,961	13,465	68,825
Net cash (used in)/generated from investing activities	(180,272)	2,040	(5,557)	16,832	(36,292)
Net cash generated from/(used in) financing activities	95,040	33,488	(15,054)	(731)	(112,850)
Net increase/(decrease) in cash and cash equivalents	21,250	19,943	67,350	29,566	(80,317)
Cash and cash equivalents at the beginning of year/period	4,971	26,221	46,164	46,164	113,514
Cash and cash equivalents at the end of year/period	26,221	46,164	113,514	75,730	33,197

Cash Flow from Operating Activities

We derive our cash inflow from operations principally from the receipt of payments for the sale of our products. Our cash outflow from operations is principally for payments for purchase of raw materials. We generated net cash inflow of RMB106.5 million from our operating activities in 2008 mainly due to our efforts to strengthen our cash position during the financial crisis in 2008 by increasing the use of note payables for our purchases and reducing our inventory level. We recorded net cash outflow of RMB15.6 million from our operating activities in 2009, mainly due to an increase in inventory level to meet customers' demand and significant cash outflow of RMB7.4 million from our operating activities for the settlement of note payables. In 2010, our operating cash flows improved and we generated net cash inflow of RMB88.0 million from our operating activities, primarily as a result of an increase in cash generated from our operating profit. Our operating cash flows increased during the six months ended 30 June 2011 compared with the same period in 2010, primarily as a result of a reduction in our inventory level and partially offset by the settlement of our note payables with our suppliers.

For the six months ended 30 June 2011, we generated net cash from operating activities of RMB68.8 million, which comprises operating cash inflows before movements in working capital of RMB62.4 million, adjusted for net working capital inflows of RMB14.2 million and interest paid of RMB7.9 million, respectively. The net working capital inflows were primarily due to cash inflow resulting from the decrease in inventories of RMB30.0 million, decrease in trade and other receivables of RMB14.7 million, decrease in note receivables of RMB7.1 million, which were partially offset the decrease in note payables of RMB29.6 million and the decrease in trade and other payables of RMB8.1 million. The decrease in inventories was primarily due to decrease in our purchase of raw materials in anticipation of a decrease in market prices of our raw materials. The decrease in trade and other receivables was primarily due to reduced advance payments to suppliers as a result of the decrease in our purchase of raw materials. The decrease in note receivables was primarily due to the decrease in our total sales volume in second quarter of 2011 as compared with the fourth quarter of 2010 as a result of significant increase in the average purchase price of our raw materials, which we had passed on to our customers by increasing our average selling prices, resulting in the reduced purchases from our customers. The decrease in note payables was primarily as a result of the decrease in our purchase of raw materials. The decrease in trade and other payables was primarily due to decrease in deposits from customers as a result of the decrease in our total sales volume in the second quarter of 2011 as compared with the fourth quarter of 2010.

For the six months ended 30 June 2010, we generated net cash from operating activities of RMB13.5 million, which comprises operating cash inflows before movements in working capital of RMB59.8 million, adjusted for net working capital outflows of RMB40.2 million and interest paid of RMB6.1 million, respectively. The net working capital outflows were primarily due to cash outflow resulting from the increase in inventories of RMB25.6 million, the decrease in note payable of RMB10.1 million, the increase in trade and other receivables of RMB2.1 million, the increase in note receivables of RMB1.4 million and the decrease in trade and other payables of RMB1.1 million. The increase in inventories was primarily due to our increase in purchase of raw materials in anticipation of further increase in raw material prices. The decrease in note payable was primarily due to the fact that we were able to secure a greater amount of bank loans, which substituted a portion of our financing through note payables, the increase in trade and other receivables was primarily due to the increase in advance payment to suppliers for the purchase of raw materials as a result of expansion of our scale of operations and our increase in purchase of raw materials in anticipation of the increase in raw material prices.

For the year ended 31 December 2010, we generated net cash from operating activities of RMB88.0 million, which comprises operating cash flows before movements in working capital of RMB150.0 million, adjusted for net working capital outflows of RMB49.4 million and interest paid of RMB12.7 million, respectively. The net working capital outflows were primarily due to an increase in inventories of RMB19.0 million, increase in trade and other receivables of RMB15.1 million, increase in note receivables of RMB8.3 million, decrease in note payables of RMB6.3 million and decrease in trade and other payables of RMB0.6 million. The increase in inventories was primarily due to our increase in purchase of raw materials in anticipation of further increase in raw material prices following their significant increase during the second half year of 2010. The increase in trade and other receivables was primarily due to increase in advance payment to suppliers for the purchase of raw materials as a result of expansion of our scale of operations and our increase in purchase of raw materials in anticipation of the increase in raw material prices. The increase in our note receivables was primarily due to an increase in the number of customers who used note receivables as a method of payment compared to that of payments through bank transfer. The decrease in our note payables was primarily due to the fact that we were able to secure a greater amount of bank loans, which substituted a portion of our financing through note payables. The decrease in trade and other payables was primarily due to the settlement of the payables for acquisition of property, plant and equipment outstanding as at the end of 2009 during 2010.

For the year ended 31 December 2009, we recorded net cash used in operating activities of RMB15.6 million, which comprises operating cash flows before movements in working capital of RMB91.9 million, adjusted for net working capital outflow of RMB99.3 million and interest paid of RMB8.1 million, respectively. The net working capital outflows were primarily due to an increase in inventories of RMB29.6 million, increase in note receivables of RMB0.1 million, decrease in note payables of RMB79.6 million, which were partially offset by increase in trade and other payables of RMB7.6 million and decrease in trade and other receivables of RMB2.3 million. The increase in inventories was primarily due to the expansion of our scale of operations. The increase in note receivables was primarily due to an increase in the number of customers who used note receivables as a method of payment compared to that of payments through bank transfer. The decrease in note payables was primarily due to the fact that we were able to secure a greater amount of bank loans, which substituted a portion of our financing through note payables. The increase in trade and other payables was primarily due to the fact that we used less note payables as a method of payment and made cash repayments to our suppliers earlier than expiration of the credit period to reduce our finance cost. The decrease in trade and other receivables was primarily due to decrease in advance payment to suppliers as at 31 December 2009 as compared to 31 December 2008.

For the year ended 31 December 2008, we generated net cash from operating activities of RMB106.5 million, which comprises operating cash flows before movements in working capital of RMB29.7 million, adjusted for net working capital inflow of RMB82.9 million and interest paid of RMB6.1 million, respectively. The net working capital inflows were primarily due to a decrease in inventories of RMB7.8 million, decrease in held-for-trading investment of RMB16.3 million and increase in note payables of RMB68.7 million and increase in trade and other payables of RMB0.5 million, partially offset by increase in trade and other receivables of RMB7.1 million and increase in note receivables of RMB3.3 million. The decrease in inventories was primarily due to our effort to strengthen our cash position during the financial crisis in 2008 by reducing our inventory level. The decrease in our held-for-trading investment represented our liquidation of certain investment products. The increase in note payables was primarily due to our bank's tightening of financing through bank loans, which resulted in our increase in use of note payables to finance our working capital. The increase in trade and other receivables was primarily due to the increase in advance payment to suppliers as at 31 December 2008 as compared to 31 December 2007. The increase in trade payables was primarily due to the increase in our purchases to facilitate our expanded scale of operations.

Cash Flow from Investing Activities

We derive our cash inflow from investing activities primarily from repayment from related companies and interest received. Our cash outflow from investing activities is primarily for the acquisition and construction of property, plant and equipment in connection with the expansion of our production capacity.

For the six months ended 30 June 2011, we recorded net cash used in investing activities of RMB36.3 million. This was due to payment for construction in progress of RMB11.6 million, purchase of property, plant and equipment of RMB0.4 million and increase in pledged bank deposits of RMB24.7 million, partially offset by interest received of RMB0.5 million. The increase in pledge bank deposits was primarily due to the placing of a short term deposit of RMB40.0 million during the period to secure the repayment of a bank loan due in July 2011.

For the year ended 31 December 2010, we recorded net cash used in investing activities of RMB5.6 million. This was due to purchase of property, plant and equipment of RMB26.9 million, advance to a third party RMB1.7 million, payments for construction in progress of RMB1.4 million, advance to related companies of RMB36.5 million, deposits on property, plant and equipment of RMB15.5 million and addition to prepaid lease payments of RMB1.2 million. The cash used in investing activities were partially offset by decrease in pledged bank deposits of RMB13.2 million and repayment from related companies of RMB60.9 million, repayment from a third party of RMB2.5 million and interest received of RMB1.0 million. The decrease in pledged bank deposits was primarily due to the decrease in our note payables, which were secured by pledged bank deposits.

For the year ended 31 December 2009, we generated net cash from investing activities of RMB2.0 million. This was due to repayment from related companies of RMB39.2 million, decrease in pledged bank deposits of RMB63.4 million and interest received of RMB1.9 million, partially offset by payment for purchase of property, plant and equipment of RMB37.2 million and increase in secured deposits for obligations under finance leases of RMB15.5 million and advance to a third party of RMB2.5 million and advance to related companies of RMB47.2 million. The decrease in pledged bank deposits was primarily due to the decrease in our note payables, which were secured by pledged bank deposits. The advance to a third party was unsecured and interest-free.

For the year ended 31 December 2008, we recorded net cash used in investing activities of RMB180.3 million. This was due to purchase of property, plant and equipment of RMB68.7 million, increase in pledged bank deposits of RMB71.8 million, advance to related companies of RMB17.8 million and payments for construction in progress of RMB30.2 million, partially offset by repayment from a third party of RMB3.3 million, repayment from related companies of RMB3.1 million and interest received of RMB1.7 million. The increase in pledged bank deposits was due to the increase in our note payables, which were secured by pledged bank deposits. The advance to a third party was unsecured and interest-free.

Cash Flow from Financing Activities

We derive our cash inflow from financing activities principally from proceeds from bank borrowings and sale and leaseback arrangements. Our cash outflow from financing activities is principally due to repayment of bank borrowings.

For the six months ended 30 June 2011, we recorded net cash used in financing activities of RMB112.9 million. The cash outflows represented repayment of bank borrowing of RMB164.7 million, dividends paid of RMB85.8 million and repayment of obligations under finance leases of RMB12.9 million, which were partially offset by proceeds from bank borrowings of RMB143.4 million and advance from a related company of RMB7.2 million.

For the year ended 31 December 2010, we recorded net cash used in financing activities of RMB15.1 million. The cash outflows represented a repayment to a director of RMB5.0 million, repayment of loan from third parties of RMB28.0 million, repayment to a related company of RMB10.0 million, dividends paid of RMB42.9 million, repayment of obligations under finance leases of RMB26.7 million, repayment of note financing of RMB26.0 million, repayment of bank borrowings of RMB220.0 million and discounting charges paid on note receivables of RMB1.0 million, partially offset by an increase in net proceeds from bank borrowings of RMB289.8 million, advance from third parties of RMB28.0 million, advance from related companies of RMB10.0 million and proceeds from sale and leaseback arrangements of RMB16.7 million.

For the year ended 31 December 2009, we generated net cash from financing activities of RMB33.5 million. The cash inflows represented proceeds from bank borrowings of RMB271.6 million, proceeds from sale and leaseback arrangements of RMB58.3 million, proceeds from note financing of RMB26.0 million and advance from a director of RMB5.0 million, partially offset by repayment of bank borrowings of RMB135.3 million, repayment to related companies of RMB25.9 million, repayment of note financing of RMB124.4 million, repayment of loans from third parties of RMB33.0 million, discounting charges paid on note receivables of RMB2.3 million and repayment of obligations under finance leases of RMB6.5 million. The loans from third parties were unsecured, interest-free and repayable on demand.

For the year ended 31 December 2008, we generated net cash from financing activities of RMB95.0 million. The cash inflows represented proceeds from bank borrowings of RMB100.9 million, proceeds from note financing of RMB124.4 million and proceeds from sale and leaseback arrangements of RMB9.9 million, partially offset by repayment of bank borrowings of RMB91.7 million, dividends paid of RMB14.3 million, repayment to related companies of RMB10.0 million, repayment of loans from third parties of RMB10.1 million, discounting charges paid on note receivables of RMB8.1 million and repayment of obligations under finance leases of RMB6.0 million.

INDEBTEDNESS

Our outstanding balance of bank borrowings as at 31 December 2008, 2009 and 2010 and as at 30 June and 31 October 2011 were RMB86.2 million, RMB221.6 million, RMB289.8 million, RMB266.4 million and RMB254.8 million, respectively.

Below is a summary of our indebtedness as at 31 December 2008, 2009 and 2010 and 30 June and 31 October 2011:

	As at 31 December			As at 30 June	As at 31 October
	2008	2009	2010	2011	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Bank borrowings[1]					
Secured[2]	85,330	200,000	237,737	226,412	254,817
Unsecured[3]	900	21,649	52,100	40,000	—
Amounts due to related companies[4]	25,900	—	—	7,154	27,988
Amount due to a director	—	5,000	—	—	—
Obligations under finance leases	4,129	56,339	48,724	37,396	31,623
Total	116,259	282,988	338,561	310,962	314,428

Notes:

(1) The weighted average effective interest rate on bank borrowings is 7.1%, 5.7%, 5.28% and 6.30% per annum as at 31 December 2008, 2009 and 2010 and 30 June 2011, respectively. All borrowings are denominated in Renminbi.

(2) Secured by our land use rights, buildings, plant and machinery, inventories, bank deposits or buildings and/or land use rights owned by our related company. We have obtained bank borrowings relating to trust receipt loans amounting to RMB20.7 million as at 31 December 2010, and RMB7.4 million and US$1.0 million as at 30 June 2011. These bank borrowings bore bank charges from 0.05% to 0.15% of the issued trust receipt loans. As at 31 December 2010 and 30 June 2011, we had trust receipt loans of approximately RMB20.7 million and RMB7.4 million respectively. Except for the trust receipt loans as mentioned herein, secured bank borrowings bear fixed interest rates from 5.31% to 8.22% per annum or floating interest rates ranging from 100% to 110% of the benchmark borrowing rate in the PRC as at 31 December 2008, 2009 and 2010 and 30 June 2011. All financial guarantees provided by our related companies have been released as at the Latest Practicable Date.

(3) Unsecured bank borrowings bear floating interest rate at 110% of the benchmark borrowing rate in the PRC as at 31 December 2009 and 2010 and the six months ended 30 June 2011, except for an amount of RMB0.9 million, RMB1.6 million and RMB2.1 million for the years ended 31 December 2008, 2009 and 2010, respectively, which were non-interest bearing. We did not record any non-interest bearing bank borrowing for the six months ended 30 June 2011.

(4) Amounts due to related companies as at 31 December 2008 represented advances from related companies for our working capital purposes and amounts due to related companies as at 30 June 2011 and 31 October 2011 represented payment for Listing expenses on our behalf. The amounts due to related companies as at 31 October 2011 will be settled in full before the Listing.

As at 31 October 2011, we had outstanding amount due to a related company of RMB28.0 million and bank borrowings of RMB254.8 million, including trust receipt loans and all of them were secured by fixed charges on certain land use rights, buildings, plant and machinery and inventories owned by us as well as land use rights and buildings owned by our related company. In addition, we had outstanding obligations under finance leases of RMB32.3 million, which were secured by the lessor's charge over the leased assets and deposit made by us relating to these obligations under finance leases. No contingent liabilities were recorded as at 31 October 2011. Our banking facilities and obligations under finance leases are also secured by guarantees given by certain related companies, certain directors of the Company and father of certain directors of the Company. It is expected that the guarantees will be released before the Listing.

Save as disclosed above in the subsection headed "Indebtedness" of this Prospectus, and apart from intra-group liabilities, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptances or acceptance credits or any guarantee or other material contingent liability outstanding as at 31 October 2011.

As at 31 October 2011, we had cash and bank balances of RMB101.1 million. As at the Latest Practicable Date, we had unutilised bank facilities of RMB180.0 million, which consisted of long-term bank facilities of RMB140.0 million, expiring in November 2014, and short-term bank borrowings of RMB40.0 million, expiring in April 2012. Our Directors confirm that we were in compliance with all loan covenants throughout the Track Record Period and up to the Latest Practicable Date. We expect to service our indebtedness and capital commitments and to meet our other presently known and foreseeable funding requirements through cash generated from our operations, net proceeds from the Global Offering and short-term bank borrowings and long-term bank facilities from commercial banks. If we cannot service our indebtedness and capital commitments and to meet our other funding requirements, we will delay the implementation of the second phase of our expansion plan by suspending the construction of workshops, infrastructure, equipment and machinery allocated towards the production of coloured polyester-cotton blended yarns until we secure sufficient financing. In such event, we may be required to scale back our planned capital expenditures, which may adversely affect our ability to achieve economies of scale and implement our planned growth strategy. As at the Latest Practicable Date, we had capital commitment of RMB53.3 million for our production capacity expansion plan, including for the acquisition of land use rights of RMB18.7 million and purchase of equipment and machinery of RMB34.6 million.

As at the Latest Practicable Date, we had obtained: (i) long-term bank facilities in the aggregate principal amount of RMB140.0 million in November 2011, the entire amount of which remained unutilised; and (ii) written confirmations from our banks, which had agreed to renew certain of our short-term bank borrowings expiring within one year in the aggregate principal amount of RMB202.0 million, at interest rates from 6.3100% to 7.2565% upon their maturity. As advised by our PRC legal adviser, Commerce & Finance, the confirmations signed by certain banks to renew the short-term bank borrowings upon expiry are legal and valid letters of intent under the PRC laws. The relevant banks do not have any obligation to renew the relevant short-term bank borrowings before their respective definitive agreements are entered into.

CAPITAL EXPENDITURES

Our Group's capital expenditures have principally consisted of expenditures on buildings, construction in progress and plant and machinery. For the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, we incurred capital expenditures in the amounts of RMB137.0 million, RMB12.3 million, RMB20.7 million and RMB31.6 million, respectively. The following tables sets out our Group's historical capital expenditures during the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Buildings	2,009	522	328	—
Construction in progress	60,022	—	1,441	31,137(1)
Plant and machinery	74,750	11,502	17,369	61
Office equipment	111	174	469	358
Motor vehicle	110	146	1,081	—
Total	137,002	12,344	20,688	31,556

Note:

(1) For the construction of three dormitories for the six months ended 30 June 2011.

The capital expenditure for the year ended 31 December 2008 is primarily related to construction of our production facilities for construction of Facility Two and installation of new workshops and equipment and machinery as a result of expansion of our production capacity. The capital expenditure incurred for the year ended 31 December 2009 is primarily related to installation of new workshops and equipment and machinery as a result of expansion of our production capacity. The capital expenditure for the year ended 31 December 2010 is primarily related to installation of new workshops and equipment and machinery, particularly for purchasing automatic winding machines. The capital expenditure for the six months ended 30 June 2011 is primarily related to construction of new buildings and construction in progress.

Projected Capital Expenditure

For the years ending 31 December 2011, 2012 and 2013, our capital expenditures are expected to primarily consist of expenditures related to construction of workshops and facilities, acquisition of new equipment and machinery. We plan to construct new workshops for the production of colour polyester-cotton blended yarns and open-end spun yarns.

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.

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

	Year ending 31 December			
	2011	2012	2013	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Construction in progress	2,740	77,668	20,232	100,640
Acquisition of land use right	18,746	—	—	18,746
Machinery and equipment	—	147,912	65,588	213,500
Installation	—	27,763	11,137	38,900
Preparatory expense	7,900	7,900	—	15,800
Other expenses[(1)]	—	11,024	2,756	13,780
Total	29,386	272,267	99,713	401,366

Note:

(1) Includes construction management fees, training expenses, office stationery, surveying and design fees, insurance, project supervisory fees and other miscellaneous preliminary expenses.

As at the Latest Practicable Date, we had capital commitment of RMB53.3 million for our production capacity expansion plan, including for the acquisition of land use rights of RMB18.7 million and purchase of equipment and machinery of RMB34.6 million.

COMMITMENTS

Our Group's contractual commitments are primarily related to finance leases of options to purchase equipment and machinery with a nominal amount at the end of the lease terms under sale and leaseback arrangements with Independent Third Parties. The average lease terms are ranged from one to four years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 3.0% to 8.0% per annum for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011. No arrangements have been entered into for contingent rental payments. Our obligations under finance leases are secured by the lessor's charge over the leased assets. The finance leases are denominated in RMB. The following table sets forth the payments made under these lease arrangement commitments by our Group during the Track Record Period:

	Minimum lease payments				Present value of minimum lease payments			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2008	2009	2010	2011	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amounts payable under finance leases:								
Within one year	4,331	21,240	27,315	28,401	4,129	18,924	24,151	24,542
In more than one year but not more than two years	—	21,424	25,191	12,268	—	18,561	22,743	12,032
In more than two years but not more than five years	—	20,335	1,884	841	—	18,854	1,830	822
	4,331	62,999	54,390	41,510	4,129	56,339	48,724	37,396
Less: future finance charges	(202)	(4,910)	(4,499)	(3,239)	N/A	N/A	N/A	N/A
Less: amortisation of upfront fee	—	(1,750)	(1,167)	(875)	N/A	N/A	N/A	N/A
Present value of lease obligations	4,129	56,339	48,724	37,396	4,129	56,339	48,724	37,396
Less: Amount due for settlement with 12 months (shown under current liabilities)					(4,129)	(18,924)	(24,151)	(24,542)
Amount due for settlement after 12 months					—	37,415	24,573	12,854

CONTRACTUAL OBLIGATIONS AND OTHER OFF-BALANCE SHEET ARRANGEMENTS

The following table sets forth our significant debt and other contractual obligations as at 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011:

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	2,631	—	12,550	—

NET CURRENT LIABILITIES

The following table is a condensed summary of our combined statement of financial position as at the periods indicated:

Summary Combined Statement of Financial Position

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Non-current assets	395,052	406,045	425,768	432,601
Current assets	236,174	229,655	299,432	186,721
Current liabilities	465,901	409,818	480,554	341,206
Net current liabilities	(229,727)	(180,163)	(181,122)	(154,485)
Total assets less current liabilities	165,325	225,882	244,646	278,116
Non-current liabilities	7,014	44,279	31,287	19,493
Net assets	158,311	181,603	213,359	258,623
Total equity attributable to owners of the Company	158,311	181,603	213,359	258,623

Details of our current assets and liabilities as at 31 December 2008, 2009 and 2010 and as at 30 June 2011 are as follow:

	As at 31 December			At 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets				
Inventories	67,087	96,657	115,705	85,657
Trade and other receivables	15,177	15,318	27,976	10,156
Note receivables	6,505	5,689	12,329	3,080
Prepaid lease payments	276	276	299	299
Amounts due from related companies	14,707	22,750	—	—
Pledged bank deposits	106,201	42,801	29,609	54,332
Cash and bank balances	26,221	46,164	113,514	33,197
	236,174	229,655	229,432	186,721
Current liabilities				
Trade and other payables	97,642	47,345	39,116	30,998
Note payables	252,000	74,000	41,650	12,100
Dividend payable	—	42,900	85,800	—
Amounts due to related companies	25,900	—	—	7,154
Amount due to a director	—	5,000	—	—
Bank borrowings	86,230	221,649	289,837	266,412
Obligations under financial leases	4,129	18,924	24,151	24,542
	465,901	409,818	480,554	341,206
Net current liabilities	(229,727)	(180,163)	(181,122)	(154,485)

As at 31 December 2008, 2009 and 2010 and 30 June 2011, we recorded net current liabilities of RMB229.7 million, RMB180.2 million, RMB181.1 million and RMB154.5 million, respectively. We had continuous net current liabilities during the Track Record Period, mainly due to our historical use of note payables and the drawdown of short-term bank borrowings to finance the capital expenditures for the expansion of production capacity and to fund the working capital as a result of the expansion of production capacity since 2008, in particular, for the construction of our production facilities and purchase of equipment and machinery. Starting from 2009 onwards, we increased the use of short-term bank borrowings and reduced the use of note payables to finance our working capital and capital expenditures due to our preference for longer repayment term and less restrictions on the use of funds offered by short-term borrowings as compared to note payables, as well as the cessation of the Non-Compliant Bill Financing since 2009. While we have been gradually reducing our use of short-term financing, comprising of short-term bank borrowings and note payables, during the Track Record Period, we had been able to obtain new short-term bank borrowings and/or note payables to cover the shortfall created by the settlement of short-term borrowings and/or note payable that became due so that we were able to utilise our cash in our operations and investments.

Our net working capital improved to the net current liabilities position of RMB180.2 million as at 31 December 2009. This improvement was primarily due to non-current financing of RMB37.4 million from sale and lease back arrangement and increase in reserves of RMB23.3 million due to our improved results of operations for the year ended 31 December 2009, partially offset by our dividend payable of RMB42.9 million. Our net current liabilities less dividend payable was RMB137.3 million as at 31 December 2009. Our net current liabilities less dividend payable as at 31 December 2010 improved to RMB95.3 million due to increase in our reserves of RMB31.8 million due to our improved results of operations for the year ended 31 December 2010. As a result of our dividend payable of RMB85.8 million, our net current liabilities position increased to RMB181.1 million as at 31 December 2010.

Our net current liabilities position decreased to RMB154.5 million as at 30 June 2011. This decrease was primarily due to the decrease in note payables of RMB29.6 million and decrease in bank borrowings of RMB23.4 million and the settlement of the declared but unpaid dividend of RMB85.8 million as at 31 December 2010 in January 2011, partially offset by the decrease in our cash and bank balances of RMB80.3 million. The decrease in our cash and bank balances was less than the aggregate amount of decrease in our note payables, bank borrowings and the payment of dividend because of the cash inflow generated from operating activities during the six months ended 30 June 2011.

INVENTORY ANALYSIS

Our inventories comprise raw materials, work in progress and finished goods. The raw materials which we use, such as polyester staple fibre and raw cotton are stored in our warehouses.

The value of our inventories accounted for 28.4%, 42.1%, 38.6% and 45.9% of our total current assets as at 31 December 2008, 2009 and 2010 and as at 30 June 2011, respectively.

We typically manage our inventories of raw materials and ancillary materials on a "first-in, first-out" basis so that supplies first received will be used first for our production. The following table is a summary of our balance of inventories as at 31 December 2008, 2009 and 2010 and as at 30 June 2011:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	38,880	32,697	77,124	20,468
Work-in-progress	5,862	6,777	10,418	8,781
Finished goods	22,345	57,183	28,163	56,408
Total	67,087	96,657	115,705	85,657

Our inventory balance increased by 72.4%, from RMB67.1 million for the year ended 31 December 2008 to RMB115.7 million for the year ended 31 December 2010 due to the growth of our sales, and inventory balance was RMB85.7 million as at 30 June 2011.

Our raw materials balance decreased by 15.9%, from RMB38.9 million as at 31 December 2008 to RMB32.7 million as at 31 December 2009, primarily due to our expansion in production volume and increase in sales volume due to recovery of market demand after the economic downturn. Our raw materials balance increased by 135.8%, from RMB32.7 million as at 31 December 2009 to RMB77.1 million as at 31 December 2010, primarily due to the increase in average unit purchase price of raw materials and our increase in purchase of raw materials in anticipation of further increase in raw materials. Our raw material balance decreased by 73.4%, from RMB77.1 million as at 31 December 2010 to RMB20.5 million as at 30 June 2011, primarily due to the decrease in our purchase of raw materials in anticipation of a decrease in their market prices.

Our finished goods balance increased by 156.5%, from RMB22.3 million as at 31 December 2008 to RMB57.2 million as at 31 December 2009, primarily due to the increase in finished goods stored in expectation of market recovery in 2010. Our finished goods balance decreased by 50.7%, from RMB57.2 million as at 31 December 2009 to RMB28.2 million as at 31 December 2010, primarily due to rapid sales of our finished goods in 2010 as a result of market recovery. Our finished goods balance increased by 100.0%, from RMB 28.2 million as at 31 December 2010 to RMB 56.4 million as at 30 June 2011, primarily due to relative slowdown in market environment and the relatively high cost of raw materials purchased at an earlier time and used in our production. Our Directors believe that such trend in the market environment and the cost of raw material will continue with an expected recovery towards the end of 2011.

The adequacy of our inventories is reviewed by our management frequently. Our policy on obsolete or damaged inventories is to write off such inventories when our management considers the obsolete or damaged inventories to have no residual value. In addition, specific provisions are made on the diminution in market value of the inventories should our management decide that the current level of provision is inadequate.

We had not made any provision for nor written off any inventory for damage or obsolescence in the financial years ended 31 December 2008, 2009 and 2010 and as at 30 June 2011, as we have not experienced any significant damage or loss in respect of our inventories throughout the said years and period. As at the Latest Practicable Date, all of our inventories in stock as at 30 June 2011 were subsequently consumed and sold.

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

	Year ended 31 December			**Six months ended 30 June**
	2008	**2009**	**2010**	**2011**
Average inventory turnover days[(1)]	50.3	51.9	49.6	40.2

Note:

(1) Average inventory turnover days is equal to the average of the beginning and ending inventory balance of the year/period divided by cost of sales of the year/period and multiplied by 365 days for a year, or by 181 days for a six-month period.

Our inventory turnover days for the years ended 31 December 2008, 2009 and 2010 had remained stable between approximately 50 to 52 days. During the Track Record Period, we generally maintained 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, a production throughput time of approximately three days and a sales cycle which generally took one to two days from the placing of sales order to delivery. Our stock of raw materials and our level of finished goods inventory generally serves to mitigate the impact of temporary increase in raw material prices. 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. In order to mitigate the impact of fluctuations in the market prices of our raw materials and yarn products, from time to time based on the outlook of market conditions, we would increase or decrease our purchase of raw materials and our level of raw material inventory in anticipation of increases or decreases in raw material prices, respectively, and increase or decrease our level of finished goods inventory in anticipation of increases or decreases in the market prices of our yarn products, respectively. As historically the market prices of our products generally moved in the same directions of the relevant raw materials, the abovementioned procurement and inventory management method would enable us to keep our average raw material cost relatively low at times when raw material prices are expected to increase, control our exposure to relatively high prices for raw materials and reduce our inventory level at times when such prices are expected to decrease. 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. Our average inventory turnover days for the six months ended 30 June 2011 decreased to approximately 40 days due to our reduced purchases of raw materials as a result of higher average unit purchase price for polyester staple fibre and raw cotton in the first half of 2011 as compared to 2010.

TRADE AND NOTE RECEIVABLES ANALYSIS

We normally only recognise trade receivables as allowance for doubtful debts when they are aged over one year or above under our financial policy. Although we had recorded trade receivables for the year ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, no allowance for doubtful debts were recorded for the same period. The following table sets out the aging analysis of our trade receivables as at 31 December 2008, 2009 and 2010 and 30 June 2011:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Age				
1 to 30 days	—	85	454	—
31 to 90 days	—	—	77	—
Total trade receivables	—	85	531	—

All of our trade receivables as at 31 December 2010 were settled during the six months ended 30 June 2011 and we did not record any traded receivable as at 30 June 2011.

The following table sets forth the aging analysis of our note receivables as at 31 December 2008, 2009 and 2010 and 30 June 2011:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Age				
1 to 30 days	800	1,400	4,323	—
31 to 60 days	775	2,360	4,927	—
61 to 90 days	2,630	1,849	2,400	820
91 to 120 days	500	—	679	450
121 to 150 days	800	—	—	425
Over 150 days	1,000	80	—	1,385
Total note receivables	6,505	5,689	12,329	3,080

Our note receivables remained relatively stable as at 31 December 2008 and 2009. The increase in note receivables from RMB5.7 million as at 31 December 2009 to RMB12.3 million as at 31 December 2010 was mainly due to the increase in sales of our yarn products in the forth quarter of 2010. The decrease in note receivable from RMB12.3 million as at 31 December 2010 to RMB3.1 million as at 30 June 2011 was mainly due to the decrease in our total sales volume in the second quarter of 2011 as compared with the forth quarter of 2010 as a result of significant increase in the average purchase price of raw materials, namely, raw cotton and polyester staple fibre.

As at 31 December 2008, 2009 and 2010 and 30 June 2011, RMB5.6 million, RMB3.1 million, RMB4.6 million and RMB3.1 million of our note receivables, respectively, was endorsed in favour of our creditors for settlement against our trade payables to them. As at 31 December 2008, 2009 and 2010, RMB0.9 million, RMB1.6 million and RMB2.1 million of our note receivables, respectively, was endorsed in favour of Baoyuan, which is our related company, for financing purposes. As at 30 June 2011, we have not endorsed any note receivables to any related company for financing purposes. As advised by our PRC legal adviser, Commerce & Finance, (i) the arrangement that Jiangxi Jinyuan endorsed the note receivable to its creditors is legal and valid and in compliance under the PRC laws and regulations; (ii) the arrangement that Jiangxi Jinyuan endorsed the note receivable to its related party was not in compliance with the *PRC Negotiable Instruments Law* (中華人民共和國票據法); (iii) such endorsement arrangements for financing purposes did not result in any loss to our Endorsing Banks or any third party; (iv) no disputes or liabilities have arisen or will arise from such endorsement arrangements and no civil litigations or arbitrations has arisen or will arise from such endorsement arrangements as at the Latest Practicable Date; (v) Jinyuan, our Controlling Shareholders, Directors, and senior management will not be liable for any civil claim or be imposed upon any administrative punishment in relation to such endorsing arrangements, nor will they be liable to any Endorsing Banks or any third party. Our PRC legal adviser, Commerce & Finance, advised that there are no specific provisions in the *PRC Negotiable Instruments Law* prescribing definitive administrative penalties for endorsement of bank acceptance notes for financing purposes, and the PBOC and CBRC both have not promulgated any administrative penalty for endorsement of bank acceptance notes for financing purposes. Our Directors confirmed that we have not been involved in any other similar non-compliant endorsement of note receivables during the Track Record Period and they did not receive any benefits in connection with the non-compliant endorsement of note receivables during the Track Record Period directly or indirectly. Our Directors, including the non-executive Directors, have undertaken to procure us not to engage in or not to permit the engagement in any non-compliant endorsement of note receivables in future.

Our PRC legal advisers, Commerce & Finance, advised that, according to Measures for Payment and Settlement (支付結算辦法) issued by PBOC, a bank acceptance note issued by a note issuer pursuant to an acceptance agreement entered into between such note issuer and an endorsing bank establishes an entrusted payment relationship between the note issuer and the relevant endorsing bank. Under such entrusted payment relationship, the note issuer is obliged to deposit in the endorsing bank the full amount of the bank acceptance note issued prior to the date of maturity of the relevant bank acceptance note. In respect of the non-compliant endorsement of note receivable by Jinyuan to its related party, since Jinyuan was not the note issuer, did not enter into any acceptance agreement with any endorsing bank and has not been involved into any entrusted payment relationship with such endorsing bank, Jinyuan did not undertake any obligation to deposit funds in any endorsing bank. In addition, all the aforementioned bank acceptance notes endorsed by Jinyuan were settled without causing any loss to the relevant endorsing bank or any third party and there were no disputes, claims, proceedings or arbitrations between Jinyuan and any endorsing bank or any third party in this connection as at the Latest Practicable Date. Based on the above premises, our PRC legal adviser, Commerce & Finance, advised us that there is no likelihood of any claim to be made against Jinyuan by any endorsing bank and third party.

We usually receive advance payment of one or two days or note receivables from our customers as payment for our products before we deliver our products. In some cases, we may grant credit periods of 15 to 90 days to certain customers depending on the relationship and credibility of the customers. The following table sets out our average trade receivables turnover days for the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2008	**2009**	**2010**	**2011**
Average trade and note receivables turnover days[(1)]	3.3	3.4	3.7	2.7

Note:

(1) Average trade and note receivables turnover days is equal to the average of the beginning and ending balance of trade and note receivables for the year/period divided by revenue for the year/period and multiplied by 365 days for a year, or 181 days for a six-month period.

Our trade and note receivables turnover days remained stable for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011.

OTHER RECEIVABLES ANALYSIS

The following table sets out the breakdown of our other receivables as at 31 December 2008, 2009 and 2010 and 30 June 2011:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Advance payment to suppliers	13,432	9,429	27,425	8,610
Advance to a third party(1)	—	2,480	—	—
VAT receivables	1,725	3,304	—	—
Prepayment	20	20	20	1,546
Total other receivables	15,177	15,233	27,445	10,156

Note:

(1) The amount as at 31 December 2009 was unsecured, interest free and fully repaid in 2010.

Our total other receivables remained relatively stable at RMB15.2 million as at 31 December 2008 and 2009, mainly due to the decrease in advance payment to suppliers was offset by the increase in advance to a third party and the increase in VAT receivables. The unsecured, interest-free advance to a third party was paid to Shanxi Hongji Technology Jointstock Holdings Company (山西鴻基科技股份有限公司), an Independent Third Party owned by friends of Mr. Zheng Yongxiang, for the purpose of general working capital. Since such amount was fully repaid in 2010, we have not engaged and will not engage in such transaction in the future. Our VAT receivables increased from RMB1.7 million as at 31 December 2008 to RMB3.3 million as at 31 December 2009, mainly due to the increase in purchases of raw materials as a result of an increase in our sales volume of our yarn products. Our advance payment to suppliers decreased from RMB13.4 million as at 31 December 2008 to RMB9.4 million as at 31 December 2009, mainly because we no longer required advanced payments to secure raw materials for our production due to readily available supply of raw materials in the market as a result of the economic downturn. Our total other receivables further increased to RMB27.4 million as at 31 December 2010, mainly due to the increase in advance payment to suppliers for raw materials of RMB18.0 million as at 31 December 2010 as compared to 31 December 2009, as a result of expansion of our scale of operations and our increase in purchase of raw materials in anticipation of the increase in raw material prices. Such increase is also due to the fact that we did not record any VAT receivables as at 31 December 2010 and 30 June 2011 as a result of the change in our VAT policy in 2010 to pay VAT on a monthly basis and settle outstanding VAT at the end of the prior month as compared to making prepayments for VAT, which was the VAT policy we used in 2008 and 2009. As our outstanding value-added tax as at the end of each month is to be settled in the following month under the new policy, a value-added tax payable was recorded as at 31 December 2010 and 30 June 2011, respectively. Total other receivables decreased from RMB27.4 million as at 31 December 2010 to RMB10.2 million as at 30 June 2011, mainly due to the decreased in advance payment to suppliers by RMB18.8 million, partially offset by an increase in prepayment. Such decrease in advance payment to suppliers as at 30 June 2011 was mainly due to the decrease in our purchase of raw materials in anticipation of a decrease in their market prices.

TRADE AND NOTE PAYABLES ANALYSIS

The following table sets out the aging analysis of our trade payables at the combined statement of financial position dates:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Age				
1 to 30 days	20,434	6,797	6,281	4,326
31 to 90 days	—	332	633	1,020
Over 90 days	—	71	7	—
Total trade payables	20,434	7,200	6,921	5,346

As at the Latest Practicable Date, approximately RMB4.8 million of our trade payables as at 30 June 2011 were subsequently settled.

The following table sets out the aging analysis of our note payables as at 31 December 2008, 2009 and 2010 and 30 June 2011:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Age				
1 to 30 days	51,000	13,000	5,650	—
31 to 90 days	50,300	46,000	16,000	3,600
91 to 180 days	150,700	15,000	20,000	8,500
Total note payables	252,000	74,000	41,650	12,100

Our note payables decreased substantially from RMB252.0 million as at 31 December 2008 to RMB74 million as at 31 December 2009 and further decreased to RMB41.7 million as at 31 December 2010 as a result of our reduced use of note payables and increased use of short-term bank borrowings to finance our working capital and capital expenditures. The substitution of note payables with short-term bank borrowings was primarily due to our preference for the longer repayment term and less restrictions on the use of funds offered by short-term bank borrowings as compared to note payables, as well as the cessation of the Non-Compliant Bill Financing since 2009. Our bank borrowings as at 31 December 2008, 2009 and 2010 amounted to RMB86.2 million, RMB221.6 million and RMB289.8 million, respectively. Our note payables further decreased to RMB12.1 million as at 30 June 2011 as a result of the decrease in our purchase of raw materials in anticipation of a decrease in their market prices.

We are usually required to make advance payment or issue note payment to our suppliers 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 note payables term of up to 180 days. The following table sets out our average trade and note payables turnover days for the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2008	2009	2010	2011
Average trade and note payables turnover days[(1)]	124.9	112.0	30.3	13.2

Note:

(1) Average trade and note payables turnover days is equal to the average of the beginning and ending trade and note payable balances for the year/period divided by cost of sales of year/period and multiplied by 365 days for a year, or 181 days for a six-month period.

Our trade and note payables turnover days decreased from 124.9 days for the year ended 31 December 2008 to 112.0 days for the year ended 31 December 2009, decreased to 30.3 days for the year ended 31 December 2010 and further decreased to 13.2 days for the six months ended 30 June 2011. The relatively high trade and note payables turnover days as at 31 December 2008 and 2009 were primarily due to our use of note payables to finance our operations. We had substantially reduced the use of note payables since 2010 because we were able to secure a higher amount of short-term bank borrowings for our operations. Such decreases were mainly due to the reduced level of our note payables and the change of settlement terms by some of our suppliers for our purchases to shorter their credit periods or require advance payment from us.

OTHER PAYABLES ANALYSIS

The following table sets out the breakdown of our other payables as at 31 December 2008, 2009 and 2010 and 30 June 2011:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Value-added tax payable	—	—	4,821	4,422
Other payables[(1)]	33,036	64	70	132
Other tax payable	—	1,050	1,597	715
Accrual for salary and wages	3,438	3,800	4,098	4,400
Accrued charges	4,045	3,346	3,161	3,544
Payable for acquisition of property, plant and equipment	32,522	7,624	2	2
Deposits from customers	4,167	24,261	18,446	12,437
Total other payables	77,208	40,145	32,195	25,652

Note:

(1) As at 31 December 2008, other payables included loans from third parties with carrying amount of RMB33,000,000. These amounts were unsecured, interest free and fully repaid in 2009.

Our other payables decreased from RMB77.2 million for as at 31 December 2008 to RMB40.1 million as at 31 December 2009, RMB32.2 million as at 31 December 2010 and further to RMB25.7 million as at 30 June 2011. The decrease from 2008 to 2009 was mainly due to our repayment of certain unsecured and interest-free loans from Independent Third Parties owned by friends of Mr. Zheng Yongxiang, which include loans from Fujian Changle Huayuan Textile Co., Ltd (福建省長樂市華源紡織有限公司), Fujian Baocheng Guarantee Co., Ltd (福建寶誠擔保有限公司) and Shanghai Yunhe Group Co., Ltd (上海均和集團有限公司). Such loans from the Independent Third Parties were mainly used in 2008 for the purpose of general working capital. The decrease in payable for acquisition of property, plant and equipment, partially offset by the increase in deposits from customers resulting from increase in our sales orders as at 31 December 2009 as compared to 31 December 2008.

Our other payables further decreased from 2009 to 2010, mainly due to the decrease in deposits from customers as a result of efficient delivery of yarn products sold, which lead to more deposits from customers being recognised as revenue in the relevant year or period and the further decrease in payable for acquisition of property, partially offset by the increase in value-added tax payable due to the change in our policy of settling value-added tax in 2010 from making prepayments, which was the policy we used in 2008 and 2009, to paying value-added tax on a monthly basis to settle any outstanding value-added tax as at the end of the prior month. Our other payables decrease from RMB32.2 million as at 31 December 2010 to RMB25.7 million as at 30 June 2011, mainly due to our decrease in value-added tax payable, other tax payables and deposits from customers due to decrease in our total sales volume in the second quarter of 2011 as compared with the fourth quarter of 2010 slightly offset by increase in other payables, accrual for salary and wages and accrued charges.

OTHER KEY FINANCIAL RATIOS

	As at / for the year ended 31 December			As at/for the six months ended 30 June
	2008	2009	2010	2011
	%	%	%	%
Current ratio(1)	50.7	56.0	62.3	54.7
Gearing ratio(2)	57.7	47.3	45.7	46.1
Return on assets(3)	0.2	10.4	16.2	14.6
Return on equity(4)	0.7	36.4	55.1	35.0

Notes:

(1) Current ratio equals current assets and then divided by current liabilities as at the end of the relevant period, and multiplied by 100%.

(2) Gearing ratio equals total borrowings divided by total assets as at the end of the relevant period, and multiplied by 100%. Total borrowings is the sum of our bank borrowings, note payables, amount due to a director and amount due to related companies.

(3) Return on assets equals net profit divided by total assets as at the end of/for the relevant period, and multiplied by 100%. Return on assets for the six months ended 30 June 2011 was annualised.

(4) Return on equity equals net profit divided by total equity as at the end of/for the relevant period, and multiplied by 100%. Return on equity for the six months ended 30 June 2011 was annualised.

Our current ratio increased from 50.7% as at 31 December 2008 to 56.0% as at 31 December 2009, mainly due to the decrease in current liabilities from RMB465.9 million to RMB409.8 million, respectively, primarily due to i) the repayment of loans due to third parties of RMB33.0 million in 2009 and reduction in payable for acquisition for property, plant and equipment from RMB32.5 million as at 31 December 2008 to RMB7.6 million as at 31 December 2009 as we have completed most of our capital expenditure in 2009; and ii) the repayment of loans due to related companies of RMB25.9 million in 2009, which was partially offset by the declaration of dividends of RMB42.9 million in 2009.

Our current ratio increased from 56.0% as at 31 December 2009 to 62.3% as at 31 December 2010, primarily due to the increase in our current asset from RMB229.7 million to RMB299.4 million, or 30.3%, being higher than the increase in our current liabilities from RMB409.8 million to RMB480.6 million, or 17.3%, in percentage terms. The increase in current assets was mainly due to i) the increase in cash and bank balance due to an increase in short-term bank borrowings; ii) the increase in advance payment to supplier from RMB9.4 million as at 31 December 2009 to RMB27.4 million as at 31 December 2010 as a result of expansion of our scale of operations and our increase in purchase of raw materials in anticipation of the increase in raw material prices; iii) the increase in notes receivable from RMB5.7 million as at 31 December 2009 to RMB12.3 million as at 31 December 2010 due to increase in sales in the fourth quarter of 2010; and iv) the increase in inventories from RMB96.7 million as at 31 December 2009 to RMB115.7 million as at 31 December 2010 was mainly due to the increased in cost of raw material as a result of the price escalation in the fourth quarter of 2010, partially offset by the decrease in pledged bank balance from RMB42.8 million as at 31 December 2009 to RMB29.6 million as at 31 December 2010 as we reduced the usage of notes payable. The increase in current liabilities was mainly due to the increase in dividend payable from RMB42.9 million as at 31 December 2009 to RMB85.8 million as at 31 December 2010, due to an increase in declared dividends in 2010.

Our current ratio decreased from 62.3% as at 31 December 2010 to 54.7% as at 30 June 2011, mainly due to the decrease in current assets from RMB299.4 million to RMB186.7 million, or 37.6%, being higher than the decrease in our current liabilities from RMB480.6 million in 2010 to RMB341.2 million, or 29.0%, in percentage terms. The decrease in current assets was mainly due to i) decrease in cash and bank balance form RMB113.5 million as at 31 December 2010 to RMB33.2 million as at 30 June 2011 mainly due to payment of dividends of RMB85.8 million; ii) decrease in advance payment to supplier from RMB27.4 million as at 31 December 2010 to RMB8.6 million as at 30 June 2011 as we reduced advancing payment to suppliers due to the reduced purchasing activities as at 30 June 2011; iii) decrease in notes receivable from RMB12.3 million as at 31 December 2010 to RMB 3.1 million as at 30 June 2011 due to sales decline in second quarter of 2011 as compared with the fourth quarter of 2010; iv) the decrease in inventories from RMB115.7 million as at 31 December 2010 to RMB85.7 million as at 30 June 2011 was mainly due to our reduced purchase of raw material in anticipation of decrease in the price of raw materials, partially offset by an increase in pledged bank balance from RMB29.6 million as at 31 December 2010 to RMB54.3 million as at 30 June 2011, mainly due to a short-term pledged deposit of RMB35 million to secure the repayment of a short-term bank borrowings in July 2011. The decrease in current liabilities was mainly due to i) the decrease of dividend payables of RMB85.8 million as at 30 June 2011 as we paid dividends in the first quarter of 2011; ii) the decrease in note payables from RMB 41.7 million as at 31 December 2010 to RMB 12.1 million as at 30 June 2011 as we reduced raw material purchase in anticipation of a decrease in the market prices of our raw materials; and iii) the reduction in short-term bank borrowings from RMB289.8 million in 2010 as at 31 December 2010 to RMB266.4 million as at 30 June 2011 as part of our capital management.

Our gearing ratio decreased from 57.7% as at 31 December 2008 to 47.3% as at 31 December 2009, mainly due to our repayment to amounts due to related companies of RMB25.9 million during the year ended 31 December 2009 and the decrease in note payables from RMB252.0 million as at 31 December 2008 to RMB74.0 million as at 31 December 2009, partially offset by the increase in short-term bank borrowings from RMB86.2 million as at 31 December 2008 to RMB221.6 million as at 31 December 2009. The substitution of note payables with short-term bank borrowings was primarily due to our preference for the longer repayment term and less restriction on the use of funds offered by short-term bank borrowings as compared to note payables, as well as the cessation of the Non-Compliant Bill Financing since 2009. Our gearing ratio remained relatively stable as at 31 December 2009 and 2010 and as at 30 June 2011.

Our return on assets increased from 0.2% for the year ended 31 December 2008 to 10.4% for the year ended 31 December 2009, and further increased to 16.2% for the year ended 31 December 2010 and was 7.3% for the six months ended 30 June 2011[(1)]. Such increase from year end 2008 to 2009 was primarily due to the gradual recovery of the textile market in 2009 and the market demand for our products, and an increase in our productivity resulted from an increase in our production capacity and utilisation rate. The further increase from year end 2009 to 2010 was primarily due to the further improvement in market demand for our products, which led to an increase in the average unit selling price of our products and hence increase in our net profit, which were greater than the growth of our assets. Our return on assets decreased to 14.6% at annulised rate for the six months ended 30 June 2011 from 16.2% for the year ended 31 December 2010, primarily due to the impact on our earnings, on an annualised basis, by the other expenses of RMB6.0 million incurred during the six months ended 30 June 2011, which was mainly related to the Listing and the Global Offering, partially offset by the impact of the decrease in the total asset of our Company, primarily as a result of the payment of dividend of RMB85.8 million in 2011.

Our return on equity increased from 0.7% for the year ended 31 December 2008 to 36.4% for the year ended 31 December 2009 and further increased to 55.1% for the year ended 31 December 2010 and was 17.5% for the six months ended 30 June 2011[(2)]. Such increases were primarily due to the same reasons as above for return on asset ratio for the same period, as well as our use of financial leverage to support our production expansion and meet our working capital needs. Our return on equity decreased from 55.1% for the year ended 31 December 2010 to 35.0% at annualised rate for the six months ended 30 June 2011, primarily due to the increase in our reserves by 70.2% from RMB64.5 million as at 31 December 2010 to RMB109.8 million as at 30 June 2011, representing the net profit of our Group for the six months ended 30 June 2011, which increased our total equity, and the impact on our earnings, on an annualised basis, by the other expenses of RMB6.0 million incurred during the six months ended 30 June 2011, which was mainly related to the Listing and the Global Offering.

WORKING CAPITAL

Our Directors believe that after taking into account our operating cash flows, the net proceeds from the Global Offering, proceeds from our short-term bank borrowings and long-term bank facilities, we will have sufficient working capital for our operations in the next 12 months from the date of this Prospectus.

- as at 31 October 2011, we had cash and bank balances of RMB101.1 million;
- as at 31 October 2011, we had bank facilities in the aggregate maximum amount of approximately RMB283.0 million, of which RMB255.0 million were utilised as bank borrowings and RMB28.0 million were not utilised;

Notes:

(1) Annualised return on assets was at 14.6%.

(2) Annualised return on equity was at 35.0%.

- as at the Latest Practicable Date, we had obtained: (i) long-term bank facilities in the aggregate principal amount of RMB140.0 million in November 2011, the entire amount of which remained unutilised; (ii) written confirmation from our banks, which had agreed to renew certain of our short-term bank borrowings expiring within one year in the aggregate principal amount of RMB202.0 million, at interest rate from 6.3100% to 7.2565%, upon maturity, and we will continue to communicate with our banks regarding the outlook for obtaining financing in the foreseeable future. As advised by our PRC legal adviser, Commerce & Finance, the confirmations signed by certain banks to renew the short-term bank borrowings upon expiry are legal and valid letters of intent under the PRC laws. The proposed renewal of short-term bank borrowings are subject to agreement by the parties on the relevant interest rates at the time when the relevant loan agreements are entered into and provision of the relevant security interest as requested by the relevant banks. There is no unusual condition or feature specifically imposed on us for the proposed renewal of such short-term bank borrowings. The relevant banks do not have any obligation to renew the relevant short-term bank borrowings before their respective definitive agreements are entered into. We had not experienced any material obstacle in obtaining financing and renewing our bank facilities during the Track Record Period and up to the Latest Practicable Date, despite our net current liability positions as we have maintained good credit history and relationship with our banks, from which we have been able to obtain bank facilities on competitive terms, and that we have been able to meet our repayment obligations in respect of our bank facilities; and

- capital expenditure for the years ending 31 December 2011 and 2012 is expected to be financed by our operating cash flows, the net proceeds from the Global Offering and/or proceeds from our short-term bank borrowings and long-term bank facilities.

Global and China Economic Outlook

Global economic slowdown and financial crisis will affect the global economic activities and potentially affect the economic growth in China. The potential slowdown of economic growth in 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 expansion plan to increase 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 Wenzhou debt crisis. 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.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

CONTINGENT LIABILITIES

As at 31 December 2010, we issued financial guarantees to banks in respect of bank facilities granted to a related company. This guarantee has been released during the six months ended 30 June 2011.

Save as disclosed in the preceding paragraph, as at 30 June 2011, we did not have significant contingent liabilities. Save as disclosed above, as at the Latest Practicable Date, we had not involved in any material legal proceeding, nor were we aware of any pending or potential material legal proceeding involving our Group. If our Group is involved in any material legal proceeding in the future, and based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated, we would then record a contingent liability.

PROFIT FORECAST

Our Directors believe that, in the absence of unforeseen circumstances and on the basis and assumption as set out in "Appendix III — Profit Forecast" to this Prospectus, our forecast consolidated profit after taxation but before extraordinary items for the year ending 31 December 2011 is unlikely to be less than RMB59.0 million (equivalent to HK$73.8 million).

The forecast consolidated net profit of our Company for the year ending 31 December 2011 is lower than our audited consolidated net profit for the year ended 31 December 2010, while the revenue of our Company for the year ending 31 December 2011 is expected to be generally in line with that of the previous year, mainly because of a decrease in our gross profit margin primarily due to the increase in the price of our raw materials for the year ending 31 December 2011, especially for raw cotton, and the increase in our administrative expenses in connection with the Global Offering, which we expect for the year ending 31 December 2011. As at the Latest Practicable Date, our Directors were not aware of any extraordinary item which have arisen or are likely to arise in respect of the year ending 31 December 2011 that would affect the prospective financial information presented.

On a pro forma fully diluted basis and on the assumption that we had been listed since 1 January 2011 and a total of 1,000,000,000 Shares were issued and outstanding following the completion of the Global Offering (taking no account of any Shares which may be issued upon exercise of the Over-allotment Option), the forecast earnings per Share for the year ending 31 December 2011 is unlikely to be less than RMB0.059 (equivalent to HK$0.074), representing a price-earnings multiple of 8.1 times and 9.9 times if the Offer Price is HK$0.60 per Share and HK$0.73 per Share, respectively.

The texts of letters from our reporting accountants, and from the Sole Sponsor in respect of the profit forecast are set out in "Appendix III — Profit Forecast" to this Prospectus.

SENSITIVITY ANALYSIS

The average selling prices of our yarn products and the average unit purchase prices of our raw materials fluctuated during the Track Record Period. For details of the fluctuation of the average unit selling prices of our yarn products during the Track Record Period, please see the table in the section headed "— Factors Affecting Our Financial Condition and Results of Operations — Pricing of Our

Products and Product Mix” in this Prospectus. For details of the fluctuation of our average unit purchase prices of our raw materials during the Track Record Period, please see the table in the section headed “— Factors Affecting Our Financial Condition and Results of Operations — Cost of Raw Materials” in this Prospectus. The changes in the average unit selling prices of our yarn products and the average unit purchase prices of our raw materials have affected our results of operation in the past and may have an impact on our profit in the future. For details of such historical effects, see the section headed “Financial Information” in this Prospectus.

The sensitivity analysis below illustrates the impact of hypothetical changes in: (i) the average unit selling price of our yarn products, with reference to the historical volatility of our average unit selling prices during the Track Record Period; and (ii) the average unit purchase price of our raw materials, with reference to the historical volatility of our average unit purchase prices during the Track Record Period, on our forecast profit before and after tax and the resulting forecast profit after tax for the year ending 31 December 2011:

Percentage change in the average unit selling price of our yarn products[(1)]	**+50%**	**+25%**	**+10%**	**+5%**	**0%**	**–5%**	**–10%**	**–25%**	**–50%**
Impact on our forecast profit before tax for the year ending 31 December 2011 (RMB million)	98.1	49.1	19.6	9.8	—	(9.8)	(19.6)	(49.1)	(98.1)
Impact on our forecast profit after tax for the year ending 31 December 2011 (RMB million)	73.6	36.8	14.7	7.4	—	(7.4)	(14.7)	(43.8)	(92.9)
(Percentage)	124.7%	62.4%	24.9%	12.5%	—	(12.5%)	(24.9%)	(74.2%)	(157.5%)
Resulting forecast profit after tax for the year ending 31 December 2011 (RMB million)	132.6	95.8	73.7	66.4	59.0	51.6	44.3	15.2	(33.9)

Percentage change in the average unit purchase price of our raw materials[(2)]	**+50%**	**+25%**	**+10%**	**+5%**	**0%**	**–5%**	**–10%**	**–25%**	**–50%**
Impact on our forecast profit before tax for the year ending 31 December 2011 (RMB million)	(68.9)	(34.5)	(13.8)	(6.9)	—	6.9	13.8	34.5	68.9
Impact on our forecast profit after tax for the year ending 31 December 2011 (RMB million)	(63.7)	(29.3)	(10.3)	(5.2)	—	5.2	10.3	25.9	51.7
(Percentage)	(108. 1%)	(49.7%)	(17.5%)	(8.8%)	—	8.8%	17.5%	43.9%	87.6%
Resulting forecast profit after tax for the year ending 31 December 2011 (RMB million)	(4.7)	29.8	48.7	53.9	59.0	64.2	69.3	84.9	110.7

Notes:

(1) Compared to the average unit selling price of our yarn products for the two months ending 31 December 2011.

(2) Compared to our average unit purchase price of our of raw materials for the two months ending 31 December 2011.

The table above includes forward-looking information and is for illustrative purposes only. For details see "Forward-looking Statements" in this Prospectus. For risks relating to the average unit selling prices of our products and the average unit purchase prices of our raw materials, see "Risk Factors — Risks Relating to Our Business — Our Financial Performance May Be Affected by Fluctuations in Raw Material Prices as We May Not Be Able to Pass on the Increase in Raw Material Costs to Our Customers" and "Risk Factors — Risks Relating to our Business — We May Not Be Able to Maintain the Increasing Trend of Our Gross Profit Margins or to Maintain Our Net Profit Margins at the Levels We Recorded During the Track Record Period."

DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands on 4 May 2011. As at 30 June 2011, no distributable reserves were available in cash for distribution to our Shareholders.

DIVIDEND AND DIVIDEND POLICY

The payment and the amount of any dividend, if paid, will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends *pro rata* according to the amounts paid up or credited as paid up on the Shares. The declaration, payment, and amount of dividends will be subject to our discretion.

Our PRC subsidiary may pay dividends only out of its accumulated distributable profits, if any, determined in accordance with its articles of association, and the accounting standards and regulations in China. Furthermore, pursuant to the relevant PRC laws and regulations applicable to our subsidiary in the PRC, our PRC subsidiary is required to set aside a certain amount of its accumulated after-tax profits each year, if any, to fund statutory reserves. These reserves may not be distributed as cash dividends.

Dividends may be paid only out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

Subject to the factors described above, the Board of Directors currently intends to recommend at the relevant shareholders meetings an annual dividend of not less than 20% of the net profit available for distribution to the Shareholders in the foreseeable future.

During the Track Record Period our subsidiary, Jinyuan, had recognised dividend as declared to its shareholder prior to the Group's reorganisation and set forth as follows:

	Year ended 31 December			Six months ended 30 June
	2008	**2009**	**2010**	**2011**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Shareholders of Jinyuan	—	42,900	85,800	—

Jinyuan paid these declared dividends of RMB42.9 million and RMB85.8 million in January 2010 and January 2011, respectively.

PROPERTY INTEREST AND PROPERTY VALUATION

Jones Lang LaSalle Sallmanns, an independent property valuer, has valued our property interest as at 31 October 2011 and is of the opinion that the value of our property interests is an aggregate amount of RMB220.7 million. The full text of the letter, summary of valuer and valuation certificates with regard to such property interests are set out in Appendix IV of this Prospectus.

Disclosure of the reconciliation of the property and land use rights interests and the valuation of such property and land use rights interests as required under Rule 5.07 of the Listing Rules is set out below:

	RMB'000
Net book value of property and land use rights interests as at 30 June 2011 (audited)	168,858
Add: Addition for the four months ended 31 October 2011	3,108
Less: Depreciation and amortisation for the four months ended 31 October 2011	(1,474)
Net book value as at 31 October 2011 (unaudited)	170,492
Add: Valuation surplus as at 31 October 2011	50,208
Valuation as at 31 October 2011 as per Appendix IV to this Prospectus	220,700

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors have confirmed that there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in the financial or trading position or prospects of us since 30 June 2011 and there is no event since 30 June 2011 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this Prospectus.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to the owners of our Company which is based on the audited consolidated net tangible assets of the Group attributable to the owners of our Company as at 30 June 2011 as shown in the Accountants' Report on the financial information for the three years ended 31 December 2010 and the six months ended 30 June 2011 of the Group, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of our Company has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Group.

	Audited consolidated net tangible assets of the Group attributable to owners of our Company as at 30 June 2011[(1)]	Estimated net proceeds from the Global Offering[(2)]	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of our Company	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of our Company per Share	
	RMB'000	RMB'000	RMB'000	RMB[(3)]	HK$[(4)]
Based on a minimum indicative Offer Price of HK$0.60 per Share	258,623	97,344	355,967	0.36	0.44
Based on a maximum indicative Offer Price of HK$0.73 per Share	258,623	122,564	381,187	0.38	0.48

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to the owners of our Company as at 30 June 2011 is approximately RMB258.6 million, as extracted from Accountants' Report on the financial information for the three years ended 31 December 2010 and the six months ended 30 June 2011 of the Group which is set out in Appendix I to this Prospectus.

(2) The estimated net proceeds from the Global Offering is based on the indicative offer prices of HK$0.60 (equivalent to RMB0.48) and HK$0.73 (equivalent RMB0.58) per Share, after deduction of the estimated underwriting fees and related expenses payable by the Group and does not take into account of any Shares which may be issued/repurchased according to the Issuing Mandate and the Repurchase Mandate or issued upon exercise of the Over-allotment Option or upon exercise of any options which may be granted upon the Share Option Scheme. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at an exchange rate of RMB1 to HK$1.25.

(3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of our Company per Share has been arrived at after making the adjustments referred to in this section and on the basis of a total of 1,000,000,000 Shares in issue immediately following completion of the Global Offering and Capitalisation Issue. It does not take into account of any Shares which may be issued/repurchased according to the Issuing Mandate and the Repurchase Mandate or issued upon exercise of the Over-allotment Option or upon exercise of any options which may be granted under the Share Option Scheme.

(4) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of our Company per Share amounts in RMB are converted in to HK$ at an exchange rate at RMB1 to HK$1.25. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(5) The property interests of the Group as at 31 October 2011 have been valued by Jones Lang LaSalle Sallmanns Limited, an independent property valuer. By comparing the valuation of the Group's property interests of approximately RMB220.7 million as set out in Appendix IV of this prospectus and the unaudited carrying amounts of these properties of approximately RMB170.5 million as at 31 October 2011, the valuation surplus is approximately RMB50.2 million, which has not been included in the above net tangible assets of the Group. The revaluation surplus will not be incorporated in our Group's consolidated financial statements in subsequent reporting periods as our Group has elected to measure the property interest using cost model. If the revaluation surplus was recorded in our Group's consolidated financial statements, an additional depreciation and amortisation charge of approximately RMB1.2 million per annum would be incurred.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. We are exposed to cash flow interest rate risk resulting from fluctuations in interest rate on our financial obligations. In particular, our variable-rate pledged bank deposits, bank balances and bank borrowings bear interest rates that are subject to adjustments by our lenders in accordance with changes in relevant PBOC regulations. Our management maintain our borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank borrowings at the end of the reporting period. No sensitivity is presented for variable-rate pledged bank deposits and bank balances as the impact are insignificant. For bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, our net profit after tax for the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 would decrease/increase by RMB286,000, RMB875,000, RMB862,000 and RMB318,000 respectively and the six months ended 30 June 2011.

Credit Risk

Credit risk is primarily related to trade receivables from our customers and the risk of financial loss if a partner, customer or counterparty to a financial instrument fails to meet its contractual obligations. The credit risk on liquid funds is limited because the counterparties are banks with good reputation or high credit ratings.

To minimise the credit risk arising from trade receivables, our management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we reviewed the recoverable amount of each receivable at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors consider that our credit risk is significantly reduced. Our Directors consider that we have no significant concentration of credit risk.

Liquidity Risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they become due. Our approach to managing liquidity is to ensure that we will have sufficient liquidity to meet our liabilities when due. As such, we monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance our operations and mitigate the effects of fluctuation in cash flows. Our management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

We rely on bank borrowings as a significant source of our liquidity. As at 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, we did not have unutilised bank loan facilities.

Commodity Price Risk

Commodity price risk is primarily related to the changes in prices of key commodities that we purchase. We are exposed to commodity price risks resulting from increases in the price of raw cotton and polyester staple fibre, which are the key commodities used as raw materials for our production of our yarn products. We monitor the changes in the market price of raw cotton and polyester staple fibre and make purchases of our raw materials when we consider the prices appropriate. We also maintain our inventory of raw materials at a lower level when the market prices of raw cotton and polyester decrease continually within a certain period. Currently, we do not use derivative commodity instruments to manage the risk of changes in prices of polyester staple fibre, raw cotton and yarn products.

Estimate of Fair Value

Our Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in our financial statements approximate to their fair values.

RELATED PARTY TRANSACTIONS

With respect to the related parties transactions set out in the note 35 to the accountants' report in Appendix I to this Prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and/or our terms that are not less favourable than terms available from Independent Third Parties which are considered fair and reasonable and in the interest of our Shareholders as a whole.

Our Directors confirmed that the non-trading related advances to related companies and the non-trading related advances from a related company and from a director as set out in note 35(c) to the Accountants' Report in Appendix I to this prospectus were in each case for general working capital purposes of the relevant recipient of such advances. All guarantees granted by the Group's related parties for our Group's obligations under finance leases will be released before the Listing.