

# CHINA WEAVING MATERIALS HOLDINGS LIMITED 中國織材控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 3778

## GLOBAL OFFERING

Sole Sponsor



**國泰君安國際**  
GUOTAI JUNAN INTERNATIONAL

Guotai Junan Capital Limited

Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager



**國泰君安國際**  
GUOTAI JUNAN INTERNATIONAL

Guotai Junan Securities (Hong Kong) Limited

## IMPORTANT

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

# CHINA WEAVING MATERIALS HOLDINGS LIMITED

## 中國織材控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

### GLOBAL OFFERING

Number of Offer Shares	:	250,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	:	25,000,000 Shares (subject to re-allocation)
Number of International Placing Shares	:	225,000,000 Shares (subject to re-allocation and the Over-allotment Option)
Maximum Offer Price	:	Not more than HK\$0.73 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	:	HK\$0.10 per Share
Stock code	:	3778

#### Sole Sponsor



**Guotai Junan Capital Limited**

#### Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager



**Guotai Junan Securities (Hong Kong) Limited**

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

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

The Offer Price is expected to be determined by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and us on or about 15 December 2011 or such later date as may be agreed by the Sole Global Coordinator and us, but in any event not later than 20 December 2011. The Offer Price will not be more than HK\$0.73 per Offer Share and is currently expected to be not less than HK\$0.60 per Offer Share unless otherwise announced. Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum offer price of HK\$0.73 for each Offer Share together with a brokerage of 1%, a SFC transaction levy of 0.003% and a Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK\$0.73. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (on behalf of the Underwriters) and us on or before 20 December 2011, the Global Offering will not proceed and will lapse.

The Sole Global Coordinator (on behalf of the Underwriters), with the consent of our Company, may reduce the indicative Offer Price range stated in this Prospectus and/or the number of Offer Shares being offered at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, a notice of the reduction of the indicative Offer Price range will be published in the South China Morning Post (in English), in the Hong Kong Economic Times (in Chinese), on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and on our Company's website at [www.chinaweavingmaterials.com](http://www.chinaweavingmaterials.com) not later than the morning of the last day for lodging applications under the Hong Kong Public Offer.

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to persons outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

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

Pursuant to the certain provisions contained in the Underwriting Agreements, the Sole Global Coordinator, on behalf of the Underwriters, has the right in certain circumstances, subject to the sole opinion of the Sole Global Coordinator, to terminate the obligations of the Underwriters pursuant to the Underwriting Agreements at any time prior to 8:00 am (Hong Kong time) on the day on which dealings in the Shares first commence on The Stock Exchange of Hong Kong Limited. Further details of the terms of such provisions are set out in the section headed "Underwriting" in this Prospectus. It is important that you refer to that section for further details.

12 December 2011

## EXPECTED TIMETABLE<sup>(1)</sup>

- Latest time to complete electronic applications under the **White Form eIPO** service through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) . . . . . 11:30 a.m. on Thursday, 15 December 2011
- Application lists of the Hong Kong Public Offer open<sup>(2)</sup> . . . 11:45 am on Thursday, 15 December 2011
- Latest time for lodging **WHITE** and **YELLOW** Application Forms . . . . . 12:00 noon on Thursday, 15 December 2011
- Latest time for giving **electronic application instructions** to HKSCC<sup>(3)</sup> . . . . . 12:00 noon on Thursday, 15 December 2011
- Latest time to complete payment of **White Form eIPO** applications by effecting internet banking transfer(s) or PPS payment transfer(s) . . . . . 12:00 noon on Thursday, 15 December 2011
- Application lists of the Hong Kong Public Offer close . . . 12:00 noon on Thursday, 15 December 2011
- Expected Price Determination Date<sup>(4)</sup> . . . . . Thursday, 15 December 2011
- Announcement of the Offer Price, the level of indication of interest in the International Placing, level of applications in the Hong Kong Public Offer and basis of allotment of the Hong Kong Offer Shares under the Hong Kong Public Offer to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our Company's website at [www.chinaweavingmaterials.com](http://www.chinaweavingmaterials.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) on . . . Wednesday, 21 December 2011
- Results of applications and Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offer to be available through a variety of channels as described in the section headed "How to Apply for Hong Kong Offer Shares — Results of Allocations" including our Company's website at [www.chinaweavingmaterials.com](http://www.chinaweavingmaterials.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) from . . . . . Wednesday, 21 December 2011
- Results of allocations for the Hong Kong Public Offer will be available at [www.iporeresults.com.hk](http://www.iporeresults.com.hk), with a "search by ID" function . . . . . Wednesday, 21 December 2011
- Dispatch of share certificates on or before<sup>(5)</sup> & <sup>(7)</sup> . . . . . Wednesday, 21 December 2011
- Dispatch of White Form e-Refund payment instruction on or before<sup>(7)</sup> . . . Wednesday, 21 December 2011
- Dispatch of refund cheques on or before<sup>(6)</sup> & <sup>(7)</sup> . . . . . Wednesday, 21 December 2011
- Dealings in the Shares on the Main Board expected to commence at . . . . . 9:00 a.m. on Thursday, 22 December 2011

## EXPECTED TIMETABLE<sup>(1)</sup>

*Notes:*

- (1) All times refer to Hong Kong local time.
- (2) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 am and 12:00 noon on 15 December 2011, the application lists will not open or close on that day. Please refer to the section headed “How to Apply for Hong Kong Offer Shares — Effect of Bad Weather Conditions on the Opening of the Application Lists” in this Prospectus. If the application lists do not open and close on 15 December 2011, the dates mentioned in this section headed “Expected Timetable” may be affected. We will make a press announcement in such event.
- (3) Applicants who apply for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for Hong Kong Offer Shares — How to Apply by Giving Electronic Application Instructions to HKSCC” in this Prospectus.
- (4) The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about 15 December 2011 and, in any event, not later than 20 December 2011. If, for any reason, the Offer Price is not agreed between the Sole Lead Manager (on behalf of the Underwriters) and us by 20 December 2011, the Global Offering (including the Hong Kong Public Offer) will not proceed and will lapse.
- (5) Share certificates for the Offer Shares will only become valid certificates of title at 8:00 am on 22 December 2011 provided that the Global Offering has become unconditional in all respects and the Underwriting Agreements have not been terminated in accordance with their terms. If the Global Offering does not become unconditional or the Underwriting Agreements are terminated in accordance with their terms, we will make an announcement as soon as possible.
- (6) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public offer and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may lead to delay in encashment of or may invalidate the refund cheque.
- (7) Applicants who have applied on **WHITE** Application Forms for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offer and have indicated in their Application Forms that they wish to collect any refund cheques and share certificates in person, may do so from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited between 9:00 am to 1:00 pm on 21 December 2011. Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporation stamped with the corporation’s chop. Both individuals and representatives of corporations must produce, at the time of collection, identification and (where applicable) documents acceptable to Computershare Hong Kong Investor Services Limited at the time of collection. Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public offer may collect their refund cheques, if any, in person but may not elect to collect their share certificates which will be deposited into CCASS for the credit of their designated CCASS participants’ stock accounts or CCASS investor participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants. Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the paragraph headed “How to Apply by Giving Electronic Application Instructions to HKSCC” under the section headed “How to Apply for Hong Kong Offer Shares” in this Prospectus for details. Uncollected share certificates (if applicable) and refund cheques (if applicable) will be dispatched by ordinary post at the applicants’ own risk to the addresses specified in the relevant Application Forms. Further information is set out in the section headed “How to Apply for Hong Kong Offer Shares — Dispatch/Collection of Share Certificates and Refund Monies” in this Prospectus.

Particulars of the structure of the Global Offering, including the conditions thereto, are set out in the section headed “Structure of the Global Offering” in this Prospectus.

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## IMPORTANT NOTICE TO INVESTORS

*This Prospectus is issued by China Weaving Materials Holdings Limited solely in connection with the Hong Kong Public Offer and does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Hong Kong Offer Shares offered by this Prospectus pursuant to the Hong Kong Public Offer. This Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this Prospectus in any jurisdiction other than Hong Kong.*

*You should rely only on the information contained in this Prospectus and the application forms to make your investment decision. Our Company has not authorised anyone to provide you with information that is different from what is contained in this Prospectus. Any information or representation not made in this Prospectus must not be relied on by you as having been authorised by our Company, the Sole Lead Manager, the Sole Sponsor, any of the Underwriters, any of their respective directors, or any other person involved in the Global Offering.*

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## SUMMARY

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

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

### OVERVIEW

We are a manufacturer of polyester yarns, polyester-cotton blended yarns and cotton yarns in Jiangxi Province.

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

### Our Expansion Plan

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

### Our Location

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

## SUMMARY

### **Our Suppliers**

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

### **Our Procurement and Pricing Strategy**

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

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



## SUMMARY

### **Our Equipment, Machinery and Production Facility**

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

### **Our Customers**

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

### **Our Management Team**

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

### **Our Competitive Environment**

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

## SUMMARY

### COMPETITIVE STRENGTHS

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

- We benefit from our strategic location and enjoy competitive operating cost;
- Our advanced equipment and machinery and high utilisation rate of our production facilities enable us to produce quality products efficiently and cost-effectively;
- We are a leading enterprise in the textile industry in Jiangxi Province capable of producing significant quantities of yarn products and achieving economies of scale;
- We have a diverse product portfolio that enables us to adapt quickly to changing market demands; and
- We are led by an experienced management team with extensive industry knowledge and experience, and a proven track record.

### BUSINESS STRATEGIES

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

- Further diversify our product portfolio to include the production of coloured polyester-cotton blended yarns and open-end spun yarns, which contribute to an environmentally friendly and energy-efficient textile industry;
- Expand our production capacities through further expansion and selective acquisitions;
- Further expand production capacity and improve our production efficiency and product quality; and
- Further enhance our marketing network and strengthen our relationships with suppliers and customers to enhance our brand awareness and reputation.

## SUMMARY

### SUMMARY HISTORICAL FINANCIAL INFORMATION

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 the "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 . . . . .	<u>1,118</u>	<u>66,192</u>	<u>117,556</u>	<u>44,243</u>	<u>45,263</u>
	RMB (cents)	RMB (cents)	RMB (cents)	RMB (cents) (Unaudited)	RMB (cents)
Earnings per share					
— Basic . . . . .	<u>0.15</u>	<u>8.83</u>	<u>15.67</u>	<u>5.90</u>	<u>6.04</u>

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,

## SUMMARY

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.

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	%	%	%	%	%
				(Unaudited)	
Gross profit margin . . . . .	5.5	13.1	16.1	14.8	13.8

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”.

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	%	%	%	%	%
				(Unaudited)	
Net profit margin . . . . .	0.2	10.0	12.6	10.8	8.6

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.

## SUMMARY

### 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
<b>Net current liabilities</b> . . . . .	<u>(229,727)</u>	<u>(180,163)</u>	<u>(181,122)</u>	<u>(154,485)</u>
<b>Total assets less current liabilities</b> . .	<u>165,325</u>	<u>225,882</u>	<u>244,646</u>	<u>278,116</u>
Non-current liabilities . . . . .	7,014	44,279	31,287	19,493
<b>Net assets</b> . . . . .	<u>158,311</u>	<u>181,603</u>	<u>213,359</u>	<u>258,623</u>
<b>Total equity attributable to owners of the Company</b> . . . . .	<u>158,311</u>	<u>181,603</u>	<u>213,359</u>	<u>258,623</u>

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.

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

## SUMMARY

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 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. 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.

### 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

Our operating cash flows fluctuated significantly during the Track Record Period. 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

## SUMMARY

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.

Our cash flow generated from/used in operating activities are generally impacted by the movement in our working capital. With respect to purchase of raw materials, we are usually required to make advance payments or issue note payables to our suppliers as payment for our purchases before raw materials are received. For some of our purchases, our suppliers may allow a credit period on a case-by-case basis with an average credit period on purchase of goods of 30 days, and on note payables of up to 180 days. With respect to sale of goods, our customers typically pay our selling price one or two days before we deliver our yarn products, although we may grant credit periods of up to 90 days on a case-by-case basis. We operate a continuous procurement and production cycle such that we maintain raw material inventory and finished goods inventory to ensure that the raw materials and finished goods are sufficient to satisfy our production and sales, respectively, for at least a certain number days which our management determines to be optimal for our operations. In addition to funds generated from our operations, we also use note payables and short-term bank borrowings to finance our working capital needs. Therefore, any tightening of the monetary policy in the PRC may adversely affect the availability and cost of note payables and short-term bank borrowings and thereby negatively impact our liquidity or increase our finance cost.

Despite our net cash outflow from operating activities for the year ended 31 December 2009, we are of the view that our cash flows will be sustainable after the Listing. As discussed above, our net cash outflow for the year ended 31 December 2009 was mainly due to the increase in our inventory level in anticipation of a price increase in the average purchase price of raw cotton and the settlement of note payables. These factors are not expected to recur on a regular basis. Taking into account that: (i) except the net cash outflow in 2009, we recorded net cash inflows throughout the Track Record Period; (ii) the proceeds from the Global Offering will further strengthen our financial position; and (iii) the flexibility of our production capacity expansion plan.

### **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, comprising RMB29.4 million, RMB272.3 million and RMB99.7 million, respectively, for the years ending 31 December 2011, 2012 and 2013, will be required to fund the construction of our new workshops. We expect to finance the aggregate projected capital expenditure through cash generated from our operations, net proceeds from the Global Offering and short-term bank borrowings and long-term bank facilities and to utilise the aggregate projected capital expenditure over a period of approximately 16 months depending on market conditions. For details of our production capacity expansion plan and expected future capital expenditure, see “Business — Production Process, Facilities and Capacities — Production Facilities and Capacities” and “Financial Information — Capital Expenditures”.

## SUMMARY

### Summary of Revenue, Gross Profit, Sales Volume and Average Unit Selling Price by Product Category

	Six months ended 30 June																			
	Year ended 31 December				2010				2011											
	2008		2009		2010		2010		2011		2011									
	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 . . . . .	319,967	(6,947) <sup>(1)</sup>	26,198	12,213	380,921	17,897	34,511	11,038	527,978	35,323	39,160	13,483	251,855	18,303	19,751	12,752	260,329	37,295	15,539	16,753
Polyester-cotton blended yarn . . . . .	217,211	34,766	14,658	14,819	253,400	58,897	18,517	13,685	350,849	89,966	20,289	17,293	136,433	38,007	8,438	16,169	240,494	33,468	10,403	23,118
Cotton yarn . . . . .	8,114	2,354	494	16,425	29,117	10,439	1,795	16,221	51,839	24,083 <sup>(2)</sup>	2,324	22,306	22,873	4,386 <sup>(2)</sup>	1,087	21,042	25,736	2,059	779	33,037
<b>Total . . . . .</b>	<b>545,292</b>	<b>30,173</b>	<b>41,350</b>	<b>N/A</b>	<b>663,438</b>	<b>87,233</b>	<b>54,823</b>	<b>N/A</b>	<b>930,666</b>	<b>149,372</b>	<b>61,773</b>	<b>N/A</b>	<b>411,161</b>	<b>60,696</b>	<b>29,276</b>	<b>N/A</b>	<b>526,559</b>	<b>72,822</b>	<b>26,721</b>	<b>N/A</b>

*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.



## SUMMARY

### NON-COMPLIANT BILL FINANCING

From May 2008 to August 2009, we obtained additional funding for our business operations through issuing bank acceptance notes that were within the credit limits stipulated by the endorsing banks and supported by the initial deposits by us, but were used for purposes other than the payment for the purchases from relevant suppliers as stipulated in the relevant credit agreements. Such bill financing arrangement did not comply with the terms of the credit agreements and Article 10 of the *PRC Negotiable Instruments Law* and were made without the prior written approval from the relevant Endorsing Banks. As the discount rates of bank acceptance notes are normally lower than the prevailing interest rates for short-term bank loans, to take advantage of these lower interest rates, we used bill financing arrangements to fund a portion of our business operations.

The funding for our business operations obtained from the banks through such bill financing arrangements for the year ended 31 December 2008 and 2009 was estimated to be approximately RMB124.4 million and RMB26.0 million, respectively. Based on relevant prevailing interest rates of short-term bank loans, and for illustrative purposes only, we estimated that our savings in interest payments from the non-compliant bill financing arrangements were approximately RMB1.1 million and RMB1.3 million for the year ended 31 December 2008 and 2009, respectively. We ceased engaging in bill financing arrangements in August 2009 and all bank acceptance notes involved in such bill financing arrangements were fully settled by February 2010.

Our PRC legal adviser, Commerce & Finance, advised us that: (i) due to the fact that the relevant banks and third parties have not incurred any loss, we will not have any liability under any civil claim arising from such bill financing arrangements; (ii) our Directors and senior management will not be personally liable for any civil claim; and (iii) there are no relevant PRC laws or regulations, nor are there any relevant rule promulgated by the *People's Bank of China* or the *China Banking Regulatory Commission* imposing administrative or criminal liability in respect of bill financing arrangements. We have formulated and implemented a series of measures to ensure that our bill financing arrangements will not occur in the future. We have also engaged independent internal control advisers who assisted us to strengthen our internal control system and implement various rectifying measures. For further details, see “Business — Non-Compliant Bill Financing — Strengthening Our Internal Control System and Corporate Governance Measures”.

### GLOBAL AND CHINA ECONOMIC OUTLOOK

In 2009, the United States, Europe and certain countries in Asia, including China, experienced economic slowdowns. In 2011, the credit rating of the United States was downgraded by Standard & Poor from AAA to AA-plus rating and certain European countries continue to suffer from an ongoing sovereign debt crisis. The global economic slowdown and financial crisis will affect global economic activity and potentially affect economic growth in China, such as the potential credit crisis in China arising from the liquidity issues for corporations in Wenzhou of Zhejiang Province. Growth in demand for our yarn products is largely driven by the growth in fabric and textile industries 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 production capacity expansion plan.

## SUMMARY

As at the Latest Practicable Date, our Directors were not aware of any material cancellation of the confirmed purchase orders or 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.

### 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 “Financial Information — 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 “Financial Information — 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.

## SUMMARY

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:

<b>Percentage change in the average unit selling price of our yarn products<sup>(1)</sup></b>	<b>+50%</b>	<b>+25%</b>	<b>+10%</b>	<b>+5%</b>	<b>0%</b>	<b>-5%</b>	<b>-10%</b>	<b>-25%</b>	<b>-50%</b>
<b>Impact on our forecast profit before tax for the year ending 31 December 2011</b>									
(RMB million) . . . . .	98.1	49.1	19.6	9.8	—	(9.8)	(19.6)	(49.1)	(98.1)
<b>Impact on our forecast profit after tax for the year ending 31 December 2011</b>									
(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%)
<b>Resulting forecast profit after tax for the year ending 31 December 2011</b>									
(RMB million) . . . . .	132.6	95.8	73.7	66.4	59.0	51.6	44.3	15.2	(33.9)
<b>Percentage change in the average unit purchase price of our raw materials<sup>(2)</sup></b>									
<b>Impact on our forecast profit before tax for the year ending 31 December 2011</b>									
(RMB million) . . . . .	(68.9)	(34.5)	(13.8)	(6.9)	—	6.9	13.8	34.5	68.9
<b>Impact on our forecast profit after tax for the year ending 31 December 2011</b>									
(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%
<b>Resulting forecast profit after tax for the year ending 31 December 2011</b>									
(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 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 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.”

## SUMMARY

### OFFER STATISTICS

	Based on an Offer Price of HK\$0.60 per Share	Based on an Offer Price of HK\$0.73 per Share
Market capitalisation of our Shares <sup>(1)</sup> . . . . .	HK\$600.0 million	HK\$730.0 million
Unaudited pro forma adjusted consolidated net tangible asset value per Share <sup>(2)</sup> . . . . .	HK\$0.44	HK\$0.48

*Notes:*

- (1) All statistics in this table are based on the assumption that the Over-allotment Option is not exercised, no share is issued/repurchased according to the Issuing Mandate and the Repurchase Mandate, and any option which may be granted under the Share Option Scheme is not exercised. The calculation of market capitalisation is based on 1,000,000,000 Shares expected to be in issue and outstanding following the Global Offering.
- (2) The unaudited pro forma adjusted consolidated net tangible asset value per Share is calculated after making the adjustments referred to in Appendix II and based on 1,000,000,000 Shares expected to be in issue and outstanding following the Global Offering.

### DIVIDEND AND DIVIDEND POLICY

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

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.

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### FUTURE PLANS AND USE OF PROCEEDS

See the section headed “Business — Business Strategies” in this Prospectus for a detailed description of our future plans.

The net proceeds from the Global Offering, after deducting underwriting fees and estimated expenses payable by our Company in connection thereto, are estimated to be approximately HK\$135.0 million, assuming that the Over-allotment Option is not exercised and assuming an Offer Price of HK\$0.665 per Share, being the mid-point of the proposed Offer Price range of HK\$0.60 to HK\$0.73 per Share. We intend to use such net proceeds as follows:

- Approximately RMB44.2 million, equivalent to HK\$55.2 million or 40.9% towards equipment and machinery for production of coloured polyester-cotton blended yarns with a production capacity of approximately 60,000 spindles;
- Approximately RMB31.0 million, equivalent to HK\$38.7 million or 28.7% towards equipment and machinery for production of open-end spun yarns with a production capacity of approximately 20,000 spindles;
- Approximately RMB21.0 million, equivalent to HK\$26.2 million or 19.4% towards payment for construction of new production facility, not including the cost of land use rights;
- Approximately RMB1.1 million, equivalent to HK\$1.4 million or 1.0% towards further enhance our marketing network, brand awareness and reputation; and
- Approximately RMB10.8 million, equivalent to HK\$13.5 million or 10.0% towards working capital and general corporate purposes.

If the Offer Price is set at the high-end or low-end of the proposed offer price range, the net proceeds of the Global Offering (assuming that the Over-allotment Option is not exercised) will increase or decrease by approximately HK\$15.8 million, respectively. In such event, we will increase or decrease the allocation of the net proceeds to the above purposes on a *pro rata* basis.

If the Over-allotment Option is exercised in full, the net proceeds from the Global Offering will increase to approximately HK\$159.2 million, assuming an Offer Price of HK\$0.665 per Share, being the mid-point of the proposed Offer Price range. If the Offer Price is set at the high-end or low-end of the proposed Offer Price range, the net proceeds of the Global Offering (including the proceeds from the exercise of the Over-allotment Option) will increase or decrease by approximately HK\$18.1 million, respectively. We intend to apply the additional net proceeds to the above uses in the proportions stated above.

To the extent that the net proceeds of the Global Offering are not immediately applied to the above purposes, it is our present intention that such net proceeds will be deposited into interest-bearing bank accounts with licensed banks and/or financial institutions in Hong Kong or in the PRC.

## SUMMARY

### RISK FACTORS

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

#### Risks Relating to our Business

- We may not be successful in effectively and efficiently implementing our business plans and we may not achieve our desired results from the implementation of such plans.
- 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.
- We rely on a small number of suppliers for a significant portion of our raw material purchases.
- We may be unable to secure enough capital to implement our expansion plans in full and to finance our increased working capital requirements.
- 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.
- We recorded net current liabilities positions during the Track Record Period.
- We were previously involved in bill financing transactions through issuance of note payables and endorsement of note receivables that were not fully in compliance with the relevant credit agreements and *PRC Negotiable Instrument Law*.
- We are exposed to credit risks of our customers and do not have access to all credit information of our customers to determine their credit worthiness.
- We generally do not enter into long-term contracts with our customers and are thus subject to uncertainty and potential volatility with respect to our revenue from period to period.
- Our sales are geographically concentrated in Guangdong Province and Zhejiang Province.
- Our success and continued growth are dependent on our key management team.
- We rely on a stable supply of labour at reasonable cost.
- We may face disruptions in our production.
- We rely on external supplies of electricity and water for our production processes.
- Failure to maintain an effective quality control system may result in loss.
- The preferential EIT rate we have enjoyed may not recur.
- We complied with regulations and policies of social insurance funds and housing funds only to the extent required by the local authority during the Track Record Period, which have different interpretation and implementation of the national laws and policies on the same matter.

## SUMMARY

- Our operations are subject to uncertainties and we may not have sufficient insurance coverage for all the risks related to our operations.
- We may not be able to adequately protect our intellectual property rights or may inadvertently infringe upon third party intellectual property rights.
- Our policies in respect of management of financial risks may not be sufficient or effective.

### **Risks Relating to the Industry**

- Our business depends on China's economic and the global economic growth.
- We operate in a highly competitive industry and we may lose our business opportunity in the market if we do not compete successfully.
- Import quotas, higher tariffs or other trade barriers imposed by the United States, the European Union or other WTO member nations on the textile industry may have a material adverse impact on our results of operations.
- Anti-dumping investigations and trade protection measures conducted by other countries on cotton or polyester yarns may have an adverse effect on our operations.

### **Risks Relating to the PRC**

- Fluctuations in consumer spending in the PRC may significantly affect our business and financial performance.
- Adverse changes in the PRC economic, political and social conditions as well as laws and government policies, may materially and adversely affect our business, financial condition, results of operations and growth prospects.
- PRC foreign exchange control may limit our ability to utilise our revenue effectively and affect our ability to receive dividends and other payments from our PRC subsidiaries.
- The value of Renminbi and foreign currencies we trade in may fluctuate and may affect our results of operations.
- The PRC economy may experience inflationary pressure and the potential inflation may affect our business.
- We may be deemed as a PRC resident enterprise under the EIT Law and be subject to the PRC taxation on our worldwide income, which may significantly increase our income tax expenses and materially decrease our profitability.
- Gains on the sales of our Shares by foreign investors and dividends on our Shares payable to foreign investors may become subject to PRC income taxes.
- We will be required to record a deferred PRC withholding tax liability if we intend to distribute dividends from our PRC subsidiary to our offshore holding company, which will adversely impact our financial results.

## SUMMARY

- Negative publicity on PRC products may adversely affect our business and reputation.
- The PRC environmental laws and regulations may change and our environmental compliance liabilities and costs may increase.
- Any outbreak of severe communicable diseases in the PRC may cause suspension of our operations and affect the economic condition of the PRC which may, in turn, affect our operations.
- Changes and uncertainties in the PRC legal system may have an adverse effect on our operations.

### **Risks Relating to the Global Offering**

- There has been no prior public market for our Shares and an active trading market may not develop.
- The liquidity, trading volume and trading price of our Shares may be volatile, which could result in substantial losses for Shareholders.
- Prior dividend distributions are not an indication of our future dividend policy.
- Our Controlling Shareholders may exert substantial influence over our Group and may not act in the best interest of the other Shareholders.
- Shareholders' interests may be diluted as a result of additional equity fund-raising.
- Future sales of a substantial number of our Shares in the public market could materially adversely affect the prevailing market price of our Shares.
- The costs of share options to be granted under the Share Option Scheme may adversely affect our results of operations and any exercise of the options granted will result in dilution to our Shareholders.
- You may face difficulties in protecting your interests under Cayman Islands law.
- The current market conditions may not be reflected in the statistical information provided in this Prospectus.
- Investors should not place undue reliance on industry and market information and statistics from official government publications contained in this Prospectus.
- Investors should not place undue reliance on information derived from research reports contained in this Prospectus.



## DEFINITIONS

*In this Prospectus, unless the context otherwise requires, the following expressions have the following meanings:*

“Application Form(s)”	<b>white</b> application form(s), <b>yellow</b> application form(s) and <b>green</b> application form(s), or where the context so requires, any one or both of them, relating to the Hong Kong Public Offer;
“Articles of Association” or “Articles”	the articles of association of our Company adopted on 3 December 2011 and as amended from time to time, a summary of which is set out in Appendix V to this Prospectus;
“associate(s)”	has the meaning ascribed thereto under the Listing Rules;
“Baoyuan”	Jiangxi Baoyuan Colourful Textile Co., Ltd. (江西寶源彩紡有限公司), a company established in the PRC on 8 January 2008 and is an Independent Third Party;
“Board” or “Board of Directors”	the board of Directors of our Company as at the date of this Prospectus;
“Business Day”	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong;
“BVI”	the British Virgin Islands;
“CAGR”	compound annual growth rate;
“Capitalisation Issue”	the issue of 749,000,000 Shares upon capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in the paragraph headed “Resolutions in writing of all the Shareholders passed on 3 December 2011” under the section headed “Further information about our Company and our Subsidiaries” in Appendix VI to this Prospectus;
“CBRC”	<i>China Banking Regulatory Commission</i> (中國銀行業監督管理委員會);
“CCA”	China Cotton Association (中國棉花協會), a non-profit organisation in the area of cotton and engaged in cotton production, purchase, processing and operation, cotton textile enterprises and cotton research;
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC;
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant;

## DEFINITIONS

“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant;
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation;
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant;
“CEO”	Chief Executive Officer;
“CFO”	Chief Financial Officer;
“Changle Jinyuan”	Fujian Changle Jinyuan Textiles Limited (福建省長樂市金源紡織有限公司), a company established in the PRC on 25 March 1999 which, other than Zheng Baozhen (鄭寶振) (the uncle of Mr. Zheng and Zheng Yongxiang, both Directors) holding 15% of its equity interests and being its general manager, has no connection with our Controlling Shareholders, Directors and their respective associates;
“Changle Yuanlong”	Fujian Changle Yuanlong Knitting Limited (福建省長樂市元隆針紡有限公司), a company established in the PRC on 21 April 2006 and Chen Ailan (陳愛蘭), the wife of Mr. Zheng, holding 25% of its equity interests;
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this Prospectus, Hong Kong, the Macau Special Administrative Region and Taiwan;
“China National Textile and Apparel Council”	a national industry organisation authorised by the PRC Government providing business consultation, constructing of market intelligence system and facilitating market development for the textile industry in the PRC (中國紡織工業協會);
“China Statistical Yearbook 2011”	an official publication issued annually by the <i>National Bureau of Statistics of China</i> (中華人民共和國國家統計局), a department within the government of the PRC (中國統計年鑑 2011);
“China Textile Industry Development Reports”	the national textile industry development reports for the years ended 31 December 2006, 2007, 2008, 2009 and 2010 (中國紡織工業發展報告);
“Commerce & Finance”	Commerce & Finance Law Offices;
“Companies Law”	the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands;

## DEFINITIONS

“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong);
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules;
“Controlling Shareholders”	has the meaning ascribed thereto in the Listing Rules and unless the context requires otherwise, refers to Popular Trend and Mr. Zheng, who, together, will control the exercise of approximately 46.76% voting rights in the general meeting of our Company immediately after completion of the Global Offering and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised);
“Corporate Reorganisation”	the corporate reorganisation of our Group conducted in preparation for the Listing, details of which are set out in the paragraph headed “Corporate Reorganisation” under the section headed “History and Corporate Structure” in this Prospectus;
“Covenantors”	Popular Trend, Mr. Zheng and Zheng Yongxiang;
“Da Yu Investments”	Da Yu Investments Limited, a company incorporated in BVI on 10 May 2006, the entire issued share capital of which is owned by Mr. Lin;
“Deed of Indemnity”	a deed of indemnity dated 9 December 2011 entered into between the Covenantors and our Company (for itself and as trustee for its subsidiaries), under which the Covenantors have given certain indemnities in favour of our Company containing, among others, the indemnities referred to in the paragraph headed “Other Information — Estate Duty, Tax and Other Indemnities” in Appendix VI in this Prospectus;
“Deed of Non-Competition”	a deed of non-competition dated 3 December 2011 entered into by the Covenantors in favour of our Company, details of which are disclosed in the section headed “Relationship with Controlling Shareholders” in this Prospectus;
“Development Plans for Textile Industry”	development plans for the textile industry in the PRC issued by the General Office of the State Council of the People’s Republic of China (紡織工業調整和振興規劃);
“Director(s)”	the directors of our Company as at the date of this Prospectus;
“EIA”	the U.S. Energy Information Administration;
“EIT”	enterprise income tax payable under the EIT Law;
“EIT Law”	the enterprise income tax law of the PRC (中華人民共和國企業所得稅法);

## DEFINITIONS

“Enterprises With Scale”	enterprises each with an annual revenue of more than RMB5.0 million;
“Equipment Tax Reduction”	Jinyuan’s EIT reduction related to the purchase of domestic manufactured equipment and machinery for the years ended 31 December 2006 and 2007 of a total tax reduction of RMB38.4 million, approved by the <i>Jiangxi Administration of State Taxation of Yichun City</i> ;
“Facility One”	the first production facility built on our Company’s production base;
“Facility Two”	the second production facility built on our Company’s production base;
“Fengxin Investment”	Fengxin County Changxin Investment Development Limited (奉新縣長新投資發展有限公司), a company established in the PRC on 3 September 2007 and Chen Xiuyin (陳秀銀), a director of our subsidiary Jiangxi Jinyuan, holding 60% of its equity interests;
“Fengxin Real Estate”	Fengxin Baocheng Real Estate Limited (奉新寶誠房地產有限公司), a company established in the PRC on 10 October 2009 and Zheng Yongxiang, our Director, holding 51% of its equity interests;
“Flourish Talent”	Flourish Talent Group Limited, a company incorporated in BVI on 12 January 2011, the entire issued share capital of which is owned by Mr. Sze;
“GDP”	gross domestic products;
“Global Offering”	the Hong Kong Public Offer and the International Placing;
“Green Application Form(s)”	the application form(s) to be completed by White Form eIPO Service Provider;
“HK\$” or “HK dollar(s)” and “cent(s)”	Hong Kong dollar(s) and cent(s) respectively, the lawful currency of Hong Kong;
“HKICPA”	Hong Kong Institute of Certified Public Accountants;
“HKSCC”	Hong Kong Securities Clearing Company Limited;

## DEFINITIONS

“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Hong Kong Offer Shares”	the 25,000,000 Shares being initially offered by us for subscription pursuant to the Hong Kong Public Offer subject to re-allocation as described in the section headed “Structure of the Global Offering” in this Prospectus;
“Hong Kong Public Offer”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price, on and subject to the terms and conditions described in this Prospectus and the Application Forms;
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offer listed in the section headed “Underwriting — Underwriters — Hong Kong Underwriters” in this Prospectus;
“Hong Kong Underwriting Agreement”	the underwriting agreement relating to the Hong Kong Public Offer entered into, among others, between our Company, the Controlling Shareholders, the Sole Global Coordinator and the Hong Kong Underwriters dated 9 December 2011;
“IFRS”	International Financial Reporting Standard(s);
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) our Directors, chief executive or substantial shareholders (within the meaning of the Listing Rules) of our Company, our subsidiaries or any of their respective associates, and not otherwise a connected person of our Company;
“Integrity Technology”	Integrity Technology Investment Ltd., a company incorporated in BVI on 25 January 2011, the entire issued share capital of which is owned by Ms. Chow;
“International Placing”	the conditional placing by the International Underwriters of the International Placing Shares, as further described in the section headed “Structure of the Global Offering”;
“International Placing Shares”	the 225,000,000 Shares (subject to re-allocation and the Over-allotment Option as described in the section headed “Structure of the Global Offering” in this Prospectus) being initially offered by us for subscription pursuant to the International Placing together, where relevant, with any additional Shares to be issued pursuant to the exercise of the Over-allotment Option;
“International Underwriters”	the underwriters of the International Placing;

## DEFINITIONS

“International Underwriting Agreement”	the underwriting agreement expected to be entered into on or around 15 December 2011 by our Company, the Controlling Shareholders, the Sole Global Coordinator and the International Underwriters in respect of the International Placing, as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses — International Placing” in this Prospectus;
“Issuing Mandate”	the unconditional mandate granted to our Directors to allot and issue Shares pursuant to the resolutions as set out in the paragraph headed “Resolutions in Writing of All the Shareholders Passed on 3 December 2011” in Appendix VI to this Prospectus;
“Jiangxi Jinyuan” or “Jinyuan”	Jinyuan Textile Co., Ltd. Jiangxi (江西金源紡織有限公司), a wholly foreign-owned enterprise established in the PRC on 10 October 2005 and is a wholly-owned subsidiary of our Company;
“Jinlun Company”	Fujian Jinlun Fiber Joint Stock Co., Ltd. (福建省金綸高纖股份有限公司) (formerly Fujian Jinlun Petrochemical Fiber Industry Co., Ltd.)(福建金綸石化纖維實業有限公司)), a company established in the PRC on 11 November 2003 which, other than Fengxin Investment holding 3.45% of the equity interests and Zheng Baoyou (鄭寶佑) (the father of Mr. Zheng and Zheng Yongxiang) being its chairman, has no connection with our Controlling Shareholders, Directors and their respective associates;
“Jolly Success”	Jolly Success International Limited, a company incorporated in BVI on 3 March 2011 and is a wholly-owned subsidiary of our Company;
“Latest Practicable Date”	5 December 2011, being the latest practicable date prior to the printing of this Prospectus for the purpose of ascertaining certain information contained in this Prospectus prior to its publication;
“Listing”	the listing of the Shares on the Main Board;
“Listing Committee”	the Listing Committee of the Stock Exchange;
“Listing Date”	the date, expected to be on or about 22 December 2011, on which dealings in the Shares first commence on the Stock Exchange;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time);
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange;
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company;

## DEFINITIONS

“Modern Creative”	Modern Creative Group Limited, a company incorporated in the BVI on 12 February 2002 and is owned by Liu Shu Fa as to 50% and Wang Juan as to 50%. Wang Juan is the spouse of Liu Shu Fa;
“Mr. Sze”	Sze Irons, J.P., a substantial shareholder of our Company and a non-executive Director;
“Mr. Lin”	Lin Sing Yun (former name Lin Chong Yang (林重陽), a shareholder of our Company;
“Mr. Zheng” or “Mr. Zheng Hong”	Zheng Hong, the controlling shareholder of our Company and an executive Director;
“Ms. Chow”	Chow Ping, a shareholder of our Company;
“National Bureau of Statistics of China”	the <i>National Bureau of Statistics of China</i> (中華人民共和國國家統計局);
“Offer Price”	the final offer price per Offer Share (excluding brokerage fee, SFC transaction levy and Stock Exchange trading fee) which will be not more than HK\$0.73 and is expected to be not less than HK\$0.60, such price to be determined on or before 15 December 2011 or such later date not later than 20 December 2011 as may be agreed between our Company and the Sole Lead Manager (on behalf of the Underwriters);
“Offer Shares”	the International Placing Share(s) and the Hong Kong Offer Share(s), and where relevant, together with any additional Share(s) issued pursuant to the exercise of the Over-allotment Option;
“our Company” or the “Company”	China Weaving Materials Holdings Limited (中國織材控股有限公司) (formerly China Weaving Materials Holdings Ltd.), a company incorporated with limited liability under the laws of the Cayman Islands on 4 May 2011;
“our Group”, the “Group”, “we” or “us”	our Company and our subsidiaries following the completion of the Corporate Reorganisation, and a Group company shall refer to any one of them;
“Over-allotment Option”	the option to be granted by our Company to the International Underwriters exercisable by the Sole Lead Manager on behalf of the Placing Underwriters, pursuant to which our Company may be required to allot and issue up to 37,500,000 additional new Shares, representing 15% of the Offer Shares initially available under the Global Offering at the Offer Price, to, among other things, cover over-allocations of the International Placing (if any) as further described in the section headed “Structure of the Global Offering”;

## DEFINITIONS

“PBOC”	the People’s Bank of China (中國人民銀行);
“Popular Trend”	Popular Trend Holdings Limited, a company incorporated in BVI on 22 November 2010, the entire issued share capital of which is owned by Mr. Zheng;
“PRC Government”	the central government and local government entities of the PRC including all government subdivisions and instrumentalities thereof or, where the context requires, any of them;
“Pre-IPO Investment Agreement”	the agreement dated 23 December 2009 (which is supplemented and amended by a supplemental agreement dated 7 May 2011) and entered into between Mr. Zheng, Mr. Sze, Mr. Lin, Ms. Chow and the Pre-IPO Investor;
“Pre-IPO Investor” or “Orient Dynasty”	Orient Dynasty Holdings Limited, a company incorporated in BVI on 27 November 2009, the entire issued share capital of which is owned by Modern Creative;
“Price Determination Date”	the date, on which the Offer Price is determined, which is expected to be on or around 15 December 2011 but no later than 20 December 2011;
“Property Valuation Report”	the property valuation report prepared by Jones Lang LaSalle Sallmanns Limited as set out as Appendix IV to this Prospectus;
“Prospectus”	this prospectus dated 12 December 2011;
“Regulation S”	Regulation S under the U.S. Securities Act;
“Repurchase Mandate”	the unconditional mandate granted to our Directors to repurchase Shares pursuant to the resolutions as set out in the paragraph headed “Resolutions in Writing of All the Shareholders Passed on 3 December 2011” in Appendix VI to this Prospectus;
“RMB”	Renminbi, the lawful currency of the PRC;
“SAFE”	the <i>State Administration of Foreign Exchange of the PRC</i> (中華人民共和國國家外匯管理局);
“SAT”	the <i>State Administration of Taxation of the PRC</i> (中華人民共和國國家稅務總局);
“SFC”	the Securities and Futures Commission of Hong Kong;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.10 each in the capital of our Company, which are to be subscribed for and traded in Hong Kong dollars and listed on the Stock Exchange;



## DEFINITIONS

“Share Lender”	Popular Trend;
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 3 December 2011, the principal terms of which are summarised under the paragraph headed “Share Option Scheme” in Appendix VI to this Prospectus;
“Shareholder(s)”	holder(s) of the Share(s);
“Sole Global Coordinator”, “Sole Bookrunner” or “Sole Lead Manager”	Guotai Junan Securities (Hong Kong) Limited, a corporation licensed to engage in types 1 and 4 regulated activities under the SFO, the sole bookrunner and sole lead manager of the Global Offering;
“Sole Sponsor” or “Guotai Junan”	Guotai Junan Capital Limited, a corporation licensed to engage in type 6 regulated activity under the SFO;
“Stock Borrowing Agreement”	the stock borrowing agreement to be entered into between the Sole Lead Manager and the Share Lender;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	has the meaning ascribed thereto in section 2 of the Companies Ordinance;
“Track Record Period”	the three years ended 31 December 2010 and the six months ended 30 June 2011;
“Treasure Resources”	Treasure Resources Corporation Limited, a company with limited liability incorporated in Hong Kong on 13 April 2011 and is a wholly-owned subsidiary of our Company;
“Underwriters”	the Hong Kong Underwriters and the International Underwriters;
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement;
“United States” or “U.S.”	the United States of America within the meaning of Regulation S;
“U.S. Securities Act”	the securities laws of the United States, including the Securities Act of 1933, as amended, and the regulations of the U.S. Securities and Exchange Commission promulgated pursuant thereto;
“US dollars” or “US\$”	United States dollars, the lawful currency for the time being of the United States;
“VAT”	value-added tax;

## DEFINITIONS

“ <b>White Form eIPO</b> ”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of <b>White Form eIPO</b> <a href="http://www.eipo.com.hk">www.eipo.com.hk</a> ;
“ <b>White Form eIPO Service Provider</b> ”	Computershare Hong Kong Investor Services Limited;
“WTO”	the World Trade Organisation; and
“%”	per cent.

*Certain amounts and percentage figures included in this Prospectus have been subject to rounding adjustments. Unless otherwise stated, all the numerical figures are rounded to one decimal place. Any discrepancy in any table between totals and sums of individual amounts listed in any table are due to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

*In this Prospectus, unless otherwise stated, certain amounts denominated in Renminbi have been translated into HK dollars at an exchange rate of RMB1 = HK\$1.25 for illustration purpose only. Such conversions shall not be construed as representations that amounts in Renminbi were or could have been or could be converted into HK dollars at such rates or any other exchange rates on such date or any other date.*

*If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese is for identification purpose only.*

*Unless otherwise specified, all relevant information in this Prospectus assumes no exercise of the Over-allotment Option.*

## GLOSSARY

### GLOSSARY OF TECHNICAL TERMS

*This glossary contains explanations of certain terms and definitions used in this Prospectus in connection with our Group and its business. The terms and their meanings may not correspond to standard industry meaning or usage of those terms.*

“blowing”	the process of loosening raw materials from bale form into loose tufts (清花);
“carding”	the process of separating loose tufts into individual short fibres (梳棉);
“coloured polyester-cotton blended yarn(s)”	a type of polyester-cotton blended yarn in which the polyester fibre contains colour pigment (彩色滌棉混紡紗);
“cotton yarn(s)”	cotton thread used in knitting and weaving which is produced from raw cotton (棉紗);
“coarse-count”	18 counts and below according to the CCA;
“count”	represents the number of coils composing a yarn, which directly affects the softness of the textile produced. The higher the count, the finer the textile;
“fine-count”	29 to 59 counts according to the CCA;
“ISO”	the <i>International Organisation for Standardisation</i> , a worldwide federation of national standards bodies from all over the world;
“ISO 9001”	the international standards of quality management and quality assurance formulated by ISO Technical Committee 176 (ISO/TC176) in 1987, the most recent upgraded version of which: ISO 9001 2000 was released in December 2000. Many countries, including Britain and U.S. have adopted ISO 9001 as national quality standards;
“ISO 14001”	the international standards of environmental management formulated by ISO/TC 207;
“kg”	kilogramme(s);
“km”	kilometre(s);
“medium-count”	19 to 28 counts according to the CCA;
“open-end spinning”	a technology utilising waste materials for creating yarn without the use of a spindle, but produced by putting twist into the yarn without turning the bobbin (氣流紡);
“open-end spun yarn(s)”	yarns produced using the open-end spinning technology (氣流紡紗線);

## GLOSSARY

“polyester-cotton blended yarn(s)”	a blended yarn consisting of polyester and cotton blended in proportion to determined percentages, of which the cotton is processed with or without combing (滌棉混紡紗);
“polyester yarn(s)”	yarns produced from polyester staple fibre, which can be used in knitting and weaving (滌綸紗);
“polyester staple fibre(s)”	a type of polyester fibre produced in determined lengths for the production of pure yarns or blending with other fibres, such as cotton (滌綸短纖維);
“raw cotton”	fine staple cotton used as raw materials in yarn production (原棉);
“roving”	is the processing of assembling sliver in even and parallel form to further make the sliver thinner (粗紗工序/粗紗);
“sliver”	a continuous bundle of loosely assembled untwisted fibres. These are fibres that are drawn from the carding process;
“spindles”	a unit of measurement for production capacity (紗錠);
“tonne(s)”	metric tonne(s); one tonne is equal to 1,000 kg;
“tpa”	tonne(s) per annum; and
“yarn products”	include polyester yarns, polyester-cotton blended yarns and cotton yarns.

## FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and plan of operation;
- our plans of expansion of our production capacity;
- our capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- our operations and business prospects;
- our dividend policy;
- projects under construction or planning;
- the regulatory environment of our industry in general; and
- the prospects and future development in our industry.

The words “anticipate”, “believe”, “could”, “expect”, “intend”, “may”, “plan”, “seek”, “will”, “would” and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. One or more of these risks or uncertainties may materialise, or underlying assumptions may prove incorrect. Our Directors confirm that these forward-looking statements are made after due and careful consideration. Although our Directors believe that our current views as reflected in those forward-looking statements based on currently available information are reasonable, we cannot assure you that those views will prove to be correct, and investors are cautioned not to place undue reliance on such statements.

Subject to the requirements of the Listing Rules, we do not intend to publicly update or otherwise revise the forward-looking statements in this Prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this Prospectus are qualified by reference to this cautionary statement.

## RISK FACTORS

*Investing in our Offer Shares involves a high degree of risk. Potential investors should consider carefully all the information set out in this Prospectus and, in particular, should consider and evaluate the following risks associated with an investment in our Company before making any investment decision in relation to our Company. Additional risks and uncertainties not presently known to our Group or that our Group currently deems immaterial could also harm the business, financial condition and operating results of our Group.*

### RISKS RELATING TO OUR BUSINESS

**We may not be successful in effectively and efficiently implementing our business plans and we may not achieve our desired results from the implementation of such plans.**

We seek to maintain our leading position in the textile industry in Jiangxi Province in terms of revenues and to continue to increase our sales in the domestic market by expanding our production capacities and our product portfolio for our yarn products. We plan to further increase our production capacity beyond approximately 321,000 spindles after Listing. In addition, we plan to engage in the production of coloured polyester-cotton blended yarns. We plan to construct two workshops with an aggregate production capacity of approximately 60,000 spindles for the production of coloured polyester-cotton blended yarns and 20,000 spindles for the production of open-end spun yarns.

Any unanticipated delay in completion of the workshops or any cost overrun may result in a material adverse effect on our business, financial condition, results of operations and growth prospects. Even if we complete the workshops within our desired time frame and budget, we may still be subject to various operational risks and we cannot guarantee that there will not be: (i) any failure to operate at the expected designed capacity or efficiency; (ii) any insufficiency in purchase orders for our products or in the raw materials for our additional production capacity; (iii) any difficulty in recruiting and retaining adequate skilled and experienced staff with technical expertise; or (iv) any other factors beyond our control. Any event of such kind may result in a material adverse effect on our business, financial condition, results of operations and growth prospects, and may result in our failure to achieve our expected results of operations.

The implementation of these business plans requires us to effectively and efficiently manage our sales, marketing, procurement, construction and other aspects of our operations. If we fail to effectively and efficiently implement our business plans, or if we fail to anticipate customer needs and market demands accurately, in particular, in regions which have not historically been our focused markets, we may not be successful in achieving desirable and profitable results. Even if we effectively and efficiently implement our business plans, there may be other unexpected events or factors that prevent us from achieving the desirable and profitable results from the implementation of our business plans. Our financial condition, results of operations and growth prospects may be materially and adversely affected if our future business plans fail to achieve positive results.

**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.**

Our raw materials consist of polyester staple fibre and raw cotton. For the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, polyester staple fibre accounted for 83.7%, 79.2%, 76.3% and 67.8% of our total cost of raw materials, respectively. During the same periods, raw cotton accounted for the remaining 16.3%, 20.8%, 23.7% and 32.2% of our total cost of raw materials, respectively. Our total cost of raw materials accounted for 82.3%, 78.3%, 81.7% and 83.2% of our total cost of sales for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30

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June 2011, respectively. Polyester staple fibre is derived from crude oil and therefore fluctuations in crude oil price and supply also affect the price and supply of polyester staple fibre. Cotton is an agricultural product and therefore its supply and quality are vulnerable to factors beyond our control, including weather, infestations and other forces of nature that can result in shortages in supply and increases in cotton price. During the Track Record Period, 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 according to the *China Chemical Fibre* website. According to *Wind Info*, price of polyester staple fibre increased significantly from RMB7,500.0 per tonne in January 2009 to RMB14,900.0 per tonne in February 2011. From 2008 to 2010, the movements in prices of cotton in China demonstrated a similar trend as that of the international prices of cotton, and recorded an average price of RMB13,096.8 per tonne, RMB12,804.4 per tonne and RMB19,373.3 per tonne, respectively. To meet our production and delivery schedules, we must obtain sufficient quantities of raw materials on a timely basis at commercially reasonable terms from our suppliers.

During the Track Record Period, we did not experience any disruption in our production due to shortage of raw material supplies or significant increases in raw material prices. If there is a significant increase in the prices of raw materials in the future, our profitability would be materially adversely affected if we are unable to pass on the increase in cost of raw materials to customers.

During the Track Record Period, we had maintained an average inventory level to meet four weeks of production demand for polyester staple fibre and four to five weeks of production demand of raw cotton. 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 yarn 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.

### **We rely on a small number of suppliers for a significant portion of our raw material purchases.**

We rely on a small number of suppliers to supply us with a significant portion of raw materials for our production. We generally do not enter into any long-term supply agreement with our raw material suppliers, except for certain framework supply agreements with a few suppliers. For the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, purchases from our five largest suppliers was RMB344.4 million, RMB402.1 million, RMB453.5 million and RMB281.2 million, which accounted for 72.4%, 72.9%, 59.5% and 69.3%, respectively, of our total purchases. We cannot assure you that our major suppliers will not give priority or more favourable terms to other customers, or that they will maintain the same quality and quantity of raw material supply to us, or that they will continue to supply us with raw materials at all. If any of the abovementioned events occur, we may need to find alternative suppliers and on terms acceptable to us. If we fail to do so in a timely manner and/or on acceptable terms, our production may be interrupted, our production costs may increase and our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

### **We may be unable to secure enough capital to implement our expansion plans in full and to finance our increased working capital requirements.**

We need additional capital to fund our capital expenditure associated with expansion of our production capacity through the acquisition of new production equipment and machinery and technology upgrades in the future. For the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, our capital expenditure was RMB137.0 million, RMB12.3 million, RMB20.7 million and RMB31.6 million, respectively, primarily as a result of the expansion of our production capacity.

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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. There is no assurance that we will generate sufficient cash flow from operating activities for our intended expansion plans. In the event we do not have such operating cash flow, we will need to obtain alternative financing. There is no assurance that we will be able to obtain adequate financing on acceptable terms, or at all. Our ability to obtain additional capital on acceptable terms will be subject to a variety of uncertainties, including:

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

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

**We may not be able to 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.**

The gross profit margin increased from 5.5% for the year ended 31 December 2008 to 13.1% for the year ended 31 December 2009 and further to 16.1% for the year ended 31 December 2010. However, we cannot assure you that we will be able to maintain the increasing trend of our gross profit margin or to maintain our gross profit margin at or higher than its historical level during the Track Record Period as the average unit selling price of our products and our raw material prices may be affected by a variety of factors, including changes in the general market supply and demand of polyester yarns, polyester-cotton blended yarns and cotton yarns and other materials, the changes in taxation and export policies, and various other factors that are beyond our control.



## RISK FACTORS

In addition, we had not made any provision for EIT during the Track Record Period because the tax concession granted to Jinyuan, as a result of the purchase of certain domestic manufactured equipment and machinery, had offset the EIT otherwise payable for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011. As such, we will be required to make provision and pay EIT at a statutory EIT rate of 25% starting from July 2011.

Our financial conditions and results of operations may be adversely affected by any decrease in gross profit margin or any provision of EIT in the future.

### **We recorded net current liabilities positions during the Track Record Period.**

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. We cannot assure you that we will not record any net current liability in the future. Our net current liabilities position exposes us to certain liquidity risks. Our future liquidity, the payment of trade and other payables, and the repayment of outstanding debt obligations as and when they become due will primarily depend on our ability to maintain adequate cash inflows from operating activities and adequate external financing. Further, we might have to finance part or all of our capital expenditure in the future by means of short term borrowings. Our operating cash flows could be adversely affected by numerous factors, including the increase in market competition, decreased demand for our products and higher raw material prices. We had 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 for the settlement of note payables. Servicing our debt and other fixed payment obligations will further divert our cash flow from our operations and planned capital expenditures. Furthermore, the interest cost of such obligations could undermine our future profitability.

### **We were previously involved in bill financing transactions through issuance of note payables and endorsement of note receivables that were not fully in compliance with the relevant credit agreements and *PRC Negotiable Instrument Law*.**

From May 2008 to August 2009, we obtained additional funding for our business operations through issuing bank acceptance notes that were within the credit limits stipulated by the endorsing banks and supported by the initial deposits by us, but were used for purposes other than the payment for the purchases from relevant suppliers as stipulated in the relevant credit agreements. See "Business — Non-Compliant Bill Financing." Our PRC legal adviser, Commerce & Finance, advised us that such bill financing arrangements did not comply with the credit agreements and Article 10 of the *PRC Negotiable Instruments Law*. Although we have obtained the written confirmation letters from the relevant endorsing banks and regulatory authorities, there is no assurance that the relevant regulatory authorities will not penalise us for these bill financing arrangements in the future. Any such penalties may materially and adversely affect our business, financial condition and results of operations.

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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 companies for financing purposes. As advised by our PRC legal advisors, Commerce & Finance, the arrangement that Jinyuan endorsed the note receivable to Baoyuan for financing purposes was not in compliance with the *PRC Negotiable Instruments Law*. Such endorsement arrangements for financing purposes did not result in any loss to our Endorsing Banks or any third party and no dispute or liability has arisen or will arise from such endorsement arrangements and no civil litigation or arbitration has arisen or will arise from such endorsement arrangements as at the Latest Practicable Date. However, we cannot assure you that any other third party involved in the transactions concerning such notes will not claim against us as a result of our endorsement. Any such claim may materially and adversely affect our business, financial condition and results of operations.

**We are exposed to credit risks of our customers and do not have access to all credit information of our customers to determine their credit worthiness.**

We rely on the businesses generated by our customers. While 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, we may grant credit periods of 15 to 90 days to certain customers depending on the relationship and credibility of such customers. However, we do not have access to all information of our customers to determine their credit worthiness. Some of our customers have only had a short business history with us. Our customers may discontinue, limit or fail to enhance their respective current level of business engagements with us. The complete financial and operational information of our customers is not always available to our Directors, and our Directors are not in any position to obtain such information. If any of our major customers experience any financial difficulty, our business with such customers and settlement of outstanding amounts owing to us may be adversely affected notwithstanding that we have conducted our ongoing credit analysis of our customers, including relying on factors such as the duration of business relationships, third party or governmental referral or introduction, our experience in dealing with such customers, market reputation, our business judgement and the settlement history in assessing our customers and monitoring our business and credit risks. However, any deterioration of the financial status of our customers may cause reduction in their orders for our products and/or expose us to higher credit risks in terms of their timeliness of payments which may in turn adversely affect our results of operations and profitability. In addition, while we had not incurred any bad debt during the Track Record Period, there is no assurance that we will not incur any bad debts in the future.

**We generally do not enter into long-term contracts with our customers and are thus subject to uncertainty and potential volatility with respect to our revenue from period to period.**

We enter into individual sales orders with our customers for sales of our products and we do not have long-term contracts with them. We typically deliver our yarn products within one to two days after we enter into such sales orders, as we implement inventory policies to maintain at least the required level of raw material inventory and the required level of finished goods inventory, respectively, at our storage facilities. As a result, if our customers decide not to purchase any of the yarn products from us, change any of their yarn products suppliers or propose new terms of sales unacceptable to us, change their business models, change the raw materials used in their production or other industrial, political or environmental reasons or otherwise, our sales may decline if we are unable to find alternative purchasers in a timely manner. In such event, our business, financial condition, results of operations and growth prospects may be adversely affected.

## RISK FACTORS

### **Our sales are geographically concentrated in Guangdong Province and Zhejiang Province.**

Although our sales are not concentrated in a small number of customers, a majority of our sales are concentrated in Guangdong Province and Zhejiang Province. Our revenue derived from sales to our customers situated in Zhejiang Province, Guangdong Province, Jiangxi Province and Jiangsu Province, from where over 46%, 26%, 6% and 1% of our total revenue, respectively, for each year/period during our Track Record Period were generated. For the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, revenue generated from customers situated in Guangdong Province accounted for 26.6%, 32.1%, 26.3% and 28.6% of our total revenue, respectively, while revenue generated from customers situated in Zhejiang Province accounted for 50.6%, 50.7%, 53.3% and 46.6% of our total revenue, respectively. Due to such revenue concentration, our business may be affected significantly by natural, economic or social events and circumstances in Guangdong Province or Zhejiang Province. If events or circumstances arise in Guangdong Province or Zhejiang Province that cause detrimental effect to us, our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

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

We believe that our success is, to a certain extent, attributable to the extensive industry knowledge and experience of our management team. The details of our management team, including their relevant areas of expertise, are set out in the section headed “Directors, Senior Management and Employees” in this Prospectus. The dedication of our senior management team has contributed to the stability of our senior management. Our continued success is dependent, to a large extent, on the ability to attract and retain the services of the key management team, including our executive Directors, Mr. Zheng, who is also our chairman, and Mr. Zheng Yongxiang, who is also the general manager of Jinyuan. We believe that an experienced management team as well as dedicated members of staff will contribute significantly to our future growth. Accordingly, the loss of services of any of our key management without suitable and timely replacements may lead to disruption in our operations, loss or deterioration of important business relations and have a material adverse effect on our business operations and prospects.

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

Our production remains highly labour-intensive. As at 30 June 2011, we had a total of 1,855 employees. Our total labour costs excluding Directors’ remuneration amounted to RMB33.7 million, RMB45.3 million, RMB47.1 million and RMB27.0 million for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively. There is no guarantee that our supply of labour and labour cost will continue to be stable. If we fail to retain our existing labour and/or recruit sufficient labour in a timely manner, we may not be able to accommodate sudden increase in demand for our yarn products or our expansion plans. If we are not able to manufacture and deliver our yarn products on schedule or if we are unable to implement our expansion plans, our business, financial condition, results of operations and prospects would be materially adversely affected. Furthermore, if there is a significant increase in labour cost, the cost of our business operation would increase and our profitability would be adversely affected.

### **We may face disruptions in our production.**

Our revenue is dependent on the continued operation of our production facilities. Our production process is subject to risks beyond our control including, amongst others, fire, breakdown, failure or substandard performance of our equipment and machinery, power shortage, labour strikes, natural disasters and any interruption in our operations as a result of any failure to comply with all applicable laws, regulations and standards in the PRC. Frequent or prolonged occurrence of any of the aforesaid

## RISK FACTORS

events may have a material adverse effect on our business, financial condition and results of operation. We had experienced intermittent power supply disruption in our production due to the ice storm in southern China from late January to early February 2008, which also caused intermittent interruption to our production. As a result, our production volume in January was slightly reduced and our production was also suspended for four days in early February 2008. We cannot assure you that similar disruption will not occur in the future.

### **We rely on external supplies of electricity and water for our production processes.**

We rely on external supply of electricity and water in our production. The continued and stable supply of electricity and water is therefore crucial to our production activities. Our electricity is supplied through a designated power line that is directly connected to our production base. We do not have any contingency plan in the event of power cut. We rely on the local municipal water supply system for the water used in our production. We had experienced intermittent power supply disruption in our production due to the ice storm in southern China from late January to early February 2008, which also caused intermittent interruption to our production. As a result, our production volume in January was slightly reduced and our production was also suspended for four days in early February 2008. We cannot assure you that similar disruption will not occur in the future, that our power line can provide us with electricity in a continued and stable manner or at all, nor that our water conservation system alone can provide us with sufficient water to carry on our operations. If our electricity or water supply is disrupted and if we are unable to restore such supply or find alternative sources in a timely manner or at all, our production may be disrupted and our business, financial condition, results of operations and growth prospects may be adversely affected.

### **Failure to maintain an effective quality control system may result in loss.**

The performance and quality of our products are critical to the success of our business. These factors depend significantly on the effectiveness of our quality control system, which in turn, depends on a number of factors, including the design of the system, the quality training programme, and our ability to ensure that our employees adhere to our quality control policies and guidelines. Any significant failure or deterioration of our quality control systems could have a material adverse effect on our business, financial condition, results of operation and growth prospects. Accordingly, any significant failure or deterioration of our quality control system could result in us harming our recognition and certifications, which in turn could have a material adverse effect on our reputation and growth prospects.

### **The preferential EIT rate we have enjoyed may not recur.**

The EIT Law was promulgated by the *National People's Congress* on 16 March 2007 and became effective on 1 January 2008. The EIT Law imposes a uniform income tax rate of 25% on both domestic and foreign invested enterprises. It also contemplates various transition periods for existing preferential tax treatments. According to the *Notice of the State Council on the Implementation of the Transitional Preferential Policies in respect of Enterprise Income Tax* (《國務院關於實施企業所得稅過渡優惠政策的通知》) (the "Notice") and effective from 26 December 2007, enterprises entitled to preferential EIT rate prior to the effective date of the EIT Law must gradually apply the uniform tax rate of 25% within five years from 1 January 2008. Enterprises entitled to preferential EIT deduction and exemption periods prior to the effective date of the EIT Law are able to continue to enjoy the relevant preferential treatments after the implementation of the EIT Law until they expire. 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. Our 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 is subject to a tax rate of 25% from 1 January 2011 onwards and the preferential EIT rate we have enjoyed may not recur. No

## RISK FACTORS

income tax expense had been recorded for our Group for each of the years ended 31 December 2008, 2009 and 2010 as any EIT payable for each of the years had been offset by the Equipment Tax Reduction. 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. In addition, we cannot anticipate that the PRC Government will not increase the tax rate for foreign-invested enterprises in China. The resulting increase in our tax liability would have a material adverse effect on our net profits and cash flow.

**We complied with regulations and policies of social insurance funds and housing funds only to the extent required by the local authority during the Track Record Period, which have different interpretation and implementation of the national laws and policies on the same matter.**

We contribute to social insurance funds and housing fund to the extent required by the local authority where we operate our business. We have been making payments to selected social welfare schemes in accordance with relevant social insurance policies and regulations carried out by the local social insurance authority, including the *Notice on the City Labour and Social Security Bureau’s, Approved by the People’s Government of Yichun City, Suggestions to Further Promote Industrial Enterprises to Participate in Social Insurance ([2008] No. 20)* (《宜春市人民政府批轉市勞動和社會保障局關於進一步促進工業園區企業參加社會保險的幾點意見的通知》(宜府發[2008]20號)). As acknowledged by the social insurance authority, Jinyuan has complied with the relevant local regulations and policies.

The *Fengxin County Human Resource and Social Security Bureau* (奉新縣人力資源和社會保障局) has confirmed in writing that: (i) since the incorporation of our PRC subsidiary, Jinyuan, we have fully paid all social insurance payments in compliance with the relevant local social insurance policies and regulations; (ii) we will not be required to make further contributions; and (iii) we were not subject to any investigation or administrative penalty by the *Fengxin County Human Resource and Social Security Bureau*. The *Fengxin County Office of the Housing Fund Management Centre of Yichun City* (宜春市住房公積金管理中心奉新縣辦事處) has confirmed in writing that: (i) since the incorporation of our PRC subsidiary, Jinyuan, we have provided dormitories for our employees; (ii) we have fully paid all housing funds in compliance with the relevant local housing fund policies and regulations; and (iii) we will not be subject to any investigation or administrative penalty by the *Fengxin County Office of the Housing Fund Management Centre of Yichun City* (宜春市住房公積金管理中心奉新縣辦事處). Accordingly, we do not consider it is necessary to make a provision for the difference between social insurance and housing fund contributions required under relevant local policies and regulations.

We cannot assure you that the interpretation and implementation of relevant social insurance policies and laws and regulations by the local social insurance authority will remain consistent in the future or if there is any change in their interpretation or implementation, whether such change would have retrospective effect. We also cannot assure you that there will not be labour disputes or claims in respect of employee complaints regarding payment of basic pension, basic medical, unemployment, work-related injury and/or maternity insurance and housing fund contributions or that such claims will not be brought against us in the future, and that we will not be required to pay such contributions or any related damage in the future. The occurrence of any of the above could have an adverse effect on our results of operation and financial performance.



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In addition, we can give no assurance that the local authorities do not interpret and implement the national laws and policies on social insurance and housing funds differently. In particular, according to the *Social Insurance Law of the PRC*, which was promulgated at the national level and became effective on 1 July 2011, employers are required to make contributions to, and employees, including migrant workers from rural areas, are required to participate in, all social insurance schemes. To the extent that there are any difference between the *Social Insurance Law of the PRC* and the policies and regulations of the local authorities, we may be required to comply with the *Social Insurance Law of the PRC*.

**Our operations are subject to uncertainties and we may not have sufficient insurance coverage for all the risks related to our operations.**

According to the relevant PRC laws and regulations on social insurance, we are required to pay basic pension, basic medical, unemployment, work-related injury and maternity insurances for our employees. Our social insurance contributions did not cover all of our employees during the Track Record Period. We maintain insurance policies covering risks in respect of buildings in our production base, equipment and machinery and vehicles used in our operations. There is no assurance that our insurance coverage would be sufficient to cover all our potential losses. For further details on the insurance policies we maintain, please see the section headed “Business — Insurance” in this Prospectus. In the event that our insurance policies cannot sufficiently compensate for our losses sustained as a result of damage to items covered or howsoever incurred, we would have to pay for the difference ourselves and our cash flow and liquidity could be adversely affected. In addition, we do not maintain product liability insurance, business interruption insurance or third-party liability insurance for claims of personal injury or property damage arising from accidents relating to our operations. If any of these events which we have not maintained insurance occur, it may cause significant cost and our business, financial condition and results of operations may be adversely affected.

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

We rely on registration to protect our intellectual property rights. As at the Latest Practicable Date, our application to register the trademark “ 全源来” was opposed by a third party and is pending the ruling of the *Trademark Office of the State Administration for Industry and Commerce of the PRC*. Although we have not used the trademark in relation to our business or granted other parties the right to use this trademark, if the *Trademark Office of the State Administration for Industry and Commerce of the PRC* rules against our application, we will not have the exclusive rights to use this trademark for our business operations. As at the Latest Practicable Date, we were in the process of registering the trademark “ ” with the Hong Kong Trademark Registry of the Intellectual Property Department of Hong Kong. For further details of our intellectual property rights, please see the section headed “Business — Intellectual Property Rights” in this Prospectus and “Statutory and General Information — Further Information about the Business of our Group — Intellectual Property Rights of Our Group — (a) Trademarks” in Appendix VI to this Prospectus. There is no assurance that our registration is sufficient to prevent any misappropriation of our intellectual property. In the event that third parties infringe our intellectual property rights, we may face considerable difficulties and time consuming and costly litigation in order to enforce our intellectual property rights. If we are not able to effectively protect our intellectual property rights, our business, results of operations and financial condition could be adversely affected.

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

### **Our policies in respect of management of financial risks may not be sufficient or effective.**

Our principal financial instruments include loans, trade receivables, note receivables, trade payables, note payables and bank borrowings. The main risks associated with certain of these financial instruments are interest rate risk, credit risk and liquidity risk. We do not hold or issue derivative financial instruments either for hedging or for trading purposes. Our policies for financial risk management may not be sufficient. Further, there is a lack of hedging tools against financial risks in the PRC. If we fail to maintain effective risk management policies in respect of any of the financial risks in the future, our business, financial condition and results of operation may be materially adversely affected.

### **RISKS RELATING TO THE INDUSTRY**

#### **Our business depends on China's economic and the global economic growth.**

Growth in demand for our yarn products is driven largely by the growth of the fabric and textile industries in China. In 2009, the economies of the United States, Europe and certain countries in Asia experienced economic slowdowns. In 2011, the credit rating of the United States was downgraded by Standard & Poor from AAA to AA-plus rating and certain European countries continue to suffer from an ongoing sovereign debt crisis. The global economic slowdown and financial crisis will affect global economic activity and potentially affect economic growth in China, such as the potential credit crisis in China arising from the liquidity issues for corporations in Wenzhou of Zhejiang Province. Our business and future prospects depend on China's economic growth, which in turn affects the demand for fabric and textile and its related products. Any further significant slowdown in economic growth rates in China or globally may reduce the demand, which may adversely affect our sales volumes, average unit selling prices of our yarn products, cause cancellation of sales or default on payment by our customers, and materially and adversely affect our business, financial condition, results of operations and profitability.

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. In response to a rapid increase in liquidity in the market as a result of fiscal stimulus measures, the PRC Government has recently implemented a number of measures to control such increase, including raising interest rates. The continuation of these trends may make it difficult for us to obtain financing in the future and may have a material and adverse effect on our business, financial condition and results of operations.

## RISK FACTORS

**We operate in a highly competitive industry and we may lose our business opportunity in the market if we do not compete successfully.**

Our industry is highly competitive. In particular, competition among polyester yarn and cotton yarn manufacturers in the PRC is intense. Our competitors include domestic and international manufacturers of polyester yarns, polyester-cotton blended yarns and cotton yarns and numerous smaller companies which produce more common types of polyester, polyester-cotton blended and cotton yarns. We expect that competition in the polyester yarns and cotton yarns market will continue to be intense and some of these competitors may be able to adapt to changes in the industry more quickly than we can by adopting more aggressive pricing policies or other measures. Increased competition could result in material price reductions in the products we sell or may lose our business opportunity in the market. If we are unable to remain competitive, our business, financial condition, results of operations and growth prospects may be adversely affected.

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

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

In September 2006, the *Ministry of Commerce of the PRC* promulgated the *Measures for the Administration of the Export of Textiles (Provisional)*. Under this system, effective on 18 September 2006, China-based textile manufacturers exporting to countries or regions that have imposed restrictions on Chinese textile exports or entered into bilateral agreements with China regarding temporary arrangements relating to the quantity of their imports of China-made textiles, are required to apply for a licence in order to export the affected categories of textiles products to these markets.

We do not export our products directly to overseas markets. However, our products may be utilised by our customers to produce textile products to be exported. Under current WTO rules, the United States, the European Union or other WTO member nations may impose import quotas, higher tariffs or other trade barriers on specific categories of textiles from China to prevent domestic market disruptions. If the countries to which our customers export were to impose quota restrictions or any other forms of trade restrictions such as annual growth limits on imports, technical regulations and standards on imports and environmental protection requirements against textile products from the PRC, our sales may decrease and our financial condition and results of operation may be adversely affected as a result.



## RISK FACTORS

### **Anti-dumping investigations and trade protection measures conducted by other countries on cotton or polyester yarns may have an adverse effect on our operations.**

In recent years, the United States and the European Union have launched a number of anti-dumping trade protection measures and investigations against products produced in the PRC. Although none of these measures or investigations target the products that we produce and we have not been subject to any anti-dumping trade protection measure or investigation in any country in the past, we cannot assure you that our products may not become the subject of such measures or investigations in the future. In the event our products become subject to anti-dumping trade protection measures, our business, financial condition, results of operations and growth prospects may be adversely affected.

### **RISKS RELATING TO THE PRC**

#### **Fluctuations in consumer spending in the PRC may significantly affect our business and financial performance.**

We believe the majority of our yarn products are used to produce fabrics and textiles which are then sold to manufacturers to produce consumer goods. Our sales and growth are indirectly dependent on consumer spending and the continued improvement of macroeconomic conditions in the PRC, where a substantial portion of our revenue have been generated in the past and are expected to be generated in the future. There are many factors affecting the level of consumer spending, including but not limited to, interest rates, currency exchange rates, recession, inflation, deflation, political uncertainty, taxation, stock market performance, unemployment levels and general consumer confidence. In addition, we believe that our historical growth rates were largely dependent on the general growth of the PRC economy. We can provide no assurance that the PRC economy will continue to grow at historical rates, or at all, and any slowdowns or declines in the PRC economy or consumer spending may materially and adversely affect our business, financial condition, results of operations and growth prospects.

#### **Adverse changes in the PRC economic, political and social conditions as well as laws and government policies, may materially and adversely affect our business, financial condition, results of operations and growth prospects.**

The economic, political and social conditions in the PRC differ from those in more developed countries in many respects, including structure, government involvement, level of development, growth rate, control of foreign exchange, capital reinvestment, allocation of resources, rate of inflation and trade balance position. For the past three decades, the PRC Government has implemented economic reform and measures emphasising the utilisation of market forces in the development of the PRC economy. Although we believe these economic reforms and measures will have a positive effect on the PRC's overall and long-term development, we cannot predict whether the resulting changes will have any adverse effect on our current or future business, financial condition or results of operations. Despite these economic reforms and measures, the PRC Government continues to play a significant role in regulating industrial development, allocation of natural resources, production, pricing and management of currency, and there can be no assurance that the PRC Government will continue to pursue a policy of economic reform or that the direction of reform will continue to be market friendly.

Our ability to successfully expand our business operations in the PRC depends on a number of factors, including macro-economic and other market conditions, and credit availability from lending institutions. The *China Banking Regulatory Commission* began implementing restrictions on bank lending in early 2010. Stricter lending policies in the PRC may affect our ability to obtain external financing, which may reduce our ability to implement our expansion strategies. We cannot assure you that the PRC Government will not implement any additional measure to tighten lending standards, or that, if any such measure is implemented, it will not adversely affect our future results of operations or profitability.

## RISK FACTORS

Demand for yarn products and our business, financial condition and results of operations may be adversely affected by the following factors:

- political instability or changes in social conditions of the PRC;
- changes in laws, regulations, and administrative directives or the interpretation thereof;
- measures which may be introduced to control inflation or deflation;
- changes in the rate or method of taxation; and
- reduction in tariff protection and other import and export restrictions.

These factors are affected by a number of variables which are beyond our control.

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

The use and exchange of foreign currencies are heavily regulated in the PRC and the Renminbi is not permitted to be wired directly to offshore accounts. As a foreign invested enterprise, our PRC subsidiary is subject to the regulatory restrictions imposed by the *State Administration of Foreign Exchange of the PRC* (“SAFE”). In general, foreign invested enterprises are allowed to open two types of foreign currency accounts, namely, “current account” and “capital account”. Conversion between the Renminbi and of the foreign currencies in the “current account” can be effected without requiring the approval by the SAFE while such conversion in the “capital account” requires approval. A payment to its foreign shareholders by a PRC foreign invested enterprise is considered a transaction under “capital account” and therefore subject to approval by the SAFE. In addition to the requirements imposed by the PRC laws and regulations, SAFE also has the discretionary authority to decide if an approval shall be granted. We cannot guarantee that our PRC subsidiary may always be able to obtain such approval from the SAFE for a distribution of dividends to our Company. As substantially all our operations are based in the PRC, we rely on dividends from our PRC subsidiary for cash resources to distribute dividends to our shareholders. If the SAFE rejects our request to exchange the Renminbi to foreign currencies and remit such amount to our offshore account, we may not be able to distribute dividends to our shareholders and your investment value in us may be materially affected.

The regulations on the management of foreign exchange may also affect our ability to utilise our proceeds from our Global Offering. Further, we cannot assure you that the PRC authorities will not impose further restrictions on methods by which the Renminbi can be converted into foreign currencies. If such measures are imposed in the future, our financial condition, results of operations and growth prospects may be adversely affected.

**The value of Renminbi and foreign currencies we trade in may fluctuate and may affect our results of operations.**

The value of the Renminbi has been under pressure of appreciation in recent years. There have been international pressures on the PRC to allow more flexible exchange rates for the Renminbi, hence allowing the Renminbi to appreciate. In June 2010, the PBOC announced that in view of the recent economic situation and financial market developments in the PRC and abroad, and the balance of payments situation in the PRC, it has decided to proceed further with reform of the Renminbi exchange rate regime and to enhance the Renminbi exchange rate flexibility. In addition, the exchange rate for the foreign currencies that our operations are exposed to, including but not limited to U.S. dollars and Euros, may also fluctuate against Renminbi.

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Any appreciation in the value of the Renminbi or depreciation of foreign currencies that our operations are exposed to will affect our business in different ways. Although the appreciation of the Renminbi or the depreciation of foreign currencies may give us access to less expensive raw materials, it may adversely affect the price competitiveness and profitability of the export-oriented apparel products manufactured by the PRC garment manufacturers in the PRC, as a result of which our sales may be affected. We may also face more intense competition from imported polyester yarns, polyester-cotton blended yarns and cotton yarns at a cheaper price due to the appreciation of the Renminbi or depreciation of foreign currencies. In such events, our business, financial condition, results of operations and growth prospects may be adversely affected.

### **The PRC economy may experience inflationary pressure and the potential inflation may affect our business.**

The global economy is in the course of recovery and there exists inflationary pressure on various economies in the world. It has been expected that the PRC may experience inflation in the coming years, which may result in general increases in prices of goods. Along with the increase in prices of goods, the prices of yarn products as well as our raw materials are expected to rise as well. Inflation in the PRC may also lead to an increase in interest rates and a slowdown in economic growth in the PRC, which may negatively impact our business. The overall impact of inflationary pressure may adversely affect our business, financial condition, results of operations and growth prospects.

### **We may be deemed as a PRC resident enterprise under the EIT Law and be subject to the PRC taxation on our worldwide income, which may significantly increase our income tax expenses and materially decrease our profitability.**

Under the EIT Law, which took effect on 1 January 2008, enterprises established outside China whose “de facto management bodies” are located in China are considered “resident enterprises” and will generally be subject to the uniform 25% EIT rate as to their global income. Under the implementation rules of the EIT Law, “de facto management bodies” is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. In April 2009, the *State Administration of Taxation* (國家稅務總局) (the “SAT”) promulgated a circular to clarify the criteria to determine whether the “de facto management bodies” are located within the PRC for enterprises incorporated overseas with controlling shareholders being PRC enterprises.

The EIT Law and its implementation rules have certain ambiguities with respect to the interpretation of the provisions relating to resident enterprise issues. As most of our management is currently based in China and may remain in China in the future, we may be treated as a PRC resident enterprise for PRC enterprise income tax purposes. If we are deemed as a PRC resident enterprise, we will be subject to PRC EIT at the rate of 25% on our worldwide income. In that case, however, dividend income we receive from our PRC subsidiaries may be exempt from PRC enterprise income tax because the EIT Law and its implementation rules generally provide that dividends received by a PRC resident enterprise from its directly invested entity that is also a PRC resident enterprise is exempt from enterprise income tax. However, as there is still uncertainty as to how the EIT Law and its implementation rules will be interpreted and implemented, we cannot assure you that we are eligible for such PRC enterprise income tax exemptions or reductions.

Additionally, even if we or our overseas subsidiaries are considered as non-resident enterprises under the EIT Law, if our Hong Kong subsidiary, Treasure Resources, directly transfers the equity interest in our PRC subsidiary, Jinyuan, we would be subject to the PRC enterprise income tax at the rate of 10% for the gains received in such transfer, and, under the *Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprise* (Circular Guoshuihan

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(2009) No. 698) (關於加強非居民企業股權轉讓所得稅管理的通知) (“Circular 698”) issued by the SAT on 10 December 2009, if we or any of our overseas subsidiaries indirectly transfer the equity interests in our PRC subsidiaries at the overseas holding companies level, we may be subject to examinations by our PRC subsidiaries’ tax authorities and may be subject to the PRC EIT rate of 10%. See the section headed “— Gains on the Sales of our Shares by Foreign Investors and Dividends on our Shares Payable to Foreign Investors may Become Subject to PRC Income Taxes” below.

### **Gains on the sales of our Shares by foreign investors and dividends on our Shares payable to foreign investors may become subject to PRC income taxes.**

Under the EIT Law and its implementation rules, any gain realised by “non-resident enterprises” is subject to PRC income tax at the rate of up to 10% to the extent such gain is sourced within the PRC and: (i) such “non-resident enterprise” has no establishment or premise in the PRC; or (ii) it has an establishment or premise in the PRC, but its income sourced within the PRC has no real connection with such establishment or premise, unless otherwise exempted or reduced by tax treaties. The EIT Law and its implementation have certain ambiguities with respect to the interpretation of the provisions relating to identification of PRC-sourced income. If we are recognised as a PRC resident enterprise under the EIT Law by the PRC tax authorities, our foreign Shareholders that are “non-resident enterprises” may become subject to PRC income tax at the rate of up to 10% under the EIT Law as to the capital gains realised from sales of our Shares by and dividends distributed to such foreign Shareholders as such income may be regarded as income from “sources within the PRC,” unless any such foreign Shareholder is qualified for a preferential income tax rate or tax exemption under a tax treaty or tax law, and we may be required to withhold such income tax on the dividends payable by us to such foreign Shareholders.

If the PRC tax authorities recognise us as a PRC resident enterprise under the EIT Law, Shareholders who are not PRC tax residents and seek to enjoy preferential tax rates under relevant tax treaties will need to apply to the PRC tax authorities for recognition of eligibility for such benefits in accordance with the *Measures on Tax Conventions Treatments for Non-Residents (for Trial Implementation)* (非居民享受稅收協定待遇管理辦法(試行)), issued by the SAT on August 24, 2009. It is likely that eligibility will be based on a substantive analysis of the Shareholder’s tax residency and economic substance. With respect to dividends, the beneficial ownership tests under the *Notice on Interpretation and Recognition of “Beneficial Owner” under Tax Conventions* (關於如何理解和認定稅收協定中“受益所有人”的通知) will also apply. If determined to be ineligible for treaty benefits, such a Shareholder would become subject to PRC tax rates higher than the preferential tax rates under the relevant tax treaties on capital gains realised from sales of our Shares and on dividends on our Shares. In such circumstances, the value of such foreign Shareholders’ investment in our Shares may be materially and adversely affected.

Similarly, Circular 698 provides that except for the purchase and sale of equity through a public securities market, where a foreign corporate investor indirectly transfers the equity of a PRC resident enterprise by disposing the equity of an overseas holding company (“Indirect Transfer”) located in a tax jurisdiction that: (i) has an effective tax rate of less than 12.5%; or (ii) does not tax its residents on their foreign income, the foreign corporate investor shall report the Indirect Transfer to the competent PRC tax authority within 30 days from the date when the equity transfer agreement was made. In this case, the PRC tax authority will examine the true nature of the Indirect Transfer. Should it deem the foreign investor to have made the Indirect Transfer without reasonable commercial purpose and in order to avoid the PRC tax, the PRC tax authority may disregard the existence of the overseas holding company that is used for tax planning purpose and re-characterise the Indirect Transfer. As a result, gains derived from such Indirect Transfer by the foreign investor may be subject to the PRC enterprise income tax.

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**We will be required to record a deferred PRC withholding tax liability if we intend to distribute dividends from our PRC subsidiary to our offshore holding company, which will adversely impact our financial results.**

Under the EIT Law, dividends payable to foreign investors that are “derived from sources within the PRC” may be subject to withholding income tax at the rate of 10%, unless otherwise reduced by PRC laws, rules and regulations or through agreements between the PRC Government and the government of other countries or regions. Jiangxi Jinyuan is our sole operating subsidiary in the PRC and a wholly-owned subsidiary of Treasure Resources, our Hong Kong subsidiary. As a result, Jiangxi Jinyuan may be subject to PRC withholding tax at a rate of 10% for dividends we pay from Jiangxi Jinyuan to Treasure Resources, unless Treasure Resources is otherwise exempted from PRC withholding tax under the PRC laws and regulations for such dividends paid. However, if our Directors decide to distribute dividends from Jiangxi Jinyuan to Treasure Resources in the future such as forming a dividend policy that specifies the percentage of our divided over our after-tax earnings, we will be required to record a deferred PRC withholding tax liability in our accounts of 5% according to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對於所得避免雙重徵稅和防止偷漏稅的安排》) (or other applicable percentages as we may be entitled to under the EIT Laws or other applicable rules from time to time) of gross dividend amounts or the prescribed percentage of after-tax earnings. Upon such event, our financial results might be affected.

**Negative publicity on PRC products may adversely affect our business and reputation.**

Substantially all of our business operations are located and carried out in the PRC. There have been incidents in the past which involved serious allegations of China-made products containing harmful types or levels of chemicals. If such incidents occur again in the future, their associated negative publicity may have an adverse impact on the general manufacturing sector in the PRC and may indirectly create an adverse impact on our business, especially our sales to overseas customers, which may, in turn, create a negative impact on our profit and revenue. In such event, our financial condition, results of operations and growth prospects may be adversely affected.

**The PRC environmental laws and regulations may change and our environmental compliance liabilities and costs may increase.**

During the Track Record Period, we complied with all relevant environmental protection laws and regulations of the PRC in all material aspects and had not received any notice or warning of non-compliance with the PRC laws and regulations relating to environmental protection. However, with the increasing concern over the deteriorating environment in the PRC, we cannot assure that new laws or regulations will not be introduced in the future or that current laws will not be amended with higher requirements and emission standards applicable to manufacturing enterprises. In such event, in order to comply with the new laws or regulations, we may incur additional costs and take more measures and assign more personnel to make sure our compliance with such laws and regulations. As a result, our financial condition, results of operations and future prospects may be adversely affected.

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**Any outbreak of severe communicable diseases in the PRC may cause suspension of our operations and affect the economic condition of the PRC which may, in turn, affect our operations.**

All of our production facilities and operations are located and carried out in the PRC. If any outbreak of severe communicable disease occurs in the PRC and is inadequately controlled, there may be a negative impact on domestic consumption, labour supply and potentially the overall GDP growth of the PRC, which, in turn, may hinder market activities and slow down the general economic growth of the PRC. As our business is sensitive to the demand for our end customers in the domestic market, the negative effects on our end customers' business may also adversely affect our financial condition, results of operations and growth prospects.

**Changes and uncertainties in the PRC legal system may have an adverse effect on our operations.**

The PRC is still in the process of developing a comprehensive statutory framework. Since 1979, the PRC Government has established a commercial law system, and significant progress has been made in promulgating laws and regulations relating to economic affairs and matters such as corporate organisation and governance, foreign investment, commerce, taxation and trade. However, many of these laws and regulations are relatively new, and the implementation and interpretation of these laws and regulations remain uncertain in many areas. Consequently, developments and changes in PRC laws and regulations, including their interpretation and enforcement, may have a material and adverse effect on our business, financial condition and results of operations.

### **RISKS RELATING TO THE GLOBAL OFFERING**

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

Prior to the Global Offering, there has not been a public market for our Shares. While we have applied to list and deal in the Shares on the Stock Exchange, we cannot assure you that an active or liquid public market for our Shares will develop or be sustained if developed. The Offer Price of the Shares will be determined through negotiations between us and the Sole Bookrunner (on behalf of themselves and the other underwriters of the Global Offering), and it may not necessarily be indicative of the market price of the Shares after the Global Offering is complete. An investor who purchases Shares in the Global Offering may not be able to resell such Shares at or above the Offer Price and, as a result, may lose all or part of the investment in such Shares. In addition, as there will be a five Business Day gap between the pricing and trading of the Shares offered in the Global Offering, the initial trading price of our Shares could be lower than the Offer Price due to a variety of reasons including material negative events affecting us.

**The liquidity, trading volume and trading price of our Shares may be volatile, which could result in substantial losses for Shareholders.**

The price at which the Shares will trade after the Global Offering will be determined by the marketplace, which may be influenced by many factors, some of which are beyond our control, including:

- our financial results;
- changes in securities analysts' estimates, if any, of our financial performance;
- the history of, and the prospects for, us and the industry in which we compete;

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- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future revenues and cost structures such as the views of independent;
- research analysts, if any;
- the present state of our development;
- the valuation of publicly traded companies that are engaged in business activities similar to ours; and
- general market sentiment regarding polyester yarns and cotton yarn companies.

In addition, the Stock Exchange has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of companies quoted on the Stock Exchange. As a result, investors in our Shares may experience volatility in the market price of their Shares and a decrease in the value of Shares regardless of our operating performance or prospects.

### **Prior dividend distributions are not an indication of our future dividend policy.**

Jinyuan, our sole operating subsidiary in the PRC, declared dividends of approximately RMB42.9 million and RMB85.8 million for the years ended 31 December 2009 and 2010, respectively, to its then owners and representing 64.8% and 73.0% of our net profit, respectively. Jinyuan did not declare dividends for the year ended 31 December 2008 and the six months ended 30 June 2011.

Historical dividend distributions are not indicative of our future distribution policy and we can give no assurance that dividends of similar amounts or at similar rates will be paid in the future. Any future dividend declaration and distribution by us will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors deem relevant. Any declaration and payment as well as the amount of dividends will also be subject to our constitutional documents and the Companies Law, including (where required) the approval of shareholders. In addition, our future dividend payments will depend upon the availability of dividends received from our subsidiary in the PRC, which are subject to restrictions described in “ — Risks Relating to the PRC — We may be Deemed as a PRC Resident Enterprise under the EIT Law and be Subject to the PRC Taxation on our Worldwide Income, which may Significantly Increase our Income Tax Expenses and Materially Decrease our Profitability” above. For further details of our dividend policy, see the section headed “Financial Information — Dividend and Dividend Policy” in this Prospectus.

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

The Controlling Shareholders will control the exercise of voting rights of 46.76% of the Shares eligible to vote in our general meeting immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised). Therefore, the Controlling Shareholders will continue to be able to exercise controlling influence over our business through their ability to control actions which do not require the approval of independent shareholders. Subject to our Memorandum and Articles as well as the Companies Law, the Controlling Shareholders will also be able to control the election of our Directors, alter our share capital, make amendments to our Memorandum and Articles, determine the timing and amount of our dividends, if any, and pass resolutions to acquire or merge with another company not connected with the Controlling Shareholders. The Controlling Shareholders may cause us to take actions that are not in, or may conflict with, the interests of us or the public Shareholders. In the case

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where the interests of the Controlling Shareholders conflict with those of our other Shareholders, or if the Controlling Shareholders choose to cause us to pursue objectives that would conflict with the interests of our other Shareholders, such other Shareholders could be left in a disadvantageous position by such actions caused by the Controlling Shareholders and the price of the Shares could be adversely affected.

### **Shareholders' interests may be diluted as a result of additional equity fund-raising.**

We may need to raise additional funds in the future to finance further expansion of our capacity and business. If additional funds are raised through the issuance of new equity or equity-linked securities of us other than on a *pro rata* basis to existing Shareholders, the percentage ownership of such Shareholders in us may be reduced, and such new securities may confer rights and privileges that take priority over those conferred by the Shares.

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

Additional sales of our Shares in the public market after the completion of this Global Offering, or the perception that these sales could occur, could adversely affect the market price of our Shares. All Shares sold in this Global Offering will be freely transferable. We and our Controlling Shareholders have agreed, subject to certain exceptions, not to transfer or dispose of any of our Shares, in the form of Shares or otherwise, for a period of six months after the Listing Date. After the expiration of the six months period, the Shares held by these Shareholders may be sold, and we may sell additional Shares. To the extent Shares are sold into the market, the market price of our Shares could decline.

### **The costs of share options to be granted under the Share Option Scheme may adversely affect our results of operations and any exercise of the options granted will result in dilution to our Shareholders.**

We have adopted the Share Option Scheme pursuant to which we will in the future grant to our employees options to subscribe to Shares. Such options if exercised in full will represent 10% of our issued share capital immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised). The fair value of the options at the date of which they are granted with reference to the valuer's valuation will be charged as share-based compensation which may have a negative effect on our results of operations. Issuance of Shares for the purpose of satisfying any award made under the Share Option Scheme will also increase the number of Shares in issue after such issuance, and thus will result in the dilution to the percentage of ownership of the Shareholders, the earnings per Share and the net asset value per Share. Details of the Share Option Scheme and the options granted thereunder are set out in the sections headed "Statutory and General Information — Other Information — Share Option Scheme" in Appendix VI in this Prospectus.

### **You may face difficulties in protecting your interests under Cayman Islands law.**

Our corporate affairs are governed by, among other things, the Articles of Association, the Companies Law and common law of the Cayman Islands. The rights of Shareholders to take action against the Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands and our Articles of Association. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in Hong Kong and other jurisdictions. The remedies available to the minority Shareholders may be limited compared to the laws of other jurisdictions.



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

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

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

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

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

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

## WAIVER FROM COMPLIANCE WITH THE LISTING RULES

For the purpose of the Listing, we have sought a waiver from the Stock Exchange in relation to strict compliance with Rule 8.12 of the Listing Rules.

Rule 8.12 of the Listing Rules requires that a new applicant for a primary listing on the Stock Exchange to have a sufficient management presence in Hong Kong, which normally means that at least two of the new applicant's executive directors must be ordinarily resident in Hong Kong.

Our Group's headquarters is in Jiangxi Province, the PRC and our operations are all managed and conducted in the PRC. We do not have two executive Directors who are ordinarily resident in Hong Kong and our executive Directors are based at our Group's headquarters in Jiangxi Province, the PRC to oversee our business and operation. Given that our Group's headquarters is in Jiangxi Province, the PRC, it would be practically difficult and commercially unfeasible for our Company to comply with the requirements of Rule 8.12 of the Listing Rules.

We have applied to the Stock Exchange for a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules and have been granted a waiver subject to the following conditions:

- (i) our Company will appoint two authorised representatives, namely Mr. Zheng, an executive Director, and Mr. Cheung Chi Fai Frank, our company secretary, shall act as our Company's principal channel of communications with the Stock Exchange and will ensure the Group's full compliance with the Listing Rules at all times. Each of the authorised representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable time-frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and e-mail. Each of the authorised representatives is authorised to communicate on behalf of our Company with the Stock Exchange;
- (ii) in compliance with Rule 3A.19 of the Listing Rules, we will retain a compliance adviser acceptable by the Stock Exchange for a period commencing on the Listing Date and ending on the date on which we distribute the annual report for the first full financial year commencing after the Listing Date in accordance with Rule 13.46 of the Listing Rules. The compliance adviser will provide us with advice on the obligation in compliance with the Listing Rules, all other applicable laws, rules, codes and guidelines and will act as an additional channel of communication with the Stock Exchange; and
- (iii) the two authorised representatives have means of contacting all our Directors (including our independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters. To enhance communication with the Stock Exchange, we will implement a policy whereby:
  - (a) each Director will have to provide his phone numbers, fax numbers and e-mail addresses to the authorised representatives;
  - (b) in the event that a Director expects to travel and be out of office, he shall provide to the authorised representatives the valid phone number of the place of his accommodation or other means of communications; and

## WAIVER FROM COMPLIANCE WITH THE LISTING RULES

- (c) our Directors will provide their respective residential phone numbers, mobile phone numbers, office phone numbers, fax numbers and email addresses to the Stock Exchange.
  
- (iv) all our Directors (including our independent non-executive Directors) who are not ordinarily resident in Hong Kong possess or can apply for valid travel documents to visit Hong Kong and all our Directors and authorised representatives can meet with the Stock Exchange within a reasonable time.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This document, for which the directors of the issuer collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the issuer. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

### **UNDERWRITING**

This Prospectus is published solely in connection with the Hong Kong Public Offer, which forms part of the Global Offering. This Prospectus and the related Application Forms contain the terms and conditions of the Hong Kong Public Offer.

The Global Offering is sponsored by the Sole Sponsor. Pursuant to the Underwriting Agreements, the Global Offering is fully underwritten by the Underwriters. Further details about the Underwriters and the underwriting arrangements are contained in the section headed "Underwriting" in this Prospectus.

### **DETERMINATION OF THE OFFER PRICE**

The Offer Price is expected to be fixed by agreement among the Sole Global Coordinator (on behalf of the Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or before 15 December 2011 and, in any event, not later than 20 December 2011 (unless further extended at the sole discretion of the Sole Global Coordinator (on behalf of the Underwriters)). If, for whatever reason, our Company and the Sole Global Coordinator are not able to agree on the Offer Price, the Global Offering will not proceed and will lapse.

### **SELLING RESTRICTIONS**

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

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

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

## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

The following information is provided for guidance only. Prospective applicants for Offer Shares should consult their financial advisers and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should inform themselves as to the relevant legal requirements of applying for the Offer Shares and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

### United States

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to persons outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

### Singapore

This Prospectus has not been and will not be lodged with and registered by the *Monetary Authority of Singapore* (“MAS”) in Singapore as a Prospectus under the *Securities and Futures Act*, Chapter 289 of Singapore (“SFA”) and the Global Offering is made pursuant to an exemption invoked under Sections 274 and 275 of the SFA. Accordingly, this Prospectus and any other document or material in connection with the Global Offering may not be issued, circulated or distributed in Singapore, nor may any of the Offer Shares be offered for subscription or purchase, whether directly or indirectly, nor may any invitation or offer to subscribe for or purchase any Offer Shares be made, whether directly or indirectly, to any person in Singapore other than: (i) to an institutional investor under Section 274 of the SFA; (ii) to a relevant person pursuant to Section 275(1) of the SFA, or to any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions, specified in Section 275, of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trustee of a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

the shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferable within six months after that corporation or the trustee of that trust has acquired the Shares pursuant to an offer made under Section 275 of the SFA except:

- (a) where the transfer is only made to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets. In the case where the transfer is made by a corporation, such transfer must also be made in accordance with the conditions specified in Section 275(A) of the SFA; or

## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

- (b) where no consideration is or will be given for the transfer; or
- (c) where the transfer is by operation of law.

The MAS takes no responsibility for the contents of this Prospectus or any of the documents referred to above.

### **Cayman Islands**

No offer or invitation may be made to the public in the Cayman Islands to subscribe for or purchase any of the Shares.

### **PRC**

This Prospectus may not be circulated or distributed in the PRC and the Offer Shares may not be offered or sold directly or indirectly to any resident of the PRC, or offered or sold to any person for re-offering or re-sale directly or indirectly to any resident of the PRC except pursuant to applicable PRC laws and regulations.

### **APPLICATION FOR LISTING ON THE STOCK EXCHANGE**

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this Prospectus (including Shares to be issued pursuant to the Capitalisation Issue, Shares which may fall to be issued upon the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme) on the Main Board.

Save as disclosed in this Prospectus, no part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

Under section 44B(1) of the Companies Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Offer Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the Application Lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

### **HONG KONG SHARE REGISTER AND STAMP DUTY**

All Shares to be issued pursuant to the Global Offering, the Capitalisation Issue and any Shares to be issued upon exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme will be registered on our Company's Hong Kong register of members to be maintained in Hong Kong by our Hong Kong share registrar. Our Company's principal register of members will be maintained in the Cayman Islands. Only Shares registered on our Company's Hong Kong register of members maintained in Hong Kong may be traded on the Stock Exchange.

Dealings in the Shares registered in the Hong Kong register of our Company in Hong Kong will be subject to Hong Kong stamp duty.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of Shares will be paid to the Shareholders listed on the Hong Kong register of our Company, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder, or if joint Shareholders, to the first-named therein in accordance with the Articles.

### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange and our Company's compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date as HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Applicants for the Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding and dealing in the Shares. It is emphasised that none of our Group, the Underwriters, the Sole Sponsor, any of their respective directors, supervisors, agents or advisers or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities of holders of Shares resulting from the subscription, purchase, holding or disposal of Shares.

### **OVER-ALLOTMENT AND STABILISATION**

In connection with the Global Offering, the Sole Lead Manager or any person acting for it may over-allot or effect transactions with a view to supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Sole Lead Manager or any person acting for it to do this. Such stabilisation action, if taken, may be discontinued at any time and is required to be brought to an end after a limited period. An announcement will be made to the public within seven days after the end of the stabilising period as required under the *Securities and Futures (Price Stabilising) Rules*.

In connection with the Global Offering, our Company intends to grant to the Lead Manager (on behalf of the Underwriters) the Over-allotment Option, which will be exercisable in full or in part by the Lead Manager (on behalf of the Underwriters) no later than 30 days after the date on which the Hong Kong Public Offer is closed, being the last day for the lodging of applications under the Global Offering. Pursuant to the Over-allotment Option, our Company may be required to allot and issue at the Offer Price up to an aggregate of 37,500,000 additional Shares, representing 15% of the total number of Shares initially available under the Global Offering, in connection with over-allocations in the Placing, if any.

Further details with respect to stabilisation and the Over-allotment Option are set out in the section headed "Structure of the Global Offering — Over-allotment and Stabilisation".

## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

### **COMMENCEMENT OF DEALINGS IN THE SHARES**

Dealings in the Shares on the Main Board of the Stock Exchange are expected to commence at 9:00 a.m. on 22 December 2011. Shares will be traded in board lots of 4,000 each.

The stock code for the Shares is 3778.

Our Company will not issue any temporary documents of title.

### **PROCEDURES FOR APPLICATION FOR SHARES**

The procedures for applying for the Offer Shares are set out in the section headed “How to Apply for Hong Kong Offer Shares” in this Prospectus and on the relevant applications forms.

### **STRUCTURE OF THE GLOBAL OFFERING**

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this Prospectus.



## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

### DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. Zheng Hong (鄭洪)	Flat D, 23/F Tower 2 The Harbour Side 1 Austin Road West Tsim Sha Tsui Kowloon Hong Kong	Chinese
Mr. Zheng Yongxiang (鄭永祥)	Jiangxi Jinyuan Textile Co., Ltd. Fengtian Industrial Park Fengxin Jiangxi PRC	Chinese
<i>Non-executive Director</i>		
Mr. Sze Irons (施榮懷)	Flat A, 22/F Tower 1 Ruby Court 55 South Bay Road Repulse Bay Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
Ms. Chan Mei Bo, Mabel (陳美寶)	Flat 1, 18/F Block B Villa Monte Rosa 41A Stubbs Road Hong Kong	Chinese
Mr. Ng Wing Ka (吳永嘉)	Flat A, 2/F Tower 3 37 Repulse Bay Road Repulse Bay Hong Kong	Chinese
Mr. Nie Jianxin (聶鑾新)	No. 402-4-1 50 Jiangda South Road Nanchang Jiangxi PRC	Chinese

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

### PARTIES INVOLVED IN THE GLOBAL OFFERING

<b>Sole Sponsor</b>	Guotai Junan Capital Limited 27/F, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
<b>Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager</b>	Guotai Junan Securities (Hong Kong) Limited 27/F, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
<b>Legal advisers to our Company</b>	<i>As to Hong Kong law:</i> Sidley Austin Level 39 Two International Finance Centre 8 Finance Street Central Hong Kong  <i>As to PRC law:</i> Commerce & Finance Law Offices 27C Shenzhen Te Qu Bao Ye Building 6008 Shennan Road Shenzhen, PRC  <i>As to Cayman Islands law:</i> Conyers Dill & Pearman Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Legal advisers to the Sponsor and the Underwriters</b>	<i>As to Hong Kong law:</i> Orrick, Herrington & Sutcliffe 43/F, Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong  <i>As to PRC law:</i> Beijing Kangda Law Firm 2301, CITIC Building, No. 19 Jianguomenwai Street, Beijing, PRC

<b>DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING</b>
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**Auditor and reporting accountants**

Deloitte Touche Tohmatsu  
35/F One Pacific Place  
88 Queensway  
Hong Kong

**Property valuer**

Jones Lang LaSalle Sallmanns Limited  
6/F Three Pacific Place  
1 Queen's Road East  
Hong Kong

**Receiving banker**

Hang Seng Bank Limited  
83 Des Voeux Road Central  
Hong Kong

## CORPORATE INFORMATION

<b>Registered office</b>	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Headquarters in the PRC</b>	Fengtian Development Zone Fengxin County Jiangxi Province, PRC
<b>Principal place of business in Hong Kong</b>	Room 1321, Leighton Centre 77 Leighton Road Causeway Bay Hong Kong
<b>Company's website</b>	<a href="http://www.chinaweavingmaterials.com">www.chinaweavingmaterials.com</a> ( <i>information contained in this website does not form part of the Prospectus</i> )
<b>Company secretary</b>	Mr. Cheung Chi Fai Frank ( <i>FCCA, CPA</i> )
<b>Authorised representatives</b>	Mr. Zheng Hong Flat D, 23/F Tower 2 The Harbour Side 1 Austin Road West Tsim Sha Tsui Kowloon Hong Kong  Mr. Cheung Chi Fai Frank Flat 1213, 12/F Block M, Kornhill 45 Hong Yue Street Hong Kong
<b>Audit committee</b>	Ms. Chan Mei Bo, Mabel (Chairman) Mr. Nie Jianxin Mr. Ng Wing Ka
<b>Remuneration committee</b>	Ms. Chan Mei Bo, Mabel (Chairman) Mr. Nie Jianxin Mr. Ng Wing Ka Mr. Zheng Hong
<b>Nomination committee</b>	Ms. Chan Mei Bo, Mabel (Chairman) Mr. Nie Jianxin Mr. Ng Wing Ka Mr. Zheng Hong
<b>Compliance adviser</b>	Guotai Junan Capital Limited

## CORPORATE INFORMATION

### **Principal bankers**

China Construction Bank Corporation  
(Fengxin Sub-branch)  
87 Yingbin Road  
Fengxin County  
Jiangxi  
the PRC

Industrial and Commercial Bank of China Limited  
(Fengxin Sub-branch)  
203 West Fengchuan Road  
Fengxin County  
Jiangxi  
the PRC

Industrial Bank Co., Ltd  
(Hongcheng Sub-branch)  
1 Floor  
No. 19 East Hongchengdashichang  
Nanchang  
the PRC

China Merchants Bank Company Limited  
(Changbei Sub-branch)  
367-377 Changmai Road  
Changling  
Xinjian County  
Nanchang  
the PRC

### **Cayman Islands principal share registrar and transfer office**

Codan Trust Company (Cayman) Limited  
Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

### **Hong Kong Share Registrar**

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716,  
17/F, Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

## INDUSTRY OVERVIEW

*This section contains information and statistics relating to the Chinese economy and the industry in which we operate. We have derived such information and data partly from publicly available government official sources and market research reports, which have not been commissioned or independently verified by us, the Sole Sponsor, the Sole Lead Manager, the Underwriters or any of their respective affiliates or advisors. We believe that the sources of such information and statistics are appropriate and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information or statistics is false or misleading in any material respect or that any fact has been omitted that would render such information or statistics false or misleading in any material respect. Our Directors have taken reasonable care in the reproduction of such information. The information in such government official sources may not be consistent with the information compiled within or outside China. We make no representation as to the correctness or accuracy of such information and accordingly such information should not be unduly relied on. We have taken such care as we consider reasonable in the reproduction and extraction of such information.*

### SOURCES OF INFORMATION

The *China National Textile and Apparel Council* (中國紡織工業協會) is an Independent Third Party and a national industry organisation. It is authorised by the PRC Government to provide business consultation related to the textile industry in the PRC. It is engaged in developing market intelligence system and facilitating market development for the textile industry in the PRC including the preparation of the *China Textile Industry Development Reports*, which is not commissioned by us.

The *China Statistical Yearbook 2011* (中國統計年鑑 2011) is an official publication issued by the *National Bureau of Statistics of China* (中華人民共和國國家統計局), a department within the PRC Government. Information and statistics derived from the *China Statistical Yearbook 2011* constitute official public information. The *National Bureau of Statistics of China* is an Independent Third Party. No fees were paid to the *National Bureau of Statistics of China* for use and disclosure of its information in this section.

The *Cotlook A(FE) Index* is an internationally cited cotton price index published by an independent research firm, Cotlook Ltd. The prices indicated on the *Cotlook A (FE) Index* is calculated based on aggregate delivered prices, including transportation costs and freight, to all major cotton trading ports in the Far East, and is representative of the prices traded on the international raw cotton market, including the United States, India and Australia, delivered to a port in the Far East. No fees were paid to Cotlook Ltd. for use and disclosure of its information in this section.

The *CC328 Index* is a major sub-index for domestic cotton price under the China Cotton Index system. It is prepared and published by the *China Cotton Association* (中國棉花協會), a non-profit organisation under the supervision and management of *Ministry of Civil Affairs of the PRC* (中華人民共和國民政部). No fees were paid to the *China Cotton Association* for use and disclosure of its information in this section.

The *China Chemical Fibre website*, [www.CCF.com.cn](http://www.CCF.com.cn) (中國化纖信息網), (“CCF Website”) is a online platform for domestic and international information on the chemical fibres industry. It provides weekly updates on major price indices for the industry. It also publishes industry reports on a regular basis. Our Company is a fee-based subscriber to the website.

## INDUSTRY OVERVIEW

The *U.S. Energy Information Administration* is an Independent Third Party which collects, analyses, and disseminates energy information to promote public understanding of energy and its interaction with the economy and the environment. It provides a wide range of information and data products covering energy production, stocks, demand, imports, exports, and prices. No fees were paid to the *U.S. Energy Information Administration* for use and disclosure of its information in this section.

*Wind Information Co., Ltd.* (上海萬得信息技術股份有限公司) (“Wind Info”) is a leading integrated provider of financial data, industry reports and software services to financial enterprises in the domestic market. It also provides advisory services to *Qualified Foreign Institutional Investors* (QFII). No fees were paid to Wind Info for use and disclosure of its information in this section.

We have purchased the *China Cotton Yarn Industry Development Research Report* (中國純棉紗線行業發展研究報告) (the “*Cotton Yarn Industry Report*”), the *China Polyester-cotton Blended Yarn Industry Development Research Report* (中國棉滌混紡紗行業發展研究報告) (the “*Polyester-cotton Blended Yarn Industry Report*”), and the *China Polyester Yarn Industry Development Research Report* (中國純滌綸紗行業發展研究報告) (the “*Polyester Yarn Industry Report*”), together with the *Cotton Yarn Industry Report* and the *Polyester-cotton Blended Yarn Industry Report*, the “*Yarn Industry Reports*”) issued in October 2011 by *Qianxun (Beijing) Information Consulting Co., Ltd.* (千訊(北京)信息諮詢有限公司) (“Qianinfo”) for a fixed fee of RMB18,600. Qianinfo is a leading independent market research service provider in the PRC founded in 2002. Its service covers a wide range of industries, including textile industry. The *Yarn Industry Reports* were not commissioned by our Company nor the Sole Sponsor. The sources of data and analysis in the *Yarn Industry Reports* are obtained from: (i) long-term observation by Qianinfo; (ii) first-hand information from interviews conducted by Qianinfo; (iii) data and information from government and official organisations; (iv) published opinions from industry specialists and periodicals; and (v) publications obtained from libraries.

### TEXTILE INDUSTRY IN CHINA

The textile industry is recognised as one of the “pillar industries” in China. According to the *China Textile Industry Development Report 2010/2011*, the aggregate revenue generated by 55,391 Enterprises with Scale in the PRC textile industry as at 30 November 2010 amounted to RMB4.2 trillion from January 2010 to November 2010, representing 10.6% of China’s GDP for the same year. The textile industry was affected by the economic crisis during early 2009, which resulted in reduced sales and investments in the industry. The PRC Government implemented a series of measures to revive the textile industry in China and the industry gradually recovered during 2009. According to the *China Textile Industry Development Report 2010/2011*, in 2010, production volumes of mid-to-downstream products of the textile industry, including yarns and chemical fibres, have increased significantly due to strong demand from the domestic market. According to the *Statistical Communiqué of the People’s Republic of China on the 2010 National Economic and Social Development* (2010年國民經濟和社會發展統計公報) released by the *National Bureau of Statistics of China*, the total fixed assets investment in urban areas for textile industry increased by 26.4% from 2009 to RMB223,000.0 million in 2010. During the same period, the total yarn production volume amounted to 27.2 million tonnes, representing a 13.5% increase from 2009 to 2010; the total chemical fibres output amounted to 30.9 million tonnes, representing a 12.5% increase from 2009 to 2010. According to the *China Textile Industry Development Report 2010/2011*, the industry-wide total revenue amounted to RMB4,167.8 billion for the first eleven months of 2010. The following table

## INDUSTRY OVERVIEW

sets forth the revenue breakdown of the PRC textile industry from January 2010 to November 2010 by region:

Rank	Province/Autonomous Region/Municipality	Revenue (RMB million)	As a Percentage of the Total Revenue of the PRC Textile Industry (%)
1	Jiangsu . . . . .	940,724	22.6
2	Zhejiang . . . . .	813,441	19.5
3	Shandong . . . . .	715,176	17.2
4	Guangdong . . . . .	437,689	10.5
5	Fujian . . . . .	228,210	5.5
6	Henan . . . . .	160,467	3.8
7	Hubei . . . . .	119,267	2.9
8	Hebei . . . . .	109,101	2.6
9	Liaoning . . . . .	89,786	2.1
10	Shanghai . . . . .	87,544	2.1
<b>11</b>	<b>Jiangxi . . . . .</b>	<b>77,477</b>	<b>1.9</b>
12	Sichuan . . . . .	77,194	1.8
13	Anhui . . . . .	67,681	1.6
14	Hunan . . . . .	53,415	1.3
15	Inner Mongolia . . . . .	37,479	0.9
	Other Regions . . . . .	153,154	3.7
<b>Total</b>		<b>4,167,805</b>	<b>100.0</b>

Source: China Textile Industry Development Report 2010/2011



## INDUSTRY OVERVIEW

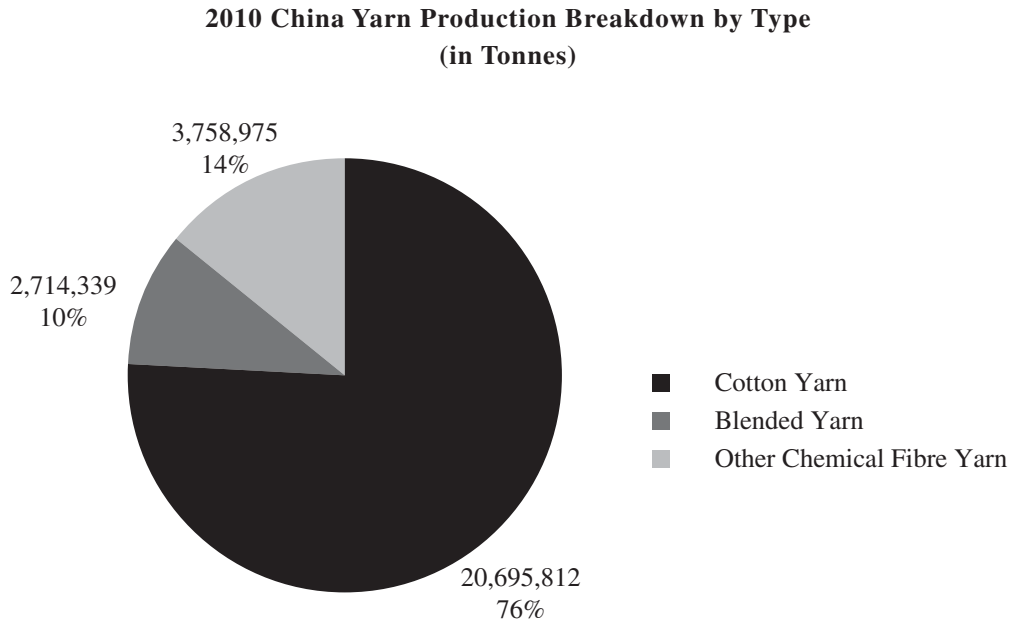
The following table sets forth the aggregate yarn production volume of the PRC textile industry for the year ended 31 December 2010 by region:

Rank	Province/Autonomous Region/Municipality	Production Volume (in Tonnes)	As a Percentage of the Total Production Volume of the PRC Textile Industry (%)
1	Shandong . . . . .	7,310,105	26.9
2	Jiangsu . . . . .	4,345,826	16.0
3	Henan . . . . .	3,998,808	14.7
4	Zhejiang . . . . .	2,148,654	7.9
5	Fujian . . . . .	1,841,761	6.8
6	Hubei . . . . .	1,695,754	6.2
7	Hebei . . . . .	1,239,140	4.6
8	Hunan . . . . .	785,294	2.9
<b>9</b>	<b>Jiangxi . . . . .</b>	<b>746,779</b>	<b>2.7</b>
10	Sichuan . . . . .	708,057	2.6
11	Anhui . . . . .	565,419	2.1
12	Guangdong . . . . .	451,639	1.7
13	Xinjiang . . . . .	395,325	1.5
14	Shaanxi . . . . .	271,162	1.0
15	Liaoning . . . . .	149,295	0.5
	Other Regions . . . . .	516,109	1.9
<b>Total</b>		<b>27,169,127</b>	<b>100.0</b>

Source: China Textile Industry Development Report 2010/2011

## INDUSTRY OVERVIEW

The following chart sets forth a breakdown of the production of cotton yarns, blended yarns and other chemical fibre yarns in China in 2010:



Source: China National Textile and Apparel Council

The textile industry in China comprises several sectors. The polyester yarn industry and the cotton yarn industry are two important sectors in the textile industry, details of which are set forth below.

### POLYESTER YARN INDUSTRY

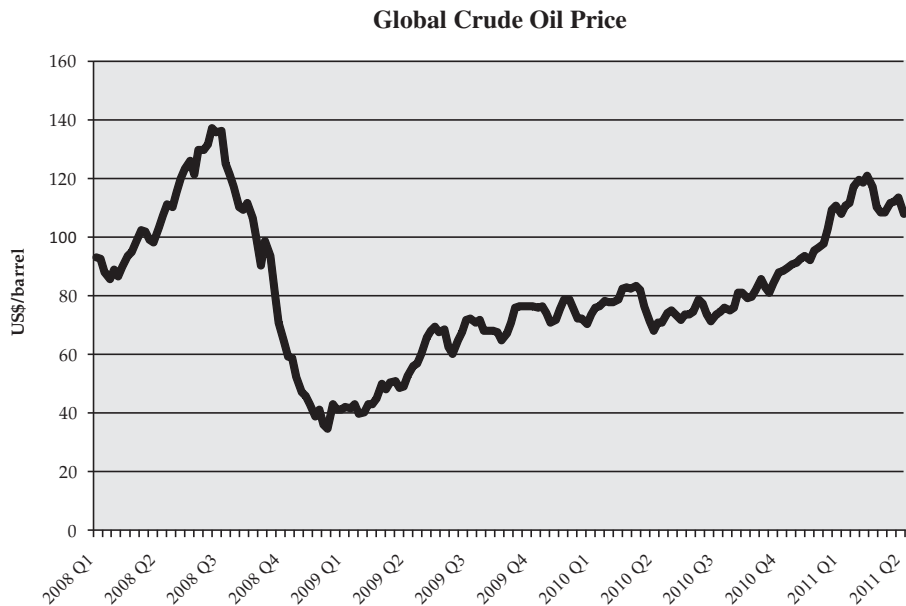
The polyester yarn industry is one of the downstream industries that consume polyester as a raw material. Enterprises engaged in the polyester yarn industry purchase polyester products from the upstream suppliers. Polyester yarn is the end product. According to the *China Chemical Fibre* website, from 2008 to 2010, the average annual production value per enterprise for polyester yarn industry increased from approximately RMB426 million to approximately RMB448 million; the average revenue increased from approximately RMB424 million to approximately RMB452 million; and the average net income increased significantly from RMB5.0 million to RMB27.8 million, which represents a CAGR of 235.8% from 2008 to 2010. According to the *National Bureau of Statistics of China*, the total realised investment for the PRC polyester industry increased from RMB7,100 million in 2008 to RMB12,600 million in 2010, representing a CAGR of 33.2%.

### Price of Polyester Staple Fibre

Polyester staple fibre is a type of chemical fibre made of synthetic polymers. It is one of the most commonly used chemical fibres in the textile industry. Polyester staple fibre bears a high resemblance to cotton, and is commonly used in the production of apparel. Compared to natural filament, polyester staple fibre has the advantages of improved wrinkle resistance, durability and colour retention.

## INDUSTRY OVERVIEW

Fluctuations in the raw material prices will result in the fluctuation of prices of polyester yarn and fabric. Increase in cotton prices and crude oil prices also indirectly influence the prices of polyester yarn and fabric. Due to the significant increase in cotton prices during 2010, demand for substitute products, such as polyester increased, which also drove up the price of polyester staple fibre as an upstream raw material for the production of polyester yarn. Synthetic polymers are downstream chemical products of oil and natural gases. As a result, fluctuations in the price of crude oil affect the price of polyester staple fibre. The price of global crude oil reached a historical high of US\$137.1 per barrel in the third quarter of 2008 before decreasing significantly to as low as US\$36.0 per barrel in the fourth quarter of 2008. Since the fourth quarter of 2008, the price of global crude oil had gradually increased to US\$90.6 per barrel by the fourth quarter of 2010 and further increased to US\$107.8 per barrel by the second quarter of 2011. The following chart sets forth the prices of global crude oil from January 2008 to June 2011:

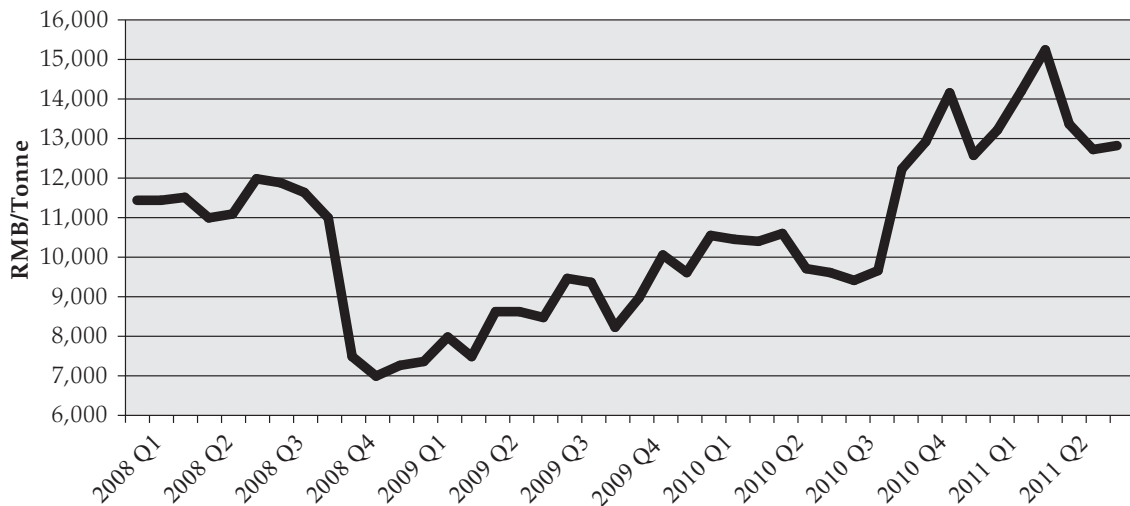


Source: the EIA

## INDUSTRY OVERVIEW

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 and RMB15,250.0 per tonne from January 2011 to June 2011 according to the *China Chemical Fibre* website. Factors influencing prices of polyester staple fibre in China include the following: price fluctuations of raw materials used to produce polyester products, downstream manufacturers' forecast of future movements in the price of raw materials, adjustments of stocks in accordance to the demand forecast. The following chart sets forth the domestic prices of polyester staple fibre from January 2008 to June 2011:

**Domestic Price of Polyester Staple Fibre**



Source: the CCF Website

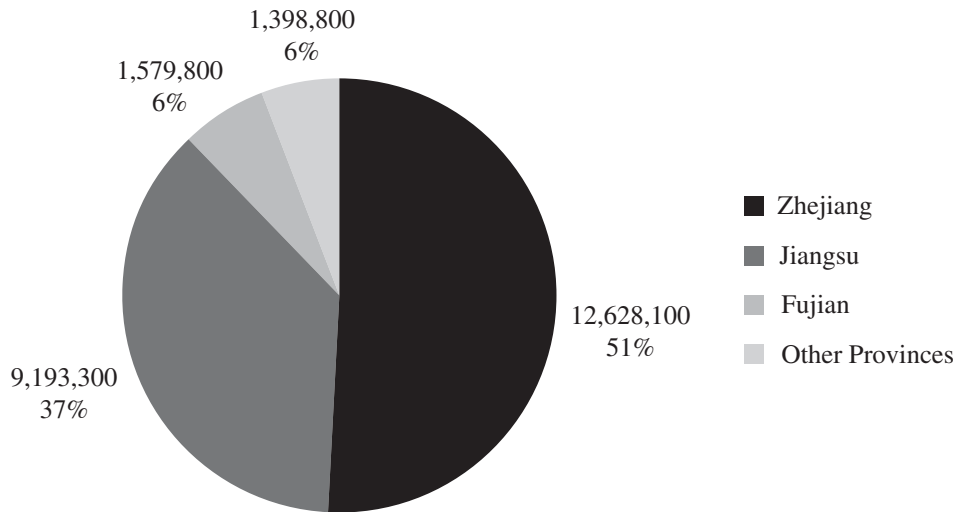
### Polyester Yarn Production

According to the *China Textile Industry Development Reports*, total production volume of polyester fibre in China increased from 12.7 million tonnes in 2005 to 24.8 million tonnes in 2010, representing a CAGR of 14.3%. According to the *National Bureau of Statistics of China*, total production volume of polyester staple fibre in China was 6.9 million tonnes, 7.9 million tonnes, and 8.4 million tonnes in 2008, 2009, and 2010, respectively. The increase in the domestic production volume of polyester staple fibre has been associated with decreased imports from 145,300.0 tonnes in 2008 to 143,000.0 tonnes in 2010; during the same period, polyester staple fibre exports increased from 462,700.0 tonnes in 2008 to 595,600.0 tonnes in 2010, equivalent to a CAGR of 13.5%.

## INDUSTRY OVERVIEW

In 2010, the top three polyester fibre producing provinces in China were Zhejiang, Jiangsu, and Fujian. The following chart sets forth the highest polyester fibre producing provinces in China in 2010:

**2010 China Polyester Fibre Production Breakdown by Province  
(in Tonnes)**



Source: the CCF Website

Since 2009, the price of cotton yarns has recorded a substantial increase due to the historical high level of cotton prices in the same period. The market showed an increase in demand for polyester yarns, which is a partial substitute for cotton yarns.

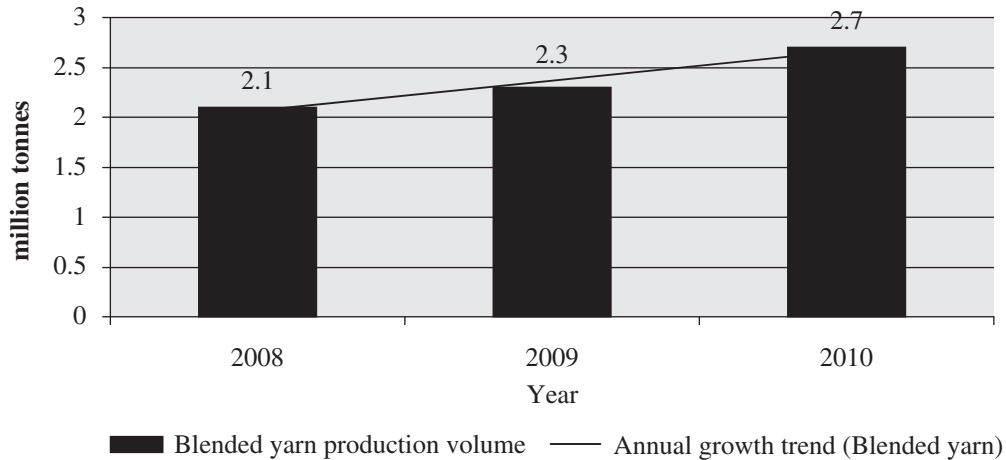
### BLENDYED YARN INDUSTRY

Blended yarns refer to the broad category of yarns manufactured from more than one type of fibre. Polyester-cotton blended yarns are yarns that comprise polyester and cotton. Polyester-cotton blended yarn can be versatile, as it most likely retains the lightness of cotton fibre, but also combines the strength, durability and wrinkle-resistance of polyester. Polyester-cotton blended yarn should only shrink slightly in comparison to a garment or fabric that is 100% cotton. Polyester-cotton blended yarn may comprise different proportions of polyester and cotton. Depending on the proportions of polyester and cotton in the blended yarn, the resulting yarn could have different features.

## INDUSTRY OVERVIEW

The blended yarn industry is typically referred to as the downstream industry of the polyester and cotton industry. According to *China National Textile and Apparel Council*, total production volume of blended yarn in China for the year 2008, 2009, and 2010 was 2.1 million tonnes, 2.3 million tonnes and 2.7 million tonnes, respectively, representing a CAGR of 13.4% from 2008 to 2010. The following chart sets forth the domestic production volume for blended yarn from 2008 to 2010:

**2008-2010 Blended Yarn Production in China**



Source: China National Textile and Apparel Council

### Government Policy for Blended Yarns

Blended yarn industry was listed as one of the encouraged sub-sectors within textile industry in the *Consolidation and Development Plans for Textile Industry* (紡織工業調整和振興規劃) published by the PRC Government in early 2009. The future emphasis will be placed on developing blended yarns composed of advanced materials and various types of yarns, and hence improving the functionality of the clothes woven from these blended yarns.

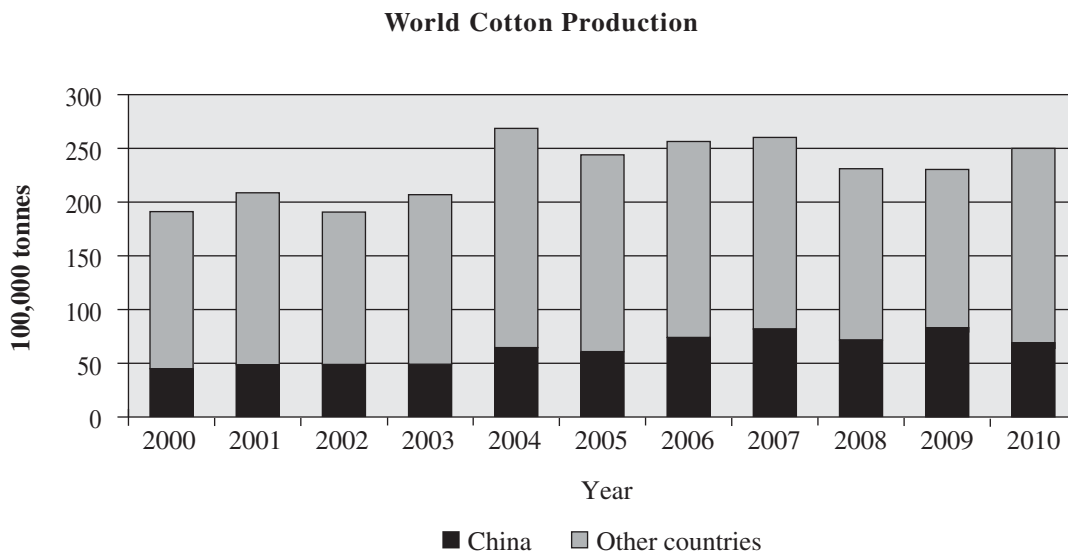
## INDUSTRY OVERVIEW

### COTTON TEXTILE INDUSTRY

#### Production of Cotton

Cotton is one of the primary raw materials used in the cotton textile industry. Global cotton production was 25.0 million tonnes in 2010 according to the *China Textile Industry Development Report 2010/2011*.

According to the *China Textile Industry Development Report 2010/2011*, China was the world's largest cotton producing country from 2000 to 2010. In 2010, China's cotton production volume was 6.2 million tonnes, accounting for 24.8% of the total global production volume, according to the *China Textile Industry Development Report 2010/2011*. The following chart sets forth the global cotton production from 2000 to 2010:

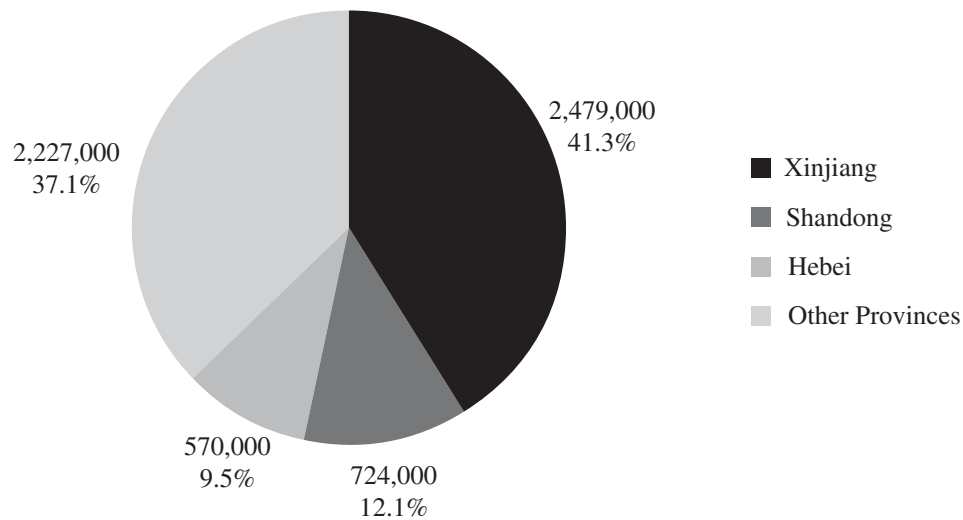


Source: China Textile Industry Development Reports 2010/2011

## INDUSTRY OVERVIEW

According to the *National Bureau of Statistics of China*, in 2010, the total sown area of cotton was 4.9 million hectares and the total production volume of cotton was 6.0 million tonnes. In 2010, the top three cotton producing provinces in China were Xinjiang, Shandong and Hebei, which collectively accounted for over 60% of the cotton production in China. Xinjiang was the single largest cotton-producing autonomous region, which accounted for 2.5 million tonnes, or 41.3%, of total production volume in China in 2010. The following chart sets forth the distribution of major cotton producing provinces and autonomous regions in China in 2010:

**2010 China Cotton Production Breakdown by Province  
(in Tonnes)**



Source: China Statistical Yearbook 2011

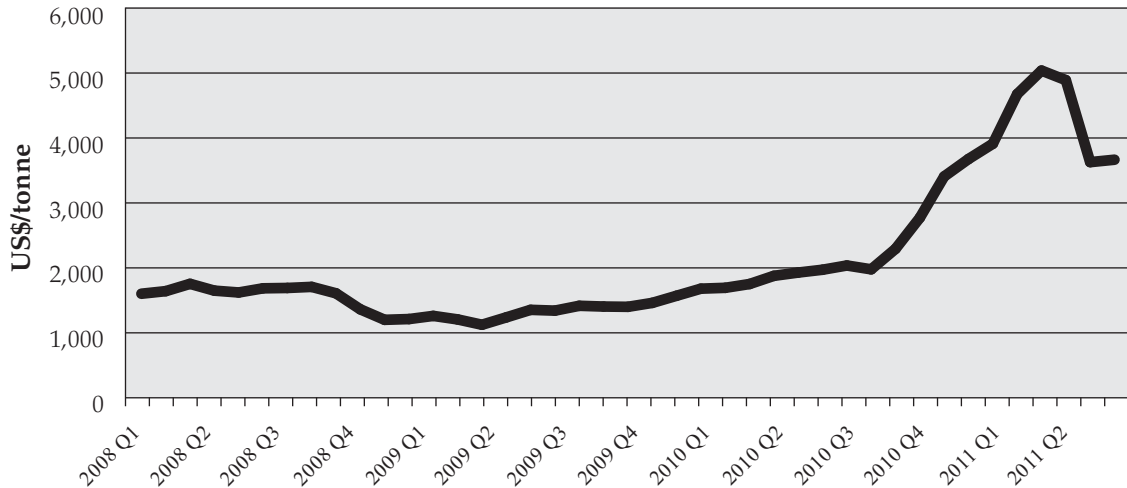


## INDUSTRY OVERVIEW

### Price of Cotton

Prices for *Cotlook A(FE)* increased from US\$1,614.4 per tonne in January 2008 to US\$3,685.1 per tonne in June 2011. The following chart sets forth the international prices of cotton in the Far East from January 2008 to June 2011 based on the *Cotlook A(FE) Index*:

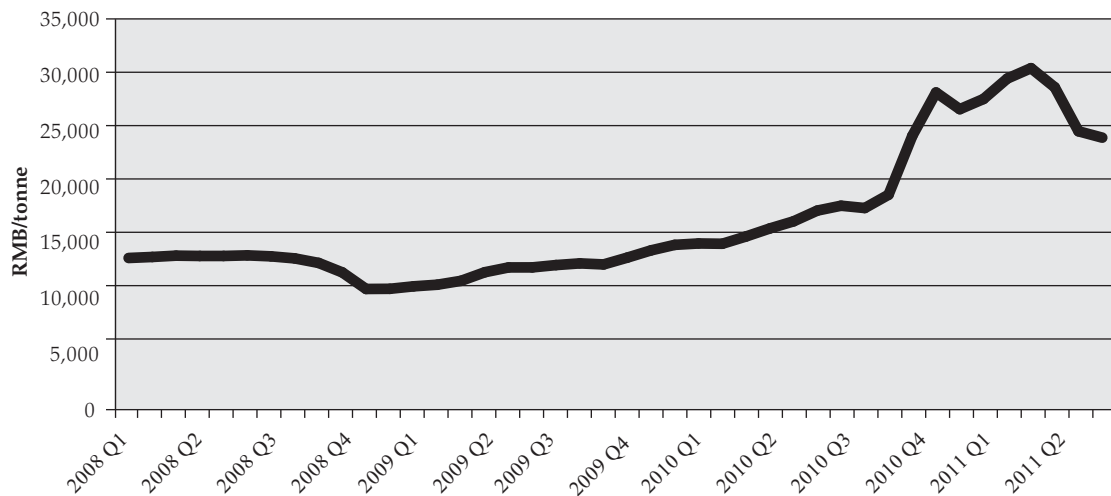
**Price of Cotton (Far East)**



Source: Cotlook A (FE) Index

The following chart sets forth the prices of cotton in China from January 2008 to June 2011 based on the *CC328 Index*:

**Price of Cotton (China)**



Source: China Cotton Association

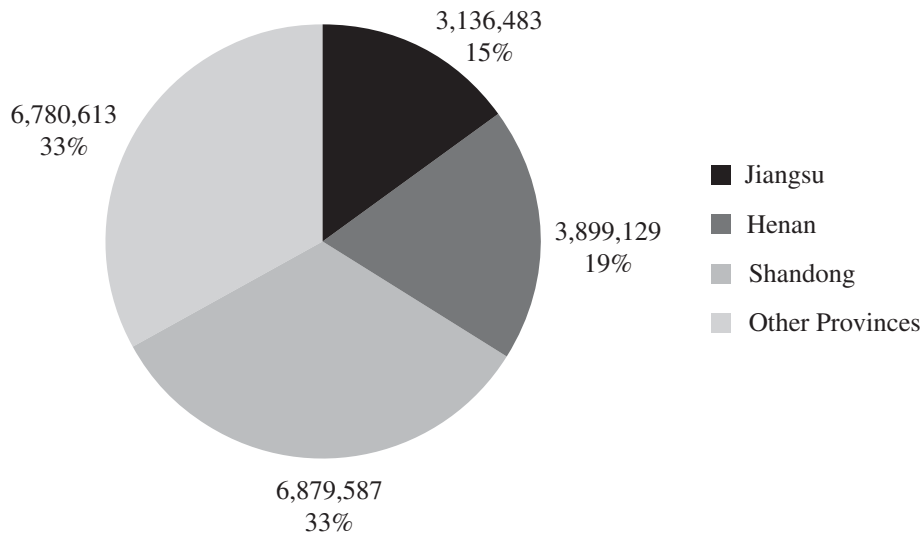
## INDUSTRY OVERVIEW

From January 2008 to June 2011, the prices of cotton in China demonstrated a similar trend to that of international prices of cotton and recorded an average price of RMB13,096.8 per tonne in 2008, RMB12,804.4 per tonne in 2009, RMB19,373.3 per tonne in 2010 and RMB27,832.3 per tonne in 2011. The prices of cotton had been increasing since the fourth quarter of 2008, further increased significantly in the third quarter and fourth quarter of 2010, and decreased in the first quarter and the second quarter of 2011. Reasons for increase in cotton price are as follows: national adjustments of cotton reserves, decrease in production capacity and the decrease in quality of cotton produced, decrease in amount of cotton distributed at national level, and transportation difficulties in Xinjiang, which is the largest cotton producing province in China. Total cotton production in China was 6.2 million tonnes in 2010, which was 12.7% lower than the production volume in 2009, according to the *China Textile Industry Development Report 2010/2011*.

### Cotton Yarn Production

Total production of cotton yarn for Enterprises With Scale increased from 16.7 million tonnes in 2008 to 20.7 million tonnes in 2010, representing a CAGR of 11.3%. According to the *China Textile Industry and Development Report 2010/2011*, the top three cotton yarn producing provinces in China in 2010 were Shandong, Henan, and Jiangsu. The following chart sets forth the highest cotton yarn producing provinces in China in 2010:

**2010 China Cotton Yarn Production Breakdown by Province  
(in Tonnes)**



Source: China National Textile and Apparel Council

## INDUSTRY OVERVIEW

### DEVELOPMENT TRENDS OF THE COTTON TEXTILE INDUSTRY IN CHINA

In April 2009, the PRC Government announced the *Consolidation and Development Plans for Textile Industry* (紡織工業調整和振興規劃) with a view to revitalise the textile industry in the PRC to be implemented during 2009 to 2011. This plan is aimed at eliminating out-dated and inefficient textile enterprises in order to improve the textile industry as a whole. Since its implementation, the industry has effectively eliminated a total production capacity of approximately 1.4 million tonnes with many technologically out-dated factories closing down, according to the *China National Textile and Apparel Council*. Below is a list of certain objectives and details of the *Consolidation and Development Plans for Textile Industry* relevant to us:

- Acceleration of technology upgrade, which includes technology advancements, changing traditional industrial standards to advanced and applicable technology standards, increasing the production efficiency of the textile industry, improving product structures, and advancing supply capacity of the market as a whole. Particularly in the yarn industry, the objectives are to focus on further increasing the involvement of auto-inspection conducted by mechanical facilities and improving the level of automatic cotton blending capacity. It is also a goal to reduce the consumptions of natural resources incurred during production through improved production efficiency which will be brought by advancement in new technology;
- Optimising strategic regional distribution of industry segments, which includes strengthening the cooperation between the in-land areas and Xinjiang to establish a quality production base to produce quality cotton yarns; and
- Enhancing the public service system, which includes strengthening information and technology system of enterprises, promoting an appropriate ERP system and e-commerce system for the textile industry.

The PRC Government further sets out certain policy measures to achieve the above objectives, which include:

- Increase investments in technology improvement and advancement by supporting technology updates and improvements at the entrepreneurial level, particularly supporting advanced technology developments in new facilities and supporting the yarn production industry;
- Increase domestic consumption by, among others, improving business, environment, expanding sales network, reducing cost of circulation and improving quality of products;
- Increase financial support to textile enterprises, which includes providing financial assistance to the enterprises which meet labour demands in the area, have good credit histories and have no severe damages to the environment and are competitive but temporarily suffer operational and financial difficulties. Financial institutions shall maximise the degree of loan assistance or allow appropriate extension period when a loan is due. In particular, financial institutions shall loosen conditions of write-offs for medium- or small-sized textile enterprises, tax authorities shall simplify the procedures and processes of reviewing write-offs in financial institutions for such textile enterprises, and the government shall prepare full amount reserves and subsidies to handle risk management for such enterprises. The central and local financial authorities shall support credit guarantor institutions in their guarantees to such medium- or small-sized textile enterprises, and encourage guarantor institutions to provide credit guarantee services and financing services to such enterprises; and

## INDUSTRY OVERVIEW

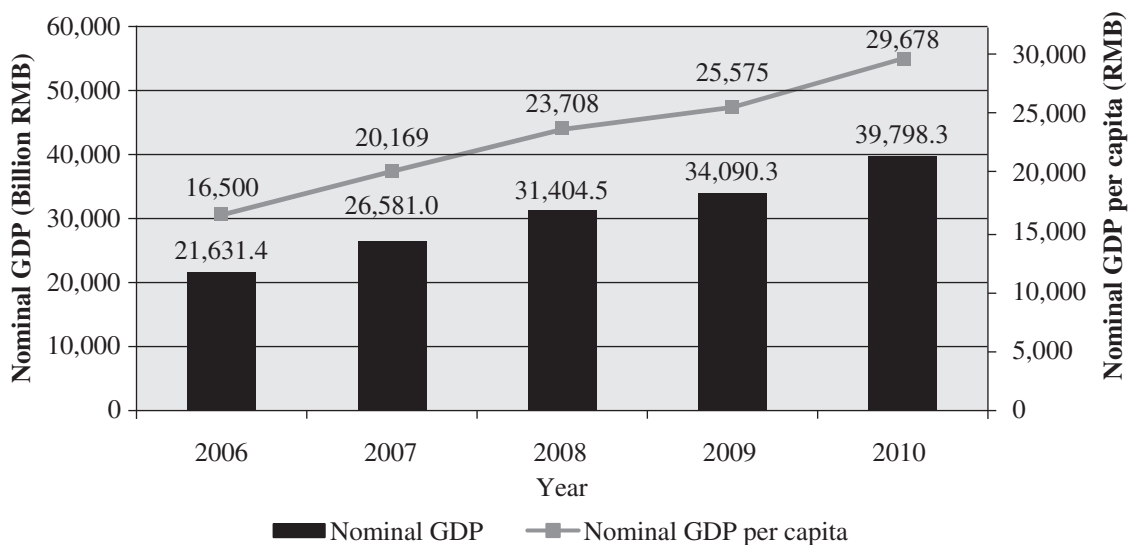
- Increase support for small-and medium-sized enterprises in the textile industry, which includes building public service platforms, enhancing public service systems, promoting and developing textile areas of development, and supporting research and technological innovations in the textile industry.

### FACTORS AFFECTING THE PERFORMANCE OF THE TEXTILE INDUSTRY

#### Economic Growth in China

China's economic growth and its increasing domestic demand for consumer goods are major drivers for the growth of the cotton yarn industry and the polyester 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%. The following charts set forth the nominal GDP and GDP per capita of China between 2006 and 2010:

Nominal GDP and GDP per capita of China

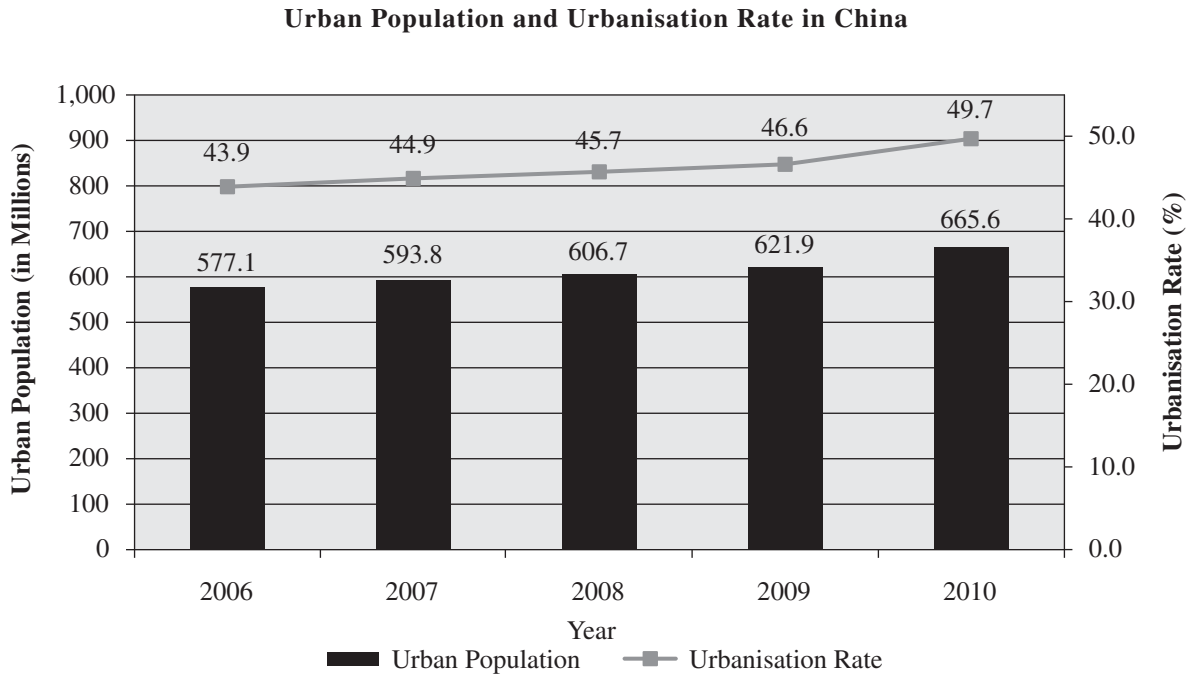


Source: National Bureau of Statistics of China

## INDUSTRY OVERVIEW

### Growth of Urban Population

According to the *National Bureau of Statistics of China*, the urban population in China has increased from 577.1 million in 2006 to 665.6 million in 2010. The urbanisation rate which is a percentage of the urban population to the total population in China grew from 43.9% in 2006 to 49.7% in 2010. The following chart sets forth the urban population and the urbanisation rate in China between 2006 and 2010:



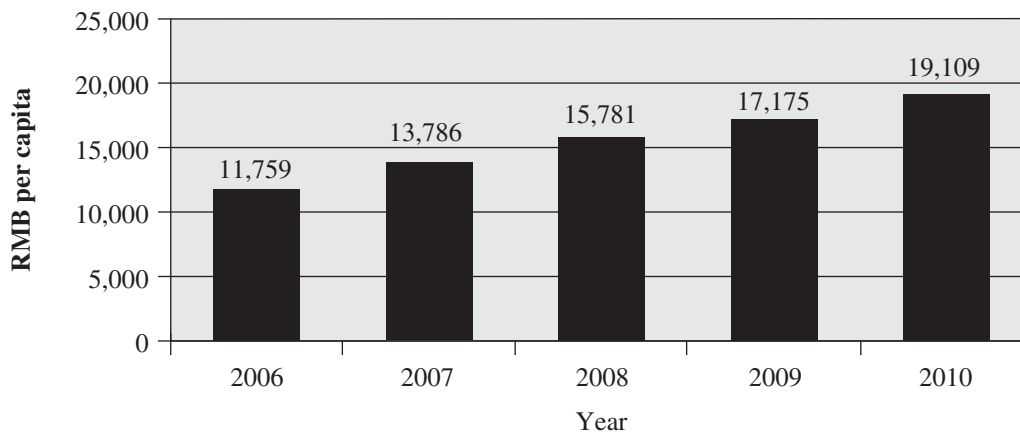
Source: National Bureau of Statistics of China

## INDUSTRY OVERVIEW

### Growth in Disposable Income of Urban Households in China

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%. The following chart sets forth the annual per capita disposable income of urban households in China between 2006 and 2010:

**Annual Disposal Income of Urban Households**



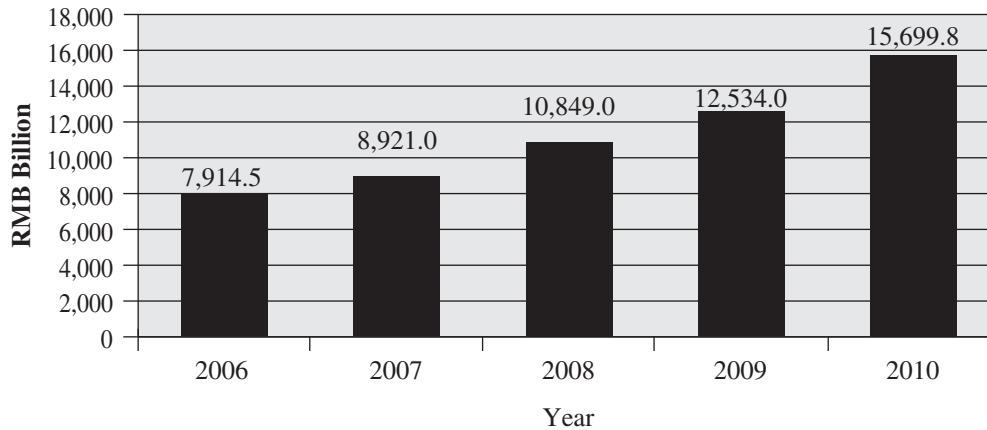
Source: National Bureau of Statistics of China

## INDUSTRY OVERVIEW

### Growth in Retail Sales and Consumption

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 RMB7,914.5 billion in 2006 to RMB15,699.8 billion in 2010, representing a CAGR of 18.7%. The following chart sets forth the retail sales of consumer goods in China between 2006 and 2010:

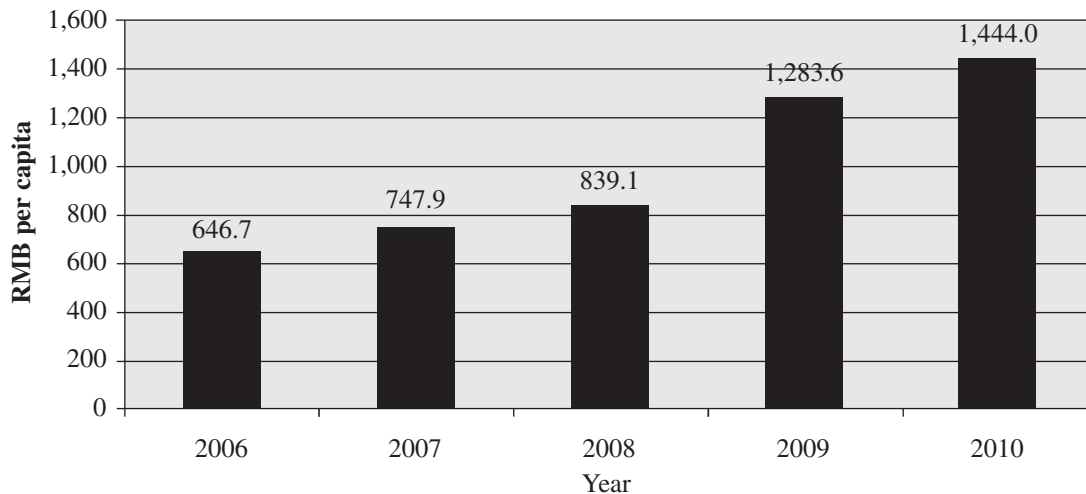
**Retail Sales of Consumer Goods in China**



Source: National Bureau of Statistics of China

The annual urban households' expenditure on apparel per capita in China have also increased from RMB646.7 in 2006 to RMB1,444.0 in 2010, representing a CAGR of 22.2%. The following chart sets forth the annual urban household's expenditure on apparel per capita in China between 2006 and 2010:

**Annual Urban Households' Expenditure on Apparel**



Source: National Bureau of Statistics of China

## INDUSTRY OVERVIEW

### Export of Textile Products from China

Textile exporters which include manufacturers of apparel and home textile product purchase one of their major raw material inputs from yarn manufacturers. The volume of textile export has an influence over the yarn industry in general.

The textile industry in China experienced significant decrease in export for the year 2009. According to the *China Textile Industry Development Report 2009/2010*, total textile and garment export amounted to US\$171.3 billion for 2009, which decreased by 9.7% from 2008. The rate of export growth decreased by 17.6%, with small-sized and medium-sized enterprises contributing significantly to the decrease in export. However in 2010, China textile and garment export rapidly returned to the level before the global economic crisis. According to the *General Administration of Customs of the PRC*, the export value of textile and garment amounted to US\$206.5 billion in 2010, representing a 20.5% increase from 2009 to 2010. During the same period, the total value of textile yarns and textile articles export was US\$77.1 billion, representing a 28.4% increase from 2009 to 2010.

### COMPETITION

#### Polyester Yarns

In general, the polyester yarn manufacturers compete on a variety of factors, such as price, sales channel, quality of product and services and brand awareness.

According to the *Polyester Yarn Industry Report*, the polyester yarn industry is highly competitive. The polyester yarn industry in the PRC is highly fragmented. The total production volume in China was approximately 8.9 million tonnes, out of which Jinyuan accounted for 0.4% of the total production volume, for the year ended 31 December 2010. According to the *Polyester Yarn Industry Report*, the price of polyester yarns fluctuates according to not only the prices polyester staple fibre but also the prices of raw cotton.

According to the *Polyester Yarn Industry Report*, high local consumption rate combined with logistic conveniences for both domestic and imported raw materials provides these regions with cost advantages. In addition to the domestic polyester yarn manufacturers, we also compete with international manufacturers based on product quality, brand recognition, production capacity, production technology and proximity to customers.

The production of polyester yarns is centralised in eastern China, which accounts for over 60.0% of market share in China's polyester yarn market in terms of designed capacity in 2010. Zhejiang province and Jiangsu province represents 52.3% and 37.8%, respectively of the overall designed production capacity in China in 2010.

Since the PRC production capacity for polyester yarns are mostly consumed by domestic demand for most polyester yarns, hence import for polyester yarn products are only limited to higher-end products where domestic productions are insufficient to meet domestic demands. According to Qianinfo, total net export<sup>(1)</sup> for the polyester yarn industry in 2010 was approximately 86,600 tonnes.

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Note:

(1) Equals to total export minus total import.



## INDUSTRY OVERVIEW

### Polyester-Cotton Blended Yarns

In general, the polyester-cotton blended yarn manufacturers compete on a variety of factors, such as functionality, product quality, price and physical appearance.

According to the *Polyester-cotton Blended Yarn Industry Report*, the polyester-cotton blended yarn industry is highly competitive. The polyester-cotton blended yarn industry in the PRC is highly fragmented. The total production volume in China was approximately 2.7 million tonnes, out of which Jinyuan accounted for 0.7% of the total production volume, for the year ended 31 December 2010. According to the *Polyester-cotton Blended Yarn Industry Report*, the market for polyester-cotton blended yarns was saturated, where there were still a slight shortage for high-end products and it was necessary to import certain high-end products to satisfy the production requirements in the PRC. While the production capacity for low-end polyester-cotton blended yarn products already exceeded the demand for such products in the PRC, the production capacity for high-end products in this segment in the PRC was still insufficient to satisfy demand and the imbalance was expected to continue in the next few years according to Qianinfo.

According to the *Polyester-cotton Blended Yarn Industry Report*, high local consumption rate combined with logistic conveniences for both domestic and imported raw materials provides these regions with cost advantages. In addition to the domestic polyester-cotton blended yarn manufacturers, we also compete with international manufacturers based on product quality, brand recognition, production capacity, production technology and proximity to customers.

The production of polyester-cotton blended yarns is centralised in eastern China, which accounts for over 65.0% of market share in China's polyester-cotton blended yarn market in terms of designed capacity in 2010. Jiangsu province, Zhejiang province, Shandong province represents approximately 35%, 24% and 22% of the eastern China designed production capacity in 2010. These areas are also more focused on producing higher-end polyester-cotton blended yarns compared to other provinces in China.

Since the PRC production capacity for polyester-cotton blended yarns would mostly consumed by domestic demand for most polyester-cotton blended yarns, import for polyester-cotton blended yarn products are only limited to higher-end products where domestic productions are insufficient to meet domestic demands. According to Qianinfo, total net import<sup>(1)</sup> for the polyester-cotton blended yarn industry in 2010 was approximately 2,700 tonnes.

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*Note:*

(1) Equals to total import minus total export.

## INDUSTRY OVERVIEW

### Cotton Yarns

In general, the cotton yarn manufacturers compete on a variety of factors, such as price, products sales channel, quality of product and services and brand awareness.

According to the *Cotton Yarn Industry Report*, the cotton yarn industry is highly competitive and fluctuates according to raw material price changes. The cotton yarn industry in the PRC is highly fragmented. The total production volume in China was approximately 27.2 million tonnes, out of which Jinyuan accounted for 0.008% of the total production volume, for the year ended 31 December 2010. According to the *Cotton Yarn Industry Report*, the supply of cotton yarns in the PRC in 2010 was slightly less than its demand and the net import of cotton yarn for the year 2010 was approximately 600,000 tonnes, representing approximately 3% of the apparent consumption of cotton yarns in the PRC.

According to the *Cotton Yarn Industry Report*, high local consumption rate combined with logistic conveniences for both domestic and imported raw materials provides these regions with cost advantages. In addition to the domestic cotton yarn manufacturers, we also compete with international manufacturers based on product quality, brand recognition, production capacity, production technology and proximity to customers.

The production of cotton yarns is centralised in the eastern China, which accounts for over 85% of market share in China's cotton yarn market in terms of designed capacity in 2010. These areas have formed a conglomerate of large cotton yarn manufacturers which are also famous enterprises in China.

Due to the high international cotton prices and the upward pressure in the exchange rate for Renminbi in 2010, PRC textile companies showed an increasing demand for high-quality overseas cotton yarns, and hence increased cotton yarn imports in 2010. According to Qianinfo, total net import<sup>(1)</sup> for the cotton yarn industry in 2010 was approximately 600,000 tonnes.

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*Note:*

(1) Equals to total import minus total export.

## REGULATORY OVERVIEW

### **LAWS, REGULATIONS AND POLICIES RELATED TO THE TEXTILE INDUSTRY**

There are currently no specific laws or regulations governing the production and distribution of textile industry in the PRC. Foreign-invested enterprises engaging in such businesses are subject to the requirements prescribed in various legislations applicable to textile products.

According to the *Catalogue of Industries for Guiding Foreign Investment (Revised 2007)* (外商投資產業指導目錄(2007年修訂)) issued by the *Ministry of Commerce of the PRC* (中華人民共和國商務部) (“MOFCOM”) and the *National Development and Reform Commission of the PRC* (中華人民共和國國家發展和改革委員會) (“NDRC”) on 31 October 2007, which became effective on 1 December 2007, the production of textile products belongs to the “encouraged category”.

On 19 November 2008, the PRC Government declared six measures below to promote the healthy development of light textile industry:

#### **Fiscal Subsidies to Stimulate Domestic Consumption**

The PRC Government will introduce fiscal subsidies with the key objective to stimulate domestic consumption and promote production in the PRC for domestic consumption. These include offering fiscal subsidies to peasants for buying domestic appliances, and increasing financial support to the quake-stricken areas and frontier ethnic minority regions.

#### **Setting Aside Special Funds to Support Small and Medium Textile Enterprises**

The PRC Government will set aside special funds to support small and medium textile enterprises with the key objective of creating job opportunities, economic and social efficiency and also to attract more investment in the light textile industry.

#### **Reducing Tax Burden and Increasing Export Tax Rebate**

The PRC Government plans to reduce the tax burden on small and medium textile enterprises so as to ease cost pressure. It will also continue to increase export tax rebate on textiles, clothing and light industrial products.

The export tax rebate for certain textile products, garments and home furnishing products such as curtains and bed linens has been increased from 11% to 13% commencing from 1 August 2008, then to 14% with effect from 1 November 2008, to 15% with effect from 1 February 2009, to 16% with effect from 1 April 2009 and is now expected to be increased to 17%.

#### **Strong Support for Enterprises to Develop International Markets and Trade Development Fund to Support Merger and Acquisitions, Research and Development and Marketing Activities**

To strengthen the light textile industry, the PRC Government has expressed strong support for small and medium enterprises in the light textile industry to develop international markets. Further, a trade development fund will be set up to support merger and acquisition, research and development and marketing activities in the industry.

## REGULATORY OVERVIEW

### Encouraging Bank Support

The PRC Government encourages and will guide financial institutions to enhance the financial support for small and medium enterprises in the PRC. This will include measures such as advocating financial institutions to provide more lending and simplify approval process, and developing the export credit insurance business to small and medium textile enterprises.

### Funds Set Aside to Promote Technological Transformation

The PRC Government will emphasise on the technological transformation of light textile industry and promote industrial upgrading. Small and medium textile enterprises are encouraged to strengthen their research and development capability and improve market competitiveness. A central budget fund will be set aside for this purpose.

## SUMMARY OF RELEVANT LAWS AND REGULATIONS ON IMPORTS OF COTTON AND EXPORTS OF TEXTILE PRODUCTS

### Relevant Regulations on Imports of Cotton

According to the *Regulation on the Administration of Import and Export of Goods of the PRC* (中華人民共和國貨物進出口管理條例) promulgated by the *State Council of the PRC* (“State Council”) on 10 December 2001, enterprise that import goods which are subject to tariff and quotas should apply for quotas with quotas administration department to obtain certificates for tariff and quotas.

In order to fulfil *the commitments to reduce tariff made by the PRC* (中國入世關稅減讓承諾表) when entering into the *World Trade Organisation* (“WTO”) and *Bangkok Agreement* (曼谷協定), on 21 December 2001, the *Customs Tariff Commission of the State Council* (“Customs Tariff Commission”) issued the *Notice of the Customs Tariff Commission of the State Council on the Implementation of the Customs Tariff of 2002* (國務院關稅稅則委員會關於2002年關稅實施方案的通知), pursuant to the Notice, starting from 1 January 2002, imported cotton will subject to tariff quotas management, and corresponding in-quota rates and out-of-quota rates were also came into effect. Imported cotton within tariff quotas were subject to applicable 1% tax rate, while the imported cotton that out of the tariff quotas were subject to applicable 54.4% Most Favoured Nation rate and 125% general tax rate.

According to the *Interim Measures for the Administration of Import Tariff Quotas of Agricultural Products* (農產品進口關稅配額管理暫行辦法) (“Interim Measures”) promulgated by MOFCOM and NDRC on 27 September 2003, cotton is one of the agricultural products that subject to import tariff quota. Except for foreign products that went to bonded warehouses, bonded areas and export processing zones can be waived to obtain the *Certificates of Import Tariff Quotas for Agricultural Products* (農產品進口關稅配額證), enterprises that import cotton for normal trade, process trade, barter trade, small scale border trade, subsidy, donation, etc. should apply for import tariff quotas for agricultural products with the organisations authorised by NDRC and obtain the *Certificates of Import Tariff Quotas for Agricultural Products* (effective for one calendar year).

Pursuant to the above interim measures, the organisations authorised by NDRC will allocate the import tariff quotas of agricultural products according to the application amounts and the historical import record, productivity, other related business standard of the applicants or using the first-come-first-serve method.

## REGULATORY OVERVIEW

If end-users holding the import tariff quotas for agricultural products could not fully use up the quotas they applied in that year, they should return the unused quotas to the original issue organisations.

On 26 April 2005, the *Customs Tariff Commission issued Notice on the Problem Using Limited Interim Tariffs to Import Cotton that Exceeds Tariff Quotas 2005* (關於2005年在關稅配額外以有數量限制的暫定關稅方式進口棉花問題的通知). According to the notice, from 1 May 2005 to 31 December 2005, imported cotton which declared as out-of tariff quota will subject to import tariff based on the “limited interim tariff rate” (有數量限制的暫定關稅稅率), the interim tariff rate will be determined using sliding duties method, the tax rate slid range from 5% to 40%.

### Relevant Regulations on Exports of Textile Products

According to the *Regulations on the Administration of Import and Export of Goods of the PRC* (中華人民共和國貨物進出口管理條例) promulgated by the State Council on 10 December 2001, export quotas and export licences system had been implemented on goods that subject to export control. While exporting restricted export goods that subject to export quotas and export licences, exporters should apply for quota certificates and export licences.

According to the *Measures on the Administration of Passive Quotas for Textile Products* (紡織品被動配額管理辦法) (“Measures”) promulgated by the *Ministry of Foreign Trade and Economic Cooperation of the PRC* on 20 December 2001, export quotas and export licences system were implemented on textile products that export to countries which has imposed restrictions, such as the European Union and the United States. The systems are subject to the supervision of the Customs and under the examination of the entry-exit inspection and quarantine authorities according to relevant requirements. Exporting companies may acquire the export quotas through various means such as tendering, self-applications and allocation by performance. Exporting companies should return any unused export quota to the original issue authority. Quotas acquired through tendering, self-applications and allocation by performance may be transferred in accordance with the above Measures and relevant provisions.

According to the *2004 Announcement No. 82 of MOFCOM and General Administration of Customs*, under the relevant provisions stipulated in the *Agreement on Textile Products and Clothing* (紡織品與服裝協定) of the WTO in respect of the integration of textile products quotas and *China’s World Trade Organisation Accession Protocol* (中國加入世界貿易組織議定書), countries previously imposing restrictions on textiles export from China, such as the European Union and the United States, had lifted the export quota imposed on China since 1 January 2005.

On 18 September 2006, MOFCOM promulgated the *Measures for the Administration of the Export of Textiles (Provisional)* (紡織品出口管理辦法(暫行)) (“Provisional Measures”). According to the Provisional Measures, interim export control had been implemented on textiles products listed in the *Catalogue of Textile Exports Subject to Provisional Administration* (紡織品出口臨時管理商品目錄) (“Exports Catalogue”). While exporting textile products listed in the Exports Catalogue, foreign trade companies should apply to the local commerce authorities for a *Provisional Export Licence for Textile Products*. As for commodities that subject to the provisional export licence administration, foreign trade companies should apply to the organisations authorised by the *General Administration of Quality Supervision, Inspection and Quarantine* (“General Administration of Quality Supervision”) for the certificate of country of origin for the products after acquiring the *Provisional Export Licence for Textile Products* (紡織品臨時出口許可證).

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Provisional export quotas on textile products is assigned to foreign trade companies by commerce authorities through various means such as allocation by performance and tendering agreement. Provisional export quotas for textile products are allowed to transfer through the transfer platform of provisional export quotas. Should the provisional export quotas were not fully used up within the valid period of the provisional export quota, foreign trade companies should return the remaining provisional quotas to the commerce authorities.

On 14 December 2006, MOFCOM, *General Administration of Customs and General Administration of Quality Supervision* issued the 2006 Announcement No. 106, announcing a new *Catalogue of Textile Exports to the United States Subject to Provisional Administration* (輸美紡織品出口臨時管理商品目錄) and *Catalogue of Textile Exports to the European Union Subject to Provisional Administration* (輸歐盟紡織品出口臨時管理商品目錄) to replace the above Export Catalogue. The United States and the European Union imposed import restrictions on textiles from China to reduce the impact of an influx of Chinese textiles imports according to the relevant provisions of the special safeguards on importing textiles from China stipulated under the paragraph 242 of the *Report of the Working Party on the Accession of China to the WTO* (中國加入世貿組織工作組報告書). To settle the trade disputes with both the United States and European Union, the PRC Government entered into memoranda of understanding with the United States and European Union respectively in 2005 which prescribed annual quotas and caps on annual increases of quotas on 21 categories and 10 categories of Chinese textiles imports into the United States and European Union.

According to the memoranda of understanding entered into between the European Union and China, management over the export quantity of 10 categories of textile products exported to European Union will be lifted as from 1 January 2008 and export licence management over 8 categories of textile products exported to European Union members shall be carried out as from 1 January 2008, and shall be ended as from 31 December 2008.

On 31 December 2008, the memoranda of understanding entered into between the European Union and China, and the United States and China expired. Since 1 January 2009, MOFCOM no longer imposed administration on the export amount and quota licence on the 21 categories of textile products exported to the United State and the 8 categories of textile products under bilateral control exported to the European Union.

## ENVIRONMENTAL PROTECTION REGULATIONS

In accordance with the *Environmental Protection Law* (環境保護法) adopted by the *Standing Committee of the National People's Congress* on 26 December 1989, the *Administration Supervisory Department of Environmental Protection* sets the national guidelines for the discharge of pollutants. The provincial and municipal governments of provinces, autonomous regions and municipalities may also set their own guidelines for the discharge of pollutants within their own provinces or districts in the event that the national guidelines are inadequate.

A company or an enterprise which causes environmental pollution and discharges other polluting materials which endanger the public should implement environmental protection methods and procedures into their business operations. This may be achieved by setting up a system of accountability within the company's business structure for environmental protection; adopting effective procedures to prevent environmental hazards such as waste gases, water and residues, dust powder, radioactive materials and noise arising from production, construction and other activities from polluting and endangering the environment. The environmental protection system and procedures should be implemented simultaneously with the commencement of and during the operation of construction, production and other activities undertaken by the company. Any company or enterprise which discharges environmental

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pollutants should report and register such discharge with the *Administration Supervisory Department of Environmental Protection* and pay any fine imposed for the discharge. A fee may also be imposed on the company for the cost of any work required to restore the environment to its original state. Companies which have caused severe pollution to the environment are required to restore the environment or remedy the effects of the pollution within a prescribed time limit. If a company fails to report and/or register the environmental pollution caused by it, it will receive a warning or be penalised. Companies which fail to restore the environment or remedy the effects of the pollution within the prescribed time will be penalised or have their business licences terminated. Companies or enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, as well as to compensate for any loss or damages suffered as a result of such environmental pollution.

On 29 November 1998, the State Council promulgated the *Regulations on the Administration of Construction Project Environmental Protection* (建設項目環境保護管理條例). On 28 October 2002 the Standing Committee approved the *Law of the People's Republic of China on Appraising of Environment Impacts* (中華人民共和國環境影響評價法) which became effective on 1 September 2003. According to the aforesaid laws, the PRC Government has set up a system to appraise the environmental impact from construction projects, and classify and administer the environmental impact appraisals in accordance with the degree of the environmental impact. If the construction project may result in a material impact on the environment, a thorough environmental impact report on the potential environmental impact is required; if the construction project may result in a slight impact on the environment, an environmental impact statement of analysing or special evaluation will be required; and if the construction project may only result in very little impact on the environment, an environmental impact appraisal is not required but an registration form of environmental impact is needed to be filed. The construction units responsible for the construction projects must submit the aforesaid environmental impact appraisal documents to the relevant administrative departments of environmental protection for examination and approval. If the construction units fail to submit the aforesaid environmental impact appraisal documents according to the applicable PRC laws and regulations or if the documents are not approved after examination by the relevant administrative departments, the departments responsible for examination and approving the relevant construction projects shall not approve such projects and the construction units shall not commence the construction.

Under the *Prevention and Control of Water Pollution Law* (水污染防治法), companies which discharge pollutants directly or indirectly into bodies of water must register with the environmental protection department of the local government at county level or above in the area where they are situated. Such companies must provide information on their facilities which discharge such pollutants, their treatment plants, the type, amount and concentration of the pollutants discharged under normal business operations, in accordance with regulations set by the *Administration Supervisory Department of Environmental Protection*. If there are significant changes to the type, amount or concentration of pollutants being discharged, such changes must be reported immediately. The dismantling or non-usage of pollution treatment plants also require the approval of the environmental protection department of the local government at county level or above.

Under the *Prevention and Control of Atmospheric Pollution Law* (大氣污染防治法), companies which discharge pollutants into the atmosphere must provide details of the discharge to the environmental protection department of the local government. Such details must include the facilities which discharge such pollutants, their treatment plants, the type, amount and concentration of the pollutants discharged under normal business operations, in accordance with regulations made by the *Administration Supervisory Department of Environmental Protection*. If there are significant changes to the type, amount or concentration of pollutants being discharged, such changes must be reported immediately. The dismantling or non-usage of pollution treatment plants also requires the approval of the environmental protection department of the local government.

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Under the *Prevention and Control of Solid Waste Pollution Law* (固體廢物污染環境防治法), companies which discharge solid waste pollution shall be responsible for their pollution. Companies must register with the local relevant authority for their solid waste pollution, and must provide information in relation to the type, amount, discharge and treatment of such pollution, in accordance with regulations made by the *Administration Supervisory Department of Environmental Protection*. If there are significant changes to the type, amount or concentration of pollutants being discharged, such changes must be reported immediately. The dismantling or non-usage of pollution treatment plants also requires the approval of the environmental protection department of the local government.

### TAXATION

The applicable income tax laws, regulations, notices and decisions (collectively referred to as “Applicable FIEs Tax Law”) related to FIEs and their investors include the following:

- the EIT Law promulgated by the State Council on 16 March 2007 which came into effect on 1 January 2008;
- *Implementing Rules of the Enterprise Income Tax Law of PRC* (中華人民共和國企業所得稅法實施條例) promulgated by the State Council on 6 December 2007 which came into effect on 1 January 2008;
- *Notice on the Implementation of the Transitional Preferential Policies in respect of Enterprise Income Tax* (國務院關於實施企業所得稅過渡優惠政策的通知) (“Notice”) promulgated by the State Council on 26 December 2007 which came into effect on the same date;
- *Notice relating to Taxes Applicable to Foreign Investment Enterprises/Foreign Enterprises and Foreign Nationals in Relation to Dividends and Gains obtained from Holding and Transferring of Shares* (國家稅務總局關於外商投資企業、外國企業和外籍個人取得股票(股權)轉讓收益和股息所得稅收問題的通知) promulgated by the *State Tax Bureau* on 21 July 1993;
- *Income Tax Law Applicable to Individuals of PRC* (中華人民共和國個人所得稅法) promulgated by the *Standing Committee of the NPC* on 10 September 1980 and last amended on 29 December 2007 and its latest Implementation Regulations promulgated on 18 February 2008; and
- *Notice on Relevant Policies Concerning Individual Income Tax* (關於個人所得稅若干政策問題的通知) issued by the *Ministry of Finance* and the *State Tax Bureau* on 13 May 1994.

### Taxpayer

The taxpayer of income tax of foreign invested enterprises refers to Sino-foreign equity joint ventures, Sino-foreign contractual joint ventures and foreign-capital enterprises that are established in the PRC.

### Tax Rate

In accordance with the EIT Law, a unified EIT rate of 25% and unified tax deduction standards will be applied equally to both domestic-invested enterprises and foreign-invested enterprises. In accordance with the Notice, the EIT rate applicable to foreign-invested enterprises which are currently subject to a deducted rate will be gradually increased up to 25% within five years commencing from 1 January 2008.



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### Losses Incurred in a Tax Year May Be Carried Forward for Not More Than Five Years

Losses incurred in a tax year by any enterprise with foreign investment and by an establishment or a place set up in the PRC by a foreign enterprise to engage in production or business operations may be made up by the income of the following tax years. Should the income of the following tax year be insufficient to make up for the said losses, the balance may be made up by its income of the further subsequent year, and so on, over a period not exceeding five years.

Any enterprise with foreign investment shall be allowed, when filing a consolidated income tax return, to deduct from the amount of tax payable the foreign income tax already paid abroad in respect of the income derived from sources outside the PRC. The deductible amount shall, however, not exceed the amount of income tax otherwise payable under the EIT Law in respect of the income derived from sources outside the PRC.

Pursuant to the EIT Law, the *Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises* (中華人民共和國外商投資企業和外國企業所得稅法) and its Implementing Rules shall be abolished, and the rate of EIT applicable to all resident enterprises, including foreign invested enterprises and domestic companies in the PRC shall be at a uniform rate of 25% in five years. According to the EIT Law, any enterprise established prior to the promulgation of the EIT Law and is currently enjoying tax incentives, shall be entitled to continue to enjoy such incentives till the date of expiry. In the case of an enterprise that had been established before the EIT Law, but had not declared its first profitable year, the term of any entitlement to tax incentives shall commence from 1 January 2008 for a transition period of five years.

According to the Notice which was promulgated and came into effect on 26 December 2007, commencing from 1 January 2008, enterprises that previously enjoy the preferential policies of low tax rates shall be gradually transited to enjoy the statutory tax rate within 5 years after the implementation of the EIT Law. Among them, the enterprises that enjoy the EIT rate of 15% shall be subject to the EIT rate of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012. The enterprises that previously enjoy the tax rate of 24% shall be subject to the tax rate of 25% commencing from 2008. As of 1 January 2008, enterprises that previously enjoy “2-year exemption and 3-year half payment”, “5-year exemption and 5-year half payment” of the enterprise income tax and other preferential treatments in the form of periodic tax deductions and exemptions may, after the implementation of the EIT Law, continue to enjoy the relevant preferential treatments under the preferential measures and the time period prescribed in the former tax law, administrative regulations and relevant documents until the expiration of the said time period. However, if such an enterprise has not enjoyed the preferential treatments yet because of its failure to make profits, its preferential time period shall be calculated from 2008. The expression “enterprises enjoying the preferential policies” as mentioned above refers to the enterprises established and registered in the industrial and commercial administrative department and in other registration administrative departments prior to 16 March 2007.

### Value-Added Tax

The *Provisional Regulations Concerning Value-Added Tax of the PRC* (中華人民共和國增值稅暫行條例) promulgated by the State Council and amended on 5 November 2008 came into effect on 1 January 2009. Under these regulations and the *Implementing Rules of the Provisional Regulations Concerning Value-Added Tax of the PRC* (中華人民共和國增值稅暫行條例實施細則), value-added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

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The value-added tax rates shall be as follows:

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

### **Business Tax**

With effect from 1 January 2009, businesses that provide services (including entertainment business), assign intangible assets or sell immovable property are liable to business tax at a rate ranging from 3% to 20%, of the charges of the services provided, intangible assets assigned or immovable property sold, as the case may be.

The formula for calculation of the amount of tax payable is set forth below:

Amount of tax payable = amount of business × tax rate

The amount of tax payable shall be calculated in RMB. Taxpayers that settle their amounts of business income in foreign exchange shall convert the amounts into RMB at the foreign exchange market rate.

### **PRC Customs Duties**

According to the *Customs Law of the PRC* (中華人民共和國海關法), the consignee of the imports, the consignor of exports and the owner of the imports and the exports are the persons obligated to pay customs duties (generally speaking, exports are not subject to customs duties). The PRC Customs is the authorities in charge of the collection of customs duties.

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

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

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

As from 1 January 1998, according to the *Notice of the State Council regarding the Adjustment of Taxation Policy of Import Equipment* (國務院關於調整進口設備稅收政策的通知), in respect of the foreign investment projects that fall under *Encouraging Category and Restricted B Category of the Industrial Guidance Catalogue of Foreign Investment* (外商投資產業指導目錄鼓勵類和限制乙類) and also involve the transfer of technology, the equipment imported for its own use within the total investment can be exempt from the customs duties, except for the commodities listed in the *Catalogue of the Non-tax Exemption Import Commodity of Foreign Investment Projects* (外商投資項目不予免稅的進口商品目錄).

### **Tax on Dividends from PRC Enterprise with Foreign Investment**

According to the Applicable FIEs Tax Law, income such as dividends and profits distribution from the PRC derived from a foreign enterprise which has no establishment in the PRC is subject to a 20% withholding tax, subject to reduction as provided by any applicable double taxation treaty, unless the relevant income is specifically exempted from tax under the Applicable FIEs Tax Law. The profit derived by a foreign investor from a PRC enterprise with foreign investment is exempted from PRC tax according to the Applicable FIEs Tax Law. However, following the enforcement of the EITL from 1 January 2008, dividends of the year 2008 and the years afterwards distributed from foreign investment enterprises to foreign investors shall be subject to the Enterprise Income Tax. Profits accumulated by foreign investment enterprises before 1 January 2008 but distributed to foreign investors after 1 January 2008 are exempted from the Enterprise Income Tax.

Apart from the above, the Applicable FIEs Tax Law provides that:

- (a) pursuant to the *Implementing Rules of the Enterprise Income Tax Law of PRC* (中華人民共和國企業所得稅實施條例) promulgated by the State Council commencing on 1 January 2008, 10% income tax is applicable to dividends payable from a foreign enterprise which has no establishment in the PRC to investors that are “non-resident enterprises” (and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business); and
- (b) pursuant to the *Notice concerning Tax Rates for Dividends Declared* (關於下發協定股息稅率情況一覽表的通知) issued by the State Administration of Taxation, 5% withholding tax is applicable to dividends payable from the PRC subsidiary to its Hong Kong holding company, pursuant to an arrangement for the avoidance of double taxation between Mainland China and Hong Kong which provides for a withholding tax at a rate of 5% for dividend payments the Hong Kong holding company receives from the PRC entities in which it holds an interest of 25% or more, to the extent such dividends have their source within the PRC.

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In addition, the Applicable FIEs Tax Law also provides that dividends received by a qualified PRC tax resident from another PRC tax resident are exempted from withholding tax.

### LABOUR LAWS AND SAFETY MATTERS

Relevant labour and safety laws and regulations in the PRC include the *PRC Labour Law* (中華人民共和國勞動法), the *PRC Labour Contract Law* (中華人民共和國勞動合同法), the *Decision of the State Council on Establishing the Unified Basic Pension Insurance System for the Employees of Enterprises* (國務院關於建立統一的企業職工基本養老保險制度的決定), the *Decision of the State Council on Establishing the Basic Medical Insurance System for the Urban Employees* (國務院關於建立城鎮職工基本醫療保險制度的決定), the *Regulation on Work-related Injury Insurance* (工傷保險條例), the *Regulation on Unemployment Insurance* (失業保險條例), the *Provisional Insurance Measures for Maternity of Employees* (企業職工生育保險試行辦法), the *Interim Provisions on Registration of Social Insurance* (社會保險登記管理暫行辦法), the *Interim Regulation on the Collection and Payment of Social Insurance Premiums* (社會保險費徵繳暫行條例) and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time are applicable to our operations in the PRC.

According to the *Social Insurance Law of the PRC* (中華人民共和國社會保險法), which was promulgated on 28 October 2010 and became effective from 1 July 2011, employers are obliged to make contributions to, and employees including migrant workers from rural areas are required to participate in, all social insurance schemes, which include basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance schemes. Basic pension insurance, and basic medical insurance and unemployment insurance contributions shall be paid by both employers and employees. Employees shall participate in work-related injury insurance and maternity insurance schemes. Work-related injury insurance and maternity insurance contributions shall be paid by employers rather than employees.

Pursuant to the *Social Insurance Law of the PRC*, if an employer fails to pay work-related injury insurance contributions in accordance with the law, it shall pay work-related injury insurance benefits in the case of a work-related injury accident. If the employer fails to make such payment, the benefits shall first be reimbursed by the work-related injury insurance fund. Work-related injury insurance benefits reimbursed by the work-related injury insurance fund shall be repaid by the employer. If the employer fails to make repayment, social insurance agencies may recover such benefits from the employer in accordance with the law.

Furthermore, as to unemployment insurance, employers shall provide unemployed individuals with certification of expiry or termination of their employment in a timely manner, and within 15 days of such expiry or termination, inform social insurance agencies of the list of the unemployed individuals. Unemployed individuals shall undertake the procedures for unemployment registration with the designated public employment service institutions in a timely manner by producing the certification of expiry or termination of their employment issued by their former employers. The period for receiving unemployment insurance benefits shall be calculated from the date of unemployment registration.

An employer shall register with the local social insurance agency in accordance with the provisions of the *Social Insurance Law of the PRC*. Moreover, an employer shall declare and make social insurance contributions in full and on time. Except for mandatory exceptions such as force majeure, social insurance may not be paid late, reduced or be exempted. If an employer fails to report the social insurance premium payable in accordance with the relevant regulations, the social insurance agency shall provisionally set the amount payable at 110% of the premium paid in the previous month. Once the employer has retroactively undertaken the reporting procedures, the social insurance agency shall settle

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the amount in accordance with the relevant regulations. Where an employer fails to make social insurance contributions in full and on time, the social insurance agency may order rectification within a specified time limit. If the employer fails to rectify within the specified time limit, the social insurance agency may enquire with the relevant banks and financial institutions in which the employer has an account in, and may apply with the relevant administrative department above county level to allocate and transfer the unpaid social insurance contributions and notify the relevant banks or other financial institutions in writing to allocate and transfer the unpaid social insurance contributions. Where the balance in the employer's bank account is less than the overdue social insurance contributions, the social insurance agency may request the employer to provide a guarantee and sign a social insurance payment agreement for the delayed payment. If the employer does not make the social insurance contributions within the specified time limit and fail to provide a guarantee with respect to the same, the social insurance agency may request the people's court to seize the property of the employer (equivalent in value to the unpaid overdue social insurance contributions), and collect the overdue social insurance contributions from the proceeds obtained from the auction of such property.

According to the *PRC Labour Law* (中華人民共和國勞動法) and the *PRC Labour Contract Law* (中華人民共和國勞動合同法), labour contracts in written form shall be executed to establish labour relationships between employees and employers. The employers must provide wages which are no lower than local minimum wage standards to the employees from time to time. The employers are required to establish a system for labour safety and sanitation, strictly abide by State rules and standards and provide relevant education to the employees. The employers are also required to provide the employees with labour safety and sanitation conditions meeting State rules and standards and carry out regular health examinations of the employees engaged in hazardous occupations.

As required under the *Decision of the State Council on Establishing the Unified Basic Pension Insurance System for the Employees of Enterprises*, the *Decision of the State Council on Establishing the Basic Medical Insurance System for the Urban Employees*, the *Regulation on Work-related Injury Insurance*, the *Provisional Insurance Measures for Maternity of Employees*, the *Interim Regulation on the Collection and Payment of Social Insurance Premiums* and the *Interim Provisions on Registration of Social Insurance*, the employers are obliged to provide the employees in the PRC with welfare schemes covering basic pension insurance, unemployment insurance, maternity insurance, injury insurance and basic medical insurance.

The *PRC Production Safety Law* (中華人民共和國安全生產法) requires that the employers maintain safe production conditions as required by the *PRC Production Safety Law* and other relevant laws, administrative regulations, national standards and industrial standards. It further provides that any entity that is not sufficiently equipped to ensure safe production may not engage in production and business operation activities, and that companies must provide production safety education and training programmes to employees. The design, manufacture, installation, use, checking and maintenance of the safety equipment are required to conform to applicable national or industrial standards. In addition, it is required that labour protection equipment must meet the national or industrial standards and that companies must supervise and educate their employees to wear or use such equipment according to the prescribed rules.

### **Relevant Regulations on Housing Fund**

Pursuant to the *Regulations on the Administration of Housing Fund* (《住房公積金管理條例》) effective in 1999, as amended in 2002, PRC companies shall register with the competent housing fund management centre and establish a special housing fund account in an entrusted bank. Both PRC companies and their employees are required to contribute to the housing fund and their respective deposits shall not be less than 5% of an individual employee's monthly average wage during the

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preceding year. If an employer fails to make housing fund contributions for its employees, the housing fund management centre may order rectification, and a fine of between RMB10,000 and RMB50,000 may be imposed. In practise, local policy and regulations on the implementation of the housing fund may vary from place to place in PRC.

### WHOLLY FOREIGN-OWNED ENTERPRISE (“WFOE”)

The establishment, operation and management of corporate entities in China are governed by the *Company Law of the PRC* (中華人民共和國公司法) (“Company Law”), which was adopted by the Standing Committee on 29 December 1993 and became effective on 1 July 1994. It was latest amended on 27 October 2005 and became effective from 1 January 2006. Under the Company Law, the companies are generally classified into two categories: limited liability companies and limited companies by shares. The Company Law also applies to foreign-invested limited liability companies. According to the Company Law, where laws on foreign investment have different stipulations, such stipulations shall prevail. According to the *Implementing Opinion on Several Issues Concerning the Application of Law in the Administration of the Examination, Approval and Registration of Foreign-invested Companies* (關於外商投資的公司審批登記管理適用法律若干問題的執行意見) issued jointly by the *State Administration for Industry and Commerce*, MOFCOM, the *General Administration of Customs and the State Administration of Foreign Exchange* on 24 April 2006 and became effective on the same day, the organisation structure of limited liability companies in the form of a foreign equity joint venture, wholly foreign-owned limited liability company or foreign-invested stockholding limited company shall comply with the provisions of the Company Law and the articles of associations. Furthermore, where a foreign-invested company increases its registered capital, the shareholders of a limited liability company (including one-person limited company), or the stock holding limited company established by way of promotion shall pay no less than 20% of the registered capital to be increased when the company applies for modifying the registration of registered capital. The time of capital contribution of the remaining portion shall meet the provisions of the Company Law, the laws on foreign investment and *Regulations on the Administration of Company Registration*. If other laws or administrative regulations provide otherwise, such provisions shall prevail.

A WFOE is governed by the *Law of the PRC on Wholly Foreign-owned Enterprises* (中華人民共和國外資企業法), which was promulgated on 12 April 1986 and revised on 31 October 2000, and its Implementation Regulations promulgated on 12 December 1990 and revised on 12 April 2001 (“WFOE Law”).

### Procedures for Establishment of a WFOE

The establishment of a WFOE must be approved by the MOFCOM. If two or more foreign investors jointly apply for the establishment of a WFOE, a copy of the contract between the parties must also be submitted to the MOFCOM (or its delegated authorities) for its record. A WFOE must also obtain a business licence from the relevant local Administration for Industry and Commerce before it can commence business operation.

### Nature of WFOE

A WFOE is a limited liability company under the WFOE Law. A WFOE is a legal person who is entitled to independently assume civil obligations, enjoy civil rights and own, use and dispose of property. It is required to have a registered capital contributed by the foreign investor(s). The liability of the foreign investor(s) is limited to the amount of registered capital it subscribed to contribute. A foreign investor is permitted to make its contributions by instalments and the registered capital shall be contributed within the required time period as approved by the MOFCOM (or its delegated authorities) in accordance with relevant PRC laws and regulations.

## REGULATORY OVERVIEW

### Profit Distribution

The WFOE Law provides that a WFOE shall withdraw reserve fund and employee bonus and benefit fund from the after-tax profit. The allocation ratio for the employee bonus and welfare fund shall be determined by the enterprise. However, at least 10% of the after-tax profits must be allocated to the reserve fund. If the cumulative total of allocated reserve funds reaches 50% of the enterprise's registered capital, the enterprise will not be required to make any additional contribution. The enterprise is prohibited from distributing dividends unless the losses (if any) of previous years have been made up.

### FOREIGN EXCHANGE CONTROL

Prior to 31 December 1993, enterprises in the PRC requiring foreign currency were required to obtain approval from the *State Planning Committee* and the *China Ministry of Foreign Trade and Economic Cooperation* before it could convert Renminbi into foreign currency, and such conversion had to be effected at the official rate prescribed by SAFE. Renminbi reserved by foreign investment enterprises could also be converted into foreign currency at swap centres with the prior examination and verification by SAFE. The exchange rates used by swap centres were largely determined by the supply of and demand for foreign currencies and Renminbi.

On 28 December 1993, the PBOC announced that the dual exchange rate system for Renminbi against foreign currencies would be abolished with effect from 1 January 1994 and be replaced by the unified exchange rate system. Under the new system, the PBOC publishes the Renminbi exchange rate against the US dollar daily. The daily exchange rate is set by reference to the Renminbi/US dollar trading price on the previous day on the "inter-bank foreign exchange market".

On 1 April 1996, the *Foreign Exchange Control Regulations of the PRC* (中華人民共和國外匯管理條例) by the State Council (as amended on 14 January 1997 and 1 August 2008) came into effect. On 20 June 1996, the PBOC issued the *Announcement on the Implementation of Sale and Purchase of Foreign Exchange for the Foreign Investment Enterprises* (中國人民銀行關於對外商投資企業實行銀行結售匯的公告) which allows foreign-invested enterprises ("FIEs") to settle their foreign exchange related transactions at designated banks or at swap centres from 1 July 1996. This Announcement was abolished on 1 December 2002 by the *Interim Measures for the Administration of Foreign Exchange Settlement and Sales Operations by Designed Foreign Exchange Banks* (外匯指定銀行辦理結匯、售匯業務管理暫行辦法). On 20 June 1996, the *Regulations on Settlement and Sales of and Payment in Foreign Exchange* (結匯、售匯及付匯管理規定) was promulgated by the PBOC and came into effect on 1 July 1996.

On 25 October 1998, the PBOC and SAFE issued the *Joint Announcement on Abolishment of Foreign Exchange Swap Business* (中國人民銀行、國家外匯管理局關於停辦外匯調劑業務的通知) which stated that from 1 December 1998, foreign exchange transactions for FIEs may only be conducted at designated banks. In addition, some of the swap centres would be abolished, while the others which are already linked up with the *China Foreign Exchange Trading Centre* (the "CFETC") by the computerised network will be merged with the CFETC and sub-centres to the CFETC.

On 21 July 2005, the PBOC issued the public announcement regarding reforming the Renminbi exchange rate regime. With effect from 21 July 2005:

- (a) The PRC will reform the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies and the Renminbi will no longer be pegged to the US dollar;

## REGULATORY OVERVIEW

- (b) The PBOC will announce the closing price of foreign currencies including but not limited to the US dollar traded against Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and will make it the central price for the trading against Renminbi on the following day;
- (c) The exchange rate of the US dollar against the RMB will be adjusted to 8.11 RMB per US dollar at the time of 19:00 hours of 21 July 2005, which will be made as the central price for the trading against the RMB on the following working day. The foreign exchange designated banks may since then adjust quotations of foreign currencies to their customers; and
- (d) The daily trading price of the US dollar against the RMB in the inter-bank foreign exchange market will continue to be allowed to float within a band of  $\pm 0.3\%$  around the central parity published by the PBOC, while the trading prices of the non-US\$ currencies against the RMB will be allowed to move within a certain band announced by the PBOC.

In the future, the PBOC will make adjustment of the RMB exchange rate band when necessary according to market development as well as the economic and financial situation.

The *Foreign Exchange Control Regulations of China* was amended on 1 August 2008. Pursuant to this amendment: (1) the compulsory requirements for PRC enterprises to transfer their foreign exchange income back into PRC territory is abolished; (2) control and inspection over cross-border capital flow are further strengthened; and (3) the foreign exchange approval over direct investment overseas is simplified.

In summary, the present position under PRC laws relating to foreign exchange control, taking into account the promulgation of the recent new regulations and the extent the existing provisions stipulated in previous regulations do not contradict these new regulations, are as follows:

- (a) The previous dual exchange rate system for RMB was abolished and a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies was introduced. The PBOC will announce the closing price of foreign currencies including but not limited to the US dollar traded against the RMB in the inter-bank foreign exchange market after the closing of the market on each working day, and will make it the central parity for the trading against the RMB on the following working day.
- (b) Foreign exchange receipts and payments shall be based on true and lawful transactions. PRC enterprises may retain or sell their foreign exchange earnings to financial institutions which are allowed to conduct foreign exchange businesses and use their own retained foreign exchange or purchase foreign exchange at financial institutions which are allowed to conduct foreign exchange businesses for current account transactions.
- (c) Capital foreign exchange receipts of PRC enterprises, upon SAFE approval (unless no approvals required), may be retained or sold to financial institutions which are allowed to conduct foreign exchange businesses. PRC enterprises may use their retained foreign exchange or purchase foreign exchange at financial institutions which are allowed to conduct foreign exchange businesses for capital account transactions.
- (d) Despite the relaxation of foreign exchange control over current account transactions, the approval of SAFE is still required before an enterprise may receive a foreign currency loan, provide a foreign exchange guarantee, make an investment outside the PRC or enter into any other capital account transaction that involves the purchase of foreign exchange.



## REGULATORY OVERVIEW

- (e) FIEs which require foreign exchange for their ordinary trading activities such as trade services and payment of interest on foreign debts may purchase foreign exchange from designated foreign exchange banks if the application is supported by proper payment notices or supporting documents.
- (f) FIEs may require foreign exchange for the payment of dividends that are payable in foreign currencies under applicable regulations, such as distributing profits to their foreign investors. They can withdraw funds in their foreign exchange bank accounts kept with designated foreign exchange banks, subject to the due payment of tax on such dividends. Where the amount of the funds in foreign exchange is insufficient, the enterprise may, upon the presentation of the resolutions of the directors on the profit distribution plan of the particular enterprise, purchase foreign exchange from designated exchange banks.
- (g) FIEs may apply to designated foreign exchange banks to remit the profits out of the PRC to the foreign parties to equity or cooperative joint ventures or the foreign investors in wholly foreign-owned enterprises if the requirements provided by PRC laws, rules and regulations are met.

Pursuant to the *Circular of the SAFE on Relevant Issues concerning Foreign Exchange Administration of Financing and Return Investments Undertaken by Domestic Residents through Overseas Special Purpose Vehicles* (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》, “SAFE Circular No. 75”), promulgated on 21 October 2005 and effective on 1 November 2005,

- (a) a PRC citizen or enterprises, or a PRC resident, must register with the local SAFE branch before he, she or it establishes or controls an overseas special purpose vehicle (SPV), for the purpose of obtaining overseas equity financing using the assets of or equity interests in a domestic enterprise;
- (b) when a PRC resident contributes the assets of or its equity interests in a domestic enterprise to an overseas SPV, or engages in overseas financing after contributing assets or equity interests in a domestic enterprise to an overseas SPV, such PRC resident must register his or her interest in the overseas SPV or any change to his or her interest in the overseas SPV with the local SAFE branch;
- (c) when the overseas SPV undergoes a material event outside the PRC, such as a change in share capital or merger and acquisition, the PRC resident must, within 30 days after the occurrence of such event, register such change with the local SAFE branch.

Pursuant to SAFE Circular No. 75, failure to comply with these registration procedures may result in penalties, including the imposition of restrictions on a PRC subsidiary’s foreign exchange activities and its ability to distribute any dividends to the overseas SPV.

Our PRC legal adviser, Commerce & Finance, opined that since our Shareholders, Mr. Zheng, Mr. Sze, Mr. Lin and Ms. Chow, had become Hong Kong residents prior to the announcement of the SAFE Circular No. 75 and Jiangxi Jinyuan was established as a foreign investment enterprise in 2005 directly by Mr. Zheng and Mr. Sze and no overseas SPV was involved, no registration under the SAFE Circular No. 75 was required at the time of its establishment. In addition, the Corporate Reorganisation does not fall within the scope of the SAFE Circular No. 75 and no registration is required.

## REGULATORY OVERVIEW

### M&A Rules

On 8 August 2006, six PRC governmental and regulatory agencies, including the MOFCAM and the CSRC, promulgated *the Regulation on the Acquisitions of Domestic Enterprises by Foreign Investors* (關於外國投資者併購境內企業的規定) (“M&A Rules”) which became effective on 8 September 2006 and was revised on 22 June 2009. Pursuant to the M&A Rules, merger or acquisition of a domestic enterprise by a foreign investor means (i) that a foreign investor purchases equity interest owned by shareholders in a domestic enterprise other than a foreign-invested enterprise or subscribes to the increased capital of a domestic company, whereby to convert such domestic company into a foreign-invested company, or (ii) that a foreign investor establishes a foreign-invested enterprise through which assets of a domestic enterprise are subsequently acquired by agreement and operated, or (iii) that a foreign investor acquires the assets of a domestic enterprise by agreement and subsequently establishes a foreign-invested enterprise with such assets and then operate such assets.

Under such M&A Rules, establishment of a foreign-invested enterprise by foreign investors through merger with and acquisition of a domestic entity shall be subject to approval by the approval authority, and to completion of new registration, or amendment to existing registration, with the registration administrative authority.

Our PRC legal adviser, Commerce & Finance, advised that approval by the CSRC under the M&A Rules for the Corporate Reorganisation is not required for the following reasons: (a) Jiangxi Jinyuan was established as a wholly foreign-owned enterprise by Mr. Zheng and Mr. Sze before the effective date of the M&A Rules; and (b) no merger and acquisition as defined in the M&A Rules occurred in connection with the Corporate Reorganisation of Jiangxi Jinyuan.

### THE REGULATION ON ADJUSTMENT IN THE STRUCTURE OF INDUSTRIES

On 27 March 2011, the NDRC promulgated the *Guiding Catalog for Adjustment in the Structure of Industries* (產業結構調整指導目錄) (“Guiding Catalog”), which became effective on 1 June 2011. Pursuant to the *Guiding Catalog*, certain categories of outdated products or projects are subject to restriction or obsolescence.

As advised by our PRC legal adviser, Commerce & Finance, since Jinyuan is and will not engage in such products or projects in the specified category under the Guiding Catalog, the Guiding Catalog will not have material adverse financial and operational impacts on us.

# HISTORY AND CORPORATE STRUCTURE

## BUSINESS MILESTONES

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

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

## CORPORATE HISTORY

### Our Company

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

### Jiangxi Jinyuan

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

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

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

## HISTORY AND CORPORATE STRUCTURE

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

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

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

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

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

### **Treasure Resources**

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

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

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

### **Jolly Success**

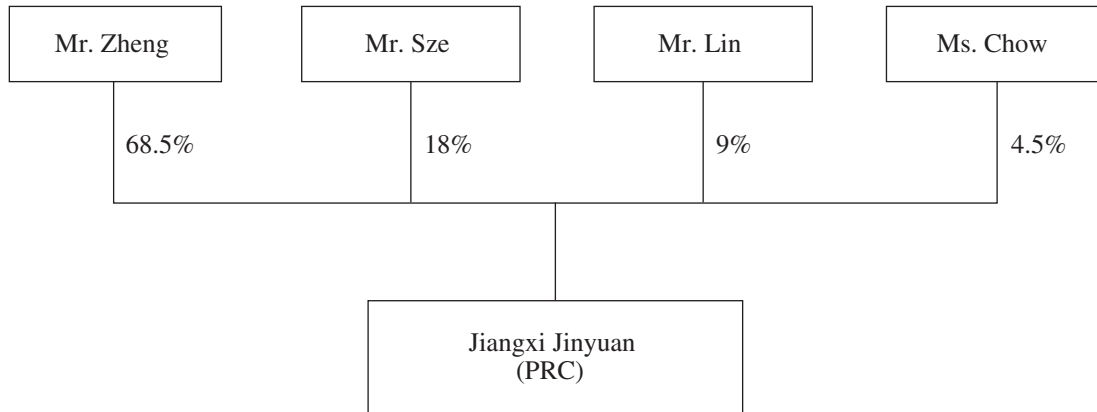
Jolly Success is a company incorporated in BVI on 3 March 2011. On 13 June 2011, Jolly Success allotted and issued 685 shares to Popular Trend, 180 shares to Flourish Talent, 90 shares to Da Yu Investments and 45 shares to Integrity Technology for cash at par.

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

## HISTORY AND CORPORATE STRUCTURE

### CORPORATE REORGANISATION

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



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

#### Incorporation of our Company

On 4 May 2011,

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

#### Incorporation of Jolly Success

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

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

#### Incorporation of Treasure Resources

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

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

## HISTORY AND CORPORATE STRUCTURE

### **Transfer of Shares to the Pre-IPO Investor**

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

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

### **Acquisition of Jolly Success by our Company**

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

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

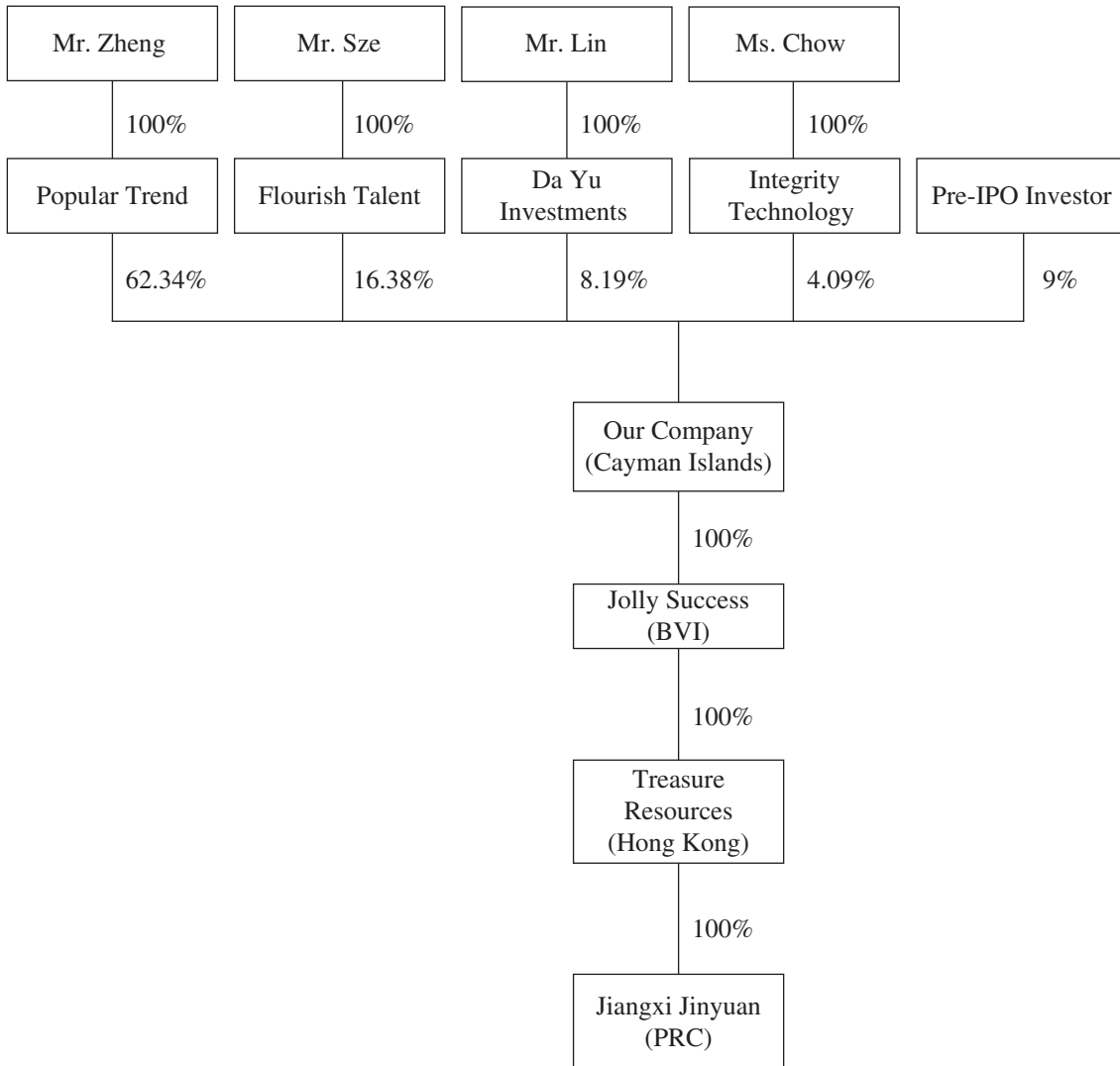
### **Acquisition of Jiangxi Jinyuan**

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

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

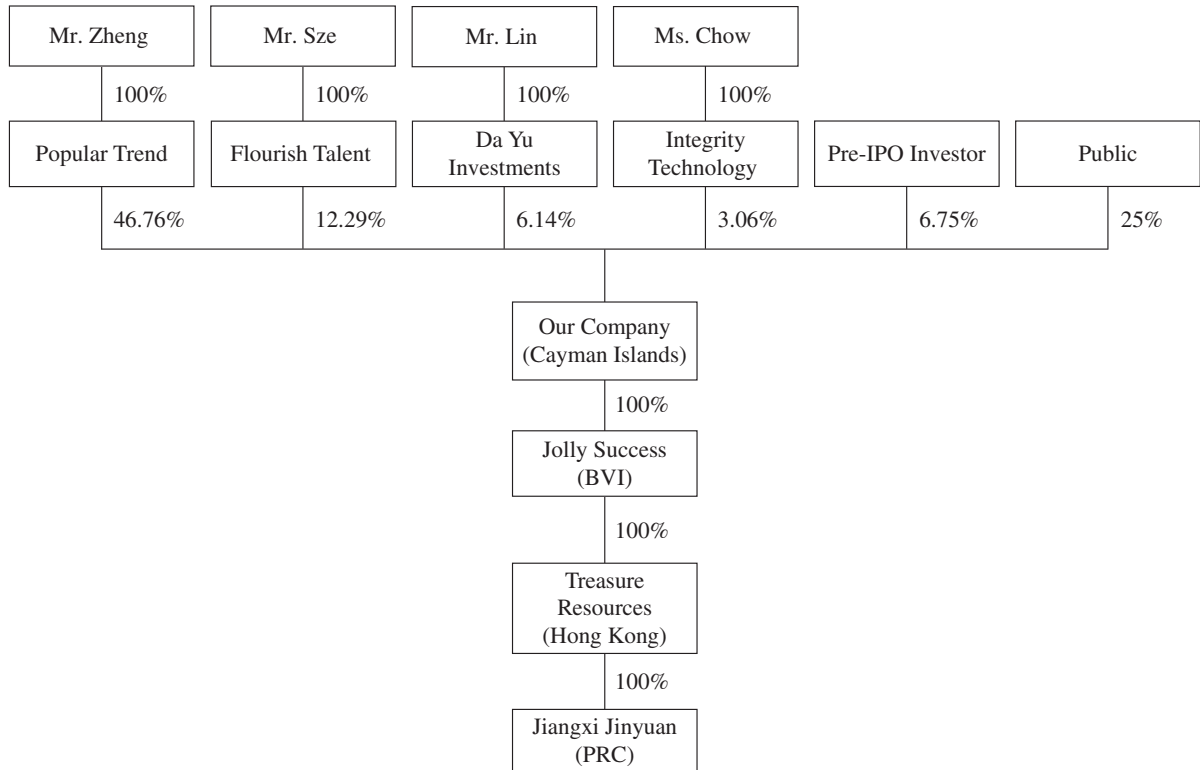
## HISTORY AND CORPORATE STRUCTURE

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



## HISTORY AND CORPORATE STRUCTURE

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



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

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

### PRC LEGAL COMPLIANCE

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

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



## HISTORY AND CORPORATE STRUCTURE

### PRE-IPO INVESTMENT

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

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

where “C” is the investment amount

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

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

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

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

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

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

## HISTORY AND CORPORATE STRUCTURE

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

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

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

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

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

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

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

## **OVERVIEW**

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

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

### **Our Expansion Plan**

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

### **Our Location**

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

### **Our Suppliers**

We engage in the manufacture and sale of yarn products. Our main raw materials are polyester staple fibre and raw cotton. We source our polyester staple fibres mainly from Jiangsu Province and Fujian Province for the production of our polyester yarns and polyester-cotton blended yarns. We use both domestic and overseas raw cotton in our polyester-cotton blended yarns and cotton yarns production. We generally do not enter into any long-term supply agreement with our raw material suppliers, except

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for certain framework supply agreements with a few suppliers. As such, we are free to source raw materials from a number of suppliers. We believe that this enables us to source raw materials that are available to us at the highest quality and the most competitive pricing.

### **Our Procurement and Pricing Strategy**

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

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

### **Our Equipment, Machinery and Production Facility**

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

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### **Our Customers**

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

### **Our Management Team**

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

### **Our Competitive Environment**

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

## **COMPETITIVE STRENGTHS**

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

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

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

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and maintain customer relationships. In addition, we benefit from local government grants on purchase of land use rights. We believe that the access to available land, labour, energy and utility resources, convenient transportation and favourable local government policies at our strategic location in Jiangxi Province provide us with competitive operating cost and are key to our success.

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

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

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

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

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

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

We operate a large-scaled business that enables us to enjoy synergies arising from economies of scale. According to the classification of industrial enterprises in the industry by the *National Bureau of Statistics of China*, cotton textile companies of over 100,000 spindles are considered as large-scaled businesses compared to manufacturers who do not operate in a large scale. As at 30 June 2011, our production capacity was approximately 321,000 spindles, which could be allocated to produce any of our

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yarn products according to our production plan from time to time. According to the *China Textile Industry Development Reports*, Jiangxi Province is ranked ninth in the PRC for the year ended 31 December 2010 in terms of aggregate yarn production volume, which accounted for 2.7% of national yarn production volume in 2010. Our yarn production volume was 58,443 tonnes for the year ended 31 December 2010. Our Directors estimate that our market share in terms of yarn production volume in 2010 was 7.8% of Jiangxi Province and 0.2% of China. Leveraging on the benefits from economies of scale, we grew rapidly during the Track Record Period, with revenue increasing from RMB545.3 million in 2008 to RMB663.4 million in 2009 and further to RMB930.7 million in 2010, and from RMB411.2 million for the six months ended 30 June 2010 to RMB526.6 million for the six months ended 30 June 2011.

We have established a large and diversified customer base for the sale of our yarn products. We believe that the scale of our operation affords us with more bargaining power to negotiate for competitive pricing for our raw materials that enables us to reduce our unit production cost. In addition, we believe that the economies of scale from our large-scaled business compared to manufacturers who do not operate in a large scale, will provide us with more flexibility in pricing our products competitively.

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

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

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

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

Our senior management team is led by Mr. Zheng Hong, who is one of our founders and our chairman, with 12 years of experience and knowledge in the textile industry. Mr. Zheng Hong was awarded the *China Textile Outstanding Model Worker Award* (中國紡織勞動模範) in 2010. In addition, Mr. Zheng Hong is a member of the standing committee (常務理事) of the *China Cotton and Textile Industry Association* (中國棉紡織行業協會) since 2010. Other members of our senior management team include Mr. Zheng Yongxiang, Mr. Liu Weimin and Mr. Chen Yuhan. Mr. Liu Weimin has over 20 years of experience in the textile industry while all of them have over five years of experience in the textile industry and have been instrumental to our development. The dedication of our senior management team has contributed to the stability of our senior management. Most of our senior management members have an established track record in the textile industry, enabling us to build our production facilities and ramp

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up our production capacities in a short period of time to become the leading enterprise in the textile industry in Jiangxi Province in terms of revenue. For further details of the biographies and relevant industry experience of our management team, see the section headed “Directors, Senior Management and Employees” in this Prospectus. We believe that an experienced management team as well as dedicated members of staff will contribute significantly to our future growth.

### BUSINESS STRATEGIES

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

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

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

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

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



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### **Expand our production capacities through further expansion and selective acquisitions**

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

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

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

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

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

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

We have a large and diversified customer base. We have established and maintained long-term and close relationships with our regular customers, which are customers who satisfied one of the following criterion: (i) entered into ten or more transactions with us in the year and the annual aggregate transaction amount was no less than RMB0.8 million or the annual aggregate transaction amount was no less than RMB1.0 million for each of the years ended 31 December 2008, 2009 and 2010; or (ii) entered into five or more transactions with us in the period and the aggregate transaction amount for the period was no less than RMB0.4 million or the aggregate transaction amount for the period was no less than RMB0.5 million for the six months ended 30 June 2011. We continuously provide consistent quantity and high quality products to such customers. We plan to continue to strengthen our sales and marketing efforts and our customer service, to enhance our market reputation and customers' loyalty. We encourage our sales

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department to participate in industry conferences and familiarise themselves with industry trends and ongoing research and development of new materials. Before we launch a new product, we research the product and its potential market thoroughly to ensure that it meets our quality and environmental friendliness standards. We plan to closely monitor the progress of our customers' needs and adjust our production accordingly so that we are well-positioned to meet the new demands from our customers.

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

### OUR PRODUCTS

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

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

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

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

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

### Polyester Yarns

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



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

### Polyester-cotton Blended Yarns

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

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



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

### **Cotton Yarns**

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



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

### **New Products to Be Launched**

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

#### *Coloured Polyester-Cotton Blended Yarns*

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

#### *Open-End Spun Yarns*

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

### **PRODUCTION PROCESS, FACILITIES AND CAPACITIES**

#### **Production Process**

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

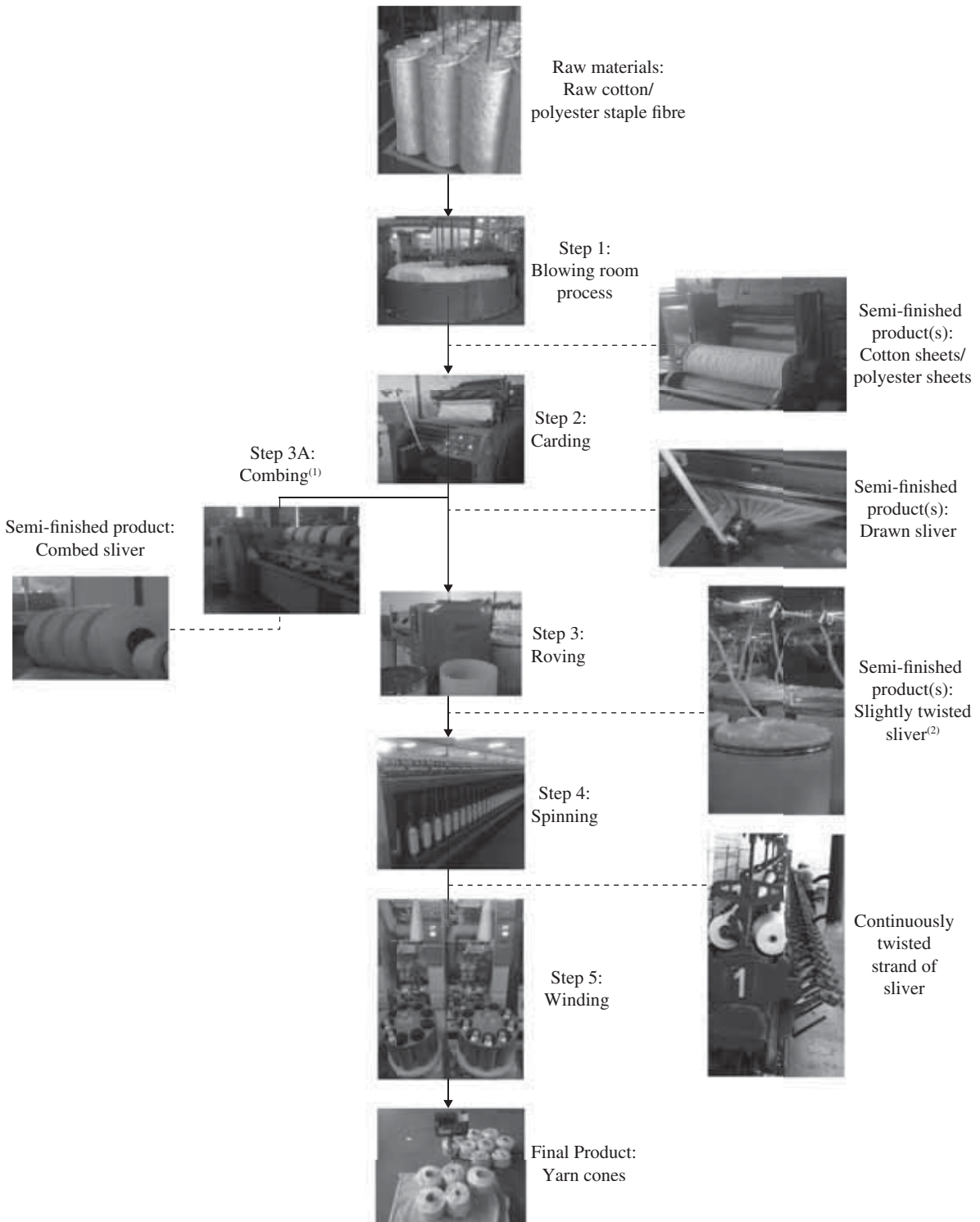
- *Step 1:* The blowing room process loosens the polyester staple fibre/raw cotton from packed bale into loose tufts to remove dirt and foreign matters. The loosened clean tufts are then reformed into a polyester staple fibre/cotton sheet suitable for carding.
- *Step 2:* Carding separates the sheets of tufts into individual short fibres and removes trash particles. This process orientates the fibres lengthwise and evenly distributes them before reassembling the fibres into a net-like and sliver form. Within this process fibres slowly turn from individual uneven short fibres into uniform long fibres, the final product of this process is called “drawn sliver”. Drawing process is a process within the carding process. Polyester and cotton are blended during the drawing process for polyester-cotton blended yarns. The process increases the parallelism of the fibres and combines polyester with carded cotton

slivers into one drawn sliver. Production of polyester-cotton blended yarns and cotton yarns without the process of combing require cotton to be in its original form after blowing and carding.

- *Step 3:* Cotton strands are taken straight from the carding process to the roving process. Cotton fibres are normally shorter and less parallel and uniform than cotton fibres which have been combed. Slivers are then roved to reduce the size of the drawn sliver and increase the parallelism of the fibres which are twisted to be suitable for spinning.
- *Step 3A:* For the production of polyester-cotton blended yarns with combed cotton features, the drawn sliver is combed again in the combing process where short fibres are removed so that the fibres will be uniform in length. After the combing process, all cotton slivers should be the same length or well blended in the same length together with polyester. Normally during the process of combing, the natural colour of cotton slowly blends in with polyester until it forms a light beige-yellow coloured yarn.
- *Step 4:* The final product of roving is known as “slightly twisted sliver”. Spinning then further attenuates and twists the fibres to produce a continuously twisted strand of sliver.
- *Step 5:* Finally, the yarns are subject to winding by automatic winding machines in order to increase the length of the yarn on the package, control its quality and to eliminate impurities and defects. By this stage, the final product is formed and is known as the yarn cone.

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



*Notes:*

- (1) Process for production of polyester-cotton blended yarns with cotton combing features.
- (2) Also known as roving.

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### Production Facilities and Capacities

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



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

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



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each of the years ended during the Track Record Period, this was mainly due to the impact of the Chinese New Year holidays on our utilisation rate for a six-month as period compared to that for a 12-month period.

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

	As at/Years ended 31 December			As at/Six months ended 30 June
	2008	2009	2010	2011
Production capacity (spindles) . .	280,000	316,000	321,000	321,000
Designed production capacity <sup>(1)</sup> (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 <sup>(2)</sup> (tonnes). . . . .	60,037	84,507	83,095	39,552
Average utilisation rate <sup>(3)</sup> (%) . .	95.2	98.1	93.6	91.2

*Notes:*

- (1) The designed production capacity is calculated based on speed and efficiency of our equipment and machinery and number of days worked. For the purpose of this Prospectus, it is assumed that polyester yarn of 21 counts are used as standardisation for all yarns and all production facilities operate 24 hours per day for 358 days a year and for 174 days for the first six-month period.
- (2) The converted actual production volume is calculated based on the speed and efficiency of our equipment and machinery, colour and classification of the yarn, and the technology used. For the purpose of this Prospectus, it is assumed that polyester yarn of 21 counts are used as standardisation for all yarns.
- (3) The average utilisation rate is determined based on converted actual production volume divided by designed production capacity, which is calculated based on the assumptions as disclosed above.

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

We plan to expand our production capacity by constructing two workshops and the relevant infrastructure, as well as installation of equipment and machinery with an aggregate production capacity of approximately 60,000 spindles for the production of coloured polyester-cotton blended yarns and 20,000 spindles for the production of open-end spun yarns. The two workshops will be constructed on a new production base. We expect to enter into an agreement with the *Land Acquisition and Exchange Office of Fengxin County* (奉新縣土地收購儲備交易中心) before the end of December 2011, to purchase six adjacent parcels of land planned for the textile industry with a total area covering approximately 312,000 m<sup>2</sup> within the Fengtian Economic Development Zone, located approximately two km away from our existing facilities, for RMB18.7 million. We will fully settle the purchase price for each of the six parcels of land being acquired before the end of January 2012 and apply for the land use right certificates as soon as practical after we have signed the purchase agreement. We expect to receive the land use right certificates for at least one parcel of land after payment of the relevant purchase price before the end of December 2011. Subject to payment of the said purchase price and execution of the relevant purchase agreement and related documents, our PRC legal adviser, Commerce & Finance, advised that there will be no material legal impediment for us to obtain the relevant land use right certificates. We further plan to

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import major equipment and machinery from overseas manufacturers and source other equipment and machinery from domestic manufacturers. Based on our current plan, we estimate that an aggregate expected future capital expenditure of approximately RMB401.4 million will be required to fund the construction of our new workshops. We expect to utilise the aggregate projected capital expenditure over a period of approximately 16 months depending on market conditions. We expect that the projected capital expenditure will be partly funded by the proceeds of the Global Offering and partly from our internal resources and/or bank borrowings.

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

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

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

*Notes:*

- (1) Including workshop construction and purchase and installation of equipment and machinery.
- (2) Not including the cost of land use rights of RMB18.7 million and estimated preparatory and other miscellaneous expenses of approximately RMB29.6 million.

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## SALES AND MARKETING

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

### Sales

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

### Pricing Strategy

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

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

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

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

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

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### **Payment and Credit Terms**

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

### **Product Delivery**

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

### **Marketing and Promotion**

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

### **Customers**

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

We have a large and diversified customer base. All of our customers are based in the PRC and mainly situated in Zhejiang Province, Guangdong Province, Jiangxi Province and Jiangsu Province, from where over 46%, 26%, 6% and 1% of our revenue, respectively, for each year/period during our Track Record Period were generated, respectively. For the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, revenue generated from customers situated in Zhejiang Province accounted for 50.6%, 50.7%, 53.3% and 46.6% of our total revenue, respectively, while revenue generated from customers situated in Guangdong Province accounted for 26.6%, 32.1%, 26.3% and 28.6% of our total revenue, respectively. For the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, we had approximately 1,360, 1,490, 1,700 and 1,190 customers, respectively. Customers were considered as regular customers if they satisfied one of the following criterion: (i) entered into ten or more transactions with us in the year and the annual aggregate transaction

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amount was no less than RMB0.8 million or the annual aggregate transaction amount was no less than RMB1.0 million for the years ended 31 December 2008, 2009 and 2010; or (ii) entered into five or more transactions with us in the period and the aggregate transaction amount for the period was no less than RMB0.4 million or the aggregate transaction amount for the period was no less than RMB0.5 million for the six months ended 30 June 2011. The number of our regular customers for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 was approximately 160, 160, 250 and 300, respectively. For the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, revenue from our five largest customers was RMB41.9 million, RMB48.2 million, RMB56.9 million and RMB43.4 million, which accounted for 7.7%, 7.3%, 6.1% and 8.2%, respectively, of our total revenue. For each year/period during the Track Record Period, all of our five largest customers had more than two years of relationship with us. For the year ended 31 December 2010, out of our five largest customers, one customer had over four years of relationship with us, another customer had over three years of relationship with us and the remaining three customers had over two years of relationship with us. Of all the five largest customers, two of them remained as our top five customers for more than one year during the Track Record Period. For the same periods, revenue from our largest customer was RMB12.8 million, RMB10.7 million, RMB13.4 million and RMB14.7 million, which accounted for 2.3%, 1.6%, 1.4% and 2.8%, respectively, of our total revenue. The following table sets forth our revenue breakdown from our customers situated in Zhejiang, Guangdong, Jiangxi, Jiangsu and other provinces:

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

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

### PROCUREMENT

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

#### Raw Materials

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

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

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

### Suppliers

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

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

To minimise disruptions to our production operations, our procurement team visits our suppliers regularly. Our procurement personnel also communicate regularly with each of our departments to ensure up-to-date information exchange. During the Track Record Period, we did not encounter any material production disruption due to shortages of raw materials. Given our broad sourcing network, we consider that we are able to maintain a steady supply without substantial increase in costs of raw materials in the event we experience any unexpected disruption in supply or any cessation of business with any of our major suppliers. Polyester staple fibre and raw cotton are commodities that are widely available in China as well as from overseas suppliers. Therefore, in the event that any of our raw material suppliers cease their supplies to us, we will be able to obtain raw material supplies from alternative sources.

### *Payments to Suppliers*

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

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

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

## **GLOBAL AND CHINA ECONOMIC OUTLOOK**

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

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

## **UTILITIES**

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

### **Electricity**

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

### **Water**

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



## **INVENTORY AND QUALITY CONTROL SYSTEMS**

### **Inventory**

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

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

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

### **Quality Control Policies and Standards**

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

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

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

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

### **Staffing Arrangements for Quality Control**

The production manager adopts and maintains a comprehensive set of quality standards. Our quality control staffs are responsible for establishing standards and maintaining consistent quality yarn production. They are also responsible for issuing daily quality control reports for the production manager's review. As at the Latest Practicable Date, we had nine staff in the production department who are responsible for quality control. Our quality control team is led by Mr. Chen Yunhui (陳雲輝) and Mr. Yang Jian (楊健). Mr. Chen Yunhui graduated with a bachelor's degree in textile engineering from Wuyi University (五邑大學) in June 2005 and has been working in the field of cotton textile quality

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management after graduation. Mr. Yang Jian graduated from Sichuan Open University (四川廣播電視大學) with a diploma in mechanical engineering in February 1991 and had been working in the field of cotton textile quality management after graduation. Mr. Yang was certified by the *Office of the Professional Qualification Reform Leading Group, Chengdu City Economic Committee* (成都市經濟委員會職稱改革工作領導小組辦公室) as an engineer in the field of cotton textile technology in November 1998. During the Track Record Period and up to the Latest Practicable Date, we had not encountered any product recall or material claim from customers relating to our product quality that would have a material and adverse effect on our operations.

### COMPETITION

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

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

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

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

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

### AWARDS AND RECOGNITIONS

We received various awards for our achievements as listed below:

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

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- *A Level Credible Tax Paying Enterprise* (A級納稅信用企業) for the amount of VAT Jinyuan paid in 2008 and 2009, jointly awarded by the *State Tax Bureau* and *Local Tax Bureau of Jiangxi Province* to all qualifying taxpaying privately-owned enterprises who, among other things, have duly registered themselves with the relevant tax bureaus, filed tax returns and paid taxes on time in accordance with the *Tax Credit Rating Management Scheme* (State Tax [2003] No. 92) (《納稅信用等級評定管理試行辦法》) and supplementary policies issued by the same authorities.
- one of the *Top One Hundred Taxpaying Enterprises* (納稅100強) in Yichun City in 2008 and 2009 as awarded by the *People's Government of Yichun City* to the top one hundred privately-owned enterprises in Yichun City ranked and selected in accordance with the amount of total tax contribution, including both income tax and VAT, they made during the year. Although Jinyuan did not pay any income tax in 2008 and 2009, it was still ranked based on the amount of VAT Jinyuan paid alone.
- one of the *Top Ten Industrial Enterprises* (工業十強企業) in Yichun City in 2008 and 2009 as awarded by the *People's Government of Yichun City* to the top ten privately-owned enterprises in Yichun City ranked and selected in accordance with their profits for the year and other criteria, such as compliance with tax, social insurance, safety production and worker-interest requirements.

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

### EMPLOYEES

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

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

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

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

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

### Social Insurance

#### *Social Insurance and Housing Fund*

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

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

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legal adviser, Commerce & Finance, the *Fengxin Human Resources and Social Insurance Office* is the competent government authority to issue the written confirmation regarding payment for social insurance funds and the *Fengxin County Office of the Housing Fund Management Centre of Yichun City* is the competent authority to issue the written confirmation regarding housing fund contributions.





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

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

### Research and Development

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

### INTELLECTUAL PROPERTY RIGHTS

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

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

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

### PROPERTY AND FACILITIES

#### Owned Properties

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

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

### ENVIRONMENTAL AND SAFETY MATTERS

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

Our Directors believe that our operations currently do not generate any pollutant which may cause significant adverse impact on the environment. During Track Record Period, since no dyeing was involved in our production process and our production had not created environmentally harmful by-products, no special waste treatment had been considered necessary. Where applicable, we have implemented environmental standards for our production processes and have set out environmental procedures, such as those related to recycling of loosened cotton/polyester tufts with impurity from the blowing process. With regard to our operations, we are committed to strict and full compliance with the relevant PRC environmental protection requirements. In the event that the environment may be negatively

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affected as a result of our operations and we will strive to reduce the adverse impact on the environment by using technologies to conserve and efficiently use resources in our production process. During the Track Record Period, we did not engage in operations that created environmentally harmful by-products or otherwise polluted the environment. Our annual cost of compliance with the applicable environmental rules and regulations during the Track Record Period was immaterial because our operations did not require any special waste treatment.

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

### OCCUPATIONAL HEALTH AND SAFETY

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

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

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

### INSURANCE

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

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

### LEGAL COMPLIANCE AND PROCEEDINGS

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

### NON-COMPLIANT BILL FINANCING

#### Background

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

During the Track Record Period, Jinyuan entered into framework supply agreements with Jinlun and two other suppliers of Jinyuan (collectively the “Non-Compliant Bill Financing Suppliers”) setting out the maximum purchase amount from each of these suppliers. Such framework supply agreements were submitted to the Endorsing Banks for issuance of bank acceptance notes for purchasing raw



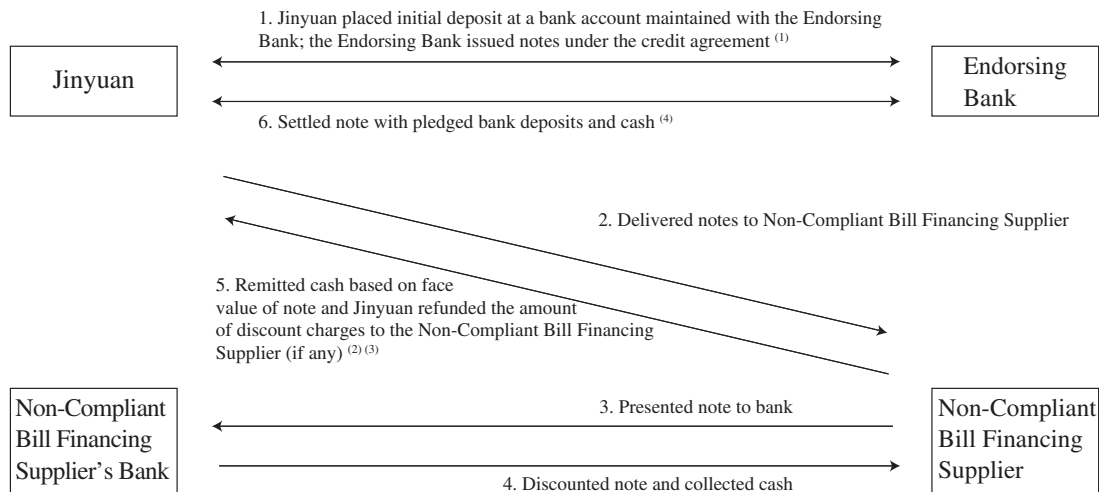
## BUSINESS

materials from these suppliers. The maximum transaction amount contemplated in the relevant framework supply agreements between the suppliers determined the maximum amount of bank acceptance notes Jinyuan might issue to the Non-Compliant Bill Financing Suppliers from time to time.

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

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

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



*Notes:*

- (1) Face value of the notes was accounted for as note payables to supplier. Deposits are generally placed at 20% to 50% of face value of the note and was accounted for as pledged bank deposit.
- (2) the Non-Compliant Bill Financing Supplier remitted back cash worth the face value of the notes to Jinyuan.
- (3) The relevant discount charges were recognised as finance costs in our combined financial statements during the relevant period.
- (4) Notes are typically settled within three months to six months. Upon maturity, the Endorsing Bank deducted the pledged bank deposit and the remaining were repaid by Jinyuan.

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

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

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

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

- (a) the written confirmations from the Endorsing Banks stating that (a) they did not incur any loss as a result of Jinyuan's business activities with them, (b) they will not take legal actions against Jiangxi Jinyuan, our management and directors and (c) that no fraud was involved in the Non-Compliant Bill Financing arrangement; and
- (b) the view of our PRC legal adviser, Commerce & Finance that as stated in the PRC legal opinion that neither fraudulent activities (such as falsified bills) as prescribed by the *PRC Negotiable Instrument Law* were involved in obtaining bill financing.

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

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

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

### Effect on our Financial Position

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

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#### Notes:

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

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

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

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

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

### Confirmation from Relevant Government Authorities

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

### **Confirmations from the Relevant Endorsing Banks**

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

### **Opinion from our PRC Legal Adviser**

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

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

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

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

## BUSINESS

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

### **Strengthening our Internal Control System and Corporate Governance Measures**

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

Suggested rectifying measures	Status of rectification work
<ul style="list-style-type: none"><li>• The management team of Jinyuan to adopt a written internal control policies and procedures for Non-Compliant Bill Financing and to circulate to all Directors and relevant staff . . . . .</li><li>• The finance manager and the manager of the procurement department of Jinyuan to ensure that approval by the general manager is required for each note payable amount supported by the actual purchase transaction amount, all future financings are properly supported by actual transactions and used only for the designated purpose of paying for the purchase of goods from suppliers . . . . .</li><li>• The finance manager of Jinyuan to perform periodic independent check to identify any discrepancy between the note payables issued and the actual underlying transactions . . . . .</li></ul>	<ul style="list-style-type: none"><li>• Completed in July 2011</li> <li>• Procedure implemented since July 2011</li> <li>• Procedure implemented since July 2011</li></ul>

## BUSINESS

Suggested rectifying measures	Status of rectification work
<ul style="list-style-type: none"><li>• The finance manager of Jinyuan to discuss and report the reasons of the discrepancies to general manager for seeking further preventive measures . . . . .</li><li>• Our legal advisers and our trained management personnel to provide relevant training to all newly appointed Directors or relevant staff . . . . .</li></ul>	<ul style="list-style-type: none"><li>• No discrepancy is noted for reporting since July 2011</li><li>• On-going</li></ul>

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

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

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

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

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

### **Indemnity from Controlling Shareholder**

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

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### DIRECTORS

#### Executive Directors

**Zheng Hong (鄭洪)**, aged 35, was appointed as the chairman of our Company and an executive Director on 4 May 2011. Mr. Zheng has over 11 years of experience in textile industry. He is one of the founders of our Group and has been a director of Jiangxi Jinyuan since 2005. Prior to joining Jiangxi Jinyuan, Mr. Zheng was a manager of Guangdong Dalang textile sales department (廣東大朗棉紗經營部) of Fujian Changle Jin Lin Sheng Textile Company Limited (福建省長樂市金林生織造有限公司) from 1997 to 1999. From 1999 to 2005, he served as the chairman and general manager of Jingwei Textile Company Limited of the Investment Office in Xiangyang City of Hubei Province (湖北省襄陽市投資辦襄陽經緯紡織有限公司). Mr. Zheng was awarded as the China textile outstanding labour (全國紡織工業勞動模範) and standing committee member (常務理事) of the China cotton and textile industry association (中國棉紡織行業協會) in 2010. In 2001, he was awarded the Outstanding Entrepreneur (2001年度優秀民營企業家) by the CPC Xiangfan Municipal Committee (中共襄樊市委) and the Peoples' Government of Xiangfan City (襄樊市人民政府). In 2004, he was also awarded as the Outstanding Individual (先進個人) by the Xiangyang District Committee of CPC Xiangfan City (中共襄樊市襄陽區委). In 2003, he was appointed as the committee member of the 2nd Committee of the Chinese People's Political Consultative Conference of Xiangyang District of Xiangfan City (襄樊市襄陽區第二屆政協委員). Mr. Zheng graduated in Fujian Commercial College (福建商業高等專科學校) in 1997 with a diploma of business secretary. He further completed Commercial Enterprises Information Strategy and Knowledge Management CEO Advanced Programme (工商企業信息戰略與知識管理總裁高級研修班) in Tsinghua University (清華大學) in 2005. Mr. Zheng is the younger brother of Zheng Yongxiang.

**Zheng Yongxiang (鄭永祥)**, aged 43, was appointed as an executive Director on 4 May 2011. Zheng Yongxiang has over 10 years of experience in textile industry. He joined Jiangxi Jinyuan in 2005 as a general manager and is primarily responsible for formulating the policy and monitoring the operation of the Group. Prior to joining Jiangxi Jinyuan, Zheng Yongxiang served as the general manager of Shaoxing Gangtai Weaving Company Limited (紹興港泰針紡有限公司) from 2001 to 2005. In 2006, Zheng Yongxiang was appointed as the representative of the second *Jiangxi Yichun Municipal Chinese People's Congress* (江西宜春市第二屆人民代表大會). He received the award of Outstanding Entrepreneur in 2007 (2007年度優秀企業家) from the Yichun Municipal Peoples' Government in 2008. He was awarded the Outstanding Architects of Yichun in the Reforming and Open Up for 30 years (改革開放30年宜春市優秀建設者) in 2008 and the Best Ten Yichun Citizen (十佳宜春人) in 2009. Zheng Yongxiang graduated from the Open University of China (中央廣播電視大學) with a diploma of accounting (finance and accounting) in 2010. Zheng Yongxiang is the elder brother of Mr. Zheng.

#### Non-executive Directors

**Sze Irons, JP (施榮懷)**, aged 49, was appointed as a non-executive Director on 4 May 2011. He is one of the founders of our Group and has been a director of Jiangxi Jinyuan since 2005. Mr. Sze has over 20 years of experience in investment and corporate management. He is an independent non-executive director of Continental Holdings Limited (stock code: 513), a company listed on the Main Board. Mr. Sze was appointed as an executive member of the Beijing Committee of the Chinese People's Political Consultative Conference in 2008. He was also appointed as the vice-chairman of Hunan Province Youth Federation in 2007 and the vice president of the Chinese Manufacturers' Association of Hong Kong. He has been a member of the Council and Court of Lingnan University since 2008. He is elected as a member of the Election Committee of the Chief Executive of Hong Kong from 2007 to 2012. Mr. Sze was appointed the Justice of Peace by the Government of Hong Kong in 2011. Mr. Sze graduated with a bachelor's degree in science from the University of Wisconsin-La Crosse, United States in 1985.



## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Sze was a director of Treasure Properties Limited (“Treasure Properties”). Treasure Properties was incorporated in Hong Kong on 7 April 1994 and was principally engaged in property development. Mr. Sze was one of the directors and shareholders of Treasure Properties since its incorporation. On 11 May 2004, the directors of Treasure Properties resolved that (a) Treasure Properties could not by reason of its liabilities continue its business; (b) due to the reasons that Treasure Properties had insufficient fund to continue its day-to-day operations and the directors of Treasure Properties considered that it was necessary for someone independent to be appointed urgently to take control and preserve the assets of Treasure Properties and to take over conduct of the legal proceedings in two civil litigation cases commenced in the High Court of Hong Kong in 2003 against Treasure Property (“High Court Cases”). Both High Court Cases concerned the same property development project in Hong Kong in which Treasure Properties was the property developer. The High Court ordered a stay of all proceedings in one of the High Court Cases, which involved a contractual dispute between Treasure Properties and a contractor for the construction of the property development. As for the other High Court Case, in which the plaintiff alleged for negligence and/or breach of professional duties in the construction of the property development, it was not further proceeded by the plaintiff. Based on (a) a letter from the Companies Registry in which the Companies Registry considers that all liquidation documents in relation to Treasure Properties have already been filed and there is no pending document in Treasure Properties’ record maintained with Companies Registry; (b) a letter from the former joint and several liquidator of Treasure Properties in which the former joint and several liquidator considers that the liquidation process of Treasure Properties has been completed and that there is no outstanding unresolved issue relating to the administration; and (c) the documents provided by Mr. Sze or obtained through public search concerning Treasure Properties, Mr. Sze’s legal adviser is of the view that the Company has completed its liquidation process and there would be no outstanding unresolved issues relating thereto. As confirmed by Mr. Sze and other directors of Treasure Properties, no action had been brought by the creditors or court against Mr. Sze or other directors in his/her capacity of a director of Treasure Properties. Both the Sole Sponsor and the Company are of the view that the winding-up of Treasure Properties does not affect Mr. Sze’s suitability to act a Director under Chapter 3 of the Listing Rules. The directors of Treasure Properties filed a statement with the Companies Registry pursuant to section 228A(1) of the Companies Ordinance on the same day to commence the voluntary winding-up. Treasure Properties was subsequently dissolved on 3 August 2007.

### **Independent Non-executive Directors**

**Chan Mei Bo, Mabel (陳美寶)**, aged 40, was appointed as an independent non-executive Director on 3 December 2011. Ms. Chan is the sole proprietor of Mabel Chan & Co, Certified Public Accountants. Ms. Chan has over 17 years of experience in professional accounting field in Hong Kong. Ms. Chan is a Certified Public Accountant (Practising) in Hong Kong, a fellow member of The Association of Chartered Certified Accountants (formerly known as The Chartered Association of Certified Accountants), an associate member and council member of The Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants), and an associate member of The Institute of Chartered Accountants in England and Wales. Ms. Chan is a certified tax adviser of The Taxation Institute of Hong Kong since 2010. She was the president in 2010 and is a council member of The Society of Chinese Accountants and Auditors. She is also the past president and a council member of the Association of Women Accountants (Hong Kong) Ltd.. Ms. Chan was appointed as a member of the Financial Reporting Review Panel of The Financial Reporting Council, a member of the CreateSmart Initiative Vetting Committee, a member of the Barristers Disciplinary Tribunal Panel and a member of the Public Affairs Forum of Hong Kong Secretariat Home Affairs Bureau. Ms. Chan has been serving as an independent non-executive director of companies listed on the Main Board of the Stock Exchange, namely Modern Education Group Limited (stock code: 1082) and Kingmaker Footwear Holdings Limited (stock code: 1170), since June 2011 and August 2011, respectively. She has been an independent non-executive director of Code Agriculture (Holdings) Limited, a company listed on the Growth

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Enterprise Market of the Stock Exchange (stock code: 8153) since October 2009. She was also an independent non-executive director of China Properties Investment Holdings Ltd, a company listed on the Main Board of the Stock Exchange (stock code: 0736) from June 2007 to April 2009. Ms. Chan graduated with a master degree of business administration from the Hong Kong University of Science and Technology in 2000 and a degree of bachelor of arts in accountancy from City Polytechnic of Hong Kong (now known as City University of Hong Kong) in 1993.

**Nie Jianxin (聶鑒新)**, aged 50, was appointed as an independent non-executive Director on 3 December 2011. Mr. Nie has over 8 years of experience in the industry of chemical fabrics. He is a party committee secretary (院黨委書記) and a chief engineer of the institute of Jiangxi Province Textile Industry Research and Design Institute (江西省紡織工業科研設計院). Mr. Nie has served various positions in Jiujiang Chemicals Fabrics Factory (九江化學纖維廠) including deputy head of factory. Mr. Nie graduated from the South China Institute of Technology (華南工學院) (now known as the South China University of Technology (華南理工大學)) with a bachelor's degree in chemical fabrics in 1982. He received the qualifications of professor grade senior engineer (教授級高級工程師) in 2001. Mr. Nie was awarded 3rd honour for science & technology development (江西省科學技術進步獎) in the project named 300D/60F Delustering Viscose Rayon (300D/60F 消光粘膠人造絲) by the Peoples' Government of Jiangxi Province in 2002.

**Ng Wing Ka (吳永嘉)**, aged 42, was appointed as an independent non-executive Director on 3 December 2011. He is a practising solicitor in Hong Kong and is the partner of Tung Ng Tse & Heung Solicitors since 1997. Mr. Ng has served as the committee member of Electronics and Telecommunications Training Board since 2007. He is also the committee member of Hong Kong Ethics Development Centre of Independent Commission Against Corruption and Fire Prevention Committee of Hong Kong East. Since 2005, Mr. Ng has been the independent non-executive director of Sino Union Petroleum & Chemical International Limited, a company listed on the Main Board (stock code: 346). Mr. Ng graduated with a bachelor in laws and a postgraduate certificate in laws from the University of Hong Kong in 1991 and 1992, respectively.

As at the Latest Practicable Date, save as disclosed in the section headed "Statutory and General Information — Further Information about the Directors and Substantial Shareholders of our Company" in Appendix VI to this Prospectus, our Directors do not have any interest or short positions in the Shares or underlying Shares in our Company within the meaning of Part XV of the SFO.

Save as disclosed above, none of our Directors has been a director of any other listed company in the three years immediately preceding the date of this prospectus.

Details of the amount of our Directors' emoluments and the basis of determining such emoluments are set out in the section headed "Statutory and General Information — Further Information about our Directors and our Substantial Shareholders of our Company" in Appendix VI to this Prospectus.

Save as disclosed above, each of our Directors confirms with respect to him that (i) he does not have any relationship with any other Directors, senior management or substantial or controlling shareholders of our Company; (ii) there is no other information that should be disclosed for him/her pursuant to the requirements under Rule 13.51(2) of the Listing Rules; and (iii) there are no other matters that need to be brought to the attention of the Shareholders.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### SENIOR MANAGEMENT

**Liu Weimin** (劉偉民), aged 42, is a deputy general manager of Jiangxi Jinyuan. Mr. Liu joined our Group in 2005 and is responsible for production technology management. He has over 21 years of experience in textile industry. Prior to joining Jiangxi Jinyuan, Mr. Liu served as the head of production department in Fujian Mawei Development Zone Chuanlong Textile Company Limited (福建省馬尾開發區川隆紡織有限公司) from 1990 to 1993. From 1993 to 1995, he served as the head of production department of Fujian Jingwei Group Company Limited (福建經緯集團有限公司). From 1995 to 2004, he served as the factory manager and chief engineer of Jinjiang Fuxin Textile Company Limited (晉江福鑫紡織有限公司). Mr. Liu completed the internal auditor training in 2011 provided by *Nan Chang Sino Enterprise Management Consulting Centre* according to the ISO 9001: 2008 and GB/T24001-2004 (ISO 14001: 2004) Standard.

**Chen Yu Han** (陳宇含), aged 28, is a manager of sales department of Jiangxi Jinyuan. Mr. Chen joined Jiangxi Jinyuan in 2005 and is responsible for sales and management. He has over 6 years of experience in textile industry. Mr. Chen graduated from the Jimei University (集美大學) in 2005 with a bachelor's degree in business management.

**Cheung Chi Fai Frank** (張志輝), aged 49, was appointed as our Company's secretary and chief financial officer of our Company in May 2011. He is also an independent non-executive director of Continental Holdings Limited, a company listed on the Main Board (stock code: 513). He has over 20 years experience in accounting, finance and business management and held senior positions in various multinational companies. He obtained an MBA from the University of Technology, Sydney in 1995 and a professional diploma in accountancy from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) in 1985. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Cheung was a part-time tutor at the Open University of Hong Kong from March 2009 to July 2011. He was an executive director of Sun Innovation Holdings Limited, a company listed on the Main Board (stock code: 547) from 2004 to 2007. He also acted as the chief financial officer of Sun Innovation Holdings Limited from 2007 to 2008. He was an independent director of LJ International Inc. (NASDAQ: JADE) from June to October 2007, a director of e-Lux (Hong Kong) Company Limited, a subsidiary of e-Lux Corporation (JASDAQ: 6811) from 2001 to 2003, in charge of the telecommunications value added services in Hong Kong, Taiwan and the PRC. He was the group financial controller and a director of New Media Corporation, a subsidiary of e-New Media Company Limited, a company listed on the Stock Exchange (stock code: 128) from 1995 to 1999 and 1999 to 2000, respectively.

### BOARD COMMITTEES

#### Audit Committee

An audit committee was established by our Company on 3 December 2011 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and approve our Group's financial reporting process and internal control system. The audit committee comprises all independent non-executive Directors, namely, Chan Mei Bo, Mabel, Nie Jianxin and Ng Wing Ka. Chan Mei Bo, Mabel is the chairman of the audit committee.

## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

### **Remuneration Committee**

A remuneration committee was established by our Company on 3 December 2011 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee include reviewing and determining the terms of remuneration packages, bonuses and other compensation payable to our Directors and members of senior management of our Group. The remuneration committee is chaired by Chan Mei Bo, Mabel, an independent non-executive Director, and other members are Nie Jianxin, Ng Wing Ka, who are also the independent non-executive Directors and Mr. Zheng, an executive Director.

### **Nomination Committee**

A nomination committee was established by our Company on 3 December 2011 with written terms of reference. The primary duties of the nomination committee are to make recommendations to the Board on the appointment of Directors and members of senior management of our Group. The members of the nomination committee comprises three independent non-executive Directors, namely, Chan Mei Bo, Mabel, Nie Jianxin, Ng Wing Ka and one executive Director, Mr. Zheng. Chan Mei Bo, Mabel is the chairman of the nomination committee.

### **DIRECTORS' REMUNERATION**

During the Track Record Period, the aggregate amount of fees, salaries, housing allowances, other allowances, benefits in kind (including contribution to the pension scheme on behalf of our Directors) and discretionary bonuses paid by our Group to our directors for the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 were approximately RMB148,000, RMB149,000, RMB149,000 and RMB187,000, respectively.

The aggregate amount of fees, salaries, housing allowances, other allowances, benefits in kind (including contribution to the pension scheme on behalf of the Directors) and discretionary bonuses paid to the five highest paid individuals of our Group, excluding directors of the Company, for the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 were approximately RMB191,000, RMB198,000, RMB197,000 and RMB86,000, respectively.

During the Track Record Period, no remuneration was paid by our Group to, or receivable by, our Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. In addition, none of our Directors has waived any emolument.

Save as disclosed above, no other payments have been paid, or are payable, by our Group to our Directors during the Track Record Period.

Under the arrangements currently in force, the aggregate remuneration of our Directors payable in respect of the year ending 31 December 2011 is estimated to be approximately RMB370,000.

### **EMPLOYEES' BENEFITS PROVIDED BY OUR GROUP**

Our Group complies in all material aspects with all statutory requirements on retirement contribution in the jurisdictions where our Group operates.

Our Group has established various welfare plans including the provision of basic pension funds, basic medical insurance, unemployment insurance and other relevant insurance for employees who are employed by our Group pursuant to the PRC rules and regulations and the existing policy requirements of the local government.

## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

### **SHARE OPTION SCHEME**

Our Company has conditionally adopted the Share Option Scheme pursuant to which selected participants may be granted options to subscribe for Shares as incentives or rewards for their service rendered to our Group and any entity in which any member of our Group holds any equity interest. Our Directors believe that the implementation of the Share Option Scheme enables our Group to recruit and retain high calibre executives and employees. The principal terms of the Share Option Scheme are summarised under the paragraph headed “Other Information — Share Option Scheme” in Appendix VI to this Prospectus.

### **COMPLIANCE ADVISER**

Our Group intends to appoint Guotai Junan Capital Limited as our Company’s compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise our Group in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (c) if our Group proposes to use the proceeds of the Global Offering in a manner different from that detailed in this Prospectus or if the business activities, developments or results of our Group deviate from any forecast, estimate or other information in this Prospectus; and
- (d) if the Stock Exchange makes an inquiry of our Group under Rule 13.10 of the Listing Rules regarding unusual movements in the price or trading volume of the Shares.

The term of appointment of the compliance adviser shall commence on the Listing Date and end on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year ending 31 December 2012, and such appointment may be subject to extension by mutual agreement.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

During the Track Record Period, our Group, our Directors and Controlling Shareholders, or their respective associates had interests in the following enterprises whose businesses are similar to and may be in competition with that of our Group, or with whom our Group had transactions during the Track Record Period.

### (a) Baoyuan

Baoyuan is a limited liability enterprise established in the PRC on 8 January 2008 with a registered capital of US\$11.2 million. Its principal business is the manufacture and sales of polyester yarns. From the audited accounts prepared in accordance with PRC GAAP and filed with *Yichun City Industry and Commerce Administrative Bureau*, for each of the three years ended 31 December 2010, the revenue of Baoyuan was approximately RMB2.0 million, approximately RMB168.5 million and approximately RMB458.0 million, respectively. The loss after tax was RMB0.09 million for the year ended 31 December 2008. The profits after tax of Baoyuan for the two years ended 31 December 2009 and 2010 was approximately RMB0.2 million and approximately RMB25.4 million, respectively.

Immediately before 8 March 2011, Baoyuan was held as to 87.5% by Lin Changxing (林長興) (of which 47.5% was held by Lin Xiaochun (林小春) and 30% by Zheng Wu (鄭武) on trust for Lin Changxing), 5% by a company controlled by Mr. Lin and the remaining 7.5% by Independent Third Parties. Zheng Yongxiang was the supervisor of Baoyuan. As a supervisor, Zheng Yongxiang did not involve in the management and operation of Baoyuan.

On 3 January 2008, Lin Xiaochun, the mother of Mr. Zheng and Zheng Yongxiang, and Zheng Wu, the elder brother of Mr. Zheng and the younger brother of Zheng Yongxiang, entered into a share charge loan agreement (股份抵押貸款合同) (the “**Loan Agreement**”) with Lin Changxing, an Independent Third Party and not connected with our Group and our Directors. Pursuant to the Loan Agreement, each of Lin Xiaochun and Zheng Wu would advance a loan of US\$5.32 million and US\$3.36 million to Lin Changxing, respectively (the “**Loans**”). As a security for repayments of the Loans, Lin Xiaochun would hold the 47.5% equity interests, and Zheng Wu would hold the 30% equity interests in Baoyuan for Lin Changxing.

The Loans would be for a term of six years with an interest rate of 10% per annum, and the interest would be payable not later than the fourth year of the Loans. Upon the expiry of the six-year period, Lin Changxing shall repay the principal amount of the Loans plus accrued interest, and Lin Xiaochun and Zheng Wu shall return their equity interests in Baoyuan to Lin Changxing at the same price as the amount of the Loans. If Lin Xiaochun or Zheng Wu asks for repayment of the Loans within the six-year period, consent from Lin Changxing is required. Lin Xiaochun and Zheng Wu shall return the accrued interest and their equity interests in Baoyuan to Lin Changxing at the same price as the amount of the Loans. During the term of the Loan Agreement, any of Lin Xiaochun and Zheng Wu shall not sell their equity interests to any third parties unless with the written consent of Lin Changxing. In addition, if Baoyuan declares a dividend during the six-year period, the dividend received by Lin Xiaochun and Zheng Wu may be used to set-off against the interest of the Loans.

Each of Lin Xiaochun, Zheng Wu and Lin Changxing, confirmed that Lin Xiaochun and Zheng Wu, as lenders and as security for the Loans, held the 47.5% and 30% interests in Baoyuan respectively for Lin Changxing since the advancements of the Loans (i.e. 3 January 2008). For the purpose of having access to important matters of Baoyuan, Lin Changxing, Lin Xiaochun and Zheng Wu agreed that Lin Xiaochun was appointed as the legal representative and director, and Zheng Wu as a director of Baoyuan. However, according to a written agreement on directors’ duties (the “**Agreement on Directors’ Duties**”) entered into among Lin Changxing, Lin Xiaochun and Zheng Wu on 5 January 2008, Lin Xiaochun and Zheng Wu shall not be involved in the management and operation of Baoyuan since its establishment. According to

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

the PRC laws and the articles of association of Baoyuan, the shareholders have the power to appoint the directors of Baoyuan. Pursuant to the Agreement on Directors' Duties and as confirmed by Lin Xiaochun, Zheng Wu and Lin Changxing, Lin Xiaochun and Zheng Wu have to cast their votes in meetings of directors of Baoyuan in accordance with the wishes of Lin Changxing. Lin Changxing is an independent third party not connected with Lin Xiaochun and Zheng Wu.

Our PRC legal adviser, Commerce & Finance, has opined that, under the PRC laws, the Agreement on Directors' Duties and the confirmation and the entrustment as stated therein are valid, legal and enforceable between the parties thereto but the same cannot be enforceable against bona fide third parties. As a result of the entrustment, Lin Changxing was interested in 87.5% of Baoyuan.

In preparation for the Listing, even though Lin Xiaochun and Zheng Wu are not in actual control of Baoyuan, to avoid any potential competition and conflict of interest with our Group, Lin Xiaochun, Zheng Wu and Lin Changxing agreed to early repay the Loans and return their equity interests in Baoyuan to Lin Changxing. As such, on 8 March 2011, Lin Xiaochun transferred all her equity interests in Baoyuan to Lin Changxing at a consideration of US\$5.32 million, and Zheng Wu transferred all his equity interests in Baoyuan to Lin Changxing at a consideration of US\$3.36 million. Pursuant to the Loan Agreement, interest of the Loans is payable not later than the fourth year of the Loans and Lin Xiaochun and Zheng Wu shall return the accrued interest to Lin Changxing should Lin Xiaochun or Zheng Wu ask for repayment of the Loans within the six-year period. Since the Loans were repaid about three years after the advancements, no interest was payable on the Loans. Lin Xiaochun has also resigned as a director and the legal representative of Baoyuan, Zheng Wu resigned as a director of Baoyuan and Mr. Lin has resigned as a director of Baoyuan. Zheng Yongxiang also resigned as the supervisor of Baoyuan.

As a consequence of the aforesaid transfers of the equity interests in, and the resignations from the board of directors of Baoyuan, Baoyuan has no other connection with our Controlling Shareholders or their associates since 8 March 2011. Other than the advances due from Baoyuan during the Track Record Period as set out in note 35 to the Accountants' Report in Appendix I to this Prospectus, which have been fully settled before the Listing, our Group had no other transactions with Baoyuan. These advances due from Baoyuan were non-trading in nature and were made to satisfy the short-term working capital needs of Baoyuan.

### **(b) Changle Jinyuan**

Changle Jinyuan is a limited liability company established in the PRC on 25 March 1999. Its principal business is the manufacture and sales of cotton yarn/man-made yarn. For each of the three years ended 31 December 2010, the revenue of Changle Jinyuan was approximately RMB1,461.4 million, approximately RMB1,478.6 million and approximately RMB1,647.4 million, respectively and the profits after tax of Changle Jinyuan was approximately RMB62.1 million, approximately RMB125.9 million and approximately RMB209.6 million, respectively.

Immediately before 13 December 2010, Zheng Yongxiang, our Director and the elder brother of Mr. Zheng, held 40% of the equity interests in Changle Jinyuan and Zheng Baozhen (鄭寶振), the uncle of Mr. Zheng and Zheng Yongxiang, held 15% of the equity interests in Changle Jinyuan. The remaining equity interests of Changle Jinyuan was held as to 20% by Chen Mingui (陳敏貴), 12% by Lin Xiaohui (林小惠), 13% by Zheng Liqin (鄭麗欽), all being Independent Third Parties. Mr. Zheng Yongxiang was also a director and the legal representative of Changle Jinyuan and Zheng Baozhen was the general manager (總經理) of Changle Jinyuan.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Since the products manufactured by Changle Jinyuan are similar to those of our Group, to avoid any potential competition and conflict of interest with Changle Jinyuan, on 13 December 2010, Zheng Yongxiang transferred all his equity interests in Changle Jinyuan to Ye Yuying (葉育英), an Independent Third Party, at a consideration of RMB192 million. Zheng Yongxiang also resigned as the director and legal representative of Changle Jinyuan. Zheng Yongxiang and Ye Yuying agreed that the consideration should be settled in instalments on or before 29 August 2011, and in mid June 2011, all the instalments had been fully settled. After the transfer, Zheng Yongxiang would also be entitled to the dividend declared in respect of the cumulative distributable profits of Changle Jinyuan made up to 31 December 2010 based on his then shareholding of 40%. In case of any dividend declared other than cash dividend, Zheng Yongxiang should be compensated in cash by Ye Yuying.

As a consequence of the aforesaid transfer of the equity interests in and the resignation from the board of directors of Changle Jinyuan, other than Zheng Baozhen holding 15% equity interests and is the general manager of Changle Jinyuan, Changle Jinyuan has no other connection with our Controlling Shareholders or their associates since 13 December 2010. Other than the amount due to Changle Jinyuan during the Track Record Period as set out in note 35 to the Accountants' Report in Appendix I to this Prospectus which have been fully settled before the Listing, our Group had no other transactions with Changle Jinyuan. The amount due to Changle Jinyuan was non-trading in nature and was made to satisfy the short-term working capital needs of our Group.

### (c) Jinlun Company

In addition to the above companies, Zheng Baoyou (鄭寶佑), the father of Mr. Zheng and Zheng Yongxiang, currently is the chairman and legal representative of Jinlun Company. Jinlun Company is a company established in the PRC on 11 November 2003. Changle Jinyuan and Fengxin Investment are currently holding 46.55% and 3.45% of the equity interests in Jinlun Company, respectively. The remaining 50% of the equity interests of Jinlun Company was held by 13 Independent Third Parties. The principal business of Jinlun Company is the production and sales of polyester staple fibres. Jinlun Company had been one of our suppliers during the Track Record Period and we will continue the purchases from Jinlun Company after the Listing. For each of the three years ended 31 December 2010, our purchases from Jinlun Company amounted to approximately of RMB32.7 million, RMB45.9 million and RMB38.5 million respectively. Before the disposal of the equity interests in Changle Jinyuan by our executive Director, Zheng Yongxiang, Jinlun Company was our connected person under the Listing Rules. Since the aforesaid disposal of the 40% equity interests in Changle Jinyuan by Zheng Yongxiang on 13 December 2010, Jinlun Company is no longer our connected person and our continuing purchases of raw materials from Jinlun Company will no longer constitute our connected transactions under the Listing Rules. However, these transactions will continue to be our related parties transactions as set out in note 35 to the Accountants' Report in Appendix I to this Prospectus. As at the Latest Practicable Date, other than Fengxin Investment holding 3.45% equity interests in Jinlun Company and Zheng Baoyou is the chairman and the legal representative of Jinlun Company and the continuing purchases of polyester staple from Jinlun Company, our Group, our Controlling Shareholders and their associates have no other connection with Jinlun Company.

### (d) Fengxin Investment, Fengxin Real Estate and Changle Yuanlong

Chen Xiuyin (陳秀銀), a director of our subsidiary Jiangxi Jinyuan, currently holds 60% equity interests in Fengxin Investment. The remaining equity interests of Fengxin Investment are held as to 30% by Lin Liangzhu (林良柱) and 10% by Chen Yuhan (陳宇含). Lin Liangzhu is an Independent Third Party and Chen Yuhan is one of our senior management. Other than being a director of Jiangxi Jinyuan, Chen Xiuyin has no other connection with our Group, our Directors, Controlling Shareholders and their respective associates. The principal business of Fengxin Investment is real estate investment and



## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

consultancy. Zheng Yongxiang currently also holds 51% equity interests in Fengxin Real Estate, which is principally engaged in the property development. The remaining 49% equity interests of Fengxin Real Estate is held by Huang Chunhua (黃春華), an Independent Third Party. Other than the amounts due to Fengxin Investment and Fengxin Real Estate during the Track Record Period as set out in note 35 to the Accountants' Report in Appendix I to this Prospectus, which have been fully settled before the Listing, we do not have other transactions with Fengxin Investment and Fengxin Real Estate. The amounts due to Fengxin Investment and Fengxin Real Estate were non-trading in nature and were made to satisfy the short-term working capital needs of our Group.

Chen Ailan (陳愛蘭), wife of Mr. Zheng, currently holds 25% equity interests in Changle Yuanlong. The remaining equity interests of Changle Yuanlong are held as to 25% by Chen Yun (陳雲), 25% by Chen Wencai (陳文財) and 25% by Wu Kailiang (吳凱亮), all being Independent Third Parties. The principal business of Changle Yuanlong is the manufacture and sales of textile products. Other than the amount due from Changle Yuanlong for the year ended 31 December 2008 as set out in note 35 to the Accountants' Report in Appendix I to this Prospectus, which has been fully settled before the Listing, we do not have other transactions with Changle Yuanlong. The amount due from Changle Yuanlong were non-trading in nature and were made to satisfy the short-term working capital needs of Changle Yuanlong.

Since none of Jinlun Company, Fengxin Investment, Fengxin Real Estate and Changle Yuanlong is principally engaged in the manufacture and sale of polyester yarns, polyester-cotton blended yarns and cotton yarns, our Directors are of the view that these companies do not compete with our business.

As confirmed by our Directors, as at the Latest Practicable Date, our Controlling Shareholders, our Directors and their respective associates did not have any interest in any business, apart from the business operated by members of our Group, that competes or is likely to compete, directly or indirectly, with the business of our Group.

### DEED OF NON-COMPETITION

To better safeguard our Group from any potential competition, each of the Covenantors has entered into the Deed of Non-competition with our Company whereby each of the Covenantors jointly and severally, irrevocably and unconditionally, undertakes with our Company that with effect from the Listing Date and for as long as the Shares remain listed on the Stock Exchange and the Covenantors, individually or collectively with their associates, are, directly or indirectly, interested in not less than 30% of the Shares in issue, or are otherwise regarded as Controlling Shareholders, or remain as an executive Director, each of the Covenantors shall, and shall procure that their respective associates shall:—

- (a) not directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of our Group or any business activities which our Group may undertake in the future save for the holding of not more than 5% shareholding interests (individually or any of the Covenantors with their associates collectively) in any company listed on the Stock Exchange or any other stock exchange;
- (b) not take any direct or indirect action which constitutes an interference with or a disruption to the business activities of our Group including, but not limited to, solicitation of customers, suppliers and staff of our Group;
- (c) keep the Board informed of any matter of potential conflicts of interests between the Covenantors (including their associates) and our Group, in particular, a transaction between any of the Covenantors (including its associates) and our Group; and

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (d) provide us as soon as practicable upon our request a written confirmation in respect of compliance by it with the terms of the Deed of Non-competition and their respective consent to the inclusion of such confirmation in our annual report and all such information as may be reasonably requested by us for our review and enforcement of the Deed of Non-Competition.

In addition, each of the Covenantors hereby jointly and severally, irrevocably and unconditionally, undertakes that if any new business opportunity relating to any product and/or service of our Group (the “**Business Opportunity**”) is made available to any of the Covenantors or their respective associates (other than members of our Group), it or he will direct or procure the relevant associate to direct such Business Opportunity to our Group with such required information to enable our Group to evaluate the merits of the Business Opportunity.

The relevant Covenantor shall provide or procure the relevant associate to provide all such reasonable assistance to enable our Group to secure the Business Opportunity. None of the Covenantors and their respective associates (other than members of our Group) will pursue the Business Opportunity until our Group decides not to pursue the Business Opportunity because of commercial reasons. Any decision of our Company will have to be approved by the independent non-executive Directors taking into consideration the prevailing business and financial resources of our Group, the financial resources required for the Business Opportunity and any expert opinion on the commercial viability of the Business Opportunity. We will disclose the matters reviewed by the independent non-executive Directors and their decision (with basis) on whether to pursue the Business Opportunity in our annual report or by way of announcement to the public.

Each of the Covenantors further jointly and severally, irrevocably and unconditionally, undertakes that it or he will (i) provide to our Group all information necessary for the enforcement of the undertakings contained in the Deed of Non-competition; and (ii) confirm to our Company on an annual basis as to whether it or he has complied with such undertakings.

The Deed of Non-competition will cease to have any effect on the earliest of the date on which:

- (a) our Company becomes wholly-owned by the Covenantors and/or their associates;
- (b) the aggregate beneficial shareholding (whether direct or indirect) of the Covenantors and/or their associates in the Shares falls below 30% of the number of Shares in issue or the relevant Covenantor shall cease to be a Controlling Shareholder (as defined in the Listing Rules) of our Company;
- (c) in the case of any executive Director who is not a Controlling Shareholder, ninety (90) days from the date of resignation or termination of his service contract with the Company, provided that if the relevant service contract is terminated by the Company without any breach on the part of the relevant executive Director, the date of termination of the relevant service contract; or
- (d) the Shares cease to be listed on the Stock Exchange.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

### INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Having taken account of the following factors, our Directors are satisfied that our Group can carry on its business independently of the Controlling Shareholders following the Listing:

#### **Management Independence**

Our Group's management and operational decisions are made by the Board and a team of senior management. The Board consists of six members, comprising of two executive Directors, one non-executive Director and three independent non-executive Directors. Each of our Directors is aware of his fiduciary duties as a Director of our Company which requires, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and the Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. Further, the independent non-executive Directors will bring independent judgement to the decision making process of the Board. In addition, members of the senior management of our Group, who are responsible to take charge of our Group's daily operations, are independent from the Controlling Shareholders and their associates. The senior management team possesses in-depth experience and understanding of the industry in which our Group is engaged. In this regard, our Directors are of the view that our Group can be managed independently notwithstanding that Mr. Zheng Hong, being a Controlling Shareholder, is an executive Director.

#### **Operational Independence**

The organisational structure of our Group is made up of a number of departments, comprising administration department, procurement department, production department, inventory control department, sales and marketing department and finance department. Each department takes a specific role in our Group's operations. There are internal control procedures to ensure effective operation of our Group's business. Furthermore, our Group has its own production lines and its own sources of suppliers and customers, which are all Independent Third Parties. Accordingly, our Group can carry out its business operations independently.

#### **Financial Independence**

During the Track Record Period, we obtained non-trading advance from our related companies, a Director and bank borrowings guaranteed by the related companies and certain directors of Jiangxi Jinyuan and/or director of a related company as set out in note 35 to the Accountants' Report in Appendix I to this Prospectus. Such advances and guarantees will be settled and released before the Listing. As disclosed above, all borrowings, securities and guarantees provided to and by the Controlling Shareholders have been settled or released before the Listing. Our Directors are of the view that our Group does not unduly rely on the advances from the Controlling Shareholders and related parties for its business operations. Our Directors believe that our Group is capable of obtaining financing from external sources without undue reliance on the Controlling Shareholders. Furthermore, our Group has its own finance department and has established its own financial accounting system independent of the Controlling Shareholders. Our Group has its own bank account, makes its tax registrations and has employed a sufficient number of financial accounting personnel. Accordingly, our Directors consider that our Group is capable of operating independently from a financial perspective.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

### NON-DISPOSAL UNDERTAKINGS GIVEN BY THE CONTROLLING SHAREHOLDERS

Pursuant to Rule 10.07 of the Listing Rules, each of the Controlling Shareholders has, jointly and severally, undertaken with our Company and the Stock Exchange that each of them shall not and shall procure that the relevant registered holder(s) shall not:

- (a) in the period commencing on the date by reference to which disclosure of their shareholding is made in this Prospectus and ending on the date which is six months from the Listing Date (the “First Six-Month Period”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances (save pursuant to a pledge or charge as security in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for bona fide commercial loan) in respect of, any of the Shares in respect of which it/he is shown by this Prospectus to be the beneficial owner(s); and
- (b) in the period of six months commencing on the date on which the First Six-Month Period expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances (save pursuant to a pledge or charge as security in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for bona fide commercial loan) in respect of, any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, the Controlling Shareholders would cease to be the Controlling Shareholders of our Company, i.e. they cease to control 30% or more of the voting power at general meetings of our Company.

Further, each of the Controlling Shareholders has, jointly and severally, undertaken with our Company and the Stock Exchange that within a period commencing on the date by reference to which disclosure of their shareholding is made in this Prospectus and ending on the date on which is the first anniversary of the Listing Date, he or it shall:

- (a) when he or it pledges or charges any securities beneficially owned by her or it in favour of an authorised institution (as defined under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform our Company of such pledge or charge together with the number of securities so pledged or charged; and
- (b) when he or it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities will be disposed of, immediately inform our Company of such indications.

## SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Global Offering and the Capitalisation Issue (but without taking into account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), the following persons will have an interest or short position in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name of Shareholder	Capacity	Number of Shares <sup>(Note 1)</sup>	Approximate percentage of shareholding
Popular Trend <sup>(1)</sup> . . . . .	Beneficial owner	467,550,000 Shares (long position)	46.76%
Flourish Talent <sup>(2)</sup> . . . . .	Beneficial owner	122,850,000 Shares (long position)	12.29%
Da Yu Investments <sup>(3)</sup> . . . . .	Beneficial owner	61,425,000 Shares (long position)	6.14%
Mr. Lin Sing Yun <sup>(3)</sup> . . . . .	Interest of a controlled corporation	61,425,000 Shares (long position)	6.14%
Orient Dynasty <sup>(4)</sup> . . . . .	Beneficial owner	67,500,000 Shares (long position)	6.75%
Modern Creative <sup>(4)</sup> . . . . .	Interest of a controlled corporation	67,500,000 Shares (long position)	6.75%
Liu Shu Fa <sup>(4)</sup> . . . . .	Interest of a controlled corporation	67,500,000 Shares (long position)	6.75%
Wang Juan <sup>(4)</sup> . . . . .	Interest of a controlled corporation	67,500,000 Shares (long position)	6.75%

*Notes:*

- (1) Popular Trend is wholly-owned by Mr. Zheng. For the purpose of Part XV of the SFO, Mr. Zheng is deemed to be interested in the Shares held by Popular Trend.  
  
Mr. Zheng was born and brought up in the PRC. He is not and has not been a full-time government official of a country nor a full-time employee of state or government-owned entity.
- (2) Flourish Talent is wholly-owned by Mr. Sze. For the purpose of Part XV of the SFO, Mr. Sze is deemed to be interested in the Shares held by Flourish Talent.
- (3) Da Yu Investments is wholly-owned by Mr. Lin. For the purpose of Part XV of the SFO, Mr. Lin is deemed to be interested in the Shares held by Da Yu Investments.
- (4) Orient Dynasty is wholly-owned by Modern Creative. Modern Creative is owned as to 50% by Liu Shu Fa and 50% by Wang Juan. For the purpose of Part XV of the SFO, Modern Creative, Liu Shu Fa and Wang Juan are deemed to be interested in the Shares held by Orient Dynasty.

Should the Over-allotment Option is exercised in full, Popular Trend will hold 45.07% interests in our Company, Flourish Talent will hold 11.86% interests in our Company, Da Yu Investments will hold 5.91% interests in our Company and Orient Dynasty will hold 6.51% interests in our Company.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the Global Offering and Capitalisation Issue (but without taking into account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), have an interest or short position in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

<b>SHARE CAPITAL</b>
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**SHARE CAPITAL**

The following is a description of the authorised and issued share capital of our Company (a) in issue and (b) to be issued as fully paid or credited as fully paid immediately before and after completion of the Capitalisation Issue and the Global Offering without taking into account the Shares that may be issued pursuant to the exercise of the Over-allotment Option:

**HK\$**

*Authorised share capital*

<u>10,000,000,000</u>	Shares	<u>1,000,000,000</u>
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*Issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering:*

1,000,000	Shares in issue as of the date of this Prospectus	100,000
749,000,000	Shares to be issued under the Capitalisation Issue	74,900,000
<u>250,000,000</u>	Shares to be issued under the Global Offering	<u>25,000,000</u>
<u>1,000,000,000</u>	Shares	<u>100,000,000</u>

If the Over-allotment Option is exercised in full, our Company's issued share capital immediately following the Global Offering and the Capitalisation Issue will be as follows:

**HK\$**

*Authorised share capital*

<u>10,000,000,000</u>	Shares	<u>1,000,000,000</u>
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*Issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering:*

1,000,000	Shares in issue as of the date of this Prospectus	100,000
749,000,000	Shares to be issued under the Capitalisation Issue	74,900,000
250,000,000	Shares to be issued under the Global Offering	25,000,000
37,500,000	Shares to be issued upon exercise of the Over-allotment Option in full	3,750,000
<u>1,037,500,000</u>	Shares	<u>103,750,000</u>

**Assumptions**

The above tables assume that the Global Offering and the Capitalisation Issue become unconditional. It takes no account of any Shares which may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme; or any Shares which may be allotted and issued or repurchased by our Company pursuant to the Issuing Mandate and the Repurchase Mandate.

## SHARE CAPITAL

### Ranking

The Offer Shares will rank *pari passu* in all respects with all Shares in issue and/or to be allotted and issued as mentioned in this Prospectus and will qualify for all dividends or other distributions declared, paid or made on the Shares after the date of this Prospectus save with respect to the Capitalisation Issue.

### ISSUING MANDATE

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

- 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering (excluding the Shares which may be issued pursuant to the exercise of the Over-allotment Option); and
- the aggregate nominal value of the share capital of our Company repurchased by our Company, if any, pursuant to the Repurchase Mandate.

Our Directors may, in addition to the Shares which they are authorised to issue under the Issuing Mandate, allot, issue and deal with the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription rights attaching to any warrants of our Company, scrip dividends or similar arrangements or the exercise of the options granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted.

The Issuing Mandate will expire:

- at the conclusion of the next annual general meeting of our Company; or
- upon the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws of the Cayman Islands to be held; or
- when varied, revoked or renewed by an ordinary resolution of the Shareholders in a general meeting,

whichever is the earliest.

Further information on the Issuing Mandate is set out in the section headed “Resolutions in Writing of all the Shareholders Passed on 3 December 2011” in Appendix VI to this Prospectus.

### REPURCHASE MANDATE

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering (excluding the Shares which may be issued pursuant to the exercise of the Over-allotment Option).

## SHARE CAPITAL

This mandate only relates to repurchases made on the Stock Exchange or on any other stock exchange on which the Shares are listed and which is recognised by the SFC and the Stock Exchange for this purpose, and which are in accordance with the Listing Rules or equivalent rules or regulations of such other stock exchange. A summary of the relevant requirements of the Listing Rules on the Repurchase Mandate is set out in the section headed “Repurchase of Shares by our Company” in Appendix VI to this Prospectus.

The Repurchase Mandate will expire:

- at the conclusion of the next annual general meeting of our Company; or
- upon the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable laws of the Cayman Islands to be held; or
- when varied, revoked or renewed by an ordinary resolution of the Shareholders in a general meeting,

whichever is the earliest.

Further information on the Repurchase Mandate is set forth in the section headed “Resolutions in Writing of all the Shareholders Passed on 3 December 2011” in Appendix VI to this Prospectus.



## FINANCIAL INFORMATION

*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.

## FINANCIAL INFORMATION

### **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

## FINANCIAL INFORMATION

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.

## FINANCIAL INFORMATION

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 <sup>(1)</sup> (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 <sup>(2)</sup> (tonnes) . . . . .	60,037	84,507	83,095	39,552
Average utilisation rate <sup>(3)</sup> (%) . . .	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.

## FINANCIAL INFORMATION

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						Six months ended 30 June													
	2008		2009		2010		2010		2011		2011									
	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	RMB'000	RMB'000	tonnes	RMB/tonnes					
<b>Polyester yarn</b>																				
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	180,412	14,044	14,009	12,878	162,883	25,258	9,622	16,928
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	58,119	3,792	4,613	12,599	85,988	11,653	5,199	16,539
Coarse-count yarn . . . . .	4,114	(334)	344	11,959	7,191	158	682	10,544	35,591	1,209	2,911	12,226	13,324	467	1,129	11,801	11,458	384	718	15,958
<b>Sub-total . . . . .</b>	<b>319,967</b>	<b>(6,947)<sup>(1)</sup></b>	<b>26,198</b>	<b>12,213</b>	<b>380,921</b>	<b>17,897</b>	<b>34,511</b>	<b>11,038</b>	<b>527,978</b>	<b>35,323</b>	<b>39,160</b>	<b>13,483</b>	<b>251,855</b>	<b>18,303</b>	<b>19,751</b>	<b>12,752</b>	<b>260,329</b>	<b>37,295</b>	<b>15,539</b>	<b>16,753</b>
<b>Polyester-cotton blended yarn</b>																				
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	106,958	31,575	6,526	16,390	183,600	27,893	7,778	23,605
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	29,413	6,434	1,904	15,448	56,894	5,575	2,625	21,674
Coarse-count yarn . . . . .	—	(25)	2	—	7	1	1	7,000	65	7	8	8,125	62	(2)	8	7,750	—	—	—	—
<b>Sub-total . . . . .</b>	<b>217,211</b>	<b>34,766</b>	<b>14,658</b>	<b>14,819</b>	<b>253,400</b>	<b>58,897</b>	<b>18,517</b>	<b>13,685</b>	<b>350,849</b>	<b>89,966</b>	<b>20,289</b>	<b>17,293</b>	<b>136,433</b>	<b>38,007</b>	<b>8,438</b>	<b>16,169</b>	<b>240,494</b>	<b>33,468</b>	<b>10,403</b>	<b>23,118</b>
<b>Cotton yarn</b>																				
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	22,873	4,386	1,087	21,042	24,834	2,048	752	33,024
Medium-count yarn . . . . .	505	166	33	15,303	4,824	1,601	311	15,511	86	31	5	17,200	—	—	—	—	902	11	27	33,407
<b>Sub-total . . . . .</b>	<b>8,114</b>	<b>2,354</b>	<b>494</b>	<b>16,425</b>	<b>29,117</b>	<b>10,439</b>	<b>1,795</b>	<b>16,221</b>	<b>51,839</b>	<b>24,083<sup>(2)</sup></b>	<b>2,324</b>	<b>22,306</b>	<b>22,873</b>	<b>4,386<sup>(2)</sup></b>	<b>1,087</b>	<b>21,042</b>	<b>25,736</b>	<b>2,059</b>	<b>779</b>	<b>33,037</b>
<b>Total . . . . .</b>	<b>545,292</b>	<b>30,173</b>	<b>41,350</b>	<b>N/A</b>	<b>663,438</b>	<b>87,233</b>	<b>54,823</b>	<b>N/A</b>	<b>930,666</b>	<b>149,372</b>	<b>61,773</b>	<b>N/A</b>	<b>411,161</b>	<b>60,696</b>	<b>29,276</b>	<b>N/A</b>	<b>526,559</b>	<b>72,822</b>	<b>26,721</b>	<b>N/A</b>

*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.

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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.

## FINANCIAL INFORMATION

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.

## FINANCIAL INFORMATION

### 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.



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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.

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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	RMB'000
				(Unaudited)	
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 . . . . .	<u>1,118</u>	<u>66,192</u>	<u>117,556</u>	<u>44,243</u>	<u>45,263</u>
	RMB (cents)	RMB (cents)	RMB (cents)	RMB (cents)	RMB (cents)
Earnings per share					
— Basic . . . . .	<u>0.15</u>	<u>8.83</u>	<u>15.67</u>	<u>5.90</u>	<u>6.04</u>

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### 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	%	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
<b>Total . . . . .</b>	<b>545,292</b>	<b>100.0</b>	<b>663,438</b>	<b>100.0</b>	<b>930,666</b>	<b>100.0</b>	<b>411,161</b>	<b>100.0</b>	<b>526,559</b>	<b>100.0</b>

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.

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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.

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### 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	%	RMB'000	%
							(Unaudited)			
<b>Raw Materials</b>										
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
<b>Direct Labour and</b>										
<b>Overhead . . . . .</b>	91,141	17.7	124,869	21.7	142,802	18.3	66,316	18.9	76,313	16.8
<b>Total . . . . .</b>	<u>515,119</u>	<u>100.0</u>	<u>576,205</u>	<u>100.0</u>	<u>781,294</u>	<u>100.0</u>	<u>350,465</u>	<u>100.0</u>	<u>453,737</u>	<u>100.0</u>

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 staple 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.

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### *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	%	RMB'000	%
							(Unaudited)			
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
<b>Total . . . . .</b>	<b>515,119</b>	<b>100.0</b>	<b>576,205</b>	<b>100.0</b>	<b>781,294</b>	<b>100.0</b>	<b>350,465</b>	<b>100.0</b>	<b>453,737</b>	<b>100.0</b>

### **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
							(Unaudited)			
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	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
<b>Total . . . . .</b>	<b>30,173</b>	<b>5.5</b>	<b>87,233</b>	<b>13.1</b>	<b>149,372</b>	<b>16.1</b>	<b>60,696</b>	<b>14.8</b>	<b>72,822</b>	<b>13.8</b>

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.

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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

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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.



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### 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	—
<b>Total</b> . . . . .	<b>10,129</b>	<b>12,041</b>	<b>12,902</b>	<b>6,695</b>	<b>5,368</b>

### 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 <sup>(1)</sup>
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
<b>Total</b> . . . . .	<b>7,076</b>	<b>9,020</b>	<b>9,932</b>	<b>4,465</b>	<b>9,725</b>

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.

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### 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.

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### 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.

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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.

## FINANCIAL INFORMATION

### *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, 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.

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### 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.

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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

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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%.



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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.

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### *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

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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.

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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	RMB'000
				(Unaudited)	
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

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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

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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

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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

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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 <sup>(1)</sup>					
Secured <sup>(2)</sup> . . . . .	85,330	200,000	237,737	226,412	254,817
Unsecured <sup>(3)</sup> . . . . .	900	21,649	52,100	40,000	—
Amounts due to related companies <sup>(4)</sup> . . . . .	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
<b>Total</b> . . . . .	<b><u>116,259</u></b>	<b><u>282,988</u></b>	<b><u>338,561</u></b>	<b><u>310,962</u></b>	<b><u>314,428</u></b>

*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.



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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.

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### 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 <sup>(1)</sup>
Plant and machinery . . . . .	74,750	11,502	17,369	61
Office equipment . . . . .	111	174	469	358
Motor vehicle . . . . .	110	146	1,081	—
<b>Total</b> . . . . .	<b>137,002</b>	<b>12,344</b>	<b>20,688</b>	<b>31,556</b>

*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.

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

	Year ending 31 December			Total
	2011	2012	2013	
	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 <sup>(1)</sup> . . . . .	—	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.

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### 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

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### CONTRACTUAL OBLIGATIONS AND OTHER OFF-BALANCE SHEET ARRANGEMENTS

The following table sets forth our significant debt and other contractual obligations as 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
<b>Net current liabilities</b> . . . . .	<u>(229,727)</u>	<u>(180,163)</u>	<u>(181,122)</u>	<u>(154,485)</u>
<b>Total assets less current liabilities</b> . . . . .	<u>165,325</u>	<u>225,882</u>	<u>244,646</u>	<u>278,116</u>
Non-current liabilities . . . . .	7,014	44,279	31,287	19,493
<b>Net assets</b> . . . . .	<u>158,311</u>	<u>181,603</u>	<u>213,359</u>	<u>258,623</u>
<b>Total equity attributable to owners of the Company</b> . . . . .	<u>158,311</u>	<u>181,603</u>	<u>213,359</u>	<u>258,623</u>

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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
<b>Current assets</b>				
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
	<u>236,174</u>	<u>229,655</u>	<u>229,432</u>	<u>186,721</u>
<b>Current liabilities</b>				
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
	<u>465,901</u>	<u>409,818</u>	<u>480,554</u>	<u>341,206</u>
<b>Net current liabilities</b> . . . . .	<u>(229,727)</u>	<u>(180,163)</u>	<u>(181,122)</u>	<u>(154,485)</u>

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.

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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
<b>Total</b> . . . . .	<b>67,087</b>	<b>96,657</b>	<b>115,705</b>	<b>85,657</b>

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

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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 <sup>(1)</sup> . . . . .	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



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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
<b>Age</b>				
1 to 30 days . . . . .	—	85	454	—
31 to 90 days . . . . .	—	—	77	—
	—	85	531	—
<b>Total trade receivables . . . . .</b>	<b>—</b>	<b>85</b>	<b>531</b>	<b>—</b>

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.

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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
<b>Age</b>				
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
	<b>6,505</b>	<b>5,689</b>	<b>12,329</b>	<b>3,080</b>
<b>Total note receivables . . . . .</b>	<b>6,505</b>	<b>5,689</b>	<b>12,329</b>	<b>3,080</b>

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 fourth 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 fourth 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.

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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 <sup>(1)</sup> . . . . .	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.

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### 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 <sup>(1)</sup> . . . . .	—	2,480	—	—
VAT receivables . . . . .	1,725	3,304	—	—
Prepayment . . . . .	20	20	20	1,546
	15,177	15,233	27,445	10,156
	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.

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### 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
<b>Age</b>				
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	—
<b>Total trade payables . . . . .</b>	<b>20,434</b>	<b>7,200</b>	<b>6,921</b>	<b>5,346</b>

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
<b>Age</b>				
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
<b>Total note payables . . . . .</b>	<b>252,000</b>	<b>74,000</b>	<b>41,650</b>	<b>12,100</b>

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

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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 <sup>(1)</sup> . . . . .	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 <sup>(1)</sup> . . . . .	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
<b>Total other payables . . . . .</b>	<b><u>77,208</u></b>	<b><u>40,145</u></b>	<b><u>32,195</u></b>	<b><u>25,652</u></b>

*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.

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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 <sup>(1)</sup> . . . . .	50.7	56.0	62.3	54.7
Gearing ratio <sup>(2)</sup> . . . . .	57.7	47.3	45.7	46.1
Return on assets <sup>(3)</sup> . . . . .	0.2	10.4	16.2	14.6
Return on equity <sup>(4)</sup> . . . . .	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.

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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 from 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



## FINANCIAL INFORMATION

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<sup>(1)</sup>. 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 annualised 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<sup>(2)</sup>. 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;

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#### Notes:

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

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

## FINANCIAL INFORMATION

- 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.

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### 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

## FINANCIAL INFORMATION

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 <sup>(1)</sup>	+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%)
<u>Resulting forecast profit after tax for the year ending 31 December 2011</u>									
<u>(RMB million) . . . . .</u>	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 <sup>(2)</sup>									
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%
<u>Resulting forecast profit after tax for the year ending 31 December 2011</u>									
<u>(RMB million) . . . . .</u>	(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.

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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.

## FINANCIAL INFORMATION

### 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 . . . . .	<u>(1,474)</u>
Net book value as at 31 October 2011 (unaudited) . . . . .	<u>170,492</u>
Add: Valuation surplus as at 31 October 2011 . . . . .	<u>50,208</u>
Valuation as at 31 October 2011 as per Appendix IV to this Prospectus . . . . .	<u><u>220,700</u></u>

### 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.

## FINANCIAL INFORMATION

### 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 <sup>(1)</sup>	Estimated net proceeds from the Global Offering <sup>(2)</sup>	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 <sup>(3)</sup>	HK\$ <sup>(4)</sup>
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.

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- (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.



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### **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.

## FUTURE PLANS AND USE OF PROCEEDS

### FUTURE PLANS AND USE OF PROCEEDS

See the section headed “Business — Business Strategies” in this Prospectus for a detailed description of our future plans.

The net proceeds from the Global Offering, after deducting underwriting fees and estimated expenses payable by our Company in connection thereto, are estimated to be approximately HK\$135.0 million, assuming that the Over-allotment Option is not exercised and assuming an Offer Price of HK\$0.665 per Share, being the mid-point of the proposed Offer Price range of HK\$0.60 to HK\$0.73 per Share. We intend to use such net proceeds as follows:

- Approximately RMB44.2 million, equivalent to HK\$55.2 million or 40.9% towards equipment and machinery for production of coloured polyester-cotton blended yarns with a production capacity of approximately 60,000 spindles;
- Approximately RMB31.0 million, equivalent to HK\$38.7 million or 28.7% towards equipment and machinery for production of open-end spun yarns with a production capacity of approximately 20,000 spindles;
- Approximately RMB21.0 million, equivalent to HK\$26.2 million or 19.4% towards payment for construction of new production facility, not including the cost of land use rights;
- Approximately RMB1.1 million, equivalent to HK\$1.4 million or 1.0% towards further enhance our marketing network, brand awareness and reputation; and
- Approximately RMB10.8 million, equivalent to HK\$13.5 million or 10.0% towards working capital and general corporate purposes.

If the Offer Price is set at the high-end or low-end of the proposed offer price range, the net proceeds of the Global Offering (assuming that the Over-allotment Option is not exercised) will increase or decrease by approximately HK\$15.8 million, respectively. In such event, we will increase or decrease the allocation of the net proceeds to the above purposes on a *pro rata* basis.

If the Over-allotment Option is exercised in full, the net proceeds from the Global Offering will increase to approximately HK\$159.2 million, assuming an Offer Price of HK\$0.665 per Share, being the mid-point of the proposed Offer Price range. If the Offer Price is set at the high-end or low-end of the proposed Offer Price range, the net proceeds of the Global Offering (including the proceeds from the exercise of the Over-allotment Option) will increase or decrease by approximately HK\$18.1 million, respectively. We intend to apply the additional net proceeds to the above uses in the proportions stated above.

To the extent that the net proceeds of the Global Offering are not immediately applied to the above purposes, it is our present intention that such net proceeds will be deposited into interest-bearing bank accounts with licensed banks and/or financial institutions in Hong Kong or in the PRC.

# UNDERWRITING

## UNDERWRITERS

### Hong Kong Underwriters:

**Guotai Junan Securities (Hong Kong) Limited** (*Sole Lead Manager*)  
**Ample Orient Capital Limited**  
**Ever-Long Securities Company Limited**  
**South China Securities Limited**

## UNDERWRITING ARRANGEMENTS AND EXPENSES

### Hong Kong Public Offer

#### *Hong Kong Underwriting Agreement*

Under the Hong Kong Underwriting Agreement, our Company has agreed to offer the Hong Kong Offer Shares for subscription on and subject to the terms and conditions of this Prospectus and the Application Forms. Under the International Underwriting Agreement, our Company has agreed to offer the International Placing Shares for subscription or purchase by institutional, professional and private investors which are anticipated to have a sizeable demand on and subject to the terms and conditions of this Prospectus.

Pursuant to the Hong Kong Underwriting Agreement, and conditional upon, inter alia, the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) listings of, and permission to deal in, the Shares in issue and to be issued as mentioned in this Prospectus subject to such customary conditions that may be imposed by the Stock Exchange and certain other conditions, the Hong Kong Underwriters have severally agreed to subscribe or procure subscribers to subscribe for the Hong Kong Offer Shares which are not taken up under the Hong Kong Public Offer.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional.

#### *Grounds for Termination*

The Sole Lead Manager, at its sole and absolute discretion, may, for itself and on behalf of the Hong Kong Underwriters, upon giving notice in writing to our Company and/or the Controlling Shareholders and the executive Directors (the “Warrantors”), terminate the Hong Kong Underwriting Agreement with immediate effect if any of the following events occurs at or prior to 8:00 a.m. on the Listing Date:

- (a) there is any change or prospective change (whether or not permanent) in the business or in the financial or trading position or prospects of our Company or any other member of our Group taken as a whole; or
- (b) any event or series of events resulting or representing or likely to result in any change or development (whether or not permanent) in local, national, regional or international financial, political, industrial, economic, currency, military, conflict-related, legal, fiscal, exchange control, regulatory conditions or any monetary or trading settlement system (including but not limited to a change in the system under which the value of the Hong Kong

## UNDERWRITING

currency or Renminbi is linked to that of the currency of the United States), equity or other financial market or other conditions, circumstances or matters shall have occurred, happened or come into effect; or

- (c) any relevant new Law or change (whether or not forming part of a series of changes) in existing Laws or any change in the interpretation or application thereof by any court or Governmental Authority in Hong Kong, the Cayman Islands, the PRC, the United States, the European Union, or in other jurisdiction which our Group operates or has or is deemed by any applicable law to have a presence (by whatever name called) or any other jurisdiction relevant to our Group shall have been introduced or effected (each a “Relevant Jurisdiction”); or
- (d) a change or development occurs involving a prospective change in taxation or exchange control (or in the implementation of any exchange control) or foreign investment regulations in Hong Kong, the PRC, the United States, the European Union (or any member thereof); or
- (e) the imposition of economic or other sanctions, in whatever form, directly or indirectly, by the United States, the European Union (or any member thereof) or organisation in any Relevant Jurisdiction; or
- (f) any event, or series of events, beyond the control of the Hong Kong Underwriters (including without limitation, any acts of God, acts of government, large scale labour disputes, acts or threats of war, riots, public disorder, civil commotion, fire, flooding, explosion, outbreak of diseases or epidemic (including but not limited to severe acute respiratory syndrome and H5N1, avian flu, influenza A (H1Na) (swine flu) and such related or mutated forms), terrorism, strikes or lockouts) or extensive interruption or delay in transportation, economic sanction and any declaration of a national or international emergency or war shall have occurred, happened or come into effect in any Relevant Jurisdiction; or
- (g) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or crisis involving or affecting any Relevant Jurisdiction; or
- (h) the imposition or declaration of (i) any suspension or material limitation on dealings in shares or securities generally on the Stock Exchange or any other major international stock exchange or (ii) any moratorium on banking activities or disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting Hong Kong, PRC, New York, London, or any other jurisdiction; or
- (i) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity; or
- (j) any litigation or claim of any third party being instigated against any member of our Group; or
- (k) any loss or damage sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or

## UNDERWRITING

- (l) a petition is presented for the winding-up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or
- (m) approval by the Listing Committee of the listing of, and permission to deal in, the Offer Shares to be issued (including any additional Shares that may be issued pursuant to the exercise of the Over-allotment Option) under the Global Offer is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld,

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

- (a) is or will or may individually or in aggregate have a material adverse effect on the business, financial, trading or other condition or prospects of our Company and its subsidiaries taken as a whole; or
- (b) is or will or may make it impracticable, inadvisable, inexpedient or not commercially viable (i) for any material part of the Hong Kong Underwriting Agreement, the International Underwriting Agreement, the Hong Kong Public Offer, the International Placing and/or the Global Offering to be performed or implemented as envisaged; (ii) to proceed with the Hong Kong Public Offer, the International Placing and/or the Global Offering on the terms and in the manner contemplated in the Prospectus in respect of the International Placing; or (iii) may have a material adverse effect on the level of Offer Shares being applied for or accepted or the distribution of the Offer Shares;

or

any of the Hong Kong Underwriters shall become aware of the fact that, or have cause to believe that:

- (a) any of the warranties or undertakings given by the Warrantors is untrue, inaccurate, misleading or breached in any material respect when given or as repeated as determined by the Sole Lead Manager in its sole and absolute discretion;
- (b) any statement contained in the Prospectus and the Application Forms and any announcements issued by our Company in respect of the Hong Kong Public Offer, the International Placing and/or the Global Offering was or is untrue, incorrect or misleading in any material respect, or any matter arises or is discovered which would, if the Prospectus and the Application Forms in respect of the Hong Kong Public Offer, the International Placing and/or the Global Offering were to be issued at that time, constitute a material omission therefrom as determined by the Sole Lead Manager in its sole and absolute discretion; or
- (c) there has been a breach in any material respect on the part of any of the Warrantors of any of the provisions of the Hong Kong Underwriting Agreement or the International Underwriting Agreement as determined by the Sole Lead Manager in its sole and absolute discretion.

## UNDERWRITING

For the purpose of the above, a material change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or any material change of the value of Hong Kong currency under such system shall be taken as an event resulting in a change in currency conditions; and any material market fluctuations, may be considered as a change of market conditions.

### **Undertakings pursuant to the Hong Kong Underwriting Agreement**

#### **By our Company**

Pursuant to the Hong Kong Underwriting Agreement, our Company has irrevocably and unconditionally undertaken to the Sole Sponsor, the Sole Lead Manager and the other Hong Kong Underwriters that it will, among other things, that:

- (a) except pursuant to the Global Offering, the Capitalisation Issue, the exercise of the subscription rights attaching to the Over-allotment Option or to the options that may be granted under the Share Option Scheme, not without the prior written consent of the Sole Lead Manager (on behalf of the Hong Kong Underwriters), and subject always to the provisions of the Listing Rules, offer, allot, issue or sell, or agree to allot, issue or sell, grant or agree to grant any option, right or warrant over, or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by our Company or any of its affiliates), either directly or indirectly, conditionally or unconditionally, any Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or any securities convertible into or exchangeable for such Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or such securities, whether any of the foregoing transactions is to be settled by delivery of Shares or such securities, in cash or otherwise or announce any intention to effect any such transaction during the First Six-Month Period;
- (b) not at any time during the First Six-Month Period, issue, or create any mortgage, pledge, charge or other security interest or any rights in favour of any other person over, directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company (including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, any Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or securities of our Company) or repurchase any Shares or securities of our Company or grant any options, warrants or other rights to subscribe for any Shares or other securities of our Company or agree to do any of the foregoing, except pursuant to the Global Offering, the Capitalisation Issue or the exercise of the subscription rights attaching to the Over-allotment Option or to the options that may be granted under the Share Option Scheme;
- (c) not at any time within the Second Six-Month Period do any of the acts set out in clauses (a) and (b) above such that any of the Controlling Shareholders, directly or indirectly, would cease to be a controlling shareholder of our Company (within the meaning defined in the Listing Rules);

## UNDERWRITING

- (d) during a period of two years from this Prospectus date, in the event that our Company does any of the acts set out in clauses (a) and (b) above after the expiry of the First Six-Month Period or the Second Six-Month Period, as the case may be, take all steps to ensure that any such act, if done, will not create a disorderly or false market for any Shares or other securities of our Company or any interest therein.

Similar undertakings are expected to be given by our Company to the International Underwriters under the International Underwriting Agreement.

### **By the Controlling Shareholders**

Each of the Controlling Shareholders represents, warrants and undertakes to the Sole Sponsor and the Sole Lead Manager (respectively as the sole sponsor and the sole lead manager on behalf of the Hong Kong Underwriters), the other Hong Kong Underwriters and our Company that:

- (a) he or it will comply with all the applicable restrictions and requirements under the Listing Rules on the disposal by him, her or it or by any registered holder on his or its behalf, of any Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or other securities of our Company in respect of which he or it is shown in this Prospectus to be the beneficial owner (directly or indirectly);
- (b) neither him or it nor any of their respective associates (as defined in the Listing Rules) or companies controlled by him or it has any present intention of disposing of any Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or other securities of our Company in respect of which he or it is shown in this Prospectus to be the beneficial owner (directly or indirectly) (or any beneficial interest therein), save in respect of Popular Trend in connection with any stock lending arrangement entered or to be entered into between Popular Trend and the Sole Lead Manager; and
- (c) he or it will not, without the prior written consent of the Sole Sponsor (on behalf of the Hong Kong Underwriters) directly or indirectly, and will procure that none of his or its associates (as defined in the Listing Rules) or companies controlled by him or it or any nominee or trustee holding in trust for him or it shall, offer for sale, sell, transfer, contract to sell, or otherwise dispose of (including without limitation by the creation of any option, right, warrant to purchase or otherwise transfer or dispose of, or any lending, charges, pledges or encumbrances over, or by entering into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise)) any of the Shares (or any interest in any Shares or any voting or other right attaching to any Shares) in respect of which he or it is shown in this Prospectus to be the beneficial owner (directly or indirectly) or any other securities convertible into or exchangeable for or which carry a right to subscribe, purchase or acquire any such Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of the acquisition or ownership of any such Shares or such securities at any time during the First Six-Month Period, save in connection with any stock lending arrangement entered or to be entered into between Popular Trend and the Sole Lead Manager and subject always to compliance with the provisions of the Listing Rules, in the event of a disposal of any Shares or such securities or any interest therein at any time during the Second Six-Month Period, (1) in respect of the Controlling Shareholders, such disposal shall not result in any of the Controlling Shareholders ceasing to be the controlling shareholder (as defined in the Listing

## UNDERWRITING

Rules) of our Company at any time during the Second Six-Month Period; and (2) he or it shall take all steps to ensure that any such act, if done, will not create a disorderly or false market for any Shares or other securities of our Company or any interest therein.

Without prejudice to the provisions above, each of the Controlling Shareholders undertakes to the Sole Sponsor, the Sole Lead Manager (respectively as the sole bookrunner and sole lead manager on behalf of the Hong Kong Underwriters), the other Hong Kong Underwriters and our Company that within the First Six-Month Period and the Second Six-Month Period he or it shall:

- (a) if and when he or it pledges or charges, directly or indirectly, any Shares or other securities of our Company beneficially owned by him or it, immediately inform our Company, the Sole Sponsor and the Sole Lead Manager in writing of such pledge or charge together with the number of such Shares or other securities so pledged or charged; and
- (b) if and when he or it receives indications, either verbal or written, from any pledgee or chargee that any Shares or other securities in our Company pledged or charged by him, her or it will be disposed of, immediately inform our Company, the Sole Sponsor and the Sole Lead Manager in writing of such indications.

Our Company shall notify the Stock Exchange as soon as our Company has been informed of such event and shall make a public disclosure by way of press announcement in accordance with the Listing Rules.

### **International Placing**

In connection with the International Placing, it is expected that our Company will, on or about 15 December 2011, enter into the International Underwriting Agreement with, among others, the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set out therein, agree to subscribe for the International Placing Shares being offered pursuant to the International Placing or procure subscribers to subscribe for such International Placing Shares.

Under the International Underwriting Agreement, our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by Guotai Junan Securities (Hong Kong) Limited on behalf of the International Underwriters at any time from the date of the International Underwriting Agreement up to (and including) 14 January 2012, being the 30th day after the last day for the lodging of applications under the Hong Kong Public Offer, to require our Company to allot and issue up to an aggregate of 37,500,000 additional Shares, representing in aggregate not more than 15% of the maximum number of Offer Shares initially available under the Global Offering.

### **Commission and Expenses**

The Underwriters will receive a commission of 2.5% of the aggregate Offer Price of all the Offer Shares, out of which they will pay any sub-underwriting commissions. In addition, the Sole Sponsor will receive a sponsor fee in relation to the Global Offering. Assuming the Over-allotment Option is not exercised at all and based on the Offer Price of HK\$0.665 (being the mid-point of the Offer Price), the underwriting commission, sponsor fee, listing fees, SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees together with printing and other expenses relating to the Global Offering are estimated to amount to approximately HK\$31.3 million in total.



## UNDERWRITING

### **Hong Kong Underwriters' Interests in our Company**

Save for the obligations and the interests under the Underwriting Agreements as disclosed above, none of the Underwriters is interested legally or beneficially in any shares in any member of our Group or has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares in any member of our Group.

### **Sole Sponsor's Independence**

The Sole Sponsor satisfies the independence criteria applicable to sponsor as required under Rule 3A.07 of the Listing Rules.

## STRUCTURE OF THE GLOBAL OFFERING

### OFFERING PRICE AND PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$0.73 and is expected to be not less than HK\$0.60 per Offer Share. Based on the maximum Offer Price of HK\$0.73 per Offer Share, plus 1% brokerage fee, 0.003% SFC transaction levy, and 0.005% Stock Exchange trading fee, one board lot of 4,000 Shares will amount to a total of HK\$2,949.44.

The Offer Price is expected to be determined by our Company and the Sole Lead Manager (on behalf of the Underwriters) on or before the Price Determination Date.

If, based on the level of interests expressed by prospective professional, institutional and/or other investors during the book-building process, the Sole Lead Manager (on behalf of the Underwriters, and with the consent of our Company) thinks it appropriate (for instance, if the level of interests is below the indicative Offer Price range), the indicative Offer Price range may be reduced below that stated in this Prospectus at any time prior to the morning of the last day for lodging applications. In such case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offer cause the notice of the reduction of the indicative Offer Price range to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) or on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) or our Company's website at [www.chinaweavingmaterials.com](http://www.chinaweavingmaterials.com). Such notice will also include any financial information which may change as a result of any such reduction.

If, for any reason, the Offer Price is not agreed between our Company and the Sole Lead Manager (on behalf of the Underwriters) on or before the Price Determination Date, the Global Offering will not become unconditional and will lapse.

### CONDITIONS

Acceptance of all applications for the Global Offering will be conditional upon:

- (a) *the Listing Committee of the Stock Exchange granting a listing of, and permission to deal in the Shares (including any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any Shares which may fall to be issued upon the exercise of the option that may be granted under the Share Option Scheme), and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;*
- (b) *the Offer Price having been duly determined and the execution and delivery of the Hong Kong Underwriting Agreement on or about the Price Determination Date; and*
- (c) *the obligations of the Underwriters under the Hong Kong Underwriting Agreement becoming unconditional (including the waiver of any condition(s) by the Sole Lead Manager on behalf of the Underwriters) and not being terminated in accordance with the terms of either agreement or otherwise,*

in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement. If these conditions are not fulfilled, all application monies will be returned, without interest, on the terms set out in the section headed "How to apply for Hong Kong Offer Shares" in this Prospectus. In the meantime, such monies will be held in separate bank accounts with the receiving bankers or other licensed bank(s) in Hong Kong.

## STRUCTURE OF THE GLOBAL OFFERING

### OFFER MECHANISM — BASIS OF ALLOCATION OF SHARES

#### The Global Offering

The Global Offering consists of the International Placing and the Hong Kong Public Offer. The 250,000,000 Shares initially offered will comprise 225,000,000 Shares being offered under the International Placing and 25,000,000 Shares being offered under the Hong Kong Public Offer. The 250,000,000 Shares being offered under the Global Offering will represent 25% of our Company's share capital immediately after completion of the Global Offering and the Capitalisation Issue but without taking into account any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any Shares which may fall to be issued upon the exercise of the option that may be granted under the Share Option Scheme.

Subject to possible reallocation on the basis set forth below, 25,000,000 Shares, representing 10% of the total number of Shares initially being offered under the Global Offering, will be offered to the public in Hong Kong under the Hong Kong Public Offer. The Hong Kong Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investors.

Out of the total 250,000,000 Shares offered pursuant to the Global Offering, 225,000,000 Shares, representing 90% of the total number of Shares initially being offered under the Global Offering, will be placed with professional, institutional investors and/or other investors in Hong Kong and elsewhere under the International Placing. The International Placing will be offered in Hong Kong and other jurisdictions outside the United States in offshore transactions.

In connection with the Global Offering, our Company has granted to the Sole Lead Manager the Over-allotment Option which is exercisable by the Sole Lead Manager (on behalf of the International Underwriters) no later than 30 days from 15 December 2011, being the last date for lodging applications under the Hong Kong Public Offer. Pursuant to the Over-allotment Option, our Company may be required to allot and issue up to an aggregate of 37,500,000 additional Shares (representing 15% of the number of Shares initially being offered under the Global Offering) to cover over-allocations in the International Placing. The Sole Lead Manager may also cover over-allocations in the International Placing by purchasing Shares in the secondary market or by a combination of purchases in the secondary market and the exercise, in part or in full, of the Over-allotment Option. The number of Shares that may be over-allocated will not exceed the maximum number of Shares that may be issued under the Over-allotment Option. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations. If the Over-allotment Option is exercised in full, on completion of the Global Offering and the Capitalisation Issue but without taking into account any Shares which may fall to be issued upon the exercise of the option that may be granted under the Share Option Scheme, the Offer Shares will represent approximately 27.7% of our Company's enlarged issued share capital.

If the Sole Lead Manager decide to exercise the Over-allotment Option, it will be exercised solely to cover over-allocations in the International Placing. The International Placing Shares (including any over-allocations) will be allocated prior to the commencement of trading of the Shares on the Stock Exchange.

The levels of indication of interest in the International Placing and the basis of allotment and the levels of applications in the Hong Kong Public Offer are expected to be published in the South China Morning Post (in English) and in the Hong Kong Economic Times (in Chinese) or on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) or our Company's website at [www.chinaweavingmaterials.com](http://www.chinaweavingmaterials.com) on or before 21 December 2011.

## STRUCTURE OF THE GLOBAL OFFERING

### **The Hong Kong Public Offer**

Our Company is initially offering 25,000,000 Hong Kong Offer Shares, representing 10% of the total number of Shares initially being offered in the Global Offering, for subscription by way of a public offer in Hong Kong. The Hong Kong Offer Shares are being offered at the Offer Price. The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters, subject to the terms and conditions of the Hong Kong Underwriting Agreement.

The total number of Shares available for subscription under the Hong Kong Public Offer (after taking into account of any reallocation referred to below) is to be divided equally into two pools for allocation purposes: pool A and pool B. The Shares in pool A will be allocated on an equitable basis to applicants who have applied for Shares with an aggregate subscription amount of HK\$5.0 million (excluding the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee payable) or less. The Shares in pool B will be allocated on an equitable basis to applicants who have applied for Shares with an aggregate subscription amount of more than HK\$5.0 million (excluding the brokerage fee, the SFC transaction levy, and the Stock Exchange trading fee payable) and up to the value of pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Shares in one (but not both) of the pools are undersubscribed, the surplus Shares will be transferred to the other pool to satisfy demand in the pool and be allocated accordingly.

Applicants can only receive an allocation of Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications within either pool or between pools and any application for more than the total number of Shares originally allocated to each pool (i.e., 12,500,000 Shares) are liable to be rejected. Each applicant under the Hong Kong Public Offer will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application have not received any Shares under the International Placing and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

The allocation of the Shares between the International Placing and the Hong Kong Public Offer is subject to adjustment.

If the number of Shares validly applied for under the Hong Kong Public Offer represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the Hong Kong Public Offer, then Shares will be reallocated to the Hong Kong Public Offer from the International Placing, so that the total number of Shares available for subscription under the Hong Kong Public Offer will increase to 75,000,000 Shares, representing 30% of the Shares initially available for subscription under the Global Offering.

If the number of Shares validly applied for under the Hong Kong Public Offer represents 50 times or more but less than 100 times the number of Shares initially available for subscription under the Hong Kong Public Offer, then the number of Shares to be reallocated to the Hong Kong Public Offer from the International Placing will be increased so that the total number of Shares available for subscription under the Hong Kong Public Offer will be 100,000,000 Shares, representing 40% of the Shares initially available for subscription under the Global Offering.

If the number of Shares validly applied for under the Hong Kong Public Offer represents 100 times or more the number of Shares initially available for subscription under the Hong Kong Public Offer, then the number of Shares to be reallocated to the Hong Kong Public Offer from the International Placing will be increased, so that the total number of Shares available for subscription under the Hong Kong Public Offer will increase to 125,000,000 Shares, representing 50% of the Shares initially available for subscription under the Global Offering. In each such case, the additional Shares reallocated to the Hong Kong Public Offer will be allocated equally between pool A and pool B and the number of Shares allocated to the International Placing will be correspondingly reduced.

## STRUCTURE OF THE GLOBAL OFFERING

In addition, if the Hong Kong Public Offer is not fully subscribed, the Sole Global Coordinator will have the discretion (but shall not be under any obligation) to reallocate to the International Placing all or any unsubscribed Hong Kong Offer Shares in such proportion and amounts as it deems appropriate. Conversely, the Sole Global Coordinator may at its discretion reallocate Offer Shares from the International Placing to the Hong Kong Public Offer to satisfy valid applications under the Hong Kong Public Offer.

Guotai Junan Securities (Hong Kong) Limited is the Sole Global Coordinator of the Hong Kong Public Offer which is underwritten at the Offer Price by the Hong Kong Underwriters, on and subject to the terms and conditions of the Hong Kong Underwriting Agreement.

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offer will be based solely on the level of valid applications received under the Hong Kong Public Offer. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting. Balloting would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

### **International Placing**

Our Company is initially offering 225,000,000 Shares as the International Placing Shares, representing 90.0% of the total number of Shares initially being offered in the Global Offering (subject to the Over-allotment Option), for subscription by way of the International Placing subject to the reallocation of Offer Shares between the International Placing and the Hong Kong Public Offer. The International Placing is fully underwritten by the International Underwriters, subject to the terms and conditions of the International Underwriting Agreement.

The International Underwriters are soliciting from prospective professional, institutional investors and/or other investors' indications of interest in acquiring International Placing Shares in the International Placing. Prospective professional, institutional investors and/or other investors will be required to specify the number of International Placing Shares they would be prepared to acquire either at different prices or at a particular price. This process is known as "book building". In Hong Kong, individual retail investors should apply for Shares in the Hong Kong Public Offer, as individual retail investors applying for International Placing Shares, including individual retail investors applying through banks and other institutions, will not be allocated any International Placing Shares.

Allocation of the International Placing Shares pursuant to the Placing is based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further and/or hold or sell its Shares after the Listing. Such allocation is generally intended to result in a distribution of the International Placing Shares on a basis which would lead to the establishment of a broad shareholder base to the benefit of our Company and its shareholders as a whole.

The International Underwriters or selling agents nominated by the International Underwriters shall, on behalf of our Company, conditionally place the International Placing Shares with professional, institutional and/or other investors in Hong Kong and other regions. The International Placing shall be subject to the Global Offering restrictions set out in the section headed "Information about this Prospectus and the Global Offering" in this Prospectus.

The International Placing is conditional on the same conditions as set out in the section "Conditions" above. The total number of International Placing Shares to be sold and transferred or allotted and issued pursuant to the International Placing may change as a result of the clawback arrangement referred to in the section "The Hong Kong Public Offer" above, the exercise of the Over-allotment Option and any reallocation of unsubscribed Shares originally included in the Hong Kong Public Offer.

## STRUCTURE OF THE GLOBAL OFFERING

### OVER-ALLOTMENT AND STABILISATION

#### The Over-allotment Option

In connection with the Global Offering, our Company intends to grant to the Sole Lead Manager the Over-allotment Option, which will be exercisable by the Sole Lead Manager (on behalf of the International Underwriters) no later than 30 days from 15 December 2011, being the last date for lodging applications under the Hong Kong Public Offer. Pursuant to the Over-allotment Option, our Company may be required to allot and issue at the Offer Price up to an aggregate of 37,500,000 additional Shares, representing 15% of the total number of Shares initially available under the Global Offering, in connection with over-allocations in the International Placing, if any, to be issued and all issued on the same terms and conditions as the Shares subject to be offering. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent 3.6% of our Company's enlarged issued share capital following the completion of the Global Offering and the exercise of the Over-allotment Option but without taking into account any Shares which may fall to be issued upon the exercise of any options that may be granted under the Share Option Scheme. In the event that the Over-allotment Option is exercised, a press announcement will be made.

#### Stabilisation Action

In connection with the Global Offering, the Sole Lead Manager, or any person acting for it, may over-allocate or effect transactions with a view to supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period. Such transactions, if commenced, may be discontinued at any time. The Sole Lead Manager have been or will be appointed as stabilising managers for purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilising) Rules made under the SFO and, should stabilising transactions be effected in connection with the Global Offering, this will be at the absolute discretion of the Sole Lead Manager and will be effected in accordance with the laws, rules and regulations in place in Hong Kong on stabilisation. An announcement will be made to the public within seven days after the end of the stabilising period as required under the Securities and Futures (Price Stabilising) Rules made under the SFO.

Following any over-allotment of Shares in connection with the Global Offering, the Sole Lead Manager or any person acting for it may cover such over-allocation by (among other methods) making purchases in the secondary market or exercising the Over-allotment Option in full or in part, or by any combination of purchases and exercise of the Over-allotment Option. Any such purchases will be made in compliance with all applicable laws and regulatory requirements including the Securities and Futures (Price Stabilising) Rules made under the SFO. The number of Shares which can be over-allocated will not exceed the number of Shares which may be issued upon exercise of the Over-allotment Option, being 37,500,000 Shares representing 15% of the Shares initially available under the Global Offering.

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Sole Lead Manager (or their affiliate(s)) may choose to borrow Shares from Popular Trend under stock borrowing arrangements or acquire Shares from other sources, or a combination of these means, including exercise of the Over-allotment Option. Such stock borrowing arrangements include the Stock Borrowing Agreement.

## **STRUCTURE OF THE GLOBAL OFFERING**

The possible stabilising action which may be taken by the Sole Lead Manager in connection with the Global Offering may involve (among other things): (i) over-allocation of Shares, (ii) purchases of, or agreement to purchase, Shares, (iii) establishing, hedging and liquidating positions in Shares, (iv) exercising the Over-allotment Option in whole or in part and/or (v) offering or attempting to do any of the foregoing.

Specifically, prospective applicants for and investors in Offer Shares should note that:

- the Sole Lead Manager may, in connection with any stabilising action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which the Sole Lead Manager will maintain such a position;
- liquidation of any such long position by the Sole Lead Manager may have an adverse impact on the market price of the Shares;
- no stabilising action can be taken to support the price of the Shares for longer than the stabilising period which is expected to expire on 14 January 2012, being the 30th day after the date expected to be the latest date for lodging applications under the Hong Kong Public Offer. After this date, when no further action may be taken to support the price of the Shares, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of any security (including the Shares) cannot be assured to stay at or above its offer price by the taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

### **LISTING ON ANY OTHER STOCK EXCHANGE**

Our Directors are not considering any listing of our Company on any other overseas stock exchange. We have not submitted any application nor obtained any approval for the listing of the Shares on any other overseas stock exchange.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### WHO CAN APPLY FOR HONG KONG OFFER SHARES

You may apply for the Hong Kong Offer Shares available for subscription by the public if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States; and
- are not a United States person (as defined in Regulation S), or a legal or natural person of the PRC (except qualified domestic institutional investors).

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

If an application is made by a duly authorised attorney, the Sole Global Coordinator (or any of its agent or nominee) may accept it at its discretion, and subject to any conditions it thinks fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

Our company (or our agents or nominees), the Sole Global Coordinator (as agents for our company), the designated **White Form eIPO** Service Provider (where applicable) or their respective agents or nominees have full discretion to reject or accept any application, in full or in part, without assigning any reason.

### CHANNELS OF APPLYING FOR THE HONG KONG OFFER SHARES

You may apply for the Hong Kong Offer Shares by using one of the following channels:

- using a **WHITE** or **YELLOW** Application Form;
- applying through the **White Form eIPO** service by submitting an electronic application to the **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk**; or
- electronically instructing HKSCC to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf.

You or your joint applicant(s) may only make one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider (individual applicant only).



## HOW TO APPLY FOR HONG KONG OFFER SHARES

### WHICH APPLICATION CHANNEL YOU SHOULD USE

#### (a) **WHITE Application Forms**

Use a **WHITE** Application Form if you want the Hong Kong Offer Shares to be registered in your own name.

#### (b) **White Form eIPO**

Instead of using a **WHITE** Application Form, you may apply for the Hong Kong Offer Shares by means of the **White Form eIPO** service by submitting an application online through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk). In addition to any other requirements, you must also:

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

You may only apply by means of the **White Form eIPO** service if you are an individual applicant. Corporations or joint applicants may not apply by means of the **White Form eIPO**. Use the **White Form eIPO** service if you want the Shares to be registered in your own name.

#### (c) **YELLOW Application Forms**

Use a **YELLOW** Application form if you want the Hong Kong Offer Shares to be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

#### (d) **Instruct HKSCC to make an electronic application on your behalf**

Instead of using a **YELLOW** Application Form, you may **electronically instruct** HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf via CCASS. Any Hong Kong Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

### WHERE TO COLLECT THE APPLICATION FORMS

- (a) You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 12 December 2011 until 12:00 noon on Thursday, 15 December 2011 from:

#### **Any of the Following Addresses of the Hong Kong Underwriters**

Guotai Junan Securities (Hong Kong) Limited	27th Floor, Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong
Ample Orient Capital Limited	Unit A, 14/F, Two Chinachem Plaza, 135 Des Voeux Road Central, Hong Kong
Ever-Long Securities Company Limited	18th Floor, Dah Sing Life Building, 99-105 Des Voeux Road Central, Hong Kong
South China Securities Limited	26/F., Tower 1, Lippo Centre, 89 Queensway, Admiralty, Hong Kong

## HOW TO APPLY FOR HONG KONG OFFER SHARES

or any of the following branches of

(i) **Hang Seng Bank Limited**

Hong Kong Island	Causeway Bay Branch	28 Yee Wo Street
	Head Office	83 Des Voeux Road Central
	North Point Branch	335 King's Road, North Point
	Wanchai Branch	200 Hennessy Road
Kowloon	Hung Hom Branch	21 Ma Tau Wai Road, Hunghom
	Kowloon Main Branch	618 Nathan Road
	Tsimshatsui Branch	18 Carnarvon Road
	Yaumati Branch	363 Nathan Road
New Territories	Shatin Branch	Shop 18 Lucky Plaza, Wang Pok Street, Shatin
	Tsuen Wan Branch	289 Sha Tsui Road, Tsuen Wan

(b) You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 12 December 2011 until 12:00 noon on Thursday, 15 December 2011 from:

- the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong; or
- your broker, who may have **YELLOW** Application Forms and this prospectus available.

### WHEN TO APPLY FOR THE HONG KONG OFFER SHARES

(a) **WHITE or YELLOW Application Forms**

Completed **WHITE** or **YELLOW** Application Forms, with a cheque or banker's cashier order attached, must be lodged by 12:00 noon on Thursday, 15 December 2011, or, if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed "— Effect of bad weather conditions on the opening of the application lists" below.

Your completed **WHITE** or **YELLOW** Application Form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of the banks listed under the paragraph headed "— Where to collect the Application Forms" in this section at the following times:

<b>Monday, 12 December 2011</b>	<b>— 9:00 a.m. to 5:00 p.m.</b>
<b>Tuesday, 13 December 2011</b>	<b>— 9:00 a.m. to 5:00 p.m.</b>
<b>Wednesday, 14 December 2011</b>	<b>— 9:00 a.m. to 5:00 p.m.</b>
<b>Thursday, 15 December 2011</b>	<b>— 9:00 a.m. to 12:00 noon</b>

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### (b) White Form eIPO

You may submit your application to the designated **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** from 9:00 a.m. on Monday, 12 December 2011 until 11:30 a.m. on Thursday, 15 December 2011 or such later time as described under the paragraph below headed “— How to Apply through the **White Form eIPO** service — Effect of bad weather conditions on the last application day” (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 15 December 2011, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the paragraph headed “How to Apply for Hong Kong Offer Shares — How to Apply through the **White Form eIPO** service — Effect of bad weather conditions on the last application day”. You will not be permitted to submit your application to the designated **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

### (c) Electronic applications instructions to HKSCC

CCASS Clearing Participants and CCASS Custodian Participants should input **electronic application instructions** via CCASS at the following times:

<b>Monday, 12 December, 2011</b>	<b>— 9:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Tuesday, 13 December 2011</b>	<b>— 8:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Wednesday, 14 December 2011</b>	<b>— 8:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Thursday, 15 December 2011</b>	<b>— 8:00 a.m.<sup>(1)</sup> to 12:00 noon</b>

*Note (1):* These times are subject to such changes as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, 12 December 2011 until 12:00 noon on Thursday, 15 December 2011.

The latest time for inputting your **electronic application instructions** via CCASS (if you are a CCASS Participant) is 12:00 noon on Thursday, 15 December 2011 or if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed “— Effect of bad weather conditions on the opening of the application lists” below.

### (d) Application Lists

The application lists will be opened from 11:45 a.m. to 12:00 noon on Thursday, 15 December 2011, except as provided in the sub-paragraph headed “— Effect of bad weather conditions on the opening of the application lists” below. No proceedings will be taken on applications for the Hong Kong Offer Shares and no allocation of any such Shares will be made until after the closing of the application lists.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### (e) Effect of bad weather conditions on the opening of the application lists

The application lists will be opened between 11:45 a.m. and 12:00 noon on Thursday, 15 December 2011, subject to weather conditions. The application lists will not be open in relation to the Hong Kong Public Offer if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 15 December 2011, or if there are similar extraneous factors as are acceptable to the Stock Exchange. Instead, they will be open between 11:45 a.m. and 12:00 noon on the next Business Day which does not fall within the above circumstances at any time between 9:00 a.m. and 12:00 noon in Hong Kong.

### HOW TO APPLY USING A WHITE OR YELLOW APPLICATION FORM

- Obtain a **WHITE** or **YELLOW** Application Form.
- You should read the instructions in this prospectus and the relevant Application Form carefully. If you do not follow the instructions, your application is liable to be rejected and returned by ordinary post together with the accompanying cheque or banker’s cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk to the address stated on your Application Form.
- Decide how many Hong Kong Offer Shares you want to purchase. Calculate the amount you must pay on the basis of the maximum Offer Price of HK\$0.73 per Offer Share, plus brokerage fee of 1%, the SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005%. The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for numbers of shares applied for up to 12,500,000 Offer Shares.
- Complete the Application Form in English (save as otherwise indicated) and sign it. Only written signatures will be accepted. Applications made by corporations, whether on their own behalf, or on behalf of other persons, must be stamped with the company chop (bearing the company name) and signed by a duly authorised officer, whose representative capacity must be stated. If you are applying for the benefit of someone else, you, rather than that person, must sign the Application Form. If it is a joint application, all applicants must sign it. If your application is made through a duly authorised attorney, our company and the Sole Global Coordinator (or their respective agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of your attorney.
- Each Application Form must be accompanied by either one cheque or one banker’s cashier order, which must be stapled to the top left-hand corner of the Application Form. If you pay by cheque, the cheque must:
  - be in Hong Kong dollars;
  - not be post-dated;
  - be drawn on your Hong Kong dollar bank account in Hong Kong;

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- show your account name, which must either be pre-printed on the cheque, or be endorsed on the back by a person authorised by the bank. This account name must be the same as the name on the Application Form. If it is a joint application, the account name must be the same as the name of the first-named applicant;
- be made payable to “Hang Seng (Nominee) Limited — China Weaving Public Offer”; and
- be crossed “Account Payee Only”.

Your application may be rejected if your cheque does not meet all these requirements or is dishonoured on its first presentation.

If you pay by banker’s cashier order, the banker’s cashier order must:

- be issued by a licensed bank in Hong Kong and have your name certified on the back by a person authorised by the bank. The name on the back of the banker’s cashier order and the name on the Application Form must be the same. If it is a joint application, the name on the back of the banker’s cashier order must be the same as the name of the first-named joint applicant;
- be in Hong Kong dollars;
- not be post-dated;
- be made payable to “Hang Seng (Nominee) Limited — China Weaving Public Offer”; and
- be crossed “Account Payee Only”.

Your application is liable to be rejected if your banker’s cashier order does not meet all these requirements.

- (f) If you are applying for Shares using a **WHITE** or **YELLOW** Application Form, you should lodge your Application Form in one of the collection boxes by the time and at one of the locations, as respectively referred to in sub-paragraphs 3(a) and 4(a) above.
- (g) The right is reserved to present all or any remittance for payment. However, your cheque or banker’s cashier order will not be presented for payment before 12:00 noon on Thursday, 15 December 2011. Our Company will not give you a receipt for your payment. Our company will keep any interest accrued on your application monies (up until, in the case of monies to be refunded, the date of despatch of refund cheques). The right is also reserved to retain any share certificate(s) and/or any surplus application monies or refunds pending clearance of your cheque or banker’s cashier order.
- (h) Multiple or suspected multiple applications are liable to be rejected. Please see the paragraph headed “— How many applications you can make” in this section.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- (i) In order for the **YELLOW** Application Forms to be valid:
- If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):
    - the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its CCASS Participant I.D. in the appropriate box.
  - If you are applying as an individual CCASS Investor Participant:
    - you must fill in your full name and your Hong Kong Identity Card number; and
    - you must insert your CCASS Participant I.D. in the appropriate box.
  - If you are applying as a joint individual CCASS Investor Participant:
    - you must insert all joint CCASS Investor Participants' names and the Hong Kong Identity Card numbers of all joint CCASS Investor Participants; and
    - you must insert your CCASS Participant I.D. in the appropriate box.
  - If you are applying as a corporate CCASS Investor Participant:
    - you must insert your company name and your company's Hong Kong business registration number; and
    - you must fill in your CCASS Participant I.D. and stamp your company chop (bearing your company's name) in the appropriate box.

Incorrect or incomplete details of the CCASS Participant or CCASS Participant I.D. or other similar matters may render the application invalid.

- (j) Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked "For nominees" an identification number for each beneficial owner.

### HOW TO COMPLETE THE APPLICATION FORM

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not strictly follow the instructions your application may be rejected.

If the Offer Price as finally determined is less than HK\$0.73 per Offer Share, appropriate refund payments (including the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful or partially successful applications, without interest. Details of the procedure for refunds are set out below in the paragraph headed "— Dispatch/Collection of Share Certificates and Refund Monies" below.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### HOW TO APPLY THROUGH THE WHITE FORM eIPO SERVICE

- (a) If you are an individual and meet the criteria set out above in relation to applying for Hong Kong Offer Shares through the **White Form eIPO** service in the paragraph above headed “— Who can apply for Hong Kong Offer Shares,” you may apply through the **White Form eIPO** service by submitting an application through the designated website at **www.eipo.com.hk**. If you apply through the **White Form eIPO** service the Shares will be issued in your own name.
- (b) Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at **www.eipo.com.hk**. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated **White Form eIPO** Service Provider and may not be submitted to us.
- (c) In addition to the terms and conditions set out in this prospectus, the designated **White Form eIPO** Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at **www.eipo.com.hk**. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.
- (d) By submitting an application to the designated **White Form eIPO** Service Provider through the **White Form eIPO** service at **www.eipo.com.hk**, you are deemed to have authorised the designated **White Form eIPO** Service Provider to transfer the details of your application to us and our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited.
- (e) You may submit an application through the **White Form eIPO** service in respect of a minimum of 4,000 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 4,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at **www.eipo.com.hk**.
- (f) You may submit your application to the designated **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** from 9:00 a.m. on Monday, 12 December 2011 until 11:30 a.m. on Thursday, 15 December 2011 or such later time as described under the paragraph below headed “— Effect of bad weather conditions on the last application day” (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 15 December 2011, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the paragraph below headed “— Effect of bad weather conditions on the last application day”.
- (g) You will not be permitted to submit your application to the designated **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close. You should make payment for your application made through the **White Form eIPO** service in accordance with the methods and instructions set out in the designated website at **www.eipo.com.hk**. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Thursday, 15 December 2011, or such later time as described under the paragraph below headed “— Effect of bad weather conditions on the last application day” in this prospectus, the designated **White Form eIPO** Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at **www.eipo.com.hk**.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### Effect of Bad Weather Conditions on the Last Application Day

The latest time for submitting an application to the designated **White Form eIPO** Service Provider through the **White Form eIPO** service will be 11:30 a.m., and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 15 December 2011, the last application day. If there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 15 December 2011, the last application day will be postponed to the next Business Day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on such day.

### Conditions of the White Form eIPO service

In using the **White Form eIPO** service to apply for the Hong Kong Offer Shares, the applicant shall be deemed to have accepted the following conditions: That the applicant:

- Applies for the desired number of Hong Kong Offer Shares on the terms and conditions of this prospectus and **White Form eIPO** application subject to the Articles;
- **Undertakes** and **agrees** to accept the Hong Kong Offer Shares applied for, or any lesser number allotted to the applicant on such application;
- **Declares** that such application is the only application made and the only application intended by the applicant to be made whether on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider under the **White Form eIPO** service, to benefit the applicant or the person for whose benefit the applicant is applying;
- **Undertakes** and **confirms** that the applicant or the person for whose benefit the applicant is applying has not applied for or taken up, or indicated an interest for, or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up, or indicate an interest for, any International Placing Shares, nor otherwise participate in the International Placing;
- **Understands** that this declaration and representation will be relied upon by us, the directors of our Company and the Sole Global Coordinator in deciding whether or not to make any allotment of Hong Kong Offer Shares in response to such application;
- **Authorises** our company (or our agents) to place the applicant’s name on our register of members as the holder of any Hong Kong Offer Shares to be allotted to the applicant, and (subject to the terms and conditions set out in this prospectus and the **White Form eIPO** application) to send any share certificates by ordinary post at the applicant’s own risk to the address given on the **White Form eIPO** application except where the applicant has applied for 1,000,000 or more Hong Kong Offer Shares and that applicant collects any Share certificate(s) in person in accordance with the procedures prescribed in the **White Form eIPO** application and this prospectus;
- **Has read** the terms and conditions and application procedures set out on in the **White Form eIPO** application, this prospectus and the **White Form eIPO** website at [www.eipo.com.hk](http://www.eipo.com.hk) and agrees to be bound by them;



## HOW TO APPLY FOR HONG KONG OFFER SHARES

- **Represents, warrants and undertakes** that (i) the applicant or any persons for whose benefit the applicant is applying is outside the United States when completing and submitting the **White Form eIPO** application and is not a U.S. person (as defined in Regulation S under the U.S. Securities Act, as amended), or is a person described in paragraph (h)(3) of Rule 902 of Regulation S under the U.S. Securities Act as amended, and (ii) the allotment of or application for the Hong Kong Offer Shares to or by the applicant or the persons for whose benefit this application is made would not require us, the Sole Global Coordinator or any of the Underwriters to comply with any requirements under any law or regulation (whether or not having the force of law) of any territory outside Hong Kong; and
- **Agrees** that such application, any acceptance of it and the resulting contract, will be governed by and construed in accordance with the laws of Hong Kong.

### Supplemental Information

If any supplement to this prospectus is issued, applicant(s) who have already submitted an **electronic application instruction** through the **White Form eIPO** service may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications through the **White Form eIPO** service that have been submitted remain valid and may be accepted. Subject to the above and below, an application once made through the **White Form eIPO** service is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

### Effect of Completing and Submitting an Application Through the White Form eIPO Service

By completing and submitting an application through the **White Form eIPO** service, you for yourself or as agent or nominee for and on behalf of any person for whom you act as agent or nominee shall be deemed to:

- instruct and authorise us (or our agents or nominees) or the Sole Global Coordinator (or its agents or nominees) as agent for us to do on your behalf all things necessary to register any Hong Kong Offer Shares allotted to you in your name as required by the Articles and otherwise to give effect to the arrangements described in this prospectus and the **White Form eIPO** application;
- confirm that you have only relied on the information and representations in this prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus;
- agree that we and our directors are liable only for the information and representations contained in this prospectus and any supplement thereto;
- agree (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (if the application is made for your own benefit) warrant that such application is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider via the **White Form eIPO** service;

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- (if you are an agent or nominee for another person) warrant reasonable enquiries have been made of that other person that such application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider via the **White Form eIPO** service, and that you are duly authorised to submit such application as that other person's agent or nominee;
- undertake and confirm that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made this application have not applied for or taken up, or indicated an interest for, and will not apply for, take up or indicate an interest for, any Hong Kong Offer Shares;
- agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- agree to disclose to us, our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, our receiving bankers, the Sole Global Coordinator and their respective advisors and agents personal data and any information which they require about you or the person(s) for whose benefit you have made this application;
- agree with us and each of our shareholders, and we agree with each of our shareholders, to observe and comply with the Companies Ordinance, the Memorandum of Association and the Articles;
- agree with us and each of our shareholders that our Shares are freely transferable by the holders thereof;
- authorise us to enter into a contract on your behalf with each of our directors and officers whereby each such director and officer undertakes to observe and comply with his or her obligations of our shareholders as stipulated in the Memorandum of Association and the Articles;
- represent, warrant and undertake that you are not, and none of the other person(s) (if any) for whose benefit you are applying, are a U.S. person (as defined in Regulation S);
- represent and warrant that you understand that the Shares have not been and will not be registered under the U.S. Securities Act and you are outside the United States (as defined in Regulation S) when completing the Application Form or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus, the **White Form eIPO** application and the **White Form eIPO** website at **www.eipo.com.hk** and agree to be bound by them;
- undertake and agree to accept the Shares applied for, or any lesser number allocated to you under your application; and
- if the laws of any place outside Hong Kong are applicable to your application, agree and warrant that you have complied with all such laws and none of our company, the Sole Global Coordinator and the Underwriters nor any of their respective officers or advisors will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase,

## HOW TO APPLY FOR HONG KONG OFFER SHARES

or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus, the **White Form eIPO** application and the **White Form eIPO** website at [www.eipo.com.hk](http://www.eipo.com.hk).

Our Company, the Sole Global Coordinator, the Underwriters and their respective directors, officers, employees, partners, agents, advisors, and any other parties involved in the Global Offering are entitled to rely on any warranty, representation or declaration made by you in such application.

### **Additional Information**

For the purposes of allocating Hong Kong Offer Shares, each applicant giving **electronic application instructions** through the **White Form eIPO** service to the **White Form eIPO** Service Provider through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Offer Shares for which you have applied, or if your application is otherwise rejected by the designated **White Form eIPO** Service Provider, the designated **White Form eIPO** Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated **White Form eIPO** Service Provider on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

### **Warning**

The application for Hong Kong Offer Shares through the **White Form eIPO** service at [www.eipo.com.hk](http://www.eipo.com.hk) is only a facility provided by the designated **White Form eIPO** Service Provider to public investors. Our Company, our Directors, the Sole Global Coordinator, the Underwriters and **White Form eIPO** Service Provider take no responsibility for such applications, and provide no assurance that applications through the **White Form eIPO** service at [www.eipo.com.hk](http://www.eipo.com.hk) will be submitted to us or that you will be allotted any Hong Kong Offer Shares.

### **Environmental Protection**

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 per each “**China Weaving Materials Holdings Limited**” **White Form eIPO** application submitted via [www.eipo.com.hk](http://www.eipo.com.hk) to support the funding of “Source of DongJiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

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

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

- (a) CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.
- (b) If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling **2979 7888** or CCASS Internet System at **<https://ip.ccass.com>** (according to the procedures contained in “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for you if you come to:

Hong Kong Securities Clearing Company Limited  
Customer Service Centre  
2/F Infinitus Plaza,  
199 Des Voeux Road Central, Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

- (c) If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for Hong Kong Offer Shares on your behalf.
- (d) You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application whether submitted by you or through your CCASS Clearing Participant or CCASS Custodian Participant to our company and our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited.
- (e) You may give **electronic application instructions** in respect of a minimum of 4,000 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 4,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form.
- (f) Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:
- (i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus; and
- (ii) HKSCC Nominees does all the things on behalf of each of such persons:
- **agrees** that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has input **electronic application instructions** on that person’s behalf or that person’s CCASS Investor Participant stock account;
  - **undertakes** and **agrees** to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
  - **undertakes** and **confirms** that that person has not indicated an interest for, applied for or taken up or indicated an interest for, any International Placing Shares, nor otherwise participated in the International Placing;

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;
- (if that person is an agent for another person) **declares** that that person has only given one set of **electronic application instructions** for the benefit of that other person and that person is duly authorised to give those instructions as that other person's agent;
- **understands** that the above declaration will be relied upon by us, our directors and the Sole Global Coordinator in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that person may be prosecuted if he makes a false declaration;
- **authorises** us to place the name of HKSCC Nominees on our register of members as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between us and HKSCC;
- **confirms** that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- **confirms** that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf save as set out in any supplement to this prospectus;
- **agrees** that we, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus and any supplement thereto;
- **agrees** to disclose that person's personal data to us, the Sole Global Coordinator, our Hong Kong Share Registrar, receiving bankers and/or their respective agents and any information which they may require about that person;
- **agrees** (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- **agrees** that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable before 11 January 2012, such agreement to take effect as a collateral contract with us and to become binding when that person gives the instructions and such collateral contract to be in consideration of we agreeing that it will not offer any Hong Kong Offer Shares to any person before 11 January 2012 except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before 11 January 2012 if a person responsible for this prospectus

## HOW TO APPLY FOR HONG KONG OFFER SHARES

under section 40 of the Companies Ordinance gives a public notice under which section which excludes or limits the responsibility of that person for this prospectus;

- **agrees** that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offer published by us;
  - **agrees** to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares;
  - **agrees** with us, for ourselves and for the benefit of each of our shareholders (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of our shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance and the Memorandum of Association and the Articles;
  - **agrees** with us (for ourselves and for the benefit of each of our shareholders) that the shares are freely transferable by the holders thereof; and
  - **agrees** that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.
- (g) If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any electronic instructions to make an application for Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.
- (h) For the purpose of allocating Hong Kong Offer Shares, HKSCC Nominees shall not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given shall be treated as an applicant.
- (i) The section of the Application Form entitled "Personal data" applies to any personal data held by the Sole Sponsor, us and the Hong Kong Share Registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.
- (j) For the avoidance of doubt, our company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance).

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### Warning

Application for Hong Kong Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Our Company, the Sole Global Coordinator and any parties involved in the Global Offering take no responsibility for the application and provide no assurance that any CCASS Participant will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions to HKSCC through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input instructions. If CCASS Investor Participants have problems in connecting to the CCASS Phone System or CCASS Internet System to submit electronic application instructions, they should either:

- (a) submit the **WHITE** or **YELLOW** Application Form (as appropriate); or
- (b) go to HKSCC's Customer Service Centre to complete an application instruction input request form before **12:00 noon on Thursday, 15 December 2011** or such later time as described under the sub-paragraph headed “— Effect of bad weather conditions on the opening of the application lists” above.

### RESULTS OF ALLOCATIONS

Our Company expects to publish the announcement on the level of applications in the Hong Kong Public Offer, the level of indications of interest in the International Placing, the basis of allotment of the Hong Kong Offer Shares and the Offer Price in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) or on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) or our Company's website at [www.chinaweavingmaterials.com](http://www.chinaweavingmaterials.com) on Wednesday, 21 December 2011. Results of allocation in the Hong Kong Public Offer, including the Hong Kong Identity Card numbers, passport numbers or Hong Kong business registration numbers of successful applicants (where supplied) and the number of Hong Kong Offer Shares successfully applied for under **WHITE** Application Forms, or **YELLOW** Application Forms or the designated **White Form eIPO** Service Provider through the designated **White Form eIPO** website or by giving **electronic application instructions** to HKSCC via CCASS will be made available at the times and dates and in the manner specified below:

- on our website at [www.chinaweavingmaterials.com](http://www.chinaweavingmaterials.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) from Wednesday, 21 December 2011 onward;
- on our Hong Kong Public Offer results of allocations website at [www.iporeresults.com.hk](http://www.iporeresults.com.hk) on a 24-hour basis from 8:00 a.m. on Wednesday, 21 December 2011 to 12:00 midnight on Tuesday, 27 December 2011. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration certificate number provided in his/her/its application to search for his/her/its own allocation result;
- from our Hong Kong Public Offer allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of the Hong Kong Offer Shares allocated to them, if any, by calling **2862 8669** between 9:00 a.m. and 10:00 p.m. from Wednesday, 21 December 2011 to Saturday, 24 December 2011;
- from special allocation results booklets which set out the results of allocations will be available for inspection during opening hours of the designated branches of the receiving banker of the Hong Kong Public Offer from Wednesday, 21 December 2011 to Friday, 23 December 2011 at the addresses set forth under the paragraph headed “Where to collect the Application Forms” in this section above.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### HOW MANY APPLICATIONS YOU CAN MAKE

- (a) You may make more than one application for the Hong Kong Offer Shares only if:
- You are a nominee, in which case you may make an application as a nominee by: (i) giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Participant); or (ii) using a **WHITE** or **YELLOW** Application Form and lodging more than one application in your own name on behalf of different beneficial owners. In the box on the **WHITE** or **YELLOW** Application Form marked “For nominees” you must include:
    - an account number; or
    - some other identification code for each beneficial owner (or, in the case of joint beneficial owners, for each such joint beneficial owner). If you do not include this information, the application will be treated as being made for your own benefit.
- Otherwise, multiple or suspected multiple applications are liable to be rejected.
- It will be a term and condition of all applications that by completing and delivering an Application Form or giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider, you:
    - (if the application is made for your own benefit) warrant that this is the only application which has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated **White Form eIPO** Service Provider;
    - (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which has or will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider, and that you are duly authorised to sign the Application Form (where applicable) as that other person’s agent.
- (b) Save as referred to (a) above, all of your applications for the Hong Kong Offer Shares (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**) will be rejected as multiple applications if you, or you and your joint applicant(s) together or any of your joint applicants:
- make more than one application (whether individually or jointly with others) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing or Custodian Participant) or to the designated **White Form eIPO** Service Provider; or
  - apply both (whether individually or jointly with others) on one (or more) **WHITE** Application Form and one (or more) **YELLOW** Application Form or on one (or more) **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC via CCASS or to the designated **White Form eIPO** Service Provider; or



## HOW TO APPLY FOR HONG KONG OFFER SHARES

- apply (whether individually or jointly with others) on one (or more) **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing or Custodian Participant) or to the designated **White Form eIPO** Service Provider for more than 50% of the Hong Kong Offer Shares being initially available to the public as referred to under the section headed “Structure of the Global Offering” in this prospectus; or
  - have applied for or taken up, or indicated an interest in applying for or taking up or have been or will be placed (including conditionally and/or provisionally) any Hong Kong Offer Shares under the International Placing.
- (c) All of your applications for the Hong Kong Offer Shares are liable to be rejected as multiple applications if more than one application is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:
- (i) the principal business of that company is dealing in securities; and
  - (ii) you exercise statutory control over that company,

then the application will be deemed to be made for your benefit.

**Unlisted company** means a company with no equity securities listed on the Stock Exchange.

**Statutory control** in relation to a company means you:

- (i) control the composition of the board of directors of that company; or
  - (ii) control more than half of the voting power of that company; or
  - (iii) hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profit or capital).
- (d) If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit to the designated **White Form eIPO** Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service by giving **electronic application instructions** through the designated website at **www.eipo.com.hk** and completing payment in respect of such **electronic application instructions**, or of submitting one application through the **White Form eIPO** service and one or more applications by any other means, all of your applications are liable to be rejected.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### CIRCUMSTANCES IN WHICH YOU MAY NOT BE ALLOTTED HONG KONG OFFER SHARES

You may not be allocated Hong Kong Offer Shares for any of the following reasons:

**(a) If your application is revoked:**

By completing and submitting an Application Form or submitting **electronic application instructions** to HKSCC, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked before Wednesday, 11 January 2012. This agreement will take effect as a collateral contract with our company, and will become binding when you lodge your application form or submit your **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider. This collateral contract will be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before Wednesday, 11 January 2012 except by means of one of the procedures referred to in this prospectus.

However, your application or the application made by HKSCC Nominees on your behalf may only be revoked before Wednesday, 11 January 2012 if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in English in the South China Morning Post and in Chinese in the Hong Kong Economic Times or on the website of the Stock Exchange at **www.hkxnews.hk** or our Company's website at **www.chinaweavingmaterials.com** of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(b) If the allocation of the Hong Kong Offer Shares is void:**

Your allocation of the Hong Kong Offer Shares (and the allocation to HKSCC Nominees, as the case may be) will be void if the Listing Committee does not grant permission to list the Shares either:

- (i) within three weeks from the closing date of the application lists; or
- (ii) within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing of the application lists.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

**(c) If you make applications under the Hong Kong Public Offer as well as under the International Placing:**

By filling in any of the Application Forms or giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider, you agree not to apply for Offer Shares under the International Placing. Reasonable steps will be taken to identify and reject applications under the Hong Kong Public Offer from investors who have received International Placing Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have received Offer Shares under the Hong Kong Public Offer.

**(d) If our Company (or our agents or nominees), the Sole Global Coordinator (as agents for our Company) or the designated White Form eIPO Service Provider (where applicable) or their respective agents or nominees exercise their discretion to reject your application:**

Our Company (or our agents or nominees), the Sole Global Coordinator (as agents for our Company), the designated **White Form eIPO** Service Provider (where applicable) or their respective agents or nominees have full discretion to reject or accept any application, in full or in part, without assigning any reason.

**(e) Your application may be rejected if:**

- (i) your application is a multiple or a suspected multiple application;
- (ii) your Application Form is not completed in accordance with the instructions as stated therein (if you apply by an Application Form);
- (iii) your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation;
- (iv) you or the person for whose benefit you are applying have applied for or taken up or indicated an interest for or have received or have been or will be placed or allocated (including conditionally and/or provisionally) the Offer Shares under the International Placing;
- (v) your application is for more than 100% of the Hong Kong Offer Shares in either pool A or pool B being initially available under the Hong Kong Public Offer (i.e., 12,500,000 Hong Kong Offer Shares) as referred to under the section headed "Structure of the Global Offering" in this prospectus; or
- (vi) any of the Underwriting Agreements does not become unconditional or it is terminated in accordance with the terms of such agreements or otherwise.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the Offer Price of HK\$0.73 per Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon) initially paid on application, or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with the paragraph headed “Conditions” under the section headed “Structure of the Global Offering” or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

You will receive one share certificate for all the Hong Kong Offer Shares issued to you under the Hong Kong Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application but, subject to personal collection as mentioned below, in due course there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the application:

- (a) for applications on **WHITE** Application Forms and through the **White Form eIPO** service:
  - (i) share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or
  - (ii) share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful (for wholly successful and partially successful applications on **YELLOW** Application Forms, share certificates for the Shares successfully applied for will be deposited into CCASS as described below); and/or
- (b) for applications on **WHITE** or **YELLOW** Application Forms refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the maximum Offer Price per Share paid on application in the event that the Offer Price is less than the Offer Price per Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005%, attributable to such refund/surplus monies but without interest. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of, or may invalidate, your refund cheque.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

Subject to personal collection as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and the difference between the Offer Price and the Offer Price per Share initially paid on application (if any) under **WHITE** or **YELLOW** Application Forms; and share certificates for wholly and partially successful applicants under **WHITE** Application Forms or to the designated **White Form eIPO** Service Provider are expected to be posted on Wednesday, 21 December 2011. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s).

Share certificates will only become valid certificates of title at 8:00 a.m. on the Listing Date provided that the Hong Kong Public Offer has become unconditional in all respects and the right of termination described in the paragraph headed “Grounds for termination” under the section headed “Underwriting” has not been exercised.

**(a) if you apply using a WHITE Application Form:**

If you apply for 1,000,000 or more Hong Kong Offer Shares and have indicated your intention in your **WHITE** Application Form to collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) in person and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) and share certificate(s) (where applicable) from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 21 December 2011 or such other date as notified by us in the newspapers as the date of collection/dispatch of e-Refund Payment instructions/refund cheques/share certificates. If you are an individual who opts for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorised representative bearing a letter of authorization from your corporation stamped with your corporation’s chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. If you do not collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified in your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares or you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) in person, your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) will be sent to the address on your Application Form on Wednesday, 21 December 2011, by ordinary post and at your own risk.

**(b) If you apply using a YELLOW Application Form:**

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above. If you have applied for 1,000,000 Hong Kong Offer Shares or above and have not indicated on your Application Form that you will collect your refund cheque (if any) in person, or if you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque (if any) will be sent to the address on your Application Form on the date of dispatch, which is expected to be Wednesday, 21 December 2011, by ordinary post and at your own risk.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Wednesday, 21 December 2011, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):

- for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant:

- we expect to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offer in the manner as described in the paragraph headed "How to Apply for Hong Kong Offer Shares — Results of Allocations" in this prospectus on Wednesday, 21 December 2011. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 21 December 2011 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

(c) **If you apply through White Form eIPO:**

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the designated **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** and your application is wholly or partially successful, you may collect your Share certificate(s) in person from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 21 December 2011, or such other date as notified by our company in the newspapers as the date of dispatch/collection of e-Refund payment instructions/refund cheques/share certificates.

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

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** on Wednesday, 21 December 2011, by ordinary post and at your own risk.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

If you paid the application monies from a single bank account, e-Refund payment instructions (if any) will be dispatched to the application payment account on Wednesday, 21 December 2011. If you used multi-bank accounts to pay the application monies, the refund cheque (if any) will be dispatched to you on Wednesday, 21 December 2011.

(d) **If you apply by giving electronic application instructions to HKSCC**

*Allocation of Hong Kong Offer Shares*

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

*Deposit of Share Certificates into CCASS and Refund of Application Monies*

- No temporary document of title will be issued. No receipt will be issued for application monies received.
- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account on Wednesday, 21 December 2011, or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification number (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offer in the manner as described in the paragraph headed “How to Apply for Hong Kong Offer Shares — Results of Allocations” in this prospectus on Wednesday, 21 December 2011. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 21 December 2011 or such other date as shall be determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Wednesday, 21 December 2011. Immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account and the credit of refund monies to your designated bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the Offer Price per Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 21 December 2011. No interest will be paid thereon.

### COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Thursday, 22 December 2011. Shares will be traded on the Stock Exchange in board lots of 4,000 each. The Stock Exchange stock code for the Shares is 3778.

### SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.





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太古廣場一座35樓

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88 Queensway  
Hong Kong

12 December 2011

The Directors  
China Weaving Materials Holdings Limited  
Guotai Junan Capital Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) relating to China Weaving Materials Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2010 and six months ended 30 June 2011 (the “Relevant Periods”) for inclusion in the prospectus of the Company dated 12 December 2011 (the “Prospectus”) in connection with the initial public offering (“IPO”) of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated in Cayman Islands on 4 May 2011 as an exempted company with limited liability under Company Law of Cayman Islands. The Company is an investment holding company and has not carried out any other business since its incorporation. Pursuant to a group reorganisation (“Group Reorganisation”), as more fully explained in the section headed “History and Corporate Structure” in the Prospectus, the Company became the holding company of the Group on 14 October 2011.

Throughout the Relevant Periods and at the date of this report, the Company has interests in the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment and legal form	Issued and fully paid/registered capital	Equity interest attributable to the Group				At the date of this report	Principal activities
			As at 31 December		As at 30 June			
			2008	2009	2010	2011		
<b>Direct</b>								
Jolly Success International Limited (“Jolly Success”) . . .	British Virgin Islands (“BVI”) 3 March 2011 Incorporated	HK\$1,000	N/A	N/A	N/A	100%	100%	Investment holding
<b>Indirect</b>								
Treasure Resources Corporation Limited 珍源有限公司 (“Treasure Resources”) . . .	Hong Kong 13 April 2011 Incorporated	HK\$1,000	N/A	N/A	N/A	100%	100%	Investment holding
Jinyuan Textiles Co. Ltd. Jiangxi 江西金源紡織有限公司 (“Jiangxi Jinyuan”) . . .	The People’s Republic of China (the “PRC”) 10 October 2005 Wholly foreign-owned enterprise	RMB148,820,000	100%	100%	100%	100%	100%	Manufacturing and trading of polyester yarns, polyester-cotton blended yarns and cotton yarns

The statutory financial statements of Jiangxi Jinyuan for the years ended 31 December 2008, 2009 and 2010 which were prepared in accordance with relevant accounting principles and regulations applicable to enterprises established in the PRC, were audited by 江西富豐特會計師事務所 Jiangxi Fulante Certified Public Accountants, certified public accountants registered in the PRC.

No audited financial statements have been prepared for the Company and Jolly Success since their respective dates of incorporation as they were incorporated in countries where they were not subject to statutory audit requirements. No audited financial statements have been prepared for Treasure Resources since its date of incorporation as its first statutory financial statements are not yet due to be issued.

For the purpose of this report, the directors of the Company and Jiangxi Jinyuan have prepared the consolidated financial statements of the Company and its subsidiaries, Jolly Success and Treasure Resources from the date of incorporation of the Company to 30 June 2011 and financial statements of Jiangxi Jinyuan for the Relevant Periods respectively in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) (the “Underlying Financial Statements”). We have undertaken an independent audit on the Underlying Financial Statements in accordance with the International Standards of Auditing and have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The Financial Information set out in this report has been prepared from the Underlying Financial Statements on the basis set out in note 2 to the Financial Information. No adjustment has been made by us to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the Company and Jiangxi Jinyuan who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereon, for the purpose of this report, gives a true and fair view of the state of affairs of the Group as at 31 December 2008, 2009, 2010 and 30 June 2011 and the Company as at 30 June 2011, and of the combined results and cash flows of the Group for the Relevant Periods.

The comparative combined statement of comprehensive income, combined statement of changes in equity and combined statement of cash flows of the Group for the six months ended 30 June 2010 together with the notes thereon (the “June 2010 Financial Information”) have been extracted from the Group’s unaudited combined financial information for the same period, which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the June 2010 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by HKICPA. Our review of the June 2010 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the June 2010 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the June 2010 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information, which conform with IFRSs.

## A. FINANCIAL INFORMATION

## Combined Statements of Comprehensive Income

	NOTES	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 . . . . .	6	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 . . .	8	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 . . . . .	9	(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 . . . . .	10	<u>1,118</u>	<u>66,192</u>	<u>117,556</u>	<u>44,243</u>	<u>45,263</u>
Earnings per share — Basic . . . . .	14	<u>RMB0.15 cents</u>	<u>RMB8.83 cents</u>	<u>RMB15.67 cents</u>	<u>RMB5.90 cents</u>	<u>RMB6.04 cents</u>

## Combined Statements of Financial Position

	NOTES	As at 31 December			As at
		2008	2009	2010	30 June
		RMB'000	RMB'000	RMB'000	2011
				RMB'000	
<b>Non-current assets</b>					
Property, plant and equipment . . . . .	15	382,331	378,079	381,436	403,873
Prepaid lease payments . . . . .	16	12,721	12,445	13,361	13,207
Deposits on acquisition of property, plant and equipment . . . . .		—	—	15,450	—
Secured deposits for obligations under finance leases . . . . .	27	—	15,521	15,521	15,521
		<u>395,052</u>	<u>406,045</u>	<u>425,768</u>	<u>432,601</u>
<b>Current assets</b>					
Inventories . . . . .	17	67,087	96,657	115,705	85,657
Trade and other receivables . . . . .	18	15,177	15,318	27,976	10,156
Note receivables . . . . .	19	6,505	5,689	12,329	3,080
Prepaid lease payments . . . . .	16	276	276	299	299
Amounts due from related companies . . . . .	20 & 35(e)	14,707	22,750	—	—
Pledged bank deposits . . . . .	21	106,201	42,801	29,609	54,332
Cash and bank balances . . . . .	21	26,221	46,164	113,514	33,197
		<u>236,174</u>	<u>229,655</u>	<u>299,432</u>	<u>186,721</u>
<b>Current liabilities</b>					
Trade and other payables . . . . .	22	97,642	47,345	39,116	30,998
Note payables . . . . .	23	252,000	74,000	41,650	12,100
Dividend payable . . . . .		—	42,900	85,800	—
Amounts due to related companies . .	25	25,900	—	—	7,154
Amount due to a director . . . . .	25	—	5,000	—	—
Bank borrowings . . . . .	26	86,230	221,649	289,837	266,412
Obligations under finance leases . . .	27	4,129	18,924	24,151	24,542
		<u>465,901</u>	<u>409,818</u>	<u>480,554</u>	<u>341,206</u>
<b>Net current liabilities</b> . . . . .		<u>(229,727)</u>	<u>(180,163)</u>	<u>(181,122)</u>	<u>(154,485)</u>
<b>Total assets less current liabilities</b>		<u>165,325</u>	<u>225,882</u>	<u>244,646</u>	<u>278,116</u>
<b>Non-current liabilities</b>					
Deferred income . . . . .	24	7,014	6,864	6,714	6,639
Obligations under finance leases . . .	27	—	37,415	24,573	12,854
		<u>7,014</u>	<u>44,279</u>	<u>31,287</u>	<u>19,493</u>
<b>Net assets</b> . . . . .		<u>158,311</u>	<u>181,603</u>	<u>213,359</u>	<u>258,623</u>
<b>Capital and reserves</b>					
Share capital/paid-in capital . . . . .	28	148,820	148,820	148,820	148,820
Reserves . . . . .		9,491	32,783	64,539	109,803
<b>Total equity attributable to owners of the Company</b> . . . . .		<u>158,311</u>	<u>181,603</u>	<u>213,359</u>	<u>258,623</u>

## Statement of Financial Position

	NOTES	<u>At 30 June 2011</u> RMB'000
<b>The Company</b>		
<b>Non-current asset</b>		
Investment in a subsidiary . . . . .		—
<b>Current asset</b>		
Prepayments . . . . .		1,526
<b>Current liabilities</b>		
Accrued expenses . . . . .		345
Amount due to a related company . . . . .	25	7,154
		<u>7,499</u>
Net current liabilities . . . . .		<u>(5,973)</u>
<b>Total assets less current liabilities</b> . . . . .		<b><u>(5,973)</u></b>
<b>Capital and reserve</b>		
Share capital . . . . .	28	—
Accumulated loss . . . . .		<u>(5,973)</u>
<b>Deficiency attributable to owners</b> <b>of the Company</b> . . . . .		<b><u>(5,973)</u></b>

## Combined Statements of Changes in Equity

	Share capital/ paid-in capital	Special reserve	Statutory surplus reserve	Accumulated profits	Total
	RMB'000	RMB'000	RMB'000 (note 1)	RMB'000	RMB'000
As at 1 January 2008 . . . . .	148,820	—	4,163	4,210	157,193
Profit and total comprehensive income for the year . . . . .	—	—	—	1,118	1,118
As at 31 December 2008 and 1 January 2009 . . . . .	148,820	—	4,163	5,328	158,311
Profit and total comprehensive income for the year . . . . .	—	—	—	66,192	66,192
Dividends recognised as distribution (note 13) . . . . .	—	—	—	(42,900)	(42,900)
Transfer of statutory surplus reserve . . . . .	—	—	10,790	(10,790)	—
As at 31 December 2009 and 1 January 2010 . . . . .	148,820	—	14,953	17,830	181,603
Profit and total comprehensive income for the year . . . . .	—	—	—	117,556	117,556
Dividends recognised as distribution (note 13) . . . . .	—	—	—	(85,800)	(85,800)
Transfer of statutory surplus reserve . . . . .	—	—	23,622	(23,622)	—
As at 31 December 2010 and 1 January 2011 . . . . .	148,820	—	38,575	25,964	213,359
Issue of shares of Jolly Success . . . . .	1	—	—	—	1
Exchange of shares upon Group Reorganisation (note 2) . . . . .	(1)	1	—	—	—
Profit and total comprehensive income for the period . . . . .	—	—	—	45,263	45,263
As at 30 June 2011 . . . . .	<u>148,820</u>	<u>1</u>	<u>38,575</u>	<u>71,227</u>	<u>258,623</u>
Unaudited					
As at 1 January 2010 . . . . .	148,820	—	14,953	17,830	181,603
Profit and total comprehensive income for the period . . . . .	—	—	—	44,243	44,243
As at 30 June 2010 . . . . .	<u>148,820</u>	<u>—</u>	<u>14,953</u>	<u>62,073</u>	<u>225,846</u>

## Note:

- (1) Statutory surplus reserve representing appropriations from the profits after taxation of Jiangxi Jinyuan established in the PRC forms part of shareholders' equity of Jiangxi Jinyuan. In accordance with the PRC Company Law and the Articles of Association of Jiangxi Jinyuan, Jiangxi Jinyuan is required to appropriate an amount at a minimum of 10% of its profits after taxation each year to a statutory surplus reserve until the statutory surplus reserve reaches 50% of its registered capital. The statutory surplus can be used for converting into additional capital of Jiangxi Jinyuan.
- (2) On 13 June 2011, the Company allotted and issued 900,000 nil paid shares, together with the existing 100,000 nil paid shares in exchange of the entire share capital of Jolly Success.

## 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
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Profit for the year/period . . . . .	1,118	66,192	117,556	44,243	45,263
Adjustments for:					
Interest income . . . . .	(1,722)	(1,926)	(1,006)	(529)	(459)
Interest expenses . . . . .	6,322	8,591	14,452	6,984	8,140
Amortisation of deferred income . . .	(150)	(150)	(150)	(75)	(75)
Amortisation of prepaid lease payments . . . . .	276	276	286	138	154
Amortisation of upfront fee related to obligation under finance lease . . .	—	—	583	292	292
Depreciation of property, plant and equipment . . . . .	12,300	16,596	17,329	8,575	9,083
Discounting charges on note receivables . . . . .	8,095	2,316	974	158	—
Loss on disposal of property, plant and equipment . . . . .	—	—	2	—	36
Fair value change on held-for-trading investment . . . . .	3,451	—	—	—	—
Operating cash flows before movements in working capital . . . . .	29,690	91,895	150,026	59,786	62,434
Decrease/(increase) in inventories . . .	7,754	(29,570)	(19,048)	(25,609)	30,048
(Increase)/decrease in trade and other receivables . . . . .	(7,107)	2,339	(15,138)	(2,077)	14,720
(Increase)/decrease in note receivables .	(3,255)	(84)	(8,289)	(1,360)	7,149
Decrease in held-for-trading investment	16,269	—	—	—	—
Increase/(decrease) in note payables . .	68,700	(79,625)	(6,325)	(10,100)	(29,550)
Increase/(decrease) in trade and other payables . . . . .	511	7,601	(607)	(1,067)	(8,118)
Cash generated from/(used in) operations . . . . .	112,562	(7,444)	100,619	19,573	76,683
Interest paid . . . . .	(6,080)	(8,141)	(12,658)	(6,108)	(7,858)
<b>NET CASH GENERATED FROM/ (USED IN) OPERATING ACTIVITIES</b>	<u>106,482</u>	<u>(15,585)</u>	<u>87,961</u>	<u>13,465</u>	<u>68,825</u>

	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
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
Purchase of property, plant and equipment . . . . .	(68,664)	(37,242)	(26,869)	(9,837)	(419)
(Increase)/decrease in pledged bank deposits . . . . .	(71,751)	63,400	13,192	8,620	(24,723)
Increase in secured deposits for obligations under finance leases . . . .	—	(15,521)	—	—	—
Advance to related companies . . . . .	(17,807)	(47,249)	(36,485)	(7,685)	—
Payments for construction in progress .	(30,184)	—	(1,441)	(47)	(11,609)
Repayment from a third party . . . . .	3,312	—	2,480	2,480	—
Advance to a third party. . . . .	—	(2,480)	(1,700)	(1,700)	—
Repayment from related companies . . .	3,100	39,206	60,935	26,250	—
Interest received . . . . .	1,722	1,926	1,006	529	459
Deposits on property, plant and equipment and prepaid lease payments . . . . .	—	—	(15,450)	(1,778)	—
Addition to prepaid lease payments . .	—	—	(1,225)	—	—
<b>NET CASH (USED IN)/ GENERATED FROM INVESTING ACTIVITIES</b>	<b>(180,272)</b>	<b>2,040</b>	<b>(5,557)</b>	<b>16,832</b>	<b>(36,292)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Proceeds from bank borrowings . . . . .	100,900	271,649	289,837	130,000	143,412
Proceeds from sale and leaseback arrangements . . . . .	9,910	58,250	16,710	—	—
Repayment of bank borrowings . . . . .	(91,652)	(135,330)	(220,000)	(110,000)	(164,737)
Dividends paid . . . . .	(14,300)	—	(42,900)	(42,900)	(85,800)
Issued of shares of Jolly Success. . . . .	—	—	—	—	1
Advances from third parties. . . . .	—	—	28,000	28,000	—
Repayment of loans from third parties. .	(10,100)	(33,000)	(28,000)	—	—
Repayment to related companies . . . .	(10,000)	(25,900)	(10,000)	—	—
Proceeds from note financing. . . . .	124,400	26,025	—	—	—
Repayment of note financing . . . . .	—	(124,400)	(26,025)	—	—
Advance from a related company. . . . .	—	—	10,000	10,000	7,154
Discounting charges paid on note receivables . . . . .	(8,095)	(2,316)	(974)	(158)	—



	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
Repayment of obligations under finance leases . . . . .	(6,023)	(6,490)	(26,702)	(10,673)	(12,880)
Advance from/(repayment to) a director.	—	5,000	(5,000)	(5,000)	—
<b>NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES . . . . .</b>	<b>95,040</b>	<b>33,488</b>	<b>(15,054)</b>	<b>(731)</b>	<b>(112,850)</b>
<b>NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS . . . . .</b>	<b>21,250</b>	<b>19,943</b>	<b>67,350</b>	<b>29,566</b>	<b>(80,317)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR/PERIOD . . . . .</b>	<b>4,971</b>	<b>26,221</b>	<b>46,164</b>	<b>46,164</b>	<b>113,514</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR/PERIOD</b> represented by cash and bank balance . . . . .	<b>26,221</b>	<b>46,164</b>	<b>113,514</b>	<b>75,730</b>	<b>33,197</b>

**Notes to the Financial Information****1. GENERAL**

The Company is a private limited company incorporated in the Cayman Islands. The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business of the Company is at Room 1321, Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong.

The Company is an investment holding company. Its operating subsidiary, Jiangxi Jinyuan, is engaged in the business of manufacturing and trading of polyester yarns, polyester-cotton blended yarns and cotton yarns.

The Financial Information is presented in Renminbi ("RMB"), which is the same as the functional currency of Jiangxi Jinyuan.

**2. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL INFORMATION**

Jiangxi Jinyuan was established on 10 October 2005 and was directly owned by Mr. Zheng Hong, the controlling shareholder of Jiangxi Jinyuan as well as Mr. Irons Sze, Mr. Lin Shing Yun and Ms. Chow Ping (collectively referred to as the "Ultimate Controlling Shareholders"), prior to the Group Reorganisation.

Jolly Success was incorporated in the British Virgin Islands on 3 March 2011. The authorised share capital of Jolly Success was HK\$50,000 divided into 50,000 shares of HK\$1.00 each and its issued and paid up share capital was HK\$1,000, comprising 1,000 shares of HK\$1.00 each, of which all were held by the four companies wholly-owned by each of the Ultimate Controlling Shareholders respectively.

Treasure Resources was incorporated in Hong Kong on 13 April 2011. The authorised share capital of Treasure Resources was HK\$10,000 divided into 10,000 shares of HK\$1.00 each and its issued and paid up share capital was HK\$1,000, comprising 1,000 shares of HK\$1.00 each, of which all were held by Jolly Success.

Pursuant to the Group Reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of Jolly Success and Treasure Resources on 13 June 2011 by interspersing the Company between Jolly Success and the Ultimate Controlling Shareholders. The Company further allotted and issued 900,000 nil paid shares to Ultimate Controlling Shareholders and Orient Dynasty Holdings Limited, a company incorporated in BVI, which is an independent third party together with the existing 100,000 nil paid shares in issue, in exchange of the entire share capital of Jolly Success.

On 14 October 2011, the Ultimate Controlling Shareholders transferred their equity interest in Jiangxi Jinyuan to Treasure Resources in exchange of the allotment and issue of 1,000 shares of Treasure Resources to Jolly Success and accordingly, the Company became the holding company of companies now comprising the Group.

As Jiangxi Jinyuan, Jolly Success, Treasure Resources and the Company have been under common control of Mr. Zheng Hong, prior to and after the Group Reorganisation, the combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the Relevant Periods have been prepared as if the current group structure had been in existence throughout the Relevant Periods, or since the respective dates of incorporation of the relevant entities now comprising the Group where there is a shorter period. The combined statements of financial position of the Group as at 31 December 2008, 2009 and 2010 and 30 June 2011 have been prepared to present the assets and liabilities of the entities now comprising the Group which were in existence at those dates.

As of 31 December 2008, 2009, 2010 and 30 June 2011, the Group has net current liabilities of approximately RMB229,727,000, RMB180,163,000, RMB181,122,000 and RMB154,485,000 respectively. Up to the date of this report, the Group has already obtained roll over of bank loans amounting to RMB202,000,000 and 3 years banking facilities of RMB140,000,000. Accordingly, the management of the Group is satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future, after taking into consideration the banking facilities already in place and internal financial resources and accordingly, the Underlying Financial Statements have been prepared on a going concern basis.

### 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

The IASB issued a number of new International Accounting Standard (“IAS”), IFRSs, amendments and interpretations (hereinafter collectively referred to as “new IFRS”) which are effective for the Group’s financial period beginning on 1 January 2011. For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Group has adopted all these new IFRS and other existing IFRS consistently throughout the Relevant Periods.

The Group has not early applied the following new and revised standards, amendments and interpretation that have been issued but are not yet effective during the Relevant Periods.

IFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets <sup>1</sup>
IFRS 9	Financial Instruments <sup>2</sup>
IFRS 10	Consolidated Financial Statements <sup>2</sup>
IFRS 11	Joint Arrangements <sup>2</sup>
IFRS 12	Disclosure of Interests in Other Entities <sup>2</sup>
IFRS 13	Fair Value Measurement <sup>2</sup>
IFRIC Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine <sup>2</sup>
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income <sup>4</sup>
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>3</sup>
IAS 19 (Revised 2011)	Employee Benefits <sup>2</sup>
IAS 27 (Revised 2011)	Separate Financial Statements <sup>2</sup>
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2012.

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2012.

The directors of the Company anticipate that the applications of the new and revised standards, amendments and interpretation will have no material impact on the Financial Information of the Group.

### 4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The Financial Information has been prepared in accordance with the following accounting policies which conform with IFRS issued by IASB. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

#### Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discount and sales related tax.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

Deposits received from customers prior to meeting the revenue recognition criteria are included in the combined statement of financial position under current liabilities.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. 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, if any.

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 changes in estimate accounted for on a prospective basis.

Construction in progress for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the 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.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

#### **Investment in a subsidiary**

Investment in a subsidiary is included in the Company's statement of financial position at cost less any identified impairment losses.

#### **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

##### *The Group as lessee*

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the combined statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's accounting policy on borrowing costs (see accounting policy on borrowing costs above).

*Leasehold land and building*

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the combined statement of financial position and is amortised over the lease term on a straight-line basis.

*Sale and leaseback*

A sale and leaseback transaction involves the sales of machineries and the leasing back of the same assets. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount shall not be immediately recognised as income by the Group as lessee. Instead, it shall be deferred and amortised over the lease term.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

**Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the combined statement of financial position and transferred to profit or loss over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

**Retirement benefits costs**

Payments to state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit as reported in the combined statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be

available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

#### **Impairment of assets**

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss, if any.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and cost necessary to make the sales.

#### **Financial instruments**

Financial assets and financial liabilities are recognised on the combined statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

#### *Financial assets*

The Group's financial assets are mainly loans and receivables.

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of financial assets and of allocating interest income over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis.

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, note receivables, amounts due from related companies, pledged bank deposits, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

### Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the due date, 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 the financial assets is reduced by the impairment loss directly with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

### *Financial liabilities and equity instruments*

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

### Financial liabilities

Financial liabilities including trade payables, note payables, amounts due to related companies/director and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

#### Equity instruments

Equity instruments issued by group entity are recorded at the proceeds received, net of direct issue costs.

#### *Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*.

#### *Derecognition*

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the management of the Group is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

#### **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. The Group's carrying amount of inventory as at 31 December 2008, 2009, 2010 and 30 June 2011 was approximately RMB67.09 million, RMB96.66 million, RMB115.71 million and RMB85.66 million, respectively.

#### **Depreciation**

The Group depreciates the property, plant and equipment over their estimated useful lives, using straight-line method, at the rates ranging from 3% to 10% per annum. The estimated useful lives that the Group depreciates the property, plant and equipment reflect the management's estimate of the periods that the Group intends to derive future economic benefits from the use of the assets by taking into account of industry normal practice. The Group's carrying amount of property, plant and equipment as at 31 December 2008, 2009, 2010 and 30 June 2011 was approximately RMB382.33 million, RMB378.08 million, RMB381.44 million and RMB403.87 million, respectively.



## 6. REVENUE

The followings is an analysis of the Group's revenue from its major products during the Relevant Periods:

	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
Sales of polyester yarns . . . . .	319,967	380,921	527,978	251,855	260,329
Sales of polyester-cotton blended yarns . . . . .	217,211	253,400	350,849	136,433	240,494
Sales of cotton yarns . . . . .	8,114	29,117	51,839	22,873	25,736
	<u>545,292</u>	<u>663,438</u>	<u>930,666</u>	<u>411,161</u>	<u>526,559</u>

## 7. SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports prepared in accordance with accounting policies which conform with the generally accepted accounting principles in the PRC ("PRC GAAP"), that are regularly reviewed by the chief operating decision-maker ("CODM") to allocate resources to the segments and to assess their performance.

The CODM which is responsible for allocating resources and assessing performance of the operating segments has been defined as the executive directors of the Company.

The operations of the Group are derived from Jiangxi Jinyuan, therefore, the executive directors review the overall result of Jiangxi Jinyuan as a whole prepared under PRC GAAP for the purposes of resources allocation and performance assessment for the years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2011, respectively. Other than revenue analysis as set out in note 6, no operating results and other discrete financial information relating to the yarn products is prepared regularly for internal reporting to the CODM for resources allocation and performance assessment. The operations of Jiangxi Jinyuan represent single operating and reportable segment of the Group under IFRS 8 "Operating Segments".

Reconciliation of segment result, segment assets and segment liabilities reviewed by the CODM which are different from the Group's combined result, total assets and total liabilities are as follows.

	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
Segment (loss) profit reviewed by CODM . . . . .	(2,452)	57,792	113,106	43,168	50,761
Adjusted for income in relation to government grants . . . . .	3,570	8,400	4,450	1,075	475
Unallocated expenses . . . . .	—	—	—	—	(5,973)
Group's profit for the Relevant Periods . . . . .	<u>1,118</u>	<u>66,192</u>	<u>117,556</u>	<u>44,243</u>	<u>45,263</u>

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets reviewed by CODM . . .	631,226	635,700	725,200	617,796
Unallocated assets . . . . .	—	—	—	1,526
Group's total assets . . . . .	<u>631,226</u>	<u>635,700</u>	<u>725,200</u>	<u>619,322</u>
	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Segment liabilities reviewed by				
CODM . . . . .	465,901	447,233	505,127	346,561
Adjusted for deferred income . . . . .	7,014	6,864	6,714	6,639
Unallocated liabilities . . . . .	—	—	—	7,499
Group's total liabilities . . . . .	<u>472,915</u>	<u>454,097</u>	<u>511,841</u>	<u>360,699</u>

All of the Group's non-current assets, production facilities and capital expenditure are located or utilised in the PRC.

#### Geographical information

All the Group's revenue were derived from sales of polyester yarns, polyester-cotton blended yarns and cotton yarns in the PRC based on where goods are delivered to, which are also same as the location of customers.

#### Information about major customers

No revenue from single customer contributing over 10% of the total sales of the Group in the Relevant Periods.

### 8. INVESTMENT AND OTHER 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
Interest income on pledged bank deposits and bank balances . . . . .	1,722	1,926	1,006	529	459
Government grants based on value-added tax paid ( <i>note</i> ) . . . . .	3,420	8,250	4,300	1,000	—
Government grants on purchase of land use right ( <i>note</i> ) . . . . .	150	150	150	75	75
Other government grant . . . . .	—	—	—	—	400
Income from scrap sales . . . . .	462	443	1,486	469	839
Others . . . . .	264	158	85	68	166
	<u>6,018</u>	<u>10,927</u>	<u>7,027</u>	<u>2,141</u>	<u>1,939</u>

#### Note:

Government grants include refund of purchase cost of land use right and grants based on value-added tax from the PRC government. Both subsidies were generally provided in relation to the establishment of Jiangxi Jinyuan in 2005. Government grants based on value-added tax paid are recognised in the combined statement of comprehensive income when received and no specific conditions have been required to be met. Those government grants related to the refund of the purchase cost of land use right are recognised as deferred income (*see note 24*), which is non-recurring in nature.

## 9. FINANCE COSTS

	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
Interest on:					
— Bank borrowings wholly repayable within five years . . .	6,080	8,141	12,658	6,108	7,858
— Finance leases . . . . .	242	450	1,794	876	1,260
	6,322	8,591	14,452	6,984	9,118
Discounting charges on note receivables . . . . .	8,095	2,316	974	158	—
Amortisation of upfront fee related to obligations under finance leases . . . . .	—	—	583	292	292
	14,417	10,907	16,009	7,434	9,410
Less: amounts capitalised . . . . .	—	—	—	—	(978)
	<u>14,417</u>	<u>10,907</u>	<u>16,009</u>	<u>7,434</u>	<u>8,432</u>

Borrowing costs capitalised during the year/period arose on the general borrowing pool and are calculated by applying the following capitalisation rates per annum to expenditure on qualifying assets.

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	%	%	%	%	%
Capitalisation rate . . . . .	—	—	—	—	6.48

## 10. PROFIT FOR THE YEAR/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
Profit for the year/period has been arrived at after charging:					
Auditor's remuneration . . . . .	26	26	30	—	—
Cost of inventories recognised as an expense . . . . .	515,119	576,205	781,294	350,465	453,737
Depreciation of property, plant and equipment . . . . .	12,300	16,596	17,329	8,575	9,083
Amortisation of prepaid lease payments . . . . .	276	276	286	138	154
Total depreciation and amortisation	12,576	16,872	17,615	8,713	9,237
Loss on disposal of property, plant and equipment . . . . .	—	—	2	—	36
Listing expenses (included in other expenses) . . . . .	—	—	—	—	4,954
Directors' remuneration:					
Fees . . . . .	—	—	—	—	—
Salaries and other benefits . . . . .	147	147	147	82	186
Retirement benefit scheme contributions . . . . .	1	2	2	1	1
Other staff costs . . . . .	148	149	149	83	187
Retirement benefit scheme contributions (excluding directors) . . . . .	33,675	45,337	47,101	22,683	27,009
Total staff costs . . . . .	5	17	36	11	71
Total staff costs . . . . .	<u>33,828</u>	<u>45,503</u>	<u>47,286</u>	<u>22,777</u>	<u>27,267</u>

## 11. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

Detail of emoluments paid by the Group to each of the directors of the Company are as follows:

## For the year ended 31 December 2008

	Fees	Salaries and other benefits	Retirement benefit scheme contributions	Total emoluments
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive directors:</i>				
Zheng, Yongxiang . . . . .	—	147	1	148
Zheng, Hong . . . . .	—	—	—	—
<i>Non-executive director:</i>				
Sze, Irons . . . . .	—	—	—	—
	<u>—</u>	<u>147</u>	<u>1</u>	<u>148</u>

## For the year ended 31 December 2009

	<u>Fees</u>	<u>Salaries and other benefits</u>	<u>Retirement benefit scheme contributions</u>	<u>Total emoluments</u>
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive directors:</i>				
Zheng, Yongxiang . . . . .	—	147	2	149
Zheng, Hong . . . . .	—	—	—	—
<i>Non-executive director:</i>				
Sze, Irons . . . . .	—	—	—	—
	—	147	2	149
	<u>—</u>	<u>147</u>	<u>2</u>	<u>149</u>

## For the year ended 31 December 2010

	<u>Fees</u>	<u>Salaries and other benefits</u>	<u>Retirement benefit scheme contributions</u>	<u>Total emoluments</u>
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive directors:</i>				
Zheng, Yongxiang . . . . .	—	147	2	149
Zheng, Hong . . . . .	—	—	—	—
<i>Non-executive director:</i>				
Sze, Irons . . . . .	—	—	—	—
	—	147	2	149
	<u>—</u>	<u>147</u>	<u>2</u>	<u>149</u>

## For the six months ended 30 June 2010 (Unaudited)

	<u>Fees</u>	<u>Salaries and other benefits</u>	<u>Retirement benefit scheme contributions</u>	<u>Total emoluments</u>
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive directors:</i>				
Zheng, Yongxiang . . . . .	—	82	1	83
Zheng, Hong . . . . .	—	—	—	—
<i>Non-executive director:</i>				
Sze, Irons . . . . .	—	—	—	—
	—	82	1	83
	<u>—</u>	<u>82</u>	<u>1</u>	<u>83</u>

## For the six months ended 30 June 2011

	Fees	Salaries and other benefits	Retirement benefit scheme contributions	Total emoluments
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive directors:</i>				
Zheng, Yongxiang . . . . .	—	95	1	96
Zheng, Hong . . . . .	—	91	—	91
<i>Non-executive director:</i>				
Sze, Irons . . . . .	—	—	—	—
	—	186	1	187

No directors waived any emoluments for the years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2011.

Mr. Zheng Hong and Mr. Zheng Yongxiang were appointed as executive directors and Mr. Sze Irons was appointed as non-executive director of the Company on 4 May 2011.

Of the 5 highest paid employees in the Group, 1, 1, 1, 1 and 2 were directors of the Company for the years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2010 and 2011 whose emoluments are included in disclosures above. The emoluments of the remaining 4, 4, 4 and 3 individuals for the years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2010 and 2011, were as follows:

	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
Salaries and other benefits . . . . .	191	198	197	89	86
Retirement benefit scheme contributions . . . . .	—	—	—	—	—
	191	198	197	89	86

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	Number of employees	Number of employees	Number of employees	Number of employees (Unaudited)	Number of employees
Emoluments of these remaining highest paid individuals were within the following band:					
Nil – HK\$1,000,000 . . . . .	4	4	4	4	3

**12. INCOME TAX EXPENSE**

The Company is tax exempted under the laws of the Cayman Islands. No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from Hong Kong.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changed the tax rate from 33% to 25% for Jiangxi Jinyuan from 1 January 2008.

Jiangxi Jinyuan is a wholly foreign invested entity of manufacturing nature. In accordance with Foreign Enterprise Income Tax Laws in PRC, Jiangxi Jinyuan was approved to be exempted from Enterprise Income Tax ("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. Jiangxi Jinyuan's first profit making year was 2006. Jiangxi Jinyuan is therefore subject to a reduced tax rate of 12.5% from 1 January 2008 to 31 December 2010. Jiangxi Jinyuan is subject to a tax rate of 25% from 1 January 2011 onwards.

Jiangxi Jinyuan purchased certain domestic manufactured equipment in 2006 and 2007. In accordance with Cai Shui Zi [2000] No. 49 on Notice concerning the Reduction in Enterprise Income Tax for Purchase of Domestic Manufactured Equipment by Enterprises with Foreign Investment and Foreign Enterprises issued by the Ministry of Finance and the State Administration of Taxation, part of the purchase costs of the domestic manufactured equipment could be utilised to reduce its EIT.

The application of EIT reduction related to the purchase of domestic manufactured equipment in 2006 and 2007 was approved by the Jiangxi Administration of State Taxation of Fengxi District. Jiangxi Jinyuan was entitled to a total tax reduction of RMB38.41 million for the years ended 31 December 2006 and 2007. Among them, RMB0.28 million, RMB8.51 million, RMB14.81 million, RMB5.53 million (unaudited) and RMB12.81 million have been utilised to offset the income tax liability of Jiangxi Jinyuan in 2008, 2009, 2010 and the six months ended 30 June 2010 and 2011 respectively. The remaining RMB2.00 million was carried forward for future tax reduction as at 30 June 2011.

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

In accordance with Circular Guo Shui Fa [2008] No.52 on Ceasing Granting Tax Credit and Exemption relating to Enterprise Income Tax on the Purchase of Domestic Manufactured Equipment issued by State Administration of Taxation, the granting of tax credit on purchase of domestic manufactured equipment on or after 1 January 2008 was ceased.

Taxation expense for the Relevant Periods can be reconciled to the profit for the year/period per the combined statements of comprehensive income as follows:

	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
Profit for the year/period . . . . .	1,118	66,192	117,556	44,243	45,263
Tax at PRC EIT rate of 25% . . . . .	280	16,548	29,389	11,060	11,316
Tax effect of expenses not deductible for tax purpose . . . . .	288	215	116	—	1,596
Tax effect of tax concession granted . . . . .	(284)	(8,513)	(14,821)	(5,530)	—
Additional tax credit for purchase of domestic manufactured equipment . . . . .	(284)	(8,513)	(14,821)	(5,530)	(12,809)
Others . . . . .	—	263	137	—	(103)
Taxation for the year/period . . . . .	—	—	—	—	—

### 13. DIVIDENDS

During the Relevant Periods, Jiangxi Jinyuan had declared dividend to its shareholders prior to the Group Reorganisation as follows:

	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
Shareholders of Jiangxi Jinyuan . . .	—	42,900	85,800	—	—

The rates of dividend and the number of shares ranking for dividend are not presented as such information is not meaningful having regard to the purpose of this report.

### 14. EARNINGS PER SHARE

The calculation of the basic earnings per share for the Relevant Periods is based on the profit attributable to owners of the Company for the Relevant Periods and on the 750,000,000 shares in issue during these periods on the assumption that the Group Reorganisation and the capitalisation issue as more fully described in the section headed "Statutory and General Information" in Appendix VI to the Prospectus has been effective on 1 January 2008.

No diluted earnings per share is presented for the Relevant Periods as there are no potential ordinary shares outstanding during those years/periods.



## 15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Con- struction in progress	Plant and machinery	Office equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2008 . . . . .	62,862	33,883	164,159	853	2,582	264,339
Additions . . . . .	2,009	60,022	74,750	111	110	137,002
Transfer from construction in progress . . . . .	71,000	(78,054)	7,054	—	—	—
At 31 December 2008 and 1 January 2009 . . . . .	135,871	15,851	245,963	964	2,692	401,341
Additions . . . . .	522	—	11,502	174	146	12,344
Transfer from construction in progress . . . . .	—	(15,851)	15,851	—	—	—
At 31 December 2009 and 1 January 2010 . . . . .	136,393	—	273,316	1,138	2,838	413,685
Additions . . . . .	328	1,441	17,369	469	1,081	20,688
Disposals . . . . .	—	—	—	(10)	(2)	(12)
Transfer from construction in progress . . . . .	—	(325)	325	—	—	—
At 31 December 2010 and 1 January 2011 . . . . .	136,721	1,116	291,010	1,597	3,917	434,361
Additions . . . . .	—	31,137	61	358	—	31,556
Disposals . . . . .	—	—	(50)	(24)	—	(74)
At 30 June 2011 . . . . .	136,721	32,253	291,021	1,931	3,917	465,843
ACCUMULATED DEPRECIATION						
At 1 January 2008 . . . . .	593	—	5,885	64	168	6,710
Charge for the year . . . . .	2,828	—	9,097	135	240	12,300
At 31 December 2008 and 1 January 2009 . . . . .	3,421	—	14,982	199	408	19,010
Charge for the year . . . . .	4,054	—	12,136	157	249	16,596
At 31 December 2009 and 1 January 2010 . . . . .	7,475	—	27,118	356	657	35,606
Charge for the year . . . . .	4,098	—	12,741	176	314	17,329
Eliminated on disposals of assets . . . . .	—	—	—	(8)	(2)	(10)
At 31 December 2010 and 1 January 2011 . . . . .	11,573	—	39,859	524	969	52,925
Charge for the period . . . . .	2,049	—	6,788	89	157	9,083
Eliminated on disposals of assets . .	—	—	(17)	(21)	—	(38)
At 30 June 2011 . . . . .	13,622	—	46,630	592	1,126	61,970
CARRYING AMOUNTS						
At 31 December 2008 . . . . .	132,450	15,851	230,981	765	2,284	382,331

	Buildings	Con- struction in progress	Plant and machinery	Office equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2009 . . . . .	128,918	—	246,198	782	2,181	378,079
At 31 December 2010 . . . . .	125,148	1,116	251,151	1,073	2,948	381,436
At 30 June 2011 . . . . .	123,099	32,253	244,391	1,339	2,791	403,873

All the Group's buildings are located in the PRC under medium-term lease.

Buildings and plant and machinery with an aggregate carrying amount of approximately RMB208.68 million, RMB196.62 million, RMB198.59 million and RMB193.42 million have been pledged to secure general banking facilities granted to the Group as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively (*see note 33*).

#### 16. PREPAID LEASE PAYMENTS

All the Group's prepaid lease payments are located in the PRC under medium-term lease.

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Analysed for reporting purposes as:				
Current assets . . . . .	276	276	299	299
Non-current assets . . . . .	12,721	12,445	13,361	13,207
	12,997	12,721	13,660	13,506

Prepaid lease payments with a carrying amount of approximately RMB12.37 million, RMB12.11 million, RMB12.44 million and RMB12.28 million have been pledged to secure general banking facilities granted to the Group as at 31 December 2008, 2009 and 2010 and 30 June 2011, respectively (*see note 33*).

#### 17. INVENTORIES

	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
	67,087	96,657	115,705	85,657

Inventories with a carrying amount of Nil, approximately RMB19.07 million, RMB20 million and RMB46.98 million have been pledged to secure general banking facilities granted to the Group as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively (*see note 33*).

## 18. TRADE AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables . . . . .	—	85	531	—
Advance payment to suppliers . . . . .	13,432	9,429	27,425	8,610
Advance to a third party ( <i>note</i> ) . . . . .	—	2,480	—	—
Value-added tax receivables. . . . .	1,725	3,304	—	—
Prepayment . . . . .	20	20	20	1,546
	<u>15,177</u>	<u>15,318</u>	<u>27,976</u>	<u>10,156</u>

*Note:*

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

In general, the Group will receive advance or notes from the customers before the products are delivered. The Group allows some of the long-term and loyal customers to have credit terms of 15-90 days depending on creditability of the customers.

No interest is charged on overdue trade receivables. The Group's policy is to recognise allowance for doubtful debts aged over 1 year as these receivables that are past due beyond 1 year are generally not recoverable based on historical experience. No allowance for doubtful debts are recognised for the years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2011 as no receivables are aged over 1 year as at the end of each reporting period.

The following is an analysis of trade receivables by age, presented based on the invoice date at the end of each reporting period:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
1-30 days . . . . .	—	85	454	—
31-90 days . . . . .	—	—	77	—
	<u>—</u>	<u>85</u>	<u>531</u>	<u>—</u>

Before accepting any new customer, the Group has assessed the potential customer's credit quality. The Group reviews the repayment history of receivables by each customer with reference to the payment terms stated in contracts to determine the recoverability of a trade receivable. For the accounts receivables which are neither past due nor impaired, the management assessed the balances are with good credit quality with reference to their past repayment history.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of nil, nil, RMB77,000 and nil as at 31 December 2008, 2009, 2010 and 30 June 2011 which are past due as at the reporting date for which the Group has not provided for impairment loss. Based on historical experience, the receivables are generally recoverable as supported by on-going settlements from customers. The Group does not hold any collateral over these balances.

**Ageing of trade receivables which are past due but not impaired**

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
31-90 days . . . . .	—	—	77	—
	<u>—</u>	<u>—</u>	<u>77</u>	<u>—</u>

**19. NOTE RECEIVABLES**

The following is an analysis of note receivables, presented based on the date of receipt of notes:

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

Included above are note receivables amounting to RMB5,605,000, RMB3,090,000 and RMB4,624,000 and RMB3,080,000 as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively, which have been endorsed to the Group's creditors for settlement of the payables at the same amount. These notes have not yet been matured at end of the respective reporting periods.

Included above are note receivables amounting to RMB900,000, RMB1,649,000 and RMB2,100,000 which have been endorsed to a related company for financing purposes as at 31 December 2008, 2009 and 2010 respectively.

**20. AMOUNTS DUE FROM RELATED COMPANIES**

The amounts were unsecured, interest free and repayable on demand. The amounts were fully settled in the following financial year.

Details of the Group's relationship and the balances with these related companies are set out in note 35.

**21. PLEDGED BANK DEPOSITS/CASH AND BANK BALANCES**

Bank balances carried interest at market rates of 0.36% per annum as at 31 December 2008, 2009, 2010 and 0.5% per annum as at 30 June 2011. Pledged bank deposits, carried interest at market rates of 1.71%, 1.71%, 2.25% and 2.85% per annum as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively. Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group (*see note 33*), of which RMB5,000,000 as at 31 December 2008, 2009 and 2010 and RMB40,000,000 as at 30 June 2011 will be released upon the settlement of the relevant short term bank borrowings, and the balance of approximately RMB101,201,000, RMB37,801,000, RMB24,609,000 and RMB14,332,000 as at 31 December 2008, 2009, 2010 and 30 June 2011 respectively were used for settlement of the note payables upon maturity.

## 22. TRADE AND OTHER PAYABLES

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables . . . . .	20,434	7,200	6,921	5,346
Value-added tax payable . . . . .	—	—	4,821	4,422
Other payables ( <i>note</i> ) . . . . .	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
	<u>97,642</u>	<u>47,345</u>	<u>39,116</u>	<u>30,998</u>

*Note:*

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.

The following is an analysis of trade payables by age, presented based on the invoice date at the end of each reporting period:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
1–30 days . . . . .	20,434	6,797	6,281	4,326
31–90 days . . . . .	—	332	633	1,020
Over 90 days . . . . .	—	71	7	—
	<u>20,434</u>	<u>7,200</u>	<u>6,921</u>	<u>5,346</u>

In general, the Group will make advance payment or issue notes to suppliers before the materials are received. The creditors may, in some cases, allow a credit period and the average credit period on purchases of goods is 30 days. The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

## 23. NOTE PAYABLES

The following is an analysis of note payables, presented based on remaining contractual maturity date at the end of each reporting period:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
1–30 days . . . . .	51,000	13,000	5,650	—
31–90 days . . . . .	50,300	46,000	16,000	3,600
91–180 days . . . . .	150,700	15,000	20,000	8,500
	<u>252,000</u>	<u>74,000</u>	<u>41,650</u>	<u>12,100</u>

During the years ended 31 December 2008 and 2009, approximately RMB124,400,000 and RMB26,025,000 notes were issued to a related company and third parties for financing purposes, respectively. As at 31 December 2008 and 2009, outstanding notes in respect of these arrangements were amounted to approximately RMB102,100,000 and RMB5,000,000, respectively.

#### 24. DEFERRED INCOME

The deferred income arose as a result of the refund of the purchase cost of land use right. Such subsidies were generally provided in relation to the establishment of Jiangxi Jinyuan in 2005. Government grants are recognised as deferred income in the combined statement of financial position when received. It is transferred to profit or loss over the lease terms of the land use right, which is 50 years.

#### 25. AMOUNTS DUE TO RELATED COMPANIES/A DIRECTOR

The amounts were unsecured, interest free, non-trading in nature and repayable on demand. The amounts outstanding as at 31 December 2008 were fully settled during the Relevant Periods. The amount due to a related company of approximately RMB7,154,000 as at 30 June 2011 will be settled before the listing of shares of the Company on the Stock Exchange. Details of the Group's relationship with these related companies are set out in note 35.

#### 26. BANK BORROWINGS

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Secured bank borrowings ( <i>Note 2</i> ) . . .	85,330	200,000	237,737	226,412
Unsecured bank borrowings ( <i>Note 3</i> ) . . .	900	21,649	52,100	40,000
	<u>86,230</u>	<u>221,649</u>	<u>289,837</u>	<u>266,412</u>

#### Notes:

- (1) All the bank borrowings are repayable within one year based on the scheduled repayment dates set out in the respective loan agreements and therefore shown under current liabilities.
- (2) These bank borrowings were secured by the Group's land use rights, buildings, plant and machinery, inventories, bank deposits (*see note 33*) or buildings and/or land use rights owned by a related company of the Group. The Group has obtained banking facilities relating to trust receipt loans of approximately RMB20.7 million at 31 December 2010, and RMB7.4 million and USD1 million at 30 June 2011. They bore bank charges from 0.05% to 0.15% of the issued trust receipt loans. As at 31 December 2010 and 30 June 2011, the Group had trust receipt loans of approximately RMB20.7 million and RMB7.4 million respectively.  
  
Except for the trust receipt loans as mentioned above, they bore 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, 2010 and 30 June 2011.
- (3) Unsecured bank borrowings bore floating interest rate at 110% of the benchmark borrowing rate in the PRC as at 31 December 2009 and 2010 and 30 June 2011 except for an amount of RMB900,000, RMB1,649,000 and RMB2,100,000 as at 31 December 2008, 2009 and 2010, respectively, which were non-interest bearing.
- (4) The weighted average effective interest rate on bank borrowings is 7.11%, 5.66%, 5.28% and 6.30% per annum as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively. All borrowings are denominated in RMB.
- (5) As at 30 June 2011, the Group has USD1 million undrawn trust receipt loan facility. As at 31 December 2008, 2009 and 2010, the Group did not have any undrawn borrowing facilities.
- (6) Details of the guarantee or securities given by related companies over the bank borrowings are set out in note 35(d).

## 27. OBLIGATIONS UNDER FINANCE LEASES

The Group entered into sale and leaseback arrangements with certain independent third parties in relation to certain of Group's machineries during the Relevant Periods. The Group considered that these lease arrangements are finance lease as substantially all the risks and rewards incidental to ownership of these machineries retained with the Group. In addition, the Group has options to purchase the machineries with a nominal amount at the end of the lease terms. The lease terms ranged from 1 to 4 years. Interest rates underlying all obligations under finance leases are fixed at the date of inception at 4.9%, 3.0% to 3.8%, 3.0% to 8.0% and 3.0% to 8.0% per annum as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively. No arrangements have been entered into for contingent rental payments.

	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 . . . . .	<u>4,129</u>	<u>56,339</u>	<u>48,724</u>	<u>37,396</u>	4,129	56,339	48,724	37,396
Less: Amount due for settlement within 12 months (shown under current liabilities) . . . . .					<u>(4,129)</u>	<u>(18,924)</u>	<u>(24,151)</u>	<u>(24,542)</u>
Amount due for settlement after 12 months . . . . .					<u>—</u>	<u>37,415</u>	<u>24,573</u>	<u>12,854</u>

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets and denominated in RMB. The obligations with carrying amount of RMB56,339,000 and RMB37,873,000 and RMB28,634,000 as at 31 December 2009, 2010 and 30 June 2011, respectively, are also secured by deposits amounting to RMB15,521,000.

Deposit amounting to RMB12,500,000 in respect of a finance lease will be released upon the settlement of the relevant obligations with remaining lease term over 1 year. The remaining deposit will be used to settle the purchase cost of the relevant asset at the end of the lease term. This deposit bears fixed rate interest at 2% per annum and interest income is receivable upon the expiry of lease term.

As at 31 December 2009, 2010 and 30 June 2011, a related party of the Group had given guarantees to the obligation under finance leases. Details are set out in note 35(d)(ii).

**28. SHARE CAPITAL/PAID-IN CAPITAL****The Group**

The paid-in capital as at 31 December 2008, 2009 and 2010 represented the registered capital of Jiangxi Jinyuan. As at 30 June 2011, the share capital represented the combined share capital of the Company and registered capital of Jiangxi Jinyuan.

**The Company**

The Company was incorporated in Cayman Islands as an exempted company with limited liability under the Company Law of Cayman Islands on 4 May 2011.

At the date of incorporation, the authorised share capital of the Company was HK\$380,000 divided into 3,800,000 shares of HK\$0.1 each, of which 100,000 shares were allotted and issued at nil paid shares to the shareholders. On 13 June 2011, the Company further allotted and issued 900,000 nil paid shares to the Ultimate Controlling Shareholders and Orient Dynasty Holdings Limited, together with the existing 100,000 nil paid shares in issue, in exchange of the entire share capital of Jolly Success.

**29. CAPITAL MANAGEMENT**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the Group consists of net debts (which include amounts due to related companies/a director, bank borrowings and obligations under finance leases, net of cash and cash equivalents) and equity attributable to owners of the Company, comprising capital, reserves and accumulated profits.

The management of the Group reviews the capital structure on an annual basis. As part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the payment of dividends, new capital injection as well as the issue of new debt.

**30. FINANCIAL INSTRUMENTS****30a. Categories of financial instruments***The Group*

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Financial assets</b>				
Loans and receivables (including cash and cash equivalents) . . . . .	153,633	135,490	171,504	106,130
	<u>153,633</u>	<u>135,490</u>	<u>171,504</u>	<u>106,130</u>
<b>Financial liabilities</b>				
Amortised cost . . . . .	450,122	315,537	338,480	291,146
	<u>450,122</u>	<u>315,537</u>	<u>338,480</u>	<u>291,146</u>

*The Company*

	As at 30 June 2011
	RMB'000
<b>Financial liabilities</b>	
Amortised cost . . . . .	7,154
	<u>7,154</u>



**30b. Financial risk management objectives and policies**

The Group's major financial instruments include trade and other receivables, note receivables, amounts due from related companies, pledged bank deposits, cash and bank balances, trade and other payables, note payables, amounts due to related companies/a director, bank borrowings and obligations under finance leases.

The Company's major financial instrument is amount due to a related company.

Details of these financial instruments of the Group and the Company are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*Market risk**Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (*see note 26*) and obligations under finance leases (*see note 27*).

The Group is also exposed to cash flow interest rate risk in relation to the variable-rate pledged bank deposits, bank balances and bank borrowings (*see notes 21 and 26*).

The Group's exposure to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of benchmark borrowings rate in the PRC arising from the bank borrowings and fluctuation of bank deposit rates in the PRC arising from bank balances and pledged bank deposits.

*Interest rate sensitivity analysis*

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 directors considered that the interest rate fluctuation is minimal. 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/period. A 50 basis points increase or decrease is used 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, the Group's post-tax profit for the years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2011 would decrease/ increase by approximately RMB286,000, RMB875,000, RMB862,000 and RMB318,000, respectively.

*Credit risk*

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation as at 31 December 2008, 2009, 2010 and 30 June 2011 by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the combined statements of financial position.

In order to minimise the credit risk of trade receivables, the management of the Group has delegated a team responsible for determination of credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The Group also requests deposits from customers prior to sales transactions. In addition, the Group reviews the recoverable amount of each individual debt at the end of each of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

The credit risk for note receivables, pledged bank deposits and bank balances is considered as minimal as such amounts are to be settled by or placed with banks with good reputation.

The management of the Group believes that the Group is not exposed to significant credit risk with the related companies as based on historical repayment records, the Group had not encountered any difficulties in collecting from them in the past and is not aware of any financial difficulties being experienced by them.

The Group has concentration of credit risk on the Group's trade receivables as all of the customers are involved in clothing or textile industry and located in the PRC.

Other than concentration of credit risk on liquid funds which are deposited with several banks with good reputation and save as disclosed elsewhere in the Financial Information, the Group does not have any other significant concentration of credit risk.

#### *Liquidity risk*

In preparing the Underlying Financial Statements, the management of the Group has given careful consideration to the future liquidity and going concern of the Group in light of the fact that the Group's current liabilities exceeded its current assets by approximately RMB229,727,000, RMB180,163,000, RMB181,122,000 and RMB154,485,000 as at 31 December 2008, 2009, 2010 and 30 June 2011 respectively. Up to the date of this report, the Group has already obtained roll over of bank loans amounting to RMB202,000,000 and 3 years banking facilities of RMB140,000,000. Accordingly, the management of the Group is satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future, after taking into consideration the banking facilities already in place and internal financial resources and accordingly, the Underlying Financial Statements have been prepared on a going concern basis.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2008, 2009, 2010, the Group did not have unutilised bank loan facilities. As at 30 June 2011, the Group has USD1 million undrawn trust receipt loan facility. Details of which are set out in note 26.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on respective agreed repayment dates, which are also the earliest dates on which the Group can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting periods. The amounts included below for variable rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting periods.

## Liquidity and interest risk tables

## The Company

	Weighted average interest rate	On demand	1-3 months	3 months to 1 year	1 to 5 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>As at 30 June 2011</b>							
<b>Non-derivative financial liabilities</b>							
Amount due to a related company . . . . .	—	7,154	—	—	—	7,154	7,154

## The Group

	Weighted average interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	1 to 5 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>As at 31 December 2008</b>							
<b>Non-derivative financial liabilities</b>							
Trade and other payables . . . . .	—	52,992	—	33,000	—	85,992	85,992
Note payables . . . . .	—	51,000	50,300	150,700	—	252,000	252,000
Amounts due to related companies . . . . .	—	25,900	—	—	—	25,900	25,900
Obligations under finance leases . . . . .	4.89%	866	1,732	1,733	—	4,331	4,129
Bank borrowings							
— interest free . . . . .	—	400	300	200	—	900	900
— fixed . . . . .	7.27%	—	5,047	15,792	—	20,839	20,000
— variable . . . . .	7.17%	10,046	10,075	47,846	—	67,967	65,330
		141,204	67,454	249,271	—	457,929	454,251
<b>As at 31 December 2009</b>							
<b>Non-derivative financial liabilities</b>							
Trade and other payables . . . . .	—	14,888	—	—	—	14,888	14,888
Note payables . . . . .	—	13,000	46,000	15,000	—	74,000	74,000
Amount due to a director . . . . .	—	5,000	—	—	—	5,000	5,000
Obligations under finance leases . . . . .	3.12%	—	5,090	16,150	41,759	62,999	56,339
Bank borrowings							
— interest free . . . . .	—	1,549	—	100	—	1,649	1,649
— fixed . . . . .	5.31%	—	5,034	15,590	—	20,624	20,000
— variable . . . . .	5.74%	20,111	—	186,912	—	207,023	200,000
		54,548	56,124	233,752	41,759	386,183	371,876

	Weighted average interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	1 to 5 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>As at 31 December 2010</b>							
<b>Non-derivative financial liabilities</b>							
Trade and other payables . . .	—	6,993	—	—	—	6,993	6,993
Note payables . . . . .	—	5,650	16,000	20,000	—	41,650	41,650
Obligations under finance leases . . . . .	4.21%	1,712	6,233	19,370	27,075	54,390	48,724
Bank borrowings							
— interest free . . . . .	—	11,422	11,315	100	—	22,837	22,837
— fixed . . . . .	5.36%	—	5,029	66,669	—	71,698	70,000
— variable . . . . .	5.86%	10,029	—	192,768	—	202,797	197,000
Financial guarantee contracts. . . . .	—	50,000	—	—	—	50,000	—
		<u>85,806</u>	<u>38,577</u>	<u>298,907</u>	<u>27,075</u>	<u>450,365</u>	<u>387,204</u>
<b>As at 30 June 2011</b>							
<b>Non-derivative financial liabilities</b>							
Trade and other payables. . .	—	5,480	—	—	—	5,480	5,480
Note payables . . . . .	—	—	3,600	8,500	—	12,100	12,100
Amount due to a related company. . . . .	—	7,154	—	—	—	7,154	7,154
Obligations under finance leases . . . . .	4.13%	1,672	6,195	20,534	13,109	41,510	37,396
Bank borrowings							
— interest free . . . . .	—	—	—	7,412	—	7,412	7,412
— fixed . . . . .	6.14%	—	—	70,215	—	70,215	67,000
— variable. . . . .	6.60%	—	88,098	110,083	—	198,181	192,000
		<u>14,306</u>	<u>97,893</u>	<u>216,744</u>	<u>13,109</u>	<u>342,052</u>	<u>328,542</u>

The amount included above for financial guarantee contracts is the maximum amount the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at 31 December 2010, the Group considers that it is more likely than not that no amount will be payable under the arrangement. The guarantees have been released during the six months ended 30 June 2011.

### 30c. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate to their fair values.

**31. CAPITAL COMMITMENTS**

	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 Information in respect of acquisition of property, plant and equipment . . . . .	2,631	—	12,550	—
	2,631	—	12,550	—

**32. RETIREMENT BENEFIT SCHEME**

The employees of Jiangxi Jinyuan are mainly workers with rural residence which Jiangxi Jinyuan does not have mandatory obligation to pay social insurance payments for these workers pursuant to the regulations regarding rural social security systems. Certain of the remaining employees contribute to retirement benefit scheme in accordance with the relevant regulations of local authority. It is required to contribute certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to combined statements of comprehensive income of approximately RMB6,000, RMB19,000, RMB38,000, RMB12,000 (unaudited) and RMB41,000 for the years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2010 and 2011, respectively, represent contribution paid to the scheme for the Relevant Periods.

**33. PLEDGED OF ASSETS**

Assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group or borrowings of the Group (*see notes 26 and 27*):

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment . . . . .	208,677	196,618	198,591	193,418
Prepaid lease payments . . . . .	12,367	12,105	12,438	12,278
Inventories . . . . .	—	19,070	20,000	46,980
Pledged bank deposits . . . . .	106,201	42,801	29,609	54,332
Secured deposits for obligations under finance leases . . . . .	—	15,521	15,521	15,521
	327,245	286,115	276,159	322,529

In addition, the Group's obligations under finance leases (*see note 27*) are secured by the lessors' title to the leased assets, which have a carrying amount of RMB11.95 million, RMB70.67 million, RMB56.36 million and RMB50.58 million as at 31 December, 2008, 2009, 2010 and 30 June 2011, respectively.

**34. CONTINGENT LIABILITIES**

As at 31 December 2010, the Group issued financial guarantees to banks in respect of banking facilities granted to a related company. These guarantees have been released during the six months ended 30 June 2011. Details are set out in note 35(d)(iv).

## 35. RELATED PARTY TRANSACTIONS

- (a) Names of related companies which have balances with the Group and their relationships with the Group are as follows:

Name of related company	Relationship with the Group
(i) 福建省金綸高纖股份有限公司 (Fujian Jinlun Fiber Joint Stock Co., Ltd.*) ("Fujian Jinlun") . . .	Mr. Zheng Baoyou, father of Mr. Zheng Hong, one of the Ultimate Controlling Shareholders of Jiangxi Jinyuan, is the chairman and legal representative of this related company. 福建省長樂市金源紡織有限公司 (see below) had significant influence through holding of 46.55% equity interest in this related company ( <i>note</i> )
(ii) 江西寶源彩紡有限公司 (Jiangxi Baoyuan Colourful Textile Co., Ltd.*) . . . . .	Ms. Lin Xiaochun, mother of Mr. Zheng Hong, and a brother of Mr. Zheng Hong held 47.5% and 30% equity interests in this related company respectively on trust for a third party as security for repayment of loans advanced by them to this third party ( <i>note</i> )
(iii) 奉新寶誠房地產有限公司 (Fengxin Baocheng Real Estate Limited*) . . . . .	a director of Jiangxi Jinyuan, Mr. Zheng Yongxiang, is a controlling shareholder of this related company
(iv) 福建省長樂市金源紡織有限公司 (Fujian Changle Jinyuan Textiles Limited*) . . . . .	a director of Jiangxi Jinyuan, Mr. Zheng Yongxiang and his uncle collectively controlled this related company ( <i>note</i> ). Mr. Zheng Yongxiang and his uncle held 40% and 15% equity interest in this related company respectively
(v) 奉新縣長新投資發展有限公司 (Fengxin County Changxin Investment Development Limited*) . . . . .	a director of Jiangxi Jinyuan, Ms. Chen Xiuyin is a controlling shareholder of this related company
(vi) 福建省長樂市元隆針紡有限公司 (Fujian Changle Yuanlong Knitting Limited*) . . . . .	Ms. Chen Ailan, wife of Mr. Zheng Hong, held 25% equity interests in this related company
(vii) 高新織材(香港)有限公司 (High-Tech Woven Material (Hong Kong) Limited) . . . . .	Mr. Zheng Hong, is a controlling shareholder of this related company

*Note:*

On 13 December 2010, Mr. Zheng Yongxiang disposed of his shareholdings in item (iv) to a third party. On 8 March 2011, Ms. Lin Xiaochun and the brother of Mr. Zheng Hong transferred their entire shareholdings in item (ii) to a third party upon agreement to early repay the loan to this third party.

\* English translated name is for identification purposes only

- (b) Name of related party who is an individual and has balance with the Group as at the end of respective reporting periods and his relationship with the Group are as follows:

Name of related party	Relationship with the Group
Zheng, Hong. . . . .	Director and one of the Ultimate Controlling Shareholders of Jiangxi Jinyuan

- (c) The Group had the following material transactions with its related parties during the Relevant Periods:

Notes	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
Purchase of raw materials from a related company ( <i>note</i> ) . . . . .	32,734	45,850	38,464	21,941	3,385
Non-trading advance to related companies . . . . .	20	17,807	47,249	36,485	7,685
Repayment from related companies . . . . .	20	3,100	39,206	60,935	26,250
Repayment to related companies . . . . .	25	10,000	25,900	10,000	—
Non-trading advance from a related company . . . . .	25	—	—	10,000	10,000
Non-trading advance from (repayment to) a director . . . . .	25	—	5,000	(5,000)	—

*Note:* Apart from the purchase from Fujian Jinlun as disclosed above, Jiangxi Jinyuan had purchased raw materials from Fujian Jinlun through a trading company amounting to RMB11,737,000 during the year ended 31 December 2008.

The related party transactions other than advance will continue after the listing of shares of the Company on the Stock Exchange.

- (d) The Group had the following material transactions with related parties at end of each reporting period:

- (i) Secured bank borrowings of RMB20 million, RMB20 million, RMB20 million and RMB15 million as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively, were secured by the buildings and/or land use rights owned by a related company.

Also, secured bank borrowings of RMB45.33 million, RMB140 million, RMB100 million and RMB65 million as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively, are guaranteed by certain related companies, certain directors of the Company and/or father of certain directors of the Company and the guarantees will be released before the listing of shares of the Company on the Stock Exchange.

Unsecured bank borrowings of RMB20 million, RMB50 million and RMB40 million as at 31 December 2009, 2010 and 30 June 2011, respectively, were guaranteed by certain related companies and certain directors of the Company and/or director of a related company and the guarantees will be released before the listing of shares of the Company on the Stock Exchange.

- (ii) As at 31 December 2009, 2010 and 30 June 2011, Fujian Jinlun has given guarantees to Jiangxi Jinyuan for its obligations under finance leases with carrying amount of RMB50 million, RMB33.33 million and RMB25 million, respectively and the guarantees will be released before the listing of shares of the Company on the Stock Exchange.
- (iii) As at 31 December 2008, 2009, 2010 and 30 June 2011, certain directors of the Company have provided unlimited personal guarantee to banks in respect of general facilities granted to Jiangxi Jinyuan.
- (iv) As at 31 December 2010, Jiangxi Jinyuan has given guarantees to Fujian Jinlun for its bank borrowings with maximum amount of RMB50 million which have been utilised in full by this related company. Fair value of the financial guarantee contracts is considered as insignificant at initial recognition. No provision for financial guarantee contracts has been made as the default risk is low. As at 30 June 2011, all guarantees have been released.
- (v) During the years ended 31 December 2008 and 2009, approximately RMB124,400,000 and RMB26,025,000 respectively notes were issued to a related party and third parties for financing purposes.
- (vi) As at 31 December 2008, 2009 and 2010, note receivables amounting to RMB900,000, RMB1,649,000 and RMB2,100,000 have been endorsed to a related company for financing purposes.





## The Group

	Note	As at 31 December			As at 30 June
		2008	2009	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000
<b>Due to related companies</b>	25				
福建省長樂市金源紡織有限公司 (Fujian Changle Jinyuan Textiles Limited) . . . . .		20,000	—	—	—
奉新縣長新投資發展有限公司 (Fengxin County Changxin Investment Development Limited) . . . . .		5,900	—	—	—
高新織材(香港)有限公司 (High-tech Woven Material (Hong Kong) Limited) . . . . .		—	—	—	7,154
		<u>25,900</u>	<u>—</u>	<u>—</u>	<u>7,154</u>
<b>Due to a director</b>	25				
Zheng, Hong . . . . .		—	5,000	—	—
		<u>—</u>	<u>5,000</u>	<u>—</u>	<u>—</u>

## The Company

	Note	As at 31 December			As at 30 June
		2008	2009	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000
<b>Due to a related company</b>	25				
高新織材(香港)有限公司 (High-tech Woven Material (Hong Kong) Limited) . . . . .		—	—	—	7,154
		<u>—</u>	<u>—</u>	<u>—</u>	<u>7,154</u>

## (f) Compensation of key management personnel

The remuneration of key management members, who are the executive directors of Jiangxi Jinyuan during the Relevant Periods was as follows:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Short-term benefits . . . . .	265	265	265	251
Post-employment benefits . . . . .	—	—	—	—
	<u>265</u>	<u>265</u>	<u>265</u>	<u>251</u>

The remuneration of executives is determined by the directors of Jiangxi Jinyuan having regard to the performance of individuals and market trends.

**B. DIRECTORS' REMUNERATION**

Save as disclosed herein, no remuneration has been paid or is payable to the Company's directors by the Company or any of its subsidiaries during the Relevant Periods.

Under the arrangements presently in force, the aggregate remuneration of the Company's directors for the year ending 31 December 2011 paid or payable by the Company or any of its subsidiaries is expected to be approximately RMB370,000.

**C. EVENTS AFTER THE REPORTING PERIOD**

The following events took place subsequent to 30 June 2011:

- (a) On 14 October 2011, the Ultimate Controlling Shareholders transferred their equity interest in Jiangxi Jinyuan to Treasure Resources in exchange of the allotment and issue of 1,000 shares of Treasure Resources to Jolly Success and accordingly, the Company became the holding company of companies now comprising the Group.
- (b) Pursuant to the shareholders' resolutions passed on 3 December 2011 to approve the matters set out in the paragraph headed "Resolutions in Writing of All the Shareholders Passed on 3 December 2011" in Appendix VI to the Prospectus:
  - (i) the authorised share capital of the Company was increased from HK\$380,000 to HK\$1,000,000,000 by the creation of an additional 9,996,200,000 shares of HK\$0.1 each;
  - (ii) conditional on the share premium account of the Company being credited as a result of the issue of shares by the Company pursuant to the global offering of the Company, the Directors of the Company were authorised to capitalise an amount of up to HK\$74,900,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 749,000,000 shares of HK\$0.1 each, such shares to be allotted and issued to the shareholders whose names appearing on the register of members of the Company at the close of business on 3 December 2011 (or as such shareholders may direct) in proportion (as nearly as possible without fractions) to their existing shareholdings in the Company; and
  - (iii) principal terms of the share option scheme were approved and adopted by the shareholders of the Company. Details are set out in Appendix VI to the Prospectus.

**D. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any financial periods subsequent to 30 June 2011.

Yours faithfully,  
**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

The information set out in this Appendix does not form part of the accountants' report on the financial information of the Group for the three years ended 31 December 2010 and six months ended 30 June 2011 (the "Accountants' Report") from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, our Company's reporting accountants, as set out in Appendix I to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

#### A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out here to provide investors with further information about how the Global Offering might have affected the consolidated net tangible assets of the Group attributable to the owners of the Company after completion of the Global Offering as if the Global Offering had taken place on 30 June 2011. Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a true picture of the Group's financial positions at any future date.

The following is an unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to the owners of the Company which is based on the audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2011 as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the 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 the owners of the Company as at 30 June 2011	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per Share	
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000	RMB (Note 3)	HK\$ (Note 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 the Company as at 30 June 2011 is approximately RMB258.6 million, as extracted from accountants' report on the financial information of the Group for the three years ended 31 December 2010 and the six months ended 30 June 2011 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 the 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 the Company per Share amounts in RMB are converted into 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 the Group's consolidated financial statements in subsequent reporting periods as the Group has elected to measure the property interest using cost model. If the revaluation surplus was recorded in the Group's consolidated financial statements, an additional depreciation and amortisation charge of approximately RMB1,154,000 per annum would be incurred.

## B. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast earnings per share have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had been taken place on 1 January 2011. This unaudited pro forma forecast earnings per share has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of financial results of the Group for the year ending 31 December 2011 or any future periods.

Forecast consolidated profit attributable to the owners of  
the Company for the year ending 31 December 2011<sup>(1)</sup> . . . . . Not less than RMB59 million  
(equivalent to HK\$73.8 million)<sup>(3)</sup>

Unaudited forecast earnings per Share  
on a pro forma basis<sup>(2)</sup> . . . . . Not less than RMB5.9 cents  
(equivalent to HK\$7.4 cents)<sup>(3)</sup>

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*Notes:*

- (1) The forecast consolidated profit attributable to the owners of the Company for the year ending 31 December 2011 is extracted from the section headed "Financial Information — Profit Forecast for the year ending 31 December 2011" in this Prospectus. The bases and assumptions on which the above profit forecast has been prepared are summarised in Appendix III to this Prospectus.
- (2) The unaudited forecast earnings per share on a pro forma basis is calculated by dividing the forecast consolidated profit attributable to the owners of the Company for the year ending 31 December 2011 by 1,000,000,000 Shares assumed to be issued and outstanding throughout the year ending 31 December 2011 as if the Global Offering and Capitalisation Issue had been completed on 1 January 2011. The number of shares used in this calculation includes the Shares in issue as at the date of this Prospectus and the Shares to be issued pursuant to the Global Offering and Capitalisation Issue but excludes 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.
- (3) The unaudited pro forma forecast earnings per Share and forecast consolidated profit of the Group attributable to the owners of the Company in RMB are converted into HK\$ at an exchange rate of 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.

**C. REPORT FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of an accountants' report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, for the purpose of incorporation in this prospectus.*

**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA WEAVING MATERIALS HOLDINGS LIMITED**

We report on the unaudited pro forma financial information of China Weaving Materials Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the Global Offering of 250,000,000 shares at a minimum and maximum indicative offer price of HK\$0.60 and HK\$0.73 each in the Company, might have affected the financial information presented, for inclusion in Appendix II of the prospectus dated 12 December 2011 (the "Prospectus"). The basis of preparation of the unaudited pro forma financial information is set out in Parts A and B of Appendix II to the Prospectus.

**Respective responsibilities of directors of the Company and reporting accountants**

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Group as at 30 June 2011 or any future date.
- the earnings per share of the Group for the year ending 31 December 2011 or any future period.

**Opinion**

In our opinion:

- a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu  
Certified Public Accountants  
Hong Kong

12 December 2011

*The forecast of the consolidated profit attributable to owners of the Company for the year ending 31 December 2011 is set out in the paragraph headed “Profit Forecast” in the section headed “Financial Information” in this Prospectus.*

#### **BASIS AND ASSUMPTIONS**

The forecast of the consolidated profit attributable to owners of the Company for the year ending 31 December 2011 prepared by the Directors is based on the audited results of the Group for the six months ended 30 June 2011, the results shown in the unaudited management accounts of our Group for the four months ended 31 October 2011 and a forecast of the results of our Group for the remaining two months of the financial year ending 31 December 2011. The forecast has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by our Group as summarised in the accountants’ report, the text of which is set out in Appendix I to this prospectus and is based on the following principal basis and assumptions:

- (a) there will be no material changes in existing government policies or political, legal (including changes in legislation or regulations or rules), fiscal or economic conditions in Hong Kong, the PRC or any other places in which any member of our Group is incorporated, carries on business;
- (b) there will be no material changes in the bases or rates of taxation or duties applicable to the activities of our Group in Hong Kong, in the PRC, or any other place in which our Group operates or in which any member of our Group is incorporated;
- (c) there will be no material adverse changes in rates of inflation, the foreign currency exchange rates and interest rates from those currently prevailing;
- (d) the Group’s operations and financial performance will not be materially and adversely impacted by any of the risk factors set out in “Risk Factors” in this prospectus;
- (e) there will be no material change in accounting standards or financial reporting requirements which will have significant impact on the preparation of the profit forecast; and
- (f) there will be no abnormal or extraordinary items during the profit forecast period.

#### **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 “Financial Information — 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 “Financial Information — 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 <sup>(1)</sup>	+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)
<u>Resulting forecast profit after tax</u> <u>for the year ending 31 December 2011</u> (RMB million) . . . . .	132.6	95.8	73.7	66.4	59.0	51.6	44.3	15.2	(33.9)
<b>Percentage change in the average unit purchase price of our raw materials<sup>(2)</sup></b>	<b>+50%</b>	<b>+25%</b>	<b>+10%</b>	<b>+5%</b>	<b>0%</b>	<b>-5%</b>	<b>-10%</b>	<b>-25%</b>	<b>-50%</b>
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
<u>Resulting forecast profit after tax</u> <u>for the year ending 31 December 2011</u> (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 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.”



**LETTERS**

Set out below are texts of letters received by the Directors from (i) Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, reporting accountants of our Company, and (ii) the Sole Sponsor prepared for the purpose of incorporation in this prospectus in connection with the profit forecast of our Group for the year ending 31 December 2011.

**LETTER FROM THE REPORTING ACCOUNTANTS**

**Deloitte.**  
**德勤**

德勤·關黃陳方會計師行  
香港金鐘道88號  
太古廣場一座35樓

Deloitte Touche Tohmatsu  
35/F, One Pacific Place  
88 Queensway  
Hong Kong

12 December 2011

The Directors  
China Weaving Materials Holdings Limited  
Guotai Junan Capital Limited

Dear Sirs,

We have reviewed the accounting policies adopted and calculations made in arriving at the forecast of the consolidated profit of China Weaving Materials Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ending 31 December 2011 attributable to owners of the Company (the “Forecast”), for which the directors of the Company are solely responsible, as set out in the prospectus dated 12 December 2011 issued by the Company (the “Prospectus”). The Forecast is prepared based on the audited results of the Group for the six months ended 30 June 2011, the results shown in the unaudited management accounts of the Group for the four months ended 31 October 2011, and a forecast of the results of the Group for the remaining two months of the financial year ending 31 December 2011.

In our opinion the Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions made by the directors of the Company as set out in Appendix III to the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants’ report on the financial information of the Group for the three years ended 31 December 2010 and the six months ended 30 June 2011 as set out in Appendix I to the Prospectus.

Yours faithfully,  
**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

**LETTER FROM THE SOLE SPONSOR**

*The following is the text of a letter, prepared for inclusion in this prospectus, which we have received from Guotai Junan Capital Limited, the Sole Sponsor, in connection with the profit forecast of the consolidated profit of China Weaving Materials Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) attributable to owners of the Company for the year ending 31 December 2011.*

**Guotai Junan Capital Limited**

27/F, Low Block  
Grand Millennium Plaza  
181 Queen’s Road Central  
Hong Kong

12 December 2011

The Board of Directors  
China Weaving Materials Holdings Limited

Dear Sirs,

We refer to the forecast of the consolidated profit of China Weaving Materials Holdings Limited (the “**Company**”) and its subsidiaries (together the “**Group**”) for the year ending 31 December 2011 attributable to owners of the Company (the “**Profit Forecast**”), as set out under the paragraph headed “Profit forecast” in the section headed “Financial Information” in the prospectus issued by the Company dated 12 December 2011 (the “**Prospectus**”).

The Profit Forecast, for which the directors of the Company (the “**Directors**”) are solely responsible, has been prepared by you based on the audited results of the Group for the six months ended 30 June 2011, the results shown in the unaudited management accounts of the Group for the four months ended 31 October 2011 and a forecast of the results of the Group for the remaining two months ending 31 December 2011.

We have discussed with you the bases and assumptions upon which the Profit Forecast has been made. We have also considered the letter dated 12 December 2011 addressed to you and us from Deloitte Touche Tohmatsu (the “**Reporting Accountants**”) regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the information comprising the Profit Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by the Reporting Accountants, we are of the opinion that the Profit Forecast, for which you as the Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully,  
For and on behalf of  
**Guotai Junan Capital Limited**  
**Anthony Wong**  
*Executive Director/Deputy General Manager*

*The following is the text of a letter, and valuation certificate, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at 31 October 2011 of the property interest of the Group.*



Jones Lang LaSalle Sallmanns Limited  
6/F Three Pacific Place  
1 Queen's Road East Hong Kong  
tel +852 2169 6000 fax +852 2169 6001  
Licence No: C-030171

12 December 2011

The Board of Directors  
China Weaving Materials Holdings Limited

Dear Sirs,

In accordance with your instructions to value the property in which China Weaving Materials Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital value of the property interest as at 31 October 2011 (the "date of valuation").

Our valuation of the property interest represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

Due to the nature of the buildings and structures of the property and the particular location in which it is situated, there are unlikely to be relevant market comparables sales readily available. The property interest has therefore been valued on the basis of its depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interest.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interest valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates, and official plans relating to the property interest and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interest in the PRC and any material encumbrance that might be attached to the property interest or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers — Commerce & Finance Law Offices, concerning the validity of the property interest in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the property. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the property is free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation certificate is hereby enclosed.

Yours faithfully,  
For and on behalf of  
**Jones Lang LaSalle Sallmanns Limited**  
**Gilbert C.H. Chan**  
*MRICS MHKIS RPS(GP)*  
*Director*

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*Note:* Gilbert C.H. Chan is a Chartered Surveyor who has 19 years' experience in the valuation of properties in Hong Kong and 18 years of property valuation experience in the PRC as well as relevant experience in the Asia-Pacific region.

## VALUATION CERTIFICATE

## Property Interest Held and Occupied by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2011
			RMB
5 parcels of land 31 buildings and various ancillary structures located at Fengtian Industrial District Fengxin County Yichun City Jiangxi Province the PRC	<p>The property comprises 5 parcels of land with a total site area of approximately 297,600 sq.m. and 31 buildings and various ancillary structures erected thereon which were completed in various stages between 2006 and 2011.</p> <p>The buildings have a total gross floor area of approximately 208,916.72 sq.m.</p> <p>The buildings mainly include 9 industrial buildings, 17 dormitory buildings, an office building, 3 warehouse buildings and a canteen.</p> <p>The structures mainly include water tank, boundary fences, roads and gates.</p> <p>The land use rights of the property have been granted for various terms with the expiry date between 24 April 2052 and 25 June 2060 for industrial use.</p>	The property is currently occupied by the Group for production, staff quarters and auxiliary office purposes.	<p>220,700,000</p> <p>100% interest attributable to the Group: RMB220,700,000</p>

*Notes:*

- Pursuant to 5 State-owned Land Use Rights Certificates — Feng Guo Yong (2006) Di Nos. A1050357-1, A1050357-2, Feng Guo Yong (2007) Di Nos. A1050433, A1050134 and Feng Guo Yong (2010) Di No. 11050583, the land use rights of 5 parcels of land with a total site area of approximately 297,600 sq.m. have been granted to Jiangxi Jinyuan Textile Ltd. (“Jinyuan”) (江西金源紡織有限公司) for various terms with expiry date between 24 April 2052 and 25 June 2060 for industrial use with a total consideration of RMB14,935,320.
- Pursuant to 19 Building Ownership Certificates — Feng Fang Quan Zheng Feng Zi Di Nos. 012763, 012764, 012765, 012766, 012767, 012768, 012769, 015049, 015048, 017737, 017736, 017735, 015840, 015839, 015923, 015924, 015925, Feng Fang Quan Zheng Feng Xin Zi Di Nos. 20111094 and 20111095, 31 buildings with a total gross floor area of approximately 208,916.72 sq.m. are owned by Jinyuan.
- Pursuant to a Mortgage Contract of Maximum Amount — 2011 Chang Zi Di No. 005411006, the land use rights of a parcel of land with an area of approximately 100,400 sq.m. under the State-owned Land Use Rights Certificate — Feng Guo Yong (2006) Di No. A1050433 and buildings with a total gross floor area of approximately 61,483.04 sq.m. under the Building Ownership Certificate Feng Fang Quan Zheng Zi Di No. 015840 are subject to a mortgage in favour of Nanchang Changbei Branch of China Merchants Bank Company Limited, as security to guarantee the principal obligation under the contract for a maximum amount of RMB65,000,000 with a security term from 8 July 2011 to 7 July 2012.
- Pursuant to a Mortgage Contract of Maximum Amount — No. 04(2011)368, the land use rights of a parcel of land with an area of approximately 108,000 sq.m. under the state-owned Land Use Rights Certificate — Feng Guo Yong (2006) Di No. A1050357-1 and buildings with a total gross floor area of approximately 50,775.4 sq.m. under 4 Building Ownership Certificates Feng Fang Quan Zheng Zi Di Nos. 012763, 012764, 012765 and 012767 are subject to a mortgage in favour of Nanchang Donghu Branch of Communications Limited, as security to guarantee the principal obligation under the contract of a maximum amount of RMB46,250,000 with a security term of 1 year from 16 September 2011.

5. Pursuant to a Mortgage Contract of Maximum Amount — Feng Gong Liu Di (2010) No. 001 (奉工流抵(2010)001號), the land use rights of a parcel of land with an area of approximately 15,600 sq.m. under the State-owned Land Use Rights Certificate — Feng Guo Yong (2007) Di A1050134; and 4 buildings with a total gross floor area of approximately 22,709.39 sq.m. under the Building Ownership Certificates Feng Fang Quan Zheng Zi Di Nos. 015839, 015923, 015924 and 015925 are subject to a mortgage in favour of Fengxin Sub-branch of China Construction Bank Limited, as security to guarantee the principal obligation under the contract for a maximum amount of RMB38,000,000 with a security term from 8 April 2010 to 7 April 2013.
6. Pursuant to a Mortgage Contract of Maximum Amount — Xing Yin Gan Hong Gao Di Zi Di No. 20110005 (興銀贛洪高抵字第20110011號), the land use rights of a parcel of land with an area of approximately 54,000 sq.m. under the State-owned Land Use Rights Certificate — Feng Guo Yong (2006) Di No. A1050357-2, 13 buildings with a total gross floor area of approximately 47,844.02 sq.m. under the Building Ownership Certificates Feng Fang Quan Zheng Zi Di Nos. 012766, 012768, 012769, 015049, 015043 and 017737 are subject to a mortgage in favour of Nanchang Branch of Industrial Bank Company Limited, as security to guarantee the principal obligation under the contract for a maximum amount of RMB30,000,000 with a security term from 25 March 2011 to 31 March 2012.
7. Pursuant to a Mortgage Contract of Maximum Amount — (2011) Hong Yin Di Zi Di No. 050536 ((2011)洪銀抵字第050536號), the land use rights of a parcel of land with an area of approximately 19,600 sq.m. under the State-owned Land Use Rights Certificate — Feng Guo Yong (2010) Di No. 11050563; and 4 buildings with a total gross floor area of approximately 25,820.11 sq.m. under the Building Ownership Certificates Feng Fang Quan Zheng Feng Xin Zi Di Nos. 2011094 and 2011095 are subject to a mortgage in favour of Nanchang Branch of China CITIC Bank Corporation Limited, as security to guarantee the principal obligation under the contract for a maximum amount of RMB20,000,000 with a security term from 22 September 2011 to 23 September 2012.
8. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
  - a. Jinyuan is the legal owner of the property and has the right to lease, transfer, mortgage or use the property; and
  - b. Except for the aforesaid mortgage, the property is not subject to any restriction arising from any other mortgage registration or any third parties rights.

<b>APPENDIX V      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN COMPANY LAW</b>
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Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 4 May 2011 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

## **1. MEMORANDUM OF ASSOCIATION**

- (a) The Memorandum states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

## **2. ARTICLES OF ASSOCIATION**

The Articles were adopted on 3 December 2011. The following is a summary of certain provisions of the Articles:

### **(a) Directors**

#### *(i) Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of



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the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

*(ii) Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

*(iii) Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

*(iv) Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

*(v) Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

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Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or

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- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or

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fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

*(vii) Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

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The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

*(viii) Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*Note:* These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

*(ix) Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

*(x) Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

**(b) Alterations to constitutional documents**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

**(c) Alteration of capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

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- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

**(d) Variation of rights of existing shares or classes of shares**

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

**(e) Special resolution-majority required**

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by

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the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

**(f) Voting rights**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

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**(g) Requirements for annual general meetings**

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

**(h) Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.



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**(i) Notices of meetings and business to be conducted thereat**

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

**(j)      Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

**(k) Power for the Company to purchase its own shares**

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

**(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

**(m) Dividends and other methods of distribution**

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid *pro rata* according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular

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dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

**(n) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

**(o) Call on shares and forfeiture of shares**

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty

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per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

**(p) Inspection of register of members**

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

**(q) Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

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A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

**(r) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

**(s) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

**(t) Untraceable members**

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such

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shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

**(u) Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

**3. CAYMAN ISLANDS COMPANY LAW**

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

**(a) Operations**

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

**(b) Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

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The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

**(c) Financial assistance to purchase shares of a company or its holding company**

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.



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Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

**(f) Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

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Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

**(g) Management**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(h) Accounting and auditing requirements**

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

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The undertaking for the Company is for a period of twenty years from 20 May 2011.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

**(m) Inspection of corporate records**

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

**(n) Winding up**

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

<b>APPENDIX V      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN COMPANY LAW</b>
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For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

**(o) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

**(p) Compulsory acquisition**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**(q) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

**4. GENERAL**

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix VII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

**FURTHER INFORMATION ABOUT OUR COMPANY AND ITS SUBSIDIARIES****Incorporation**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 4 May 2011. Our Company has established a principal place of business in Hong Kong at Room 1321, Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the Hong Kong Companies Ordinance on 5 December 2011. Mr. Cheung Chi Fai, Frank of Flat 1213, 12/F, Block M, Kornhill, 45 Hong Yue Street, Hong Kong has been appointed as the authorised representative of our Company for acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, it is subject to the Companies Law and its constitution which comprises the Memorandum of Association and the Articles of Association. A summary of certain provisions of our Company's constitution and relevant aspects of the Companies Law is set out in Appendix V to this Prospectus.

**Change in Share Capital of Our Company**

As at the date of incorporation, the authorised share capital of our Company was HK\$380,000 divided into 3,800,000 Shares, of which 100,000 Shares were allotted and issued nil paid and held as to 68,500 Shares by Popular Trend, 18,000 Shares by Flourish Talent, 9,000 Shares by Da Yu Investments and 4,500 Shares by Integrity Technology.

On 7 May 2011, Popular Trend, Flourish Talent, Da Yu Investments and Integrity Technology transferred 6,165 Shares, 1,620 Shares, 810 Shares and 405 Shares to Orient Dynasty respectively.

On 13 June 2011, our Company entered into a sale and purchase agreement with Popular Trend, Flourish Talent, Da Yu Investments, Integrity Technology and Orient Dynasty whereby our Company acquired the entire issued share capital of Jolly Success in consideration of (a) the crediting as fully paid at par the 100,000 nil-paid Shares in issue; and (b) the allotment and issue of 900,000 Shares as to 561,015 Shares to Popular Trend, 147,420 Shares to Flourish Talent, 73,710 Shares to Da Yu Investments and 36,855 Shares to Integrity Technology and, as directed by Popular Trend, Flourish Talent, Da Yu Investments and Integrity Technology, 81,000 Shares to Orient Dynasty.

Pursuant to the resolutions in writing of all the Shareholders passed on 3 December 2011, the authorised share capital of the Company was increased from HK\$380,000 to HK\$1,000,000,000 by the creation of an additional 9,996,200,000 Shares.

Immediately following completion of the Global Offering and the Capitalisation Issue but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, the issued share capital of our Company will be HK\$100,000,000 divided into 1,000,000,000 Shares, all fully paid or credited as fully paid and 9,000,000,000 Shares will remain unissued.

Save for aforesaid and as mentioned in the paragraph headed "Resolutions in Writing of All the Shareholders Passed on 3 December 2011" below, there has been no alteration in the share capital of our Company since its incorporation.

**Resolutions in Writing of All the Shareholders Passed on 3 December 2011**

On 3 December 2011, resolutions in writing were passed by all the Shareholders, pursuant to which, among other things:

- (a) the authorised share capital of our Company was increased from HK\$380,000 to HK\$1,000,000,000 by the creation of an additional 9,996,200,000 Shares;
- (b) our Company approved and adopted the Articles of Association;
- (c) conditional on (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this Prospectus (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme); (ii) the Offer Price being determined by the Price Determination Date; and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:
  - (i) the Global Offering and the Over-allotment Option were approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Global Offering and such any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option;
  - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “Share Option Scheme” in this Appendix, were approved and adopted and our Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme and to take all such steps as may be necessary and/or desirable to implement and give effect to the Share Option Scheme; and
  - (iii) conditional on the share premium account of our Company being credited as a result of the issue of the Offer Shares by our Company pursuant to the Global Offering, our Directors were authorised to capitalise an amount of up to HK\$74,900,000 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 749,000,000 Shares, such Shares to be allotted and issued to the Shareholders whose names appearing on the register of members of our Company at the close of business on 3 December 2011 (or as such Shareholders may direct) in proportion (as nearly as possible without fractions) to their existing shareholdings in our Company.
- (d) a general unconditional mandate was given to our Directors to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than pursuant to a rights issue or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or pursuant to the Over-allotment Option and the grant of options under the Share Option Scheme or other similar arrangement or pursuant to a specific authority granted by our Shareholders in general meeting, unissued Shares with a total nominal value not exceeding 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering and Capitalisation Issue

(excluding any Shares which may be issued pursuant to the Over-allotment Option and any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws of the Cayman Islands to be held, or until revoked or varied or renewed by an ordinary resolution of the Shareholders at a general meeting of our Company, whichever occurs first;

- (e) a general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other approved stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue (excluding any Shares which may be issued pursuant to the Over-allotment Option and any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws of the Cayman Islands to be held, or until revoked or varied or renewed by an ordinary resolution of the Shareholders at a general meeting of our Company, whichever occurs first; and
- (f) the general unconditional mandate mentioned in paragraph (d) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (e) above.

### **Corporate Reorganisation**

In preparing for the Listing, our Group underwent the Corporate Reorganisation, details of which are set forth in the section headed “Corporate Reorganisation” in this Prospectus.

### **Changes in Share Capital of Subsidiaries of our Group**

Subsidiaries of our Company are referred to in the Accountants’ Report, the text of which is set out in Appendix I to this Prospectus.

Save as disclosed in the section headed “History and Corporate Structure” in this Prospectus and the paragraph headed “Change in Share Capital of our Company” in this Appendix, there are no changes in the registered capital of our Company’s subsidiaries during the two years preceding the date of this Prospectus.



**Repurchase of Shares by our Company***(a) Provisions of the Listing Rules*

The Listing Rules permit companies whose primary listing is on the Main Board of the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

*(i) Shareholders' approval*

All proposed repurchases of securities on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by the Shareholders on 3 December 2011, the Repurchase Mandate was granted to our Directors authorising the repurchase by our Company on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and options that may be granted under the Share Option Scheme), at any time until the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by any applicable law of the Cayman Islands or the Articles of Association to be held or when such mandate is revoked or varied or renewed by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest.

*(ii) Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles of Association and the laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

*(b) Reasons for repurchases*

The Directors believe that it is in the best interests of our Company and its Shareholders for our Directors to have a general authority from Shareholders to enable our Company to repurchase Shares on the market. Repurchases of Shares will only be made when the Directors believe that such repurchases will benefit our Company and its members. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of our Company and its assets and/or its earnings per Share.

(c) *Funding of repurchases*

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles of Association and the applicable laws of the Cayman Islands.

It is presently proposed that any repurchase of Shares will be made out of the profits of our Company, the share premium account of our Company or the proceeds of a fresh issue of shares made for the purpose of the purchase or, subject to the Companies Law, out of capital and, in the case of any premium payable on the purchase, out of either or both of the profits of our Company or the share premium account of our Company or, subject to the Companies Law, out of capital.

The Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or its gearing levels which, in the opinion of our Directors, are from time to time appropriate for our Company.

(d) *General*

None of our Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules), has any present intention to sell any Shares to our Company or its subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands. Our Company has not repurchased any Shares in the previous six months.

No connected person (as defined in the Listing Rules) has notified our Company that he/she or it has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

If as a result of a securities repurchase pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). Accordingly, a Shareholder, or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. Our Directors are not aware of any consequences which may arise under the Takeovers Code if the Repurchase Mandate is exercised.

## FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

### Summary of Material Contracts


The following contracts (not being contracts in the ordinary course of business) have been entered into by our Company or any of its subsidiaries within the two years preceding the date of this Prospectus and are or may be material:

- (a) a sale and purchase agreement dated 13 June 2011 and entered into between (aa) Popular Trend Holdings Limited, Flourish Talent Group Limited, Da Yu Investments Limited, Integrity Technology Investment Ltd.; (bb) Zheng Hong, Sze Irons, Lin Sing Yun, Chow Ping; (cc) Orient Dynasty Holdings Limited; and (dd) our Company whereby our Company acquired the entire issued share capital of Jolly Success International Limited in consideration of (i) the crediting as fully paid at par the 100,000 nil-paid Shares in issue; and (ii) the allotment and issue of 561,015 Shares to Popular Trend Holdings Limited, 147,420 Shares to Flourish Talent Group Limited, 73,710 Shares to Da Yu Investments Limited, 36,855 Shares to Integrity Technology Investment Ltd. and 81,000 Shares to Orient Dynasty Holdings Limited;
- (b) an equity interests transfer agreement entered into on 18 June 2011 between (a) Zheng Hong, Sze Irons, Lin Sing Yun and Chow Ping as transferors (together, the “**Transferors**”); and (b) Treasure Resources Corporation Limited as transferee whereby the Transferors agreed to transfer 100% equity interests in Jiangxi Jinyuan to Treasure Resources Corporation Limited at a total consideration of RMB224,003,881.82;
- (c) the deed of indemnity dated 9 December 2011 entered into between the Covenantors and our Company, pursuant to which the Covenantors agreed to give certain indemnities in favour of our Company subject to and in accordance with the terms and conditions set out therein; and
- (d) the Hong Kong Underwriting Agreement.

### Intellectual Property Rights of our Group

#### (a) Trademark

As at the Latest Practicable Date, our Group had the following registered trademark:

Trademark	Registered owner	Class	Registration Number	Effective Period	Place of Application
 . . . . .	Jiangxi Jinyuan	23	5113751	14 April 2010 to 13 April 2020	PRC

As at the Latest Practicable Date, our Group is applying for the registration of the following trademark:

 . . . . .	Jiangxi Jinyuan	23	6514018	–	PRC
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## FURTHER INFORMATION ABOUT THE DIRECTORS AND SUBSTANTIAL SHAREHOLDERS OF OUR COMPANY

### Directors

- (a) *Disclosure of interest — interests and short positions of the Directors and the chief executives of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations*

Immediately following completion of the Global Offering and the Capitalisation Issue without taking into account the Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, the interest or short position of Directors or chief executives of our Company in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to our Company and Stock Exchange, once the Shares are listed are as follows:

#### Interest in our Company

<u>Name of Director</u>	<u>Capacity/ Nature of Interest</u>	<u>Number of Shares</u> <i>(Note 1)</i>	<u>Approximate percentage of shareholding in our Company</u>
Mr. Zheng . . . . .	Interest of a controlled corporation	467,550,000 <sup>(1)</sup> (long position)	46.76%
Mr. Sze . . . . .	Interest of a controlled corporation	122,850,000 <sup>(2)</sup> (long position)	12.29%

#### *Notes:*

- (1) These Shares are held by Popular Trend, the entire issued share capital of which is owned by Mr. Zheng.
- (2) These Shares are held by Flourish Talent, the entire issued share capital of which is owned by Mr. Sze.

- (b) *Particulars of the Directors' service contracts*

Each of the executive Directors has entered into a service contract with our Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other and is subject to termination provisions therein and provisions on retirement by rotation of the Directors as set out in the Articles of Association.

Each of the executive Directors is entitled to a director's fee. Each executive Director shall be paid a remuneration on the basis of twelve months in a year. In addition, each of the executive Directors is also entitled to bonus as determined by the Board based on the recommendations made by the Remuneration Committee. The annual director's fees and remuneration of the executive Directors under the service contracts will be as follows:

Name of Directors	Approximate annual Director's fee
Mr. Zheng . . . . .	HK\$1,500,000
Mr. Zheng Yong Xiang . . . . .	HK\$1,200,000

The non-executive Director and the independent non-executive Directors have been appointed for a term of three years from the Listing Date. Our Company intends to pay a director's fee of HK\$150,000 per annum to each of the non-executive Director and the independent non-executive Directors.

Under the arrangement currently in force, the aggregate amount of emoluments payable by our Group to the Directors for the year ending 31 December 2011 will be approximately HK\$370,000.

### Substantial Shareholders

So far as our Directors are aware, immediately following the completion of the Capitalisation Issue and the Global Offering without taking into account the Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, the following persons (other than a Director or chief executive of our Company) will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or are directly or indirectly, interested in 10% or more of the nominal value of any class of the share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name of Shareholder	Capacity/ Nature of Interest	Number of Shares	Approximate percentage of shareholding in
Popular Trend <sup>(1)</sup> . . . . .	Beneficial owner	467,550,000 Shares (long position)	46.76%
Flourish Talent <sup>(2)</sup> . . . . .	Beneficial owner	122,850,000 Shares (long position)	12.29%
Da Yu Investments <sup>(3)</sup> . . . . .	Beneficial owner	61,425,000 Shares (long position)	6.14%
Mr. Lin Sing Yun <sup>(3)</sup> . . . . .	Interest of a controlled corporation	61,425,000 Shares (long position)	6.14%
Orient Dynasty <sup>(4)</sup> . . . . .	Beneficial owner	67,500,000 Shares (long position)	6.75%
Modern Creative <sup>(4)</sup> . . . . .	Interest of a controlled corporation	67,500,000 Shares (long position)	6.75%
Liu Shu Fa <sup>(4)</sup> . . . . .	Interest of a controlled corporation	67,500,000 Shares (long position)	6.75%
Wang Juan <sup>(4)</sup> . . . . .	Interest of a controlled corporation	67,500,000 Shares (long position)	6.75%

*Notes:*

1. Popular Trend is wholly-owned by Mr. Zheng.

2. Flourish Talent is wholly-owned by Mr. Sze.
3. Da Yu Investments is wholly-owned by Mr. Lin. For the purpose of Part XV of the SFO, Mr. Lin is deemed to be interested in the Shares held by Da Yu Investments.
4. Orient Dynasty is wholly-owned by Modern Creative. Modern Creative is owned as to 50% by Liu Shu Fa and 50% by Wang Juan. For the purpose of Part XV of the SFO, Modern Creative, Liu Shu Fa and Wang Juan are deemed to be interested in the Shares held by Orient Dynasty.

### Agency Fees or Commissions Received

Save as disclosed in this Prospectus, no commissions, discounts, brokerages or other special terms were granted within the two years preceding the date of this Prospectus in connection with the issue or sale of any capital of any member of our Group.

### Disclaimers

Save as disclosed herein:

- (a) none of our Directors or chief executives of our Company has any interest or short position in the Shares, underlying Shares or debentures of our Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers once the Shares are listed;
- (b) none of our Directors or experts referred to under the section headed “Consents of Experts” in this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this Prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this Prospectus which is significant in relation to the business of our Group taken as a whole;
- (d) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (e) taking no account of Shares which may be issued upon the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, none of our Directors are aware of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Global Offering and the Capitalisation Issue, have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;

- (f) none of the experts referred to under the heading “Consents of Experts” in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (g) so far as is known to our Directors, none of our Directors, their respective associates or Shareholders of our Company who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group; and
- (h) none of our Directors has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this Prospectus, acquired or disposed of by or leased to any member of our Group.

## OTHER INFORMATION

### Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the resolutions in writing of the Shareholders of our Company passed on 3 December 2011.

#### *(a) Purpose*

The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the eligible participants (as referred to in paragraph (b) below) had or may have made to our Group. The Share Option Scheme will provide the eligible participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives:

- (i) motivate the eligible participants to optimise their performance efficiency for the benefit of our Group;
- (ii) attract and retain or otherwise maintain on-going business relationship with the eligible participants whose contributions are or will be beneficial to the long-term growth of our Group; and
- (iii) for such purposes as our Board may approve from time to time.

#### *(b) Who may join*

Our Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as our Board may determine at an exercise price determined in accordance with paragraph (e) below to:

- (i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;
- (ii) any directors (including non-executive directors and independent non-executive directors) of our Company or any of its subsidiaries; and
- (iii) any advisers, consultants, suppliers, customers and agents to our Company or any of its subsidiaries.

Upon acceptance of the option, the grantee shall pay HK\$1.00 to our Company by way of consideration for the grant. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot of dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting the acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

(c) *Maximum number of Shares*

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of our Company must not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the Global Offering, being 100,000,000 Shares, excluding for this purpose Shares which would have been issuable pursuant to the Over-allotment Option and options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of our Company). Subject to the issue of a circular by our Company and the approval of the shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, our Board may:

- (i) renew this limit at any time to 10% of the Shares in issue as at the date of the approval by the shareholders in general meeting; and/or
- (ii) grant options beyond the 10% limit to eligible participants specifically identified by our Board. The circular issued by our Company to the Shareholders shall contain a generic description of the specified eligible participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified eligible participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under any schemes of our Company (including the Share Option Scheme) if this will result in the 30% limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of our Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of our Company in accordance with paragraph (q) below whether by way of consolidation, capitalisation issue, rights issue, sub-division or reduction of the share capital of our Company but in no event shall exceed the limit prescribed in this paragraph.



(d) *Maximum number of options to any one individual*

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of our Company (including both exercised and outstanding options) to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by our Company containing the identity of the eligible participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rules 17.02(2)(d) and the disclaimer required under 17.02(4) of the Listing Rules; and
- (ii) the approval of the shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such eligible participant and his associates (as defined in the Listing Rules) abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before the shareholders' approval and the date of our Board meeting at which our Board proposes to grant the options to such eligible participant shall be taken as the date of grant for the purpose of calculating the subscription price of the Shares. Our Board shall forward to such eligible participant an offer document in such form as our Board may from time to time determine.

(e) *Price of Shares*

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as our Board in its absolute discretion shall determine, save that such price will not be less than the highest of:

- (i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

(f) *Granting options to connected persons*

Any grant of options to a director, chief executive or substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). If our Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1%, or such other percentage as may be from time to time provided under the Listing Rules, of the Shares in issue on the date of grant; and
- (ii) having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets at the date of each grant.

Such further grant of options will be subject to, in addition to the approval of the independent non-executive Directors, the issue of a circular by our Company and the approval of the shareholders in general meeting on a poll at which all connected persons (as defined in the Listing Rules) of our Company shall abstain from voting in favour, and/or such other requirements prescribed under the Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by our Company to the Shareholders pursuant to the above paragraph shall contain the following information:

- (i) the details of the number and terms (including the exercise price) of the options to be granted to each selected eligible participant which must be fixed before the shareholders' meeting and the date of Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;
- (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent shareholders as to voting;
- (iii) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
- (iv) the information required under Rule 2.17 of the Listing Rules.

(g) *Restrictions on the times of grant of options*

A grant of options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published pursuant to the requirements of the Listing Rules. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of our Board meeting (as such date to first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's annual results, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of its annual results or half-year, or quarterly or other interim period (whether or not required under the Listing Rules)

and ending on the date of actual publication of the results announcement.

(h) *Rights are personal to grantee*

An option is personal to the grantee and shall not be transferable or assignable. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option or attempt to do so. Any breach of the foregoing shall entitle our Company to cancel any outstanding options or any part thereof granted to such grantee.

(i) *Time of exercise of Option and duration of the Share Option Scheme*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the Option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date on which the Shares commence listing on the Main Board of the Stock Exchange. Subject to earlier termination by our Company in general meeting or by our Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date on which the Shares commence listing on the Main Board of the Stock Exchange. There is no minimum period for which an option must be held before it can be exercised.

(j) *Performance target*

A grantee may be required to achieve any performance targets as our Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

(k) *Rights on ceasing employment or death*

If the grantee of an option ceases to be an employee of our Company or any of its subsidiaries

- (i) by any reason other than death, ill-health, injury, disability or termination of his employment on the grounds specified in paragraph (l) below, the option to the extent not already exercised on the date of such cessation (which date shall be the last actual working day with our Company or the relevant subsidiary whether salary is paid in lieu of notice or not) shall lapse automatically on the date of cessation; or

- (ii) by reason of death, ill-health, injury or disability, his personal representative(s) may exercise the option in full within a period of 12 months from such cessation, which date shall be the date of cessation of being an eligible participant or death.

(l) *Rights on dismissal*

If the grantee of an option ceases to be an employee of our Company or any of its subsidiaries on the grounds that he has been guilty of serious misconduct, or in relation to an employee of our Group (if so determined by our Board) on any other ground on which an employee would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group, or has been convicted of any criminal offence involving his integrity or honesty, or he has become insolvent, bankrupt or has made arrangements or compositions with his creditors generally, his option will lapse automatically and not be exercisable on the date of termination of his employment.

(m) *Rights on takeover*

If a general offer is made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Takeovers Codes)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(n) *Rights on winding-up*

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall forthwith give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two Business Days prior to the proposed general meeting of our Company referred to above by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid and procure that such grantee be registered as a member of our Company with respect to the relevant Shares in time for him to be able to attend and vote at such general meeting.

(o) *Rights on compromise or arrangement between our Company and its members or creditors*

If a compromise or arrangement between our Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of our Company or its amalgamation with any other companies pursuant to the laws of jurisdictions in which our Company was incorporated, our Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a compromise or arrangement and thereupon each grantee shall be entitled to exercise all or any of his options in whole or in part at any time prior to 12 noon (Hong Kong time) on the Business Day immediately preceding the date of the meeting directed to be convened by the relevant court for the purposes of considering such compromise or arrangement and if there are more than one meeting for such purpose, the date of the first meeting. With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. Our Board shall endeavour to procure

that the Shares issued as a result of the exercise of options in such circumstances shall for the purposes of such compromise or arrangement form part of the issued share capital of our Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the relevant court (whether upon the terms presented to the relevant court or upon any other terms as may be approved by such court) the rights of the grantees to exercise their respective options shall with effect from the date of the making of the order by the relevant court be restored in full as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of its officers for any loss or damage sustained by any grantee as a result of the aforesaid suspension.

*(p) Ranking of Shares*

Our Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank *pari passu* in all respects with and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation of our Company as attached to the other fully paid Shares in issue on the date of exercise.

*(q) Effect of alterations to capital*

In the event of any alteration in the capital structure of our Company whilst any option may become or remains exercisable, whether by way of capitalisation issue, rights issue, open offer, consolidation, sub-division, redenomination of Shares or reduction of share capital of our Company, such corresponding alterations (if any) shall be made in, including but not limited to, the number of Shares subject to any options so far as unexercised and/or the subscription price per Share of each outstanding option as the auditors of our Company or an independent financial adviser shall certify in writing to be in their/his opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance issued by the Stock Exchange on 5 September 2005 and any future guidance and interpretation of the Listing Rules issued by the Stock Exchange from time to time.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the issued share capital of our Company for which any grantee of an option is entitled to subscribe pursuant to the options held by him before such alteration and the aggregate subscription price payable on full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

*(r) Expiry of option*

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option;
- (ii) the expiry of any of the periods referred to in paragraphs (k), (m), (n) or (o);
- (iii) the date on which the scheme of arrangement of our Company referred to in paragraph (o) becomes effective;
- (iv) the date of commencement of the winding-up of our Company;

- (v) the date on which the grantee ceases to be an eligible participant by reason of such grantee's resignation from the employment of our Company or any of its subsidiaries or the termination of his or her employment or contract on any one or more of the grounds that he or she has been guilty of serious misconduct, or has been convicted of any criminal offence involving his or her integrity or honesty, or in relation to an employee of our Group, or has become insolvent, bankrupt or has made arrangements or compositions with his or her creditors generally or any other ground on which an employee would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group. A resolution of our Board or the board of directors of the relevant subsidiary to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or
- (vi) the date on which our Board shall exercise our Company's right to cancel the option at any time after the grantee commits a breach of paragraph (h) above or the options are cancelled in accordance with paragraph (t) below.

(s) *Alteration of the Share Option Scheme*

The Share Option Scheme may be altered in any respect by resolution of our Board except that:

- (i) any alteration to the advantage of the grantees or the eligible participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules; and
- (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted shall first be approved by our Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' written consent in accordance with the terms of the Share Option Scheme. The amended terms of the Share Option Scheme shall still comply with Chapter 17 of the Listing Rules and any guidance issued by the Stock Exchange from time to time and any change to the authority of our Board in relation to any alteration to the terms of the Share Option Scheme must be approved by Shareholders in general meeting.

(t) *Cancellation of Options*

Subject to paragraph (h) above, any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing.

(u) *Termination of the Share Option Scheme*

Our Company may by resolution in general meeting or our Board at any time terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(v) *Administration of the Board*

The Share Option Scheme shall be subject to the administration of our Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided in the Share Option Scheme) shall be final and binding on all parties.

(w) *Condition of the Share Option Scheme*

The Share Option Scheme is conditional on:

- (i) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of options to be granted under the Share Option Scheme;
- (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise;
- (iii) the approval of the rules of the Share Option Scheme by the Shareholders in general meeting; and
- (iv) the commencement of dealings in the Shares on the Stock Exchange.

(x) *Disclosure in annual and interim reports*

Our Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

(y) *Present status of the Share Option Scheme*

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme, being 100,000,000 Shares in total, representing 10% of the Shares in issue upon completion of the Global Offering (without taking into account the Shares, which may be issued pursuant to the exercise of the Over-allotment Option).

### **Estate Duty, Tax and Other Indemnities**

Our Controlling Shareholders have entered into a deed of indemnity with and in favour of our Company (for itself and as trustee for each of its present subsidiaries) (being the contract referred to in paragraph (c) of the paragraph headed “Summary of Material Contracts” in this Appendix) to provide indemnities on a joint and several basis in respect of, among other matters, Hong Kong estate duty which might be payable by any member of our Group, by reason of any transfer of property (within the meaning of Section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong, as amended by the Revenue (Abolition of Estate Duty) Ordinance) to any member of our Group on or before the date on which the Global Offering becomes unconditional (the “Effective Date”).

The deed of indemnity also contain, amongst other things, indemnities given by our Controlling Shareholders in respect of taxation resulting from income, profits or gains earned, accrued or received as well as any property claim to which our Company may be subject on or before the Effective Date which might be payable by any member of our Group.

### Litigation

As at the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and, so far as our Directors are aware, no litigation or claim of material importance is pending or threatened by or against any member of our Group.

### Preliminary Expenses

The preliminary expenses of our Company are estimated to be approximately HK\$48,000 and are payable by our Company.

### Promoter

Our Company has no promoter for the purpose of the Listing Rules.

### Qualification of Experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this Prospectus:

Name	Qualifications
Guotai Junan Capital Limited . . . . .	Licensed corporation under the SFO to engage in Type 6 (advising on corporate finance) regulated activities
Deloitte Touche Tohmatsu . . . . .	Certified Public Accountants
Commerce & Finance Law Offices . . . . .	PRC legal adviser
Conyers Dill & Pearman . . . . .	Cayman Islands attorneys-at-law
Jones Lang LaSalle Sallmanns Limited . . . . .	Property valuers
RSM Nelson Wheeler Consulting Limited . . . . .	Independent internal control adviser

### Consents of Experts

Each of the experts referred to in the paragraph headed “Qualification of Experts” above has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references to its name included herein in the form and context in which it is respectively included.



**Binding Effect**

This Prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance so far as applicable.

**Miscellaneous**

- (a) Save as disclosed in this Prospectus, within the two years immediately preceding the date of this Prospectus:
  - (i) no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;
  - (ii) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
  - (iii) our Group has no outstanding convertible debt securities or debentures;
  - (iv) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries;
  - (v) no founders, management or deferred shares of our Company or, any of its subsidiaries have been issued or agreed to be issued;
  - (vi) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of its subsidiaries;
- (b) none of the persons named in the paragraph headed “Consents of Experts” in this Appendix is interested beneficially or otherwise in any shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of our Group;
- (c) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 30 June 2011 (being the date to which the latest audited combined financial statements of our Group were made up);
- (d) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this Prospectus;
- (e) the principal register of members of our Company will be maintained in the Cayman Islands by Codan Trust Company (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Company’s share registrar in Hong Kong and may not be lodged in the Cayman Islands;

- (f) no member of our Group is presently listed on any stock exchange or traded on any trading system;
- (g) there is no arrangement under which future dividends are waived or agreed to be waiver;
- (h) all necessary arrangement have been made to enable the Shares to be admitted into CCASS for clearing and settlement.

**Bilingual prospectus**

The English and Chinese language version of this Prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption from Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this Prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of each of the Application Forms;
- (b) the written consents referred to in the paragraph headed “Consents of Experts” under the section headed “Other Information” in Appendix VI to this Prospectus; and
- (c) a copy of each of the material contracts referred to in the paragraph headed “Summary of Material Contracts” under the section headed “Further Information about the Business of our Group” in Appendix VI to this Prospectus.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Sidley Austin at Level 39, Two International Finance Centre, 8 Finance Street, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this Prospectus:

- (a) the Memorandum of Association and the Articles of Association;
- (b) the Accountants’ Report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this Prospectus;
- (c) the letter prepared by Deloitte Touche Tohmatsu relating to the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this Prospectus;
- (d) the letters from Deloitte Touche Tohmatsu and Guotai Junan relating to the profit forecast, the texts of which are set out in Appendix III to this Prospectus;
- (e) the letter, valuation certificate relating to the property interests of our Group prepared by Jone Lang LaSalle Sallmanns Limited, the texts of which are set out in Appendix IV to this Prospectus;
- (f) the internal control report prepared by RSM Nelson Wheeler Consulting Limited;
- (g) the letter prepared by Conyers Dill & Pearman summarising certain aspects of the Cayman Islands company law referred to in Appendix V to this Prospectus;
- (h) the Companies Law;
- (i) the material contracts referred to in the paragraph headed “Summary of Material Contracts” under the section headed “Further Information about the Business of our Group” in Appendix VI to this Prospectus;
- (j) the written consents referred to in the paragraph headed “Consents of Experts” under the section headed “Other Information” in Appendix VI to this Prospectus;

- (k) the service contracts referred to in the paragraph headed “Particulars of the Directors’ service contracts” under the section headed “Further Information about the Directors and Substantial Shareholders of our Company “ in Appendix VI to this Prospectus;
- (l) the PRC legal opinion issued by Commerce & Finance Offices; and
- (m) the rules of the Share Option Scheme.

**CHINA WEAVING MATERIALS HOLDINGS LIMITED**  
**中國織材控股有限公司**