



百宏實業控股有限公司

BILLION INDUSTRIAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2299

GLOBAL OFFERING



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



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Joint Sponsors

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CCB International



IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional advisers.



BILLION INDUSTRIAL HOLDINGS LIMITED

百宏實業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	574,750,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	:	57,475,000 Shares (subject to adjustment)
Number of International Placing Shares	:	517,275,000 Shares (subject to adjustment and the Over-allotment Option)
Offer Price	:	not more than HK\$6.08 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\$0.01 per Share
Stock code	:	2299

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Joint Sponsors



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 Joint Global Coordinators (on behalf of the Underwriters) and us on or before May 12, 2011 or such later date as may be agreed by the Joint Global Coordinators and us, but in any event not later than May 13, 2011. The Offer Price will not be more than HK\$6.08 per Offer Share and is currently expected to be not less than HK\$4.53 per Offer Share unless otherwise announced. Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$6.08 for each Offer Share together with a brokerage of 1.0%, 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\$6.08.

The Joint Global Coordinators (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 pursuant to the Global Offering at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. 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) and the Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange and our Company not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (on behalf of the Underwriters) and us on or before May 13, 2011, the Global Offering will not proceed and will lapse.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, except that Offer Shares may be offered, sold or delivered to QIBs in reliance on an exemption from registration under the U.S. Securities Act provided by, and in accordance with the restrictions of, Rule 144A or another exemption from the registration requirements of the U.S. Securities Act. The Offer Shares are being sold outside the United States in offshore transactions in accordance with Rule 903 or 904 of Regulation S.

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 certain provisions contained in the Underwriting Agreements in respect of the Offer Shares, the Joint Global Coordinators (on behalf of the Underwriters), have the right in certain circumstances, subject to the sole opinion of the Joint Global Coordinators, 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. 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.

May 5, 2011

EXPECTED TIMETABLE¹

Our Company will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) if there is any change in the following expected timetable of the Hong Kong Public Offering.

Latest time to complete electronic applications under

White Form eIPO service through the designated

website at www.eipo.com.hk² 11:30 a.m. on Wednesday, May 11, 2011

Application lists of the Hong Kong Public Offering open³ . . . 11:45 a.m. on Wednesday, May 11, 2011

Latest time for lodging **WHITE** and **YELLOW**

Application Forms and giving electronic application

instructions to HKSCC⁴ 12:00 noon on Wednesday, May 11, 2011

Latest time to complete payment for **White Form eIPO**

applications by effecting internet banking transfer(s)

or PPS payment transfer(s) 12:00 noon on Wednesday, May 11, 2011

Application lists of the Hong Kong Public Offering close . . . 12:00 noon on Wednesday, May 11, 2011

Expected Price Determination Date⁵ Thursday, May 12, 2011

Announcement of the Offer Price, the indication of the levels

of interest in the International Placing, the level of

applications in the Hong Kong Public Offering and the basis

of allocation under the Hong Kong Public Offering

to be published in the South China Morning Post

(in English) and the Hong Kong Economic Times

(in Chinese) and on the website of the Stock Exchange

at www.hkexnews.hk and the website of our Company

at www.baihong.com on or before Tuesday, May 17, 2011

Results of allocations in the Hong Kong Public Offering

(with successful applicants' identification document

numbers, where appropriate) to be available through

a variety of channels (see the section headed "How to Apply for

Hong Kong Offer Shares" in the prospectus) from Tuesday, May 17, 2011

Results of allocations in the Hong Kong Public Offering

will be available at www.iporesults.com.hk

with a "search by ID" function from Tuesday, May 17, 2011

Despatch of share certificates and/or White Form

e-Refund payment instructions and/or refund cheques

in respect of wholly or partially unsuccessful

applications expected on or before⁶ Tuesday, May 17, 2011

Dealings in Shares on the Stock Exchange expected

to commence on Wednesday, May 18, 2011

EXPECTED TIMETABLE¹

Notes:

- (1) All times refer to Hong Kong local time. 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.
- (2) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 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.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, May 11, 2011, the application lists will not open and close on that day. Further information is set out in the paragraph headed “VI. When May Applications be Made — Effect of Bad Weather on the Opening of the Application Lists” under the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus. If the application lists do not open and close on Wednesday, May 11, 2011, the dates mentioned in this section headed “Expected Timetable” may be affected. A press announcement will be made by us in such event.
- (4) Applicants who apply by giving electronic application instructions to HKSCC should refer to the paragraph headed “V. Applying by Giving Electronic Application Instructions to HKSCC” under the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.
- (5) We expect to determine the Offer Price by agreement with the Joint Global Coordinators (on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, May 12, 2011 and, in any event, not later than Friday, May 13, 2011. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (on behalf of the Underwriters) and us by Friday, May 13, 2011, the Hong Kong Public Offering and the International Placing will not proceed.
- (6) **Share certificates for the Hong Kong Offer Shares will only become valid certificates of title provided that (i) the Global Offering has become unconditional, and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details before the receipt of share certificates or before the share certificates become valid certificates of title do so entirely at their own risk.** e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications, and also in respect of successful applications if the Offer Price is less than the price payable 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 purposes. 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.

Further information in relation to the Hong Kong Public Offering is set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by Billion Industrial Holdings Limited solely in connection with the Hong Kong Public Offering and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. 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 authorized 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 authorized by us, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners and Joint Lead Managers, 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 the 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 one of the largest developers and manufacturers of polyester filament yarns in China, including drawn textured yarn, or DTY, and fully drawn yarn, or FDY, the two main polyester filament yarns, which have a variety of end applications in consumer products, including apparel, footwear and home furnishings. We also produce partially oriented yarn, or POY, which may be used as a raw material for our DTY or sold separately to our customers. As of December 31, 2010, we had a designed capacity of approximately 450,000 tpa of FDY and POY and a designed capacity of approximately 260,000 tpa of DTY, which add up to a combined designed capacity of approximately 710,000 tpa of DTY, FDY and POY. According to CMAI, in 2010, we were the sixth largest manufacturer in China in terms of combined designed capacity of DTY, FDY and POY, and we were the second largest DTY manufacturer in China in terms of designed capacity.⁽¹⁾

Our sales are primarily focused in south China. According to CMAI, we were the largest manufacturer in terms of both designed capacity of DTY and designed capacity of FDY and POY in south China in 2010; and south China represented approximately 6.3% of China’s total designed capacity for the polyester filament yarn market in 2010. According to Frost & Sullivan, the apparel and footwear industry is expected to experience rapid growth in south China and, in particular, Fujian and Guangdong provinces are expected to grow from representing 33.3% of China’s entire production volume in 2009 to representing 45.0% of China’s entire production volume by 2015. CMAI expects that the demand for polyester filament yarns in south China will continue to increase and there will continue to be a supply shortage of polyester filament yarns for the coming years in south China.

A majority of our DTY and FDY are “differentiated”, which is recognized in the industry as having special physical features and functionalities achieved through diversifying the chemical components of the filament or through changing the shape or linear density of the filament. We are able to produce differentiated DTY and FDY with special features and functionalities, such as ultraviolet resistant, water absorbing and sweat-dissipating, flame resistant, anti-abrasion, ultra-soft, ultra-white, ultra-bright and anti-bacterial. These products are widely utilized in the production of high-end fabrics and textiles for various consumer products that require such special features or functionalities. We believe that with increased disposable income, consumers in China will gradually increase their demand for more diversified properties of apparel, footwear and home furnishings. As a result, we expect the demand for differentiated polyester filament yarns to continue to be higher than the demand for regular polyester filament yarns.

Note:

⁽¹⁾ The polyester filament yarn industry uses “designed capacity” as a ranking tool as the production volume for polyester filament yarns may vary depending on the thickness, or linear density, of the yarns produced, while “designed capacity” is calculated by using a uniform linear density of 150D, which according to CMAI, is the most common linear density in the industry, thus creating a consistent basis for comparison.

SUMMARY

We market and sell our polyester filament yarns under our brands “百宏” and “Billion”. Our customers are mainly fabric and textile manufacturers based in China who produce and sell knitted fabrics and textiles to manufacturers of apparel, footwear and home furnishings. We also directly export a small portion of our products to North America, Europe, Southeast Asia and South America. In 2010, we sold polyester filament yarns to approximately 2,100 customers in China and elsewhere in the world. Due to our established reputation in the polyester filament yarn industry and our ability to provide a wide variety of high-quality differentiated polyester filament yarns, many well-known leading apparel and footwear manufacturers in China, with whom we have no direct business relationship, have specifically requested their suppliers to supply fabrics and textiles made from our polyester filament yarns. These manufacturers include listed companies, such as Anta (安踏), 361 Degrees (361度), Xtep (特步), Peak (匹克), Lilanz (利郎), SeptWolves (七匹狼), and certain well-known apparel companies, such as K-boxing (勁霸). Many leading Chinese fabric and textile manufacturers are our direct customers who provide high-quality fabrics and textiles to domestic and international branded apparel companies, including several Hong Kong listed and China’s A-share listed companies, such as Fynex Textile (鳳竹), some of which have established long-term relationships with us. We have also been appointed by SBS Zipper (SBS 潯興), China’s largest and the world’s second largest manufacturer of zippers, and one of our direct customers, as one of its designated suppliers for polyester filament yarns. In addition, we also have many direct overseas customers, including Bekaert, a multi-national home textile company based in Europe, and Universal Tekstil, a large textile manufacturer in Turkey.

In 2010, with the increasing recognition of our brand name and as we established closer relationships with our customers, we entered into annual strategic framework agreements with 186 of our large customers. These framework agreements, which are legally binding, provide for minimum purchase volume commitments by our customers, the collaborative research and development of differentiated polyester filament yarns and the sharing of various market information. Our revenue generated from customers who entered into such framework agreements was RMB2,484.2 million for the year ended December 31, 2010, accounting for 57.6% of our total revenue in 2010. All of these customers renewed their framework agreements with us in 2011, and substantially all of these agreements provide for equal or higher minimum purchase volume commitments.

Supported by our highly qualified research and development staff, comprising approximately 500 engineers and researchers, we have independently developed 19 types of differentiated polyester filament yarns, for which we have obtained patents for 17 types in the PRC and have applied for patents in the PRC for the remaining two types. Of these 19 types of differentiated polyester filament yarns, we currently manufacture and sell 11 patented products to our customers. Of the remaining eight types of differentiated polyester filament yarns, six are being tested for production and two have passed trial production, and we plan to offer all of them in the future. Our revenue from patented differentiated polyester filament yarns as well as those under the patent application process amounted to RMB2,817.5 million for the year ended December 31, 2010, representing 65.4% of our total revenue in 2010. We believe our patented products are well recognized and highly competitive in the domestic and global markets. We also believe that our products undergoing patent applications have the potential to help us gain more market share in the differentiated polyester filament yarn market.

SUMMARY

During the Track Record Period, we received various awards for our achievements. With our advanced research and development capabilities and achievements, we were recognized by China National Textile and Apparel Council, China Chemical Fiber Industry Association and China Textile Product Development Center as a National Development Site for Functional Differentiated Polyester Filament Yarns* (國家功能性差別化聚酯纖維開發基地). In addition, we were recognized as a High and New Technology Enterprise* (高新技術企業), Provincial Enterprise Technology Center of Fujian Province* (福建省省級企業技術中心) and Fujian Province Innovative Pioneer Enterprise* (福建省創新試點企業) by the relevant provincial bureaus of Fujian Province. We were also selected as one of the Top One Hundred Key Industrial Enterprises in Fujian Province* (福建省百家重點工業企業) by Fujian Province Economy and Trade Committee, and were identified as one of the Top One Hundred Enterprises in Fujian Province* (福建企業100強) by Fujian Enterprise Evaluation Association, as well as AA Type Custom Administration Enterprise* (海關AA類管理企業) by Xiamen Custom and A Level Credible Tax Payer* (納稅信用A級納稅人) and one of the Top One Hundred Tax Paying Enterprises in Fujian Province for 2010* (福建省2010納稅百強企業) jointly by the state and local tax bureau of Fujian Province.

We commenced commercial production of polyester filament yarns in 2005 in the Fenglin Industrial Zone located in Longhu County, Jinjiang City, Fujian Province. Through organic growth, our designed capacity of FDY and POY increased from approximately 200,000 tpa as of January 1, 2008 to approximately 450,000 tpa as of December 31, 2010. We plan to further increase our designed capacity of FDY and POY at our current production site to approximately 475,000 tpa in June 2011. Our designed capacity of DTY increased from approximately 110,000 tpa as of January 1, 2008 to approximately 260,000 tpa as of December 31, 2010, and we plan to increase our designed capacity of DTY at our current production site to approximately 305,000 tpa by June 2011. In addition, we plan to construct a new production site, which is expected to commence productions progressively starting from November 2011, to increase our designed capacity of FDY and POY by approximately 310,000 tpa to approximately 785,000 tpa and of DTY by approximately 188,000 tpa to approximately 493,000 tpa by the end of 2013 upon its completion.

Our primary raw materials for the production of polyester filament yarns are PTA and MEG, both of which are crude oil-based downstream commodities. Although there are a large number of PTA and MEG suppliers in China, we purchase substantially all of our PTA and MEG from a limited number of suppliers that have consistently supplied us with qualified raw materials at favorable discounts in large volumes and in a timely manner. We enter into annual supply agreements with some of these suppliers. We have more than four years of business relationships with our two largest suppliers and have on average more than two years of business relationships with our other large suppliers. During the Track Record Period, we did not experience any shortage of supply of PTA or MEG. Purchases from our five largest suppliers of raw materials accounted for 82.6%, 85.6% and 75.6% of our total purchases of raw materials for the years ended December 31, 2008, 2009 and 2010, respectively, and purchases from our largest supplier of raw materials accounted for 41.1%, 53.8% and 44.4% of our total purchases of raw materials during the respective periods.

SUMMARY

For the years ended December 31, 2008, 2009 and 2010, our revenue was RMB2,113.6 million, RMB2,963.1 million and RMB4,309.7 million, respectively. Our gross profit for the same periods was RMB124.5 million, RMB249.6 million and RMB630.9 million, respectively, our gross profit margin for the same periods was 5.9%, 8.4% and 14.6%, respectively, and our net profit for the same periods was RMB56.7 million, RMB101.4 million and RMB446.0 million, respectively. The increase in our sales volume contributed to the increase in our revenue, which was primarily due to the continuous expansion of our production capacities and because the demand for our products and their end products, primarily apparel and footwear, recovered after the global financial crisis in 2008. The substantial increase in our gross profit margin for the year ended December 31, 2010 was primarily due to the increase in the average sales prices of our products at a much faster rate than that of our raw material prices, which was driven by the increasing market demand, as the domestic economies recovered from the financial crisis, and was stimulated by the substantial increase in the price of cotton. In particular, cotton prices increased substantially in the fourth quarter of 2010, during which time the market demonstrated a strong demand for polyester filament yarns, which have the ability to serve as a substitute for cotton yarns to some extent. CMAI expects that the market will continue to demonstrate a strong demand for polyester filament yarns, which will continue to be used as partial substitutes for cotton yarns, considering the short supply of cotton in the near future, the continuous wide price difference between cotton yarns and polyester filament yarns, and the continuing development of technologies used to manufacture polyester filament yarns that have more cotton yarn-like features and additional advantages.

OUR COMPETITIVE STRENGTHS

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

- We are a leader in the polyester filament yarn industry in China, the largest polyester filament yarn market in the world;
- Our strong research and development and commercialization capabilities allow us to offer a comprehensive portfolio of differentiated polyester filament yarns with higher profit margins;
- We are well-positioned to benefit from the rapid growth of China's consumer product market;
- We are strategically located in an area with developed upstream and downstream industries as well as convenient transportation networks;
- We provide high-quality products and timely services which help us build our brand awareness and customer loyalty; and
- We are led by a professional management team with extensive experience in the industry.

For details of our competitive strengths, please see "Business — Our Competitive Strengths" in this prospectus.

SUMMARY

OUR BUSINESS STRATEGIES

Our goal is to maintain the leading position in the polyester filament yarn industry in China and continue to increase our market share. We will continue to seek opportunities to achieve business growth and maximize the benefits to our shareholders. We plan to achieve this goal through the following strategies:

- Further expand our production capacity and improve our production efficiency and product quality;
- Continue to utilize technologically advanced equipment to produce differentiated products with strong demand and special features and functionalities;
- Continue to strengthen our research and development capabilities and further commercialize our new products; and
- Further expand our marketing network and strengthen our relationships with fabric and textile manufacturers and end customers to enhance our brand awareness and reputation.

For details of our business strategies, please see “Business — Our Business Strategies” in this prospectus.

SUMMARY HISTORICAL FINANCIAL INFORMATION

Combined Statements of Comprehensive Income

The table below sets forth our selected combined statements of comprehensive income information for the years ended December 31, 2008, 2009 and 2010:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Revenue	2,113,614	2,963,098	4,309,731
Cost of sales	(1,989,150)	(2,713,454)	(3,678,783)
Gross profit	124,464	249,644	630,948
Other revenue	42,705	28,223	35,073
Other net (loss)/gain	452	(2,574)	21,287
Distribution costs	(8,384)	(25,055)	(26,580)
Administrative expenses	(23,774)	(81,851)	(91,049)
Profit from operations	135,463	168,387	569,679
Finance costs	(63,062)	(40,013)	(32,227)
Profit before taxation	72,401	128,374	537,452
Income tax	(15,677)	(26,978)	(91,493)
Profit and total comprehensive income for the year	56,724	101,396	445,959

SUMMARY

Combined Balance Sheets

The table below sets forth our selected combined balance sheets information as of December 31, 2008, 2009 and 2010:

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Non-current assets	2,473,132	2,490,325	2,498,477
Current assets	1,869,712	1,866,806	2,037,526
Current liabilities	(2,351,710)	(2,243,272)	(1,883,674)
Total assets less current liabilities	1,991,134	2,113,859	2,652,329
Non-current liabilities	(116,011)	(132,274)	(296,790)
Net assets	1,875,123	1,981,585	2,355,539

Combined Cash Flow Statements

The table below sets forth our selected combined cash flow information for the years ended December 31, 2008, 2009 and 2010:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Net cash generated from/(used in)			
operating activities	(130,692)	1,016,830	(36,556)
Net cash (used in) /generated from			
investing activities	(169,353)	(150,821)	88,542
Net cash generated from/(used in)			
financing activities	373,385	(825,470)	(38,029)
Net increase in cash and cash equivalents ..	73,340	40,539	13,957

SUMMARY

OTHER HISTORICAL FINANCIAL INFORMATION

The tables below set forth our revenue breakdown by geographical area and by product for the years ended December 31, 2008, 2009 and 2010:

	Year ended December 31,					
	2008		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%
Domestic sales						
Fujian Province	1,738,878	82.3	2,301,057	77.7	3,276,500	76.0
Guangdong Province.....	205,353	9.7	321,722	10.9	569,691	13.2
Other Provinces	25,326	1.2	27,012	0.8	46,975	1.1
Export sales	144,057	6.8	313,307	10.6	416,565	9.7
Total	<u>2,113,614</u>	<u>100.0</u>	<u>2,963,098</u>	<u>100.0</u>	<u>4,309,731</u>	<u>100.0</u>
	Year ended December 31,					
	2008		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%
DTY	1,148,892	54.4	2,207,113	74.5	2,870,583	66.6
FDY	417,667	19.8	358,920	12.1	940,102	21.8
POY	379,479	17.9	211,240	7.1	122,709	2.9
Others ⁽¹⁾	167,576	7.9	185,825	6.3	376,337	8.7
Total	<u>2,113,614</u>	<u>100.0</u>	<u>2,963,098</u>	<u>100.0</u>	<u>4,309,731</u>	<u>100.0</u>

Note:

(1) Others represents PET chips and wasted filament.

PROFIT FORECAST

We believe that, in the absence of unforeseen circumstances, our forecast profit after taxation for the year ending December 31, 2011 is unlikely to be less than RMB847.5 million. On a pro forma basis and on the assumption that we had been listed since January 1, 2011 and a total of 2,299,000,000 Shares were issued and outstanding during the entire year, our pro forma forecast earnings per Share for the year ending December 31, 2011 is unlikely to be less than RMB0.369.

The above forecasts have been prepared on the basis of the accounting policies being consistent in all material aspects with those currently adopted by us as summarized in “Appendix I — Accountants’ Report” in this prospectus and have been prepared based on the principal assumptions set out in “Appendix III — Profit Forecast” in this prospectus. In preparing the above forecasts, our management has also considered the minimum volume of products that may be purchased by our large customers under the framework agreements.

SUMMARY

SENSITIVITY ANALYSIS

The average sales prices of our products and the average purchase prices of our raw materials fluctuated during the Track Record Period. The average sales prices of our products were RMB10,610 per ton, RMB8,845 per ton and RMB11,362 per ton for the years ended December 31, 2008, 2009 and 2010, respectively. Our average purchase price of PTA was RMB6,223 per ton, RMB5,913 per ton and RMB6,741 per ton and our average purchase price of MEG was RMB6,330 per ton, RMB4,395 per ton and RMB6,108 per ton for the years ended December 31, 2008, 2009 and 2010, respectively. The changes in the average sales prices of our products and the average purchase prices of our raw materials have affected our results of operations in the past and may have an impact on our profit in the future. For details of such historical effect, please see “Financial Information — Factors Affecting Our Results of Operations and Financial Condition” and “Financial Information — Results of Our Operations” in this prospectus. The following sensitivity analysis illustrates the impact of hypothetical changes in the average sales price per ton of our products, the average purchase price per ton of PTA and the average purchase price per ton of MEG on our forecast profit after taxation and the resulting forecast profit after taxation for the year ending December 31, 2011.

% change in average sales price per ton of our products	-15%	-10%	-5%	+5%	+10%	+15%
Impact on our forecast profit after taxation (RMB million)	(676.5)	(451.0)	(225.5)	225.5	451.0	676.5
Resulting forecast profit after taxation (RMB million)	171.1	396.5	622.0	1,073.0	1,298.5	1,524.0
% change in average purchase price per ton of PTA ..	-15%	-10%	-5%	+5%	+10%	+15%
Impact on our forecast profit after taxation (RMB million)	312.7	208.5	104.2	(104.2)	(208.5)	(312.7)
Resulting forecast profit after taxation (RMB million)	1,160.2	1,056.0	951.8	743.3	639.0	534.8
% change in average purchase price per ton of MEG .	-15%	-10%	-5%	+5%	+10%	+15%
Impact on our forecast profit after taxation (RMB million)	100.4	66.9	33.5	(33.5)	(66.9)	(100.4)
Resulting forecast profit after taxation (RMB million)	947.9	914.5	881.0	814.0	780.6	747.1

The table above includes forward-looking information and is for illustrative purposes only. Please see “Forward-looking Statements” in this prospectus. For risks related to the average sales prices of our products and the average purchase prices of our raw materials see “Risk Factors — Risks Relating to Our Business – Our business and profitability may be affected by fluctuations in raw material prices as we may not always be able to pass on the increase in raw material costs to our customers” and “— We may not be able to maintain the increasing trend of our gross profit margins or to maintain our profit margins at the levels we recorded during the Track Record Period.”

SUMMARY

OFFER STATISTICS

	Based on an Offer Price of HK\$4.53 per Share	Based on an Offer Price of HK\$6.08 per Share
Market capitalization of our Shares ⁽¹⁾	HK\$10,414.5 million	HK\$13,977.9 million
Prospective price/earnings multiple on pro forma basis ⁽²⁾	10.3 times	13.8 times
Unaudited pro forma adjusted net tangible assets per Share ⁽³⁾	HK\$2.20	HK\$2.58

Notes:

- ⁽¹⁾ All statistics in this table are based on the assumption that the Over-allotment Option is not exercised. The calculation of market capitalization is based on 2,299,000,000 Shares expected to be issued and outstanding following completion of the Global Offering.
- ⁽²⁾ The calculation of the prospective price/earnings multiple on a pro forma basis is based on our forecast earnings per Share for the year ending December 31, 2011 and the forecast earnings is converted to HK dollars at the rate of RMB1.00 to HK\$1.1950. Such translations should not be construed as representations that amounts in HK dollars were or may have been converted into Renminbi at such rates or any other exchange rates, or vice versa.
- ⁽³⁾ The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in “Appendix II — Unaudited Pro Forma Financial Information” and is based on 2,299,000,000 Shares expected to be issued and outstanding following completion of the Global Offering.

The unaudited pro forma adjusted net tangible assets per Share has been prepared as if the Global Offering had taken place on December 31, 2010, therefore, no adjustment has been made to reflect any trading and other transactions of our Group entered into subsequent to December 31, 2010. In particular, no account has been taken in respect of the dividend of RMB324.6 million declared by Billion Fujian on January 10, 2011, which was paid to Billion H.K., its then shareholder, on January 17, 2011. Had such dividend been declared as of December 31, 2010, our unaudited pro forma adjusted net tangible assets would have been reduced by RMB324.6 million and our unaudited pro forma adjusted net tangible assets per Share would have been reduced by RMB0.14.

DIVIDEND POLICY

Billion Fujian, our sole operating subsidiary in the PRC, declared dividends for the distributable profits generated for the years between 2005 and 2007, which were paid to Billion H.K. on April 21, 2010 in the amount of RMB66.4 million. Billion Fujian also declared dividends of RMB33.7 million, RMB79.9 million and RMB324.6 million for the distributable profits generated for the years ended December 31, 2008, 2009 and 2010, respectively. These dividends were paid to Billion H.K. in May 2010, June 2010 and January 2011, respectively.

PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ from generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require foreign-invested enterprises, such as our subsidiary in the PRC, to set aside part of their net profit as statutory reserves. These statutory reserves may not be distributed as cash dividends. Under the applicable PRC law, our subsidiary in the PRC may only distribute its after-tax profits after it has made allocations or allowances for (i) recovery of accumulated losses; (ii) allocations to the statutory reserves; and (iii) allocation to a discretionary common reserve fund as may be approved by its board of directors.

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Following completion of the Global Offering, all of our Shareholders will be entitled to receive dividends if we declare dividends to our Shareholders. The payment and the amount of any dividends will be at the discretion of our Directors and will depend on, among other things, our results of operations and earnings, cash flows and general financial condition, capital requirements and surplus, the amount of distributable profit, the constitution of our Company, the applicable laws and regulations and other factors that our Directors may consider as relevant.

Our Directors currently do not intend for Billion Fujian, our sole PRC subsidiary, to distribute any of its remaining undistributed earnings to Billion Development, our Hong Kong subsidiary and the holding entity of Billion Fujian, in the foreseeable future. In the event our Directors determine to declare and pay dividends by our Company to our Shareholders, our Directors may, at their sole discretion, determine the manner, currency and sources of our dividend, as they deem appropriate, and we may use cash from operating, investing or financing activities of our Company, if any, to finance the payment of dividends to our Shareholders. There is no guarantee, representation or indication that we must or will declare and pay dividends or declare and pay any dividend in any manner or currency.

You should note that historical dividend distributions are not indicative of our future dividend policy.

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$2,931.5 million from the Global Offering, assuming that the Over-allotment Option is not exercised, after deducting the underwriting commissions (excluding any discretionary incentive fees) and other estimated offering expenses payable by us and assuming the initial public Offer Price of HK\$5.305 per Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this prospectus.

We intend to use the proceeds from the Global Offering for the purposes and in the amounts set out below:

- approximately 74.5% (HK\$2,183.9 million) for the construction and installation of our new production site in Jinjiang City with a designed capacity of FDY and POY of approximately 310,000 tpa and a designed capacity of DTY of approximately 188,000 tpa and an operation center in Quanzhou City, of which (i) approximately 7.9% (HK\$172.5 million) is intended to be used for the payment for land use rights and related fees for the new production site, which we intend to apply for; (ii) approximately 44.1% (HK\$963.1 million) is intended to be used for the payment for imported equipment; (iii) approximately 26.3% (HK\$574.4 million) is intended to be used for the payment for domestic equipment; and (iv) approximately 21.7% (HK\$473.9 million) is intended to be used for the payment for construction of production facilities, the operation center in Quanzhou City and related costs. Please refer to the sections headed “Business — Production — Production Facilities and Capacity” and “Business — Real Properties” for detailed information;

SUMMARY

- approximately 6.0% (HK\$175.9 million) for the construction and installation of our additional production facilities at our current production base with a designed capacity of FDY and POY of approximately 25,000 tpa and a designed capacity of DTY of approximately 45,000 tpa, of which (i) approximately 21.7% (HK\$38.2 million) is intended to be used for the payment for land use right fees, construction of production facilities and related costs; (ii) approximately 50.0% (HK\$87.9 million) is intended to be used for the payment for imported equipment; and (iii) approximately 28.3% (HK\$49.8 million) is intended to be used for the payment for domestic equipment. Please refer to the sections headed “Business — Production — Production Facilities and Capacity” and “Business — Real Properties” for detailed information;
- approximately 5.0% (HK\$146.6 million) for the repayment of a portion of our RMB200.0 million short-term bank borrowings we drew down from our credit lines granted by China Construction Bank and Agriculture Bank of China;
- approximately 3.0% (HK\$87.9 million) for the further enhancement of our research and development capabilities, including hiring more senior and experienced experts and engineers, buying more advanced research and development equipment and testing equipment, cooperating with third party research and development institutes and establishing a National Standard Laboratory;
- approximately 1.5% (HK\$44.0 million) for the further expansion of our sales networks and promoting our brand awareness, including attending industrial exhibitions in China and abroad, and advertising through various medias, such as Internet, outdoor billboards, newspapers and magazines; and
- approximately 10.0% (HK\$293.2 million) for working capital and general corporate purposes.

In the event that the Offer Price is set at the high-end of the proposed Offer Price range and the Over-allotment Option is not exercised, we will receive net proceeds of approximately HK\$3,365.8 million. We currently intend to apply the additional net proceeds for the purposes set forth above on a pro rata basis.

In the event that the Offer Price is set at the low-end of the proposed Offer Price range, we will receive reduced net proceeds of approximately HK\$2,497.2 million. In such case, the amount of net proceeds assigned for purposes set forth above will be reduced on a pro rata basis. To the extent the net proceeds are not sufficient to fund the uses set forth above, we currently intend to finance the shortfall by cash flows from operating activities and/or financing activities.

SUMMARY

If the Over-allotment Option is exercised in full, the net proceeds from the Global Offering will increase to approximately HK\$3,377.4 million, assuming an Offer Price of HK\$5.305 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\$499.4 million, respectively. We intend to apply the additional net proceeds for the purposes set forth above on a pro rata basis or otherwise finance the shortfall by cash flows from operating activities and/or financing activities.

To the extent that the net proceeds from the Global Offering are not immediately applied to the above purposes, we intend to deposit the proceeds into interest-bearing bank accounts, such as short-term savings accounts, with licensed commercial banks and/or authorized financial institutions in Hong Kong or China.

RISK FACTORS

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 business and profitability may be affected by fluctuations in raw material prices as we may not always be able to pass on the increase in raw material costs to our customers.
- We rely on a limited number of suppliers for certain raw materials.
- Our sales are geographically concentrated in Fujian Province and Guangdong Province.
- We may be unable to secure enough capital to implement our expansion plans in full and to finance our increased need for working capitals.
- We may face increased competition and an increase in the cost of sales as the economy of the PRC strengthens and the global economy recovers.
- Our research and development of new types of differentiated polyester filament yarns may not be successful and our newly-developed products may fail to achieve our desired results.
- We may not be able to retain our key management personnel and/or recruit qualified and experienced personnel to join us.
- Our intellectual property rights may be infringed by our competitors.
- We may be affected by claims by third parties alleging possible infringement of their intellectual property rights.
- We may encounter work-related accidents in our operations.
- Our operations are subject to uncertainties and we may not have sufficient insurance coverage for all the risks related to our operations.

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- We have limited experience in operating framework agreements with our customers and we cannot assure you that all of our customers will meet the minimum purchase volume commitments contained in these agreements.
- Our customers with whom we do not enter into framework agreements only enter into sales orders with us and we are thus subject to uncertainty and potential volatility with respect to our revenue from period to period.
- We rely on external supplies of electricity and water for our production processes.
- Failure to maintain an effective quality control system may result in profit loss.
- An increase in the cost of labor may adversely affect our business, financial condition, results of operations and growth prospects.
- We had net current liabilities positions as of December 31, 2008 and 2009 and negative cash flows from operating activities for the years ended December 31, 2008 and 2010.
- We may not be able to maintain the increasing trend of our gross profit margins or to maintain our profit margins at the levels we recorded during the Track Record Period.

Risks Relating to the Polyester Filament Yarn Industry

- Any over-supply in the domestic and international polyester filament yarn markets could negatively affect our business.
- The polyester filament yarn industry can be affected by the market demand for products manufactured in downstream industries and macroeconomic conditions.
- Competition in the polyester filament yarn market in the PRC may continue to be intense and we may fail to compete successfully against our competitors.
- Our polyester filament yarns may be rendered less competitive or obsolete by other yarn products.
- Anti-dumping investigations and trade protection measures conducted by other countries on polyester filament yarns may have an adverse effect on our operations.
- Certain information and statistical data used in this prospectus have been derived from research reports and supplied by other parties and should not be unduly relied upon.

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Risks Relating to Conducting Business in 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.
- Foreign exchange transactions and the convertibility of Renminbi into foreign currencies are subject to certain limitations.
- 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.
- 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 of our financial results.
- New labor laws in the PRC may materially and adversely affect our results of operations.
- Gains on the sales of our Shares by foreign investors and dividends on our Shares payable to foreign investors may become subject to the PRC income taxes.
- Negative publicity on the PRC products may materially and 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.

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Risks Relating to the Global Offering

- There has been no prior public market for our Shares and an active trading market for our Shares 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 and we do not expect our PRC subsidiary to distribute dividends in the foreseeable future.
- The interests of our Controlling Shareholders may not always coincide with our interests and the interests of our other Shareholders, and the Controlling Shareholders may exert significant control or substantial influence over us and may take actions that are not in, or may conflict with, our best interests and public Shareholders' best interests.
- The sale or availability for sale of substantial amounts of our Shares in the future could materially and adversely affect the market price of our Shares.
- Shareholders' interests may be diluted as a result of additional equity fund-raising.
- The costs of options to be granted under the Share Option Scheme may negatively 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.
- You should not rely on any information contained in press coverage or other media in relation to the Global Offering, our business operations or our Group in connection with a decision to invest in the Shares.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following words and expressions have the following meanings:

“affiliate(s)”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN application form(s) or where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles of Association” or “Articles”	the articles of association of our Company, adopted on March 31, 2011, as amended supplemented or otherwise modified from time to time
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Baikai Elastic Weaving”	Fujian Baikai Elastic Weaving Co., Ltd.* (福建省百凱彈性織造有限公司), a limited liability company established under the laws of the PRC on April 14, 1997 and a wholly-owned subsidiary of Baikai H.K. Baikai Elastic Weaving is a connected person of our Company
“Baikai Group”	Baikai Elastic Weaving, Baikai Paper, Baikai Textile, Baikai Wrap Knitting and Baikai Zipper
“Baikai H.K.”	Baikai (HK) Industrial Limited (百凱(香港)實業有限公司), a company incorporated in Hong Kong with limited liability on June 3, 2008. Baikai H.K. is wholly-owned by Mr. Lin Jinjing who is a brother-in-law of both Mr. Sze Tin Yau and Mr. Wu Jinbiao, both being our executive Directors. Baikai H.K. is a connected person of our Company
“Baikai Paper”	Fujian Baikai Paper Co., Ltd.* (福建百凱紙品有限公司), a limited liability company established under the laws of the PRC on June 13, 2001 and a wholly-owned subsidiary of Baikai H.K. Baikai Paper is a connected person of our Company
“Baikai Textile”	Fujian Baikai Textile Chemical Fiber Industry Co., Ltd.* (福建百凱紡織化纖實業有限公司), a limited liability company established under the laws of the PRC on May 18, 2000 and a wholly-owned subsidiary of Baikai H.K. Baikai Textile is a connected person of our Company

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“Baikai Wrap Knitting”	Fujian Baikai Wrap Knitting Industry Co., Ltd.* (福建省百凱經編實業有限公司), a limited liability company established under the laws of the PRC on September 27, 2002 and a wholly-owned subsidiary of Baikai H.K. Baikai Wrap Knitting is a connected person of our Company
“Baikai Zipper”	Fujian Baikai Zipper Dress Co., Ltd.* (福建省百凱拉鍊服飾有限公司), a limited liability company established under the laws of the PRC on January 30, 2002 and a wholly-owned subsidiary of Baikai H.K. Baikai Zipper is a connected person of our Company
“Billion Development”	Billion Development (Hong Kong) Limited (百宏發展 (香港)有限公司), a company incorporated in Hong Kong with limited liability on December 15, 2010 and an indirect wholly-owned subsidiary of our Company
“Billion Fujian”	Fujian Billion Polymerization Fiber Technology Industrial Co., Ltd.* (福建百宏聚纖科技實業有限公司), formerly known as Fujian Billion Polymerization Fiber Industrial Co., Ltd. (福建百宏聚合纖維實業有限公司), a wholly foreign-owned enterprise established under the laws of the PRC on November 20, 2003 and an indirect wholly-owned subsidiary of our Company
“Billion H.K.”	Billion Wise Industrial Limited (百宏實業有限公司), a company incorporated in Hong Kong with limited liability on December 30, 1996. Billion H.K. is owned as to 50% by Mr. Sze Tin Yau and as to 50% by Mr. Wu Jinbiao, both being our executive Directors, and is a connected person of our Company. Billion H.K. was the sole shareholder of Billion Fujian immediately prior to the Corporate Reorganization and ceased to hold any interest in Billion Fujian upon completion of the Corporate Reorganization
“Billion Industrial Investment”	Billion Industrial Investment Limited (百宏實業投資有限公司), an investment holding company incorporated in the BVI with limited liability on December 7, 2010 and a direct wholly-owned subsidiary of our Company
“Board” or “Board of Directors”	the board of Directors
“Business Day”	a day that is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	British Virgin Islands

DEFINITIONS

“Capitalization Issue”	the issue of 1,724,249,800 Shares upon capitalization of certain sums standing to the credit of the share premium account of our Company referred to in the paragraph headed “4. Written resolutions of our Shareholders passed on March 31, 2011” under the section headed “A. Further Information about our Company” in Appendix VI to this prospectus
“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
“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 or a CCASS Custodian Participant or a CCASS Investor Participant
“CCBI”	CCB International Capital Limited, a corporation licensed under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“CMAI”	Chemical Market Association, Inc. (析邁諮詢有限公司), an international chemical market research and consulting company, and an Independent Third Party
“CNAS”	China National Accreditation Service for Conformity Assessment (中國合格評定國家認可委員會), an Independent Third Party
“Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	Billion Industrial Holdings Limited (百宏實業控股有限公司), an exempted company incorporated under the laws of the Cayman Islands with limited liability on November 25, 2010
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules

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“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refers to each of Kingom Power and its beneficial owner, Mr. Sze Tin Yau, and Winwett Investments and its beneficial owner, Mr. Wu Jinbiao
“Corporate Reorganization”	the corporate reorganization of our Group conducted in preparation for the Listing, details of which are set out in the paragraph headed “Corporate Reorganization” under the section headed “History and Corporate Structure” in this prospectus
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the securities markets in the PRC
“CTIEI”	China Textile Industry Engineering Institute* (中國紡織工業設計院), an Independent Third Party
“Deed of Indemnity”	a deed of indemnity dated April 30, 2011 entered into between our Controlling Shareholders and our Company for itself and as trustee for its subsidiaries, under which our Controlling Shareholders have given certain indemnities in favor of our Company containing, among others, the indemnities referred to in the paragraph headed “Other Information — Estate duty, tax and other indemnity” in Appendix VI to this prospectus
“Deed of Non-competition”	a deed of non-competition dated April 30, 2011 entered into by our Controlling Shareholders in favor of our Company, details of which are disclosed in the section headed “Relationship with Controlling Shareholders” in this prospectus
“Director(s)”	director(s) of our Company, including all executive and independent non-executive Directors, as of the date of this prospectus
“Donghua University”	Donghua University* (東華大學), a national key university located in Shanghai, which is the top university in the textile industry in China previously known as China Textile University* (中國紡織大學) and East China Institute of Textile Engineering (華東紡織工學院)
“E.U.”	the European Union
“Frost & Sullivan”	Forst & Sullivan (Beijing) Inc., Shanghai Co. (弗若斯特沙利文(北京)諮詢有限公司上海分公司), an international market research and consulting company and an Independent Third Party

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“Fujian Jinlun”	Fujian Jinlun Fiber Shareholding Co., Ltd.* (福建省金綸高纖股份有限公司), a limited liability company established in the PRC and an Independent Third Party
“Fynex Textile” or “鳳竹”	Fynex Textile Science & Technology Company Limited* (福建鳳竹紡織科技股份有限公司), a limited liability company established in the PRC and an Independent Third Party
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Placing
“GREEN Application Form(s)”	the application form(s) to be completed by the White Form eIPO service provider, Computershare Hong Kong Investor Services Limited
“Group”, “our Group”, “we”, “our” or “us”	our Company and its subsidiaries, or where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company and the business carried on by such subsidiaries or (as the case may be) their predecessors
“Hengxinglong Polyester”	Fujian Jinjiang City Hengxinglong Polyester Co., Ltd.* (福建省晉江市恒興隆化纖條綸有限公司), a limited liability company established under the laws of the PRC on September 18, 1998. Hengxinglong Polyester is wholly-owned by Mr. Wu Qingshun, the son of Mr. Wu Jianshe, our executive Director. Hengxinglong Polyester is a connected person of our Company
“HKFRS”	Hong Kong Financial Reporting Standards
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars” or “HK dollars” or “HK\$” and “cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“Hong Kong Offer Shares”	the 57,475,000 Shares being initially offered by our Company for subscription under the Hong Kong Public Offering at the Offer Price (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus)

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“Hong Kong Public Offering”	the offer for subscription of the Hong Kong Offer Shares to the public in Hong Kong at the Offer Price on the terms and subject to the conditions described in this prospectus and the Application Forms, as further described in the prospectus and the Application Forms
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Underwriters”	the underwriters listed in the section headed “Underwriting — Underwriters — Hong Kong Underwriters” in this prospectus, being the underwriters of the Hong Kong Public Offering
“Hong Kong Underwriting Agreement”	the underwriting agreement dated May 4, 2011 relating to the Hong Kong Public Offering and entered into by, among others, the Joint Global Coordinators, the Hong Kong Underwriters and us, as further described in the paragraph headed “Hong Kong Public Offering” under the section headed “Underwriting” in this prospectus
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are not connected with (within the meaning of the Listing Rules) any director, chief executive or substantial shareholder (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associates
“International Placing”	the conditional offering of the International Placing Shares to professional and institutional investors, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Placing Agreement”	the underwriting agreement relating to the International Placing to be entered into on or about the Price Determination Date by, among others, our Controlling Shareholders, the Joint Global Coordinators, the International Underwriters and us, as further described in the paragraph headed “The International Placing” under the section headed “Structure of the Global Offering” in this prospectus
“International Placing Shares”	the 517,275,000 Shares being initially offered by our Company for subscription under the International Placing together, where relevant, with any additional Shares that may be issued pursuant to any exercise of the Over-allotment Option, subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus
“International Underwriters”	the underwriters of the International Placing which are expected to enter into the International Placing Agreement
“Jiangsu Hengli”	Jiangsu Hengli Chemical Fiber Co., Ltd.* (江蘇恒力化纖有限公司), a limited liability company established in the PRC and an Independent Third Party

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“Jiangsu Shenghong”	Jiangsu Shenghong Chemical Fiber Co., Ltd.* (江蘇盛虹化纖有限公司), a limited liability company established in the PRC and an Independent Third Party
“Jinxing”	Jinxing (Fujian) Fiber Textile Industrial Co., Ltd.* (錦興(福建)化纖紡織實業有限公司), a limited liability company established in the PRC and an Independent Third Party
“Joint Bookrunners”	UBS and CCBI
“Joint Global Coordinators”	UBS and CCBI
“Joint Lead Managers”	UBS and CCBI
“Joint Sponsors”	Merrill Lynch and CCBI
“Kaiping”	Guangdong Kaiping Chunhui Co., Ltd.* (廣東開平春暉股份有限公司), a limited liability company established in the PRC and an Independent Third Party
“Kingom Power”	Kingom Power Limited (帝權有限公司), an investment holding company incorporated in the BVI with limited liability on July 9, 2010. It is wholly-owned by Mr. Sze Tin Yau, one of the Controlling Shareholders of our Group and our executive Directors. Kingom Power will hold 37.5% of the Shares upon the Listing (assuming the Over-allotment Option is not exercised and no option to be granted under the Share Option Scheme is exercised), and is a connected person of our Company
“Latest Practicable Date”	April 28, 2011, being the latest practicable date 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 of the Stock Exchange
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about May 18, 2011, on which our Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Macau”	the Macao Special Administrative Region of the PRC
“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
“Merrill Lynch”	Merrill Lynch Far East Limited, a corporation licensed under the SFO for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“Ministry of Commerce” or “MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“NDF”	non-deliverable forward, a forward contract in which counterparties settle the difference between the agreed exchange rate and the prevailing spot rate on an agreed nominal amount
“Oeko-Tex Association”	International Association for Research and Testing in the Field of Textile Ecology, an Independent Third Party
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) at which the Hong Kong Offer Shares are to be subscribed under the Hong Kong Public Offering, and at which the International Placing Shares are to be offered under the International Placing, to be determined as described in the paragraph headed “Pricing of the Global Offering” under the section headed “Structure of the Global Offering” in this prospectus
“Offer Share(s)”	the Hong Kong Offer Shares and the International Placing Shares together, where relevant, with any additional Shares issued and allotted pursuant to the exercise of the Over-allotment Option
“Our brand”	the “百宏” and “Billion” brands
“Over-allotment Option”	the option expected to be granted by our Company to the Joint Global Coordinators (on behalf of the International Underwriters), pursuant to the International Placing Agreement, to require our Company to allot up to an aggregate of 86,212,500 additional Shares, representing approximately 15% of the Offer Shares initially available under the Global Offering, at the Offer Price, 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), the central bank of China
“PRC” or “China”	the People’s Republic of China, which, for the purposes of this prospectus only (unless otherwise indicated), excludes Hong Kong, Macau and Taiwan
“Price Determination Agreement”	the agreement to be entered into between us and the Joint Bookrunners on the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or about May 12, 2011 at which time the Offer Price is fixed for the purpose of the Global Offering
“QIBs”	qualified institutional buyers within the meaning of Rule 144A under the U.S. Securities Act
“Regulation S”	Regulation S under the U.S. Securities Act
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“Rongsheng”	Rongsheng Chemical Fiber Group Co., Ltd.* (榮盛化纖集團有限公司) is established in the PRC and an Independent Third Party
“SAFE”	the PRC State Administration of Foreign Exchange (中華人民共和國國家外匯管理局)
“Securities and Futures Commission” or “SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended and supplemented from time to time
“Share Option Scheme”	the share option scheme conditionally adopted by our Company pursuant to a resolution passed by the Shareholders on March 31, 2011, the principal terms of which are summarized under the paragraph headed “G. Share Option Scheme” in Appendix VI to this prospectus
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.01 each in the share capital of our Company
“south China”	the provinces in the southern area of China, which include Fujian, Guangdong, Guangxi and Hainan Provinces

DEFINITIONS

“Standing Committee of NPC”	the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會)
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into among UBS or its authorized agents and Kingom Power on or about the Price Determination Date, pursuant to which UBS or its authorized agents may borrow up to 86,212,500 Shares from Kingom Power to cover any over-allocation under the International Placing
“Stock Exchange” and “Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary(ies)”	has the meaning ascribed thereto in section 2 of the Companies Ordinance
“Substantial Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“the PRC government”	the central government of the PRC, including all government subdivisions (including provincial, municipal and other regional or local government entities)
“Track Record Period”	the three financial years ended December 31, 2008, 2009 and 2010
“UBS”	UBS AG, Hong Kong Branch, a registered institution under the SFO to Conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance), Type 7 (providing automated trading services) and Type 9 (asset management) regulated activities under the SFO
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Placing Agreement
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“USD,” “US\$,” “US dollar(s)” or “United States dollars”	United States dollar, the lawful currency of the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended from time to time

DEFINITIONS

“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name through the designated website of White Form eIPO www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Winwett Investments”	Winwett Investments Limited (運盈投資有限公司), an investment holding company incorporated in the BVI with limited liability on September 28, 2010. It is wholly-owned by Mr. Wu Jinbiao, one of the Controlling Shareholders of our Group and our executive Directors. Winwett Investments will hold 37.5% of the Shares upon the Listing (assuming the Over-allotment Option is not exercised and no option to be granted under the Share Option Scheme is exercised), and is a connected person of our Company
“Xianglu Fiber”	Xianglu Polyester Fiber (Xiamen) Co., Ltd.* (翔鷺滌綸紡織(廈門)有限公司) is established in the PRC and an Independent Third Party
“Zhejiang Hengyi”	Zhejiang Hengyi Group Co., Ltd.* (浙江恒逸集團有限公司) is established in the PRC and an Independent Third Party
“Zhejiang Tong Kun”	Tong Kun Group Co., Ltd.* (桐昆集團股份有限公司) is established in the PRC and an Independent Third Party
“%”	per cent

The English names of the PRC nationals, entities, departments, facilities, certificates, titles and the like mentioned in this prospectus are translations from their Chinese names. If there is any inconsistency, the Chinese name shall prevail. The names marked with “” are for identification purpose only.*

Unless otherwise specified, all references to any shareholdings in our Company assume no exercise of the Over-allotment Option.

GLOSSARY

This glossary contains certain technical terms used in this prospectus in connection with our Company. Such terms and their meanings may not correspond to standard industry definitions or usage.

“denier” or “linear density”	represents the weight in gram per 9,000 meters of a yarn, which directly affects the hand feel of the textile produced. The higher the denier number, the coarser the textile, and the lower the denier number, the finer the textile
“denier per filament” or “dpf”	a fraction calculated by dividing the yard denier by the filaments counts in the yarn. The lower the dpf, the more comfortable the textile
“differentiated polyester filament yarns”	a term recognized by the textile and polyester filament yarn industries, which means polyester filament yarns with special properties and functionalities, achieved through diversifying the chemical components of the filament or through changing the shape or linear density of the filament. They are less commonly produced and consumed in the market than regular polyester filament yarns and typically have higher prices than regular polyester filament yarn
“DMT”	dimethyl terephthalate, an organic compound which is used in the production of polyester
“DTY”	drawn textured yarn, a type of polyester filament yarn which has, among other qualities, good resistance to abrasion and elasticity. It is typically used to produce high-end sportswear, sport shoes and home furnishing textiles
“FDY”	fully draw yarn, a type of polyester filament yarn which has, among other qualities, good fabric strength. It is typically used to produce high-end undergarments, high-end sportswear and home furnishing textile
“filament count”	represents the number of filaments composing a polyester filament yarn, which directly affects the softness of the textile produced. The higher the filament count, the softer the textile feels
“Gwh”	gigawatt hour, a unit used to measure energy which is equivalent to 1,000,000 Kwh
“Kwh”	kilowatt hour, a unit used to measure the amount of energy generated in an hour

GLOSSARY

“MEG”	mono ethylene glycol, an organic compound which is used as a main raw material in producing polyester
“PET”	polyethylene terephthalate, an organic compound which is used in producing polyester filament yarns and other products such as plastic containers and bottles
“PET chips”	particles of dried polyester melt
“polyester filament yarns”	polyester filament yarns are synthetic yarns formed through the spinning process or spinning and texturing process by using PET chips or polyester melt made through the polymerizing process. When used in the description of our business, operations or productions, the term refers to all of the polyester filament yarns produced by us, including all DTY, FDY, POY and PET chips
“polyester melt”	polymer in molten form, which is to be used for spinning
“polymerizing process”	the process of producing polyester melt through combining PTA and MEG, our main raw materials, under high temperature and high pressure
“POY”	partially oriented yarn, a type of polyester filament yarn which is typically used to produce DTY
“PSF”	Polyester staple fiber, a type of polyester fiber formed through the drawing and cutting process by using PET chips or polyester melt made through the polymerizing process. It is produced in predetermined lengths which makes it easier to blend with other fibers such as cotton. It looks similar to cotton and is typically used for fiber fillings in pillows and sofas, and is also used as a raw material in spinning to make spun yarns
“PTA”	purified terephthalic acid, an organic compound which is used as a main raw material in producing polyester
“regular polyester filament yarn”	a term recognized by the textile and polyester filament yarn industries, which means polyester filament yarn directly spun from polymerizing melt without adding any extra chemical component or changing the shape or linear density of the filament. It is more commonly consumed in the market than differentiated polyester filament yarn
“spin finish oil”	an oil-based material which is used in the finishing process of chemical fiber yarn as a lubricant and softening agent
“spinning” or “spinning process”	in the context of polyester filament yarn production, refers to the process of extrusion of polyester melt and solidification of filaments

GLOSSARY

“spinnerette”	the component of a spinning machine which is a metal nozzle having fine holes on it through which polyester melt is forced to form polyester filaments which are further drawn and combined into polyester filament yarn
“texturing process”	a process used to produce DTY from POY, which gives DTY a fluffy appearance and gives it the properties of both natural fiber and synthetic fiber
“ton”	metric ton(s)
“tpa”	ton(s) per annum

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are based on the judgments and assumptions of our management as well as information currently available to our management, which are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business strategies;
- our plans of expansion of our production capacity, research and development activities, and our sales and marketing activities;
- the completion of our development of new differentiated polyester filament yarns;
- 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;
- the regulatory environment of our industry in general; and
- the prospects and future development in our industry.

When used herein, the words “anticipate,” “believe,” “can,” “could,” “continue,” “estimate,” “expect,” “going forward,” “intend,” “may,” “ought to,” “perspective,” “plan,” “potential,” “predict,” “project,” “prospects,” “seek,” “sustain,” “should,” “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 reflect 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 without limitation the risk factors described under the heading “Risk Factors” in this prospectus. One or more of these risks or uncertainties may materialize, or underlying assumptions may prove incorrect.

Subject to the requirements of the Listing Rules, we undertake no obligation and 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 in their entirety by reference to this cautionary statement as well as the risks and uncertainties discussed in the “Risk Factors” section of this prospectus.

RISK FACTORS

Investing in the Shares involves certain risks. You should carefully consider each of the risks described below and all of the other information contained in this prospectus, including the accountants' report included in Appendix I to this prospectus, before deciding to purchase the Shares. You should pay particular attention to the fact that our business is located almost exclusively in the PRC, and we are governed by a legal and regulatory environment which, in some respects, may differ from that which prevails in other countries.

If any of the following risks occur, our business, financial condition and results of operations could be materially and adversely affected. Additional risks and uncertainties not presently known to us, or not expressed or implied below, or that we deem immaterial, could also harm our business, financial condition and results of operations. The trading prices of our shares could decline due to any of these risks and uncertainties, and you may lose all or part of your investment.

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.

To sustain our competitiveness in the polyester filament yarn industry and to increase our profit, we plan to further expand our market share in China as well as in overseas markets, including Europe and the U.S. To achieve this purpose, we have devised business plans, including increasing our production capacity by building a new production site, developing new types of differentiated polyester filament yarns to expand our product portfolio, and exploring business opportunities to new markets. 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 demand 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.

In particular, we are planning to construct a new production site with a designed capacity of FDY and POY of 310,000 tpa and a designed capacity of DTY of approximately 188,000 tpa near our existing production site, which we expect to commence productions progressively starting from November 2011. This new production site requires a large amount of capital investments and may not be in full operation until the end of 2013. During the construction, various operational and market risks beyond our control may result in cost overrun, delay in the expansion plan or failure to complete the expansion plan at all. These risks include but are not limited to disruption of construction by unforeseen engineering or design factors as well as other disasters or accidents, such as typhoons, earthquakes, fires, strikes, riots and acts of war, failure to obtain necessary government approvals and licenses for the new production site, including but not limited to environmental assessments, and other events beyond our control. Any unanticipated delays in completion of the new production site or any cost overrun may result in a material adverse effect on our business, financial condition, results of operations and growth prospects.

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Even if we complete the new production site within our desired time frame and budget, we may still be subject to various operational risks and we can not 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 difficulties 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.

Our business and profitability may be affected by fluctuations in raw material prices as we may not always be able to pass on the increase in raw material costs to our customers.

Our business and profitability may be affected by fluctuations in the prices of raw materials. PTA and MEG, our primary raw materials for the production of polyester filament yarns, together accounted for 80.8%, 77.9% and 74.9% of our total cost of sales for the years ended December 31, 2008, 2009 and 2010, respectively. These raw materials are crude oil-based downstream commodities, the prices of which are indirectly affected by changes in the price of crude oil. For further details on the historical prices of PTA, MEG and crude oil, please see “Industry Overview — Historical Prices of PTA, MEG and Crude Oil” in this prospectus. Certain other factors may also impact the prices of PTA and MEG, including market demand for PTA and MEG, competition and over-supply of PTA and MEG, global economic and financial conditions, government anti-dumping measures and the PRC government policy on the import and export of PTA and MEG.

As PTA and MEG prices are indirectly affected by crude oil prices, we adjust the prices of our polyester filament yarns from time to time upon changes in the market price of crude oil so as to pass through the expected increase in raw material costs to our customers. However, there is no guarantee that we will be able to pass through all or any of the increased PTA and MEG costs to our customers in a timely manner or at all. For example, we enter into individual purchase orders with our customers for sales of our products at a mutually agreed sales price and typically deliver our products within seven to 30 days after we enter into the purchase order. As these short-term purchase orders do not contain any price adjustment mechanisms, we may not be able to pass on short-term increases in raw material prices to our customers after we enter into purchase orders. Furthermore, when the market prices of our products fail to timely respond to the change of raw material prices, we may not be able to pass on the increase in the prices of raw materials to our customers and sell our products at prices acceptable to our customers in order to maintain our market share and the relationship with our customers, such as during the fourth quarter of 2009. An increase in raw material prices that we are unable to pass through to our customers will increase our production costs and materially and adversely affect our profit margin. In addition, we do not enter into hedging transactions to fix, or otherwise mitigate against fluctuations in, the prices of the raw materials we purchase for our operations.

RISK FACTORS

We expect that the prices of PTA and MEG may continue to be volatile and fluctuate as the market price of crude oil changes. If the price of crude oil continues to rise, causing the prices of PTA and MEG to increase, and if there is not a corresponding increase in the price for our products, we may not be able to pass on the increase in the raw material costs to our customers in a timely manner or at all. In addition, we may be unable to effectively respond to other factors impacting the prices of PTA and MEG, such as market demand, supply and competition for PTA and MEG, global economic and financial conditions, government anti-dumping measures and the PRC government policy on the import and export of PTA and MEG. In any such event, our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

We rely on a limited number of suppliers for certain raw materials.

We rely on a limited number of suppliers to supply us with raw materials for our productions. We currently do not have long-term supply agreements with these suppliers. For the years ended December 31, 2008, 2009 and 2010, raw material purchases from our five largest suppliers of accounted for 82.6%, 85.6% and 75.6%, respectively, of our total raw material purchases and raw material purchases from our largest supplier accounted for approximately 41.1%, 53.8% and 44.4%, respectively, of our total raw material purchases. We cannot assure you that our major suppliers will not give priority or more favorable 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. If any of the abovementioned events happens, we may need to find alternative suppliers to supply us with the raw materials we need for our business on terms acceptable to us. If we fail to do so in a timely manner, our production may be interrupted and our production costs may increase. In such event, our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

Our sales are geographically concentrated in Fujian Province and Guangdong Province.

Although we sell our polyester filament yarns to a large group of customers, each of whom contributes to a small portion of our total revenue, substantially all of our sales of our polyester filament yarns are concentrated in Fujian Province and Guangdong Province. Our revenue from Fujian Province and Guangdong Province accounted for 92.0%, 88.6% and 89.2% for the years ended December 31, 2008, 2009 and 2010, respectively. In particular, the revenue generated from Fujian Province remained the dominant source of our revenue during the Track Record Period. Due to such revenue concentration, our business may be affected significantly by natural or social events and circumstances in Fujian Province or Guangdong Province. If negative circumstances arise in Fujian Province or Guangdong Province, 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 need for working capitals.

We plan to expand our business in order to capture market opportunities. We expect to spend a total of RMB3.8 billion on capital expenditures between 2011 and 2013 to acquire land use rights for our new production site, complete the construction of the new production facilities and the installation of new machineries at our existing and new production sites in the Fenglin Industrial Zone in Longhu County, Jinjiang City, Fujian Province, and complete the construction of our operation center at the coastal headquarters area in East Sea District, Quanzhou City, Fujian Province. Additional capital expenditures may also be required in the future for our increased need for working capital as our operation grows. We

RISK FACTORS

may also engage in plans and activities which may require extra funding, such as strategic alliances, acquisitions and mergers. We anticipate that our capital requirements will be financed primarily by the proceeds from the Global Offering as well as cash from operating and financing activities.

However, the proceeds from the Global Offering and cash from our operating and financing activities may not be sufficient to fund all of our future business plans. We expect to use cash generated from our operations and bank borrowings to fill any gap of capital requirement. We also intend to use bank borrowings to finance our working capital requirements. Our ability to obtain external financing in time or on terms acceptable to us depends on various factors, such as our financial condition, operating results, cash flow, share price and other factors, some of which are beyond our control. If we fail to obtain external financing in a timely manner, on terms acceptable to us or at all, we may need to raise funds through the issuance of new equity or debt securities. In the event we issue new equity securities, the percentage shareholding of existing shareholders may be diluted. Issuance of debt securities, on the other hand, may impose debt covenants which may limit our ability to develop our business and obtain other financing. In addition, in either case, we may incur a higher financing cost than our current level. In such event, our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

We may face increased competition and an increase in the cost of sales as the economy of the PRC strengthens and the global economy recovers.

During the Track Record Period, the PRC government's measures to boost the domestic economy, such as the implementation of the "RMB4 Trillion Package" plan to inject capital into the market, had a positive effect on the PRC economy. We anticipate that our business will continue to benefit from the positive economic development as the PRC's macro-economic condition recovers. However, a strengthened PRC economy may imply an increase in competition in the polyester filament yarn industry. In general, polyester filament yarn manufacturers compete on a variety of factors, such as price, product quality, performance or specifications, continuity of supply, customer service and their variety of product offerings. In addition, the prices of our raw materials, especially PTA and MEG, may increase as the price of crude oil increases with the recovery of the global economy. In such event, if we fail to compete effectively against our competitors, or if we fail to pass on the increased raw material costs to our customers or otherwise deal with the increased prices of our raw materials, our financial condition, results of operations and growth prospects may be materially and adversely affected.

Our research and development of new types of differentiated polyester filament yarns may not be successful and our newly-developed products may fail to achieve our desired results.

The constant development of innovative technology and new polyester filament yarns is crucial to our ability to adjust to changes in market demands and trends in the polyester filament yarn market and to our continued success in the future. As of the Latest Practicable Date, we had independently developed 19 types of differentiated polyester filament yarns.

We rely on our research and development team to develop these new products. For the year ended December 31, 2010, our revenue from patented differentiated polyester filament yarns and those under the patent application process for 65.4% of our total revenue. The enhancement of our competitiveness in the differentiated polyester filament yarn market relies on our continued development of products which may cater to new customer demands and increase both our market share and profit. We cannot assure you that we will be successful in developing products with the desired function or market demand, or that

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such research and development plans may be completed within our desired time frame and budget. In addition, by the time a new product is developed, the market demand for such new product may already have changed and our new product may not prove to be popular. If we fail to achieve successful results in our research and development efforts, or if the market demand for our new products falls short of our expectation, we may have to stop producing such products. As our differentiated products account for a substantial part of our profit during the Track Record Period, a decrease in our sales of differentiated products may also cause lower profit. In such event, our financial condition, results of operations and growth prospects may be materially and adversely affected.

We may not be able to retain our key management personnel and/or recruit qualified and experienced personnel to join us.

Our management team, especially our executive officers, managers and engineers, is of crucial importance to our continued success and development. Our chairman, Mr. Sze Tin Yau, and our president, Mr. Wu Jinbiao, have 20 and 25 years of experience in polyester filament yarn production and management, respectively. Our senior management team has an average of over 15 years of industry experience and expertise in various areas of the polyester filament yarn industry, including sales and marketing, research and development, production and finance. Members of our management team are responsible for overseeing our overall management and development.

Although we have not encountered any difficulty in retaining our key management and engineers, we cannot assure you that we will not experience such difficulty in the future. We do not maintain insurance with respect to our loss relating to the termination of employment relationship with our key management and engineers. If any of our key management personnel and engineers leaves us, or if we are unable to attract individuals with comparable experience and qualifications to join us in the future when the need arises, our financial condition, results of operations and growth prospects may be materially and adversely affected.

Our intellectual property rights may be infringed by our competitors.

We value intellectual property rights and strive to protect our patents, trademarks, and unregistered intellectual property rights, such as trade secrets, technologies, know-how, processes and other intellectual property rights developed by us. To protect our intellectual property rights, we have registered and applied for the PRC patents, registered trademarks, and entered into confidentiality agreements with our research and development staff and parties we cooperate with in our research and development activities. However, we cannot assure you that our efforts to protect our intellectual property rights are sufficient, that our patent applications will be granted, or that our intellectual property rights will not be misappropriated or otherwise infringed by third parties in the future in any or all jurisdictions in which we do business. In addition, the intellectual property laws in the PRC, where most of our business is carried out, are still developing and may not protect intellectual property rights to the same extent as similar laws of other countries do. Due to our reliance on specialized technologies and knowledge for our production process, if our intellectual property rights are infringed, our sales performance may be undermined, and our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

RISK FACTORS

We may be affected by claims by third parties alleging possible infringement of their intellectual property rights.

We may face claims that our products infringe upon the intellectual property rights of third parties, including our competitors and those with whom we have technology cooperation arrangements. If any legal proceeding against us for infringement of intellectual property rights is successful, and if we are unable to obtain a license for the usage of such intellectual property rights on acceptable terms, or at all, or are unable to design alternatives for such intellectual property rights, we may be prohibited from manufacturing or selling products which are dependent on the usage of such intellectual property. In such case, we may experience a material adverse effect on our business, financial condition, results of operations and growth prospects.

We may encounter work-related accidents in our operations.

We had not encountered any serious incident that has caused damages to our properties during our operations. As of the Latest Practicable Date, we were not involved in any claims or procedures brought against us relating to any work-related accident. However, although we have implemented strict safe production measures, such as installing protection devices and implementing safety operation procedures, and have conducted safety education for our employees to prevent accidents from happening, we cannot assure you that we will not encounter any work-related accident or that we will be sufficiently covered by our insurance policies if such accident happens in the future. Resolving work-related injury claims or other types of labor disputes can be time consuming and may cause us to divert our management attention and financial resources regardless of the final results of such claims. In such event, our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

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

Our operations are subject to uncertainties and contingencies beyond our control that could result in material disruptions and adversely affect our results of operations. These uncertainties and contingencies include wars, riots, power outage, public disorder, civil commotions, fires, earthquakes, floods and other natural calamities, epidemics, outbreaks of infectious diseases, terrorism, whether locally or nationwide, or incidents such as industrial accidents, strikes or other labor disputes and disruptions of public infrastructure, such as roads, ports or utilities. Any of such events could materially and adversely affect our business, financial condition, results of operations and growth prospects if our insurance policies do not provide sufficient or any coverage.

We experienced a few minor power stoppages during the Track Record Period, each lasted for a few seconds. As the production of polyester filament yarns require continuous supply of electricity, a stoppage of electricity, although only for a few seconds, may result in increased wasted polyester filament yarns, which are sold at lower sales prices.

As the insurance industry in the PRC is at an early stage of development compared with countries such as the U.S., although we have purchased a business interruption insurance as a result of a power stoppage we experienced in 2007, which lasted for a few seconds, we believe such insurance may not adequately and timely cover all losses relating to a business interruption, which we believe to be customary in the insurance industry in the PRC. Any uninsured loss or damage to our properties, including business disruptions as well as other events on which we do not have insurance coverage, such

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as product liabilities, third-party liabilities arising from accidents relating to our operations and expenses for potential litigation, may cause us to incur substantial costs and the diversion of resources, which could have a material adverse effect on our financial condition.

In addition, although we have purchased insurance policies to cover loss and damage to our assets, including our operational and storage facilities and personal injuries of our staff, we cannot assure you that, upon the occurrence of events such as an earthquake, fire, severe weather, war, flood, power outage, and the consequences, damages and disruptions resulting from them, we may be covered adequately or at all by our current insurance policies. If we were to incur substantial liabilities that are not covered by our insurance policies or if our business operations were interrupted for a substantial period of time, we could incur costs and losses which in turn could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We have limited experience in operating framework agreements with our customers and we cannot assure you that all of our customers will meet the minimum purchase volume commitments contained in these agreements.

In 2010, we entered into framework agreements with 186 of our large customers, which provide for, among other things, minimum purchase volume commitments by our customers. These framework agreements have a term of one year and are subject to automatic one year extensions if neither party objects. Our sales to such customers accounted for 57.6% of our total revenue for the year ended December 31, 2010. In 2011, all of these customers renewed their framework agreements, and substantially all of these agreements provided for equal or higher minimum purchase volume commitments.

We cannot assure you that these customers will purchase up to the minimum purchase volume in the future. In addition, we have only one year of experience in operating framework agreements with our customers. Although such framework agreements are legally binding, we may not necessarily resort to legal actions if any of our customers fail to purchase such minimum purchase volume as we may put more value on developing long-term relationships with our customers.

In the event any of our customers who entered into framework agreements with us fails to purchase up to the minimum purchase volume as provided for in those agreements and we fail to enforce or are unsuccessful in enforcing such agreements, our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

Our customers with whom we do not enter into framework agreements only enter into sales orders with us and we are thus subject to uncertainty and potential volatility with respect to our revenue from period to period.

We enter into individual sales orders with all of our customers for sales of our products. For customers with whom we do not enter into framework agreements, we only enter into individual sales orders. Although we have a broad base of customers and we did not experience any abrupt demand shortage during the Track Record Period, if our customers with whom we do not enter into framework agreements decide not to purchase polyester filament yarns from us, change their polyester filament yarn supplier or propose new terms of sales unacceptable to us due to financial difficulties, changes in their business models, changes in the raw materials used in their production or other industrial, political or environmental reasons or otherwise, our sales may decline within a very short period of time if we are

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unable to find alternative purchasers in a timely manner. In such event, our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

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

We depend on 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 by a 110kV power station through a power line directly connected to our production site. We also have a backup power line from another power station which can supply electricity for our production if the main electricity line is cut off. Due to local electricity stoppages and power line accidents, we have experienced a few minor power stoppages during the Track Record Period. We cannot assure you that similar stoppages or interruptions will not occur in the future or that our power line can provide us with electricity in a continued and stable manner or at all. We have constructed a water conservation system in our production site which has a storage capacity of 6,000 tons and may supply water for our production for three days in its full capacity. Although we have not experienced any stoppages or interruption in our water supply during the Track Record Period, we cannot assure you that any such stoppages or interruption will not occur in the future, or that our water conservation system alone can provide us with sufficient water to carry on our operations. If our electricity or water supply is interrupted and if we are unable to restore such supply or find alternative sources in a timely manner or at all, our production may be interrupted and our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

Failure to maintain an effective quality control system may result in profit 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 systems, which in turn, depend on a number of factors, including the design of the systems, the quality training program, 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 operations and growth prospects.

We believe the recognitions and certifications we have received relating to our environmental and quality management standards have been significant contributor to our overall success. Accordingly, any significant failure or deterioration of our quality control systems could result in us losing such recognitions and certifications, which in turn could have a material adverse effect on our reputation and growth prospects.

An increase in the cost of labor may adversely affect our business, financial condition, results of operations and growth prospects.

We rely on our employees to carry out production and other operating activities. The labor costs in the PRC have been gradually increasing in recent years and may continue to increase in the future. We can not assure you that our labor force will not demand an increase in their salaries. If we encounter such demands from our labor force or if we are unable to employ appropriate means to control our labor costs, or if we are unable to pass on such increase in our labor costs to our customers, our business, financial condition, results of operations and growth prospects may be adversely affected.

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We had net current liabilities positions as of December 31, 2008 and 2009 and negative cash flows from operating activities for the years ended December 31, 2008 and 2010.

We had net current liabilities of RMB482.0 million and RMB376.5 million as of December 31, 2008 and 2009, respectively. Our current liabilities exceeded our current assets in these periods primarily because we incurred short-term construction and equipment payables and we used short-term borrowings and cash from operations to finance the expansion of our production capacity, which became our long-term assets, such as our buildings and equipment. In addition, we had negative cash flows from operating activities in the years ended December 31, 2008 and 2010. Our negative operating cash flows for the year ended December 31, 2008 were primarily due to our extension of credit terms to our customers in light of the global financial crisis. Our negative operating cash flows for the year ended December 31, 2010 were primarily due to (i) an increase in trade and other receivables due to the increase in our prepayments to secure raw materials at the prices then offered by our suppliers as our management expected that the raw material prices may increase and due to an increase in bills receivables as a result of an increased payments by our customers by bank bills, and (ii) a decrease in our bills payables which was primarily a result of our usage of bank bills with shorter terms, which were primarily three months, in order to obtain higher discounts for raw materials. There can be no assurance that we will have net current assets or positive cash flows from operations in future periods. For example, we may decide to extend more credit to customers in difficult economic times, we may be unable to improve our collection of trade and other receivables or we may be unable to or decide not to obtain long-term borrowings, as opposed to short-term borrowings, from banks and other financial institutions to finance our business, operations and capital expenditures.

We may not be able to maintain the increasing trend of our gross profit margins or to maintain our profit margins at the levels we recorded during the Track Record Period.

For each of the three years ended December 31, 2008, 2009 and 2010, our gross profit margin was 5.9%, 8.4% and 14.6%, respectively. The gross profit margin increased from 5.9% for the year ended December 31, 2008 to 8.4% for the year ended December 31, 2009 because the market demand and the average sales price for polyester filament yarns recovered in the PRC domestic market in 2009 after the global financial crisis. Our gross profit margin also increased from 8.4% for the year ended December 31, 2009 to 14.6% for the year ended December 31, 2010 as a result of a higher increase in average sales prices of our products than that in raw material prices. However, we cannot assure you that we will be able to maintain the increasing trend of our gross profit margin, to maintain the growth of our gross profit margin or to maintain profitable, as the average sales 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 filament yarns and PTA and MEG, the change in the supply and demand of cotton yarns and other materials, the change in taxation and export policies, and various other factors that are beyond our control. Our business, financial condition, results of operations and growth prospects may be materially and adversely affected by any decrease in gross profit margin in the future.

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RISKS RELATING TO THE POLYESTER FILAMENT YARN INDUSTRY

Any over-supply in the domestic and international polyester filament yarn markets could negatively affect our business.

In light of anticipated demand growth in the domestic and international polyester filament yarn markets, it is possible that our competitors and other industry participants may increase their production capacities for polyester filament yarns. A significant number of new production lines and facilities in the PRC or other locations will increase the polyester filament yarn supply and result in over-supply of polyester filament yarns in the domestic and international markets. If the increase in supply outpaces the increase in future market demand for polyester filament yarns or if demand decreases, the resulting over-supply could adversely impact our sales and cause us to reduce our sales prices or production, which would in turn lower our profitability, and our business, financial condition and results of operations could be materially and adversely affected.

The polyester filament yarn industry can be affected by the market demand for products manufactured in downstream industries and macroeconomic conditions.

Our major customers are primarily fabric and textile manufacturers and the performance of the polyester filament yarn industry is affected by the performance of the fabric and textile industry and its downstream industries. If the fabric and textile industry experiences a decrease in the market demand for its products or otherwise faces difficulties which lead to lower demand for polyester filament yarns, the sales and prices of our products may be negatively impacted. In addition, the polyester filament yarn industry, like other industries, may be affected by macroeconomic conditions, and may experience a slowdown in growth during economic downturns. In such event, our financial condition, results of operations and growth prospects may be materially and adversely affected.

Competition in the polyester filament yarn market in the PRC may continue to be intense and we may fail to compete successfully against our competitors.

Our industry is highly competitive. In particular, competition among polyester filament yarn manufacturers in the PRC is intense. Our competitors include domestic and international manufacturers of differentiated polyester filament yarns and numerous smaller companies which produce more common types of polyester filament yarns. We expect that competition in the polyester filament yarn 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 a decrease in our market share. If we are unable to remain competitive, our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

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Our polyester filament yarns may be rendered less competitive or obsolete by other yarn products.

Polyester filament yarns are synthetic yarns made from chemical compounds which are primarily derived from crude oil. They are used primarily in the production of fabrics and textiles which are then sold to manufacturers of textile consumer goods. With their improved wrinkle resistance, durability and high color retention, they have been used in many areas which were traditionally dominated by natural yarns in the past decades. They compete with natural yarns, such as those made from cotton, wool and silk. However, changes in consumer preferences or a rise in the prices and/or a decline in the availability of crude oil, a key material used to manufacture polyester filament yarns, could have a negative impact on the demand for our polyester filament yarns. In addition, if the prices for natural yarns decline or if there are significant technological advances in the weaving and spinning of natural yarns, our polyester filament yarns could be rendered less competitive or even obsolete. In the event that our polyester filament yarns are rendered less competitive or obsolete by other yarns, our financial condition, results of operations and growth prospects may be materially and adversely affected.

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

In the past several years, the U.S. and E.U. have launched a number of anti-dumping trade protection measures and investigations against products produced in the PRC. These measures include an anti-dumping duty imposed by the U.S. on polyester staple fiber made in the PRC and an anti-dumping investigation by the U.S. of PET film, sheet and strip imports from the PRC, as well as an anti-dumping duty imposed by the E.U. on PET chips produced in the PRC and on high tenacity polyester filament yarns produced in the PRC. Although none of the above measures or investigations targeted the type of polyester filament yarns that we produce and we have not been subject to any anti-dumping trade protection measures or investigations 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 materially and adversely affected.

Certain information and statistical data used in this prospectus have been derived from research reports and supplied by other parties and should not be unduly relied upon.

Certain information and statistical data included in this prospectus, including statements about our industry, have been provided by official information issued by other parties and by independent third-parties, such as CMAI. We have taken reasonable care in extracting and reproducing such information to ensure that it is not misleading or deceptive. 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. However, such information may not be consistent with the information prepared by other parties or institutions. Such information and statistical data used in this prospectus have not been independently verified by us, the Joint Sponsors, the Joint Global Coordinators, the Underwriters, their respective directors and advisors or any other parties involved in the Global Offering and no representation is given as to their accuracy. Accordingly, this information and statistical data should not be unduly relied upon.

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RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

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

We believe the majority of our polyester filament yarns are used to produce fabrics and textiles which are then sold to manufacturers to produce consumer goods to be sold to consumers in the PRC. 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 revenues 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 emphasizing the utilization 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 measures to tighten lending standards, or that, if any such measure is implemented, it will not adversely affect our future results of operations or profitability.

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Demand for our polyester filament yarns and our business, financial condition and results of operations may be materially and 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.

Foreign exchange transactions and the convertibility of Renminbi into foreign currencies are subject to certain limitations.

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 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 the foreign currencies in the “current account” can be effected without requiring the approval by 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 SAFE. In addition to the requirements imposed by the PRC laws and regulations, SAFE also has discretionary authority to decide if an approval shall be granted. We can not guarantee that our PRC subsidiary may always be able to obtain such approval from 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 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 utilize 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. As our revenue is partially derived from the overseas market, any future limitations on the convertibility of the Renminbi may limit our ability to utilize our revenue. If such measures are imposed in the future, our financial condition, results of operations and growth prospects may be materially and 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

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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.

Any appreciation or depreciation in the value of the Renminbi or other foreign currencies that our operations are exposed to will affect our business in different ways. For example, 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 filament yarn at a cheaper price due to the appreciation of the Renminbi or depreciation of foreign currencies. In addition, changes in foreign exchange rates may have an impact on the book value of certain of our foreign currency denominated assets and liabilities. In such events, our business, financial condition, results of operations and growth prospects may be materially and 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 our polyester filament yarns 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.

Under the *Enterprise Income Tax Law of the PRC** (中華人民共和國企業所得稅法) (the “EIT Law”), which took effect on January 1, 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% enterprise income tax 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 enterprise income tax 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

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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, Billion Development, directly transfers the equity interest in our PRC subsidiary, Billion Fujian, 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** (關於加強非居民企業股權轉讓所得稅管理的通知) (Circular Guoshuihan [2009] No. 698) (“Circular 698”) issued by the SAT on December 10, 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 enterprise income tax rate of 10%. See “— 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.

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 of our financial results.

Billion Fujian was our sole operating subsidiary in the PRC during the Track Record Period. Our financial information has been prepared and presented as a continuation of financial statements of Billion Fujian with assets and liabilities of Billion Fujian recognized and measured at their historical carrying amount. As a result, the financial results of Billion H.K., the shareholder and the immediate holding company of Billion Fujian during the Track Record Period up until immediately prior to the completion of the Corporate Reorganization on February 17, 2011, had not been and will not be included in our financial information. Therefore, the withholding tax liability that we withheld for the dividends we paid to Billion H.K. under the PRC tax laws and regulations for the period from January 1, 2008 to the completion of the Corporate Reorganization was excluded from our financial information.

Upon the completion of the Corporate Reorganization on February 17, 2011, Billion Fujian became a wholly-owned subsidiary of Billion Development, our Hong Kong subsidiary. As a result, Billion Development may be subject to PRC withholding tax liability for dividends we pay from Billion Fujian to Billion Development, unless Billion Development is otherwise exempted from PRC withholding tax under the PRC tax laws and regulations for such dividends paid. No deferred PRC withholding tax liability associated with unremitted earnings of Billion Fujian has been recorded by us in our accounts for the Track Record Period because our Directors currently do not intend for Billion Fujian to distribute any of the remaining undistributed earnings of Billion Fujian to Billion Development in the foreseeable future. However, if our Directors decide to distribute dividends from Billion Fujian to Billion Development in the future such as by forming a dividend policy that specifies the percentage of our dividend over our after-tax earnings, we will be required to record a deferred PRC withholding tax liability in our accounts up to 10% (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 will be negatively impacted. As of December 31, 2010, the undistributed earnings of Billion Fujian amounted to RMB484.9 million, of which RMB324.6 million was declared and paid to Billion H.K. as dividend subsequent to the Track Record Period but before the completion of Corporate Reorganization.

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New labor laws in the PRC may materially and adversely affect our results of operations.

The Standing Committee of the National People's Congress adopted the PRC Labor Contract Law on June 29, 2007 which became effective on January 1, 2008 and the State Council passed the Implementation Rules of the PRC Labor Contract Law on September 18, 2008. The PRC Labor Contract Law and its implementation rules impose requirements relating to, among others, minimum wage, severance payment and non-fixed term employment contracts, and establishes time limits for probation periods as well as the duration and the number of times that an employee can be placed on a fixed term employment contract. It also provides for mandatory social insurance for the employees, failure of which may result in a unilaterally termination of the labor contract by the employee.

Pursuant to the PRC Labor Contract Law and its implementation rules, our PRC subsidiaries are required to enter into non-fixed term employment contracts with employees who have worked for them for more than ten consecutive years or, unless otherwise provided in the PRC Labor Contract Law and its implementation rules, for whom a fixed term employment contract has been concluded for two consecutive terms since January 1, 2008. We may not be able to efficiently terminate non-fixed term employment contracts under this new law and its implementation rules without cause. In addition, we are also required to make severance payments to employees under the fixed term contracts upon the expiration of their employment contracts, unless the employee voluntarily terminates the contract or voluntarily rejects an offer to renew the contract in circumstances where the conditions offered by the employer are the same as or better than those stipulated in the current contract. Generally, the amount of severance payment is calculated based on the monthly wage of the employee multiplied by the number of years that the employee was employed by the employer, unless the employee's monthly wage is greater than three times the average monthly wage in the relevant district or locality, in which case the calculation of the severance payment will be based on a monthly wage equal to three times the average monthly wage multiplied by a maximum of twelve years. Thus, compliance with the relevant labor laws and regulations may substantially increase our operating costs and may have a material and adverse effect on our results of operations. In particular, an increase in the labor costs in the PRC will increase our operating costs and we may not be able to pass these increases on to our customers due to competitive pricing pressures. We cannot assure you that any employment disputes or strikes will not arise in the future. Increases in our labor costs and future disputes with our employees could materially and adversely affect our business, financial condition, results of operations and growth prospects.

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

Under the EIT Law and its implementation rules, any gain realized 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 recognized 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 the PRC income tax at the rate of up to 10% under the EIT Law as to the capital gains realized 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.

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If the PRC tax authorities recognize 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 the PRC tax rates higher than the preferential tax rates under the relevant tax treaties on capital gains realized from sales of our Shares and on dividends on our Shares. In such circumstances, the value of such foreign Shareholders' investment in our Offer 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-characterize 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.

Negative publicity on the PRC products may materially and 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 business, financial condition, results of operations and growth prospects may be materially and adversely affected.

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

In recent years, the PRC has introduced and imposed stricter measures on the industrial sector in relation to environmental protection, such as low-carbon requirements. PRC laws and regulations relating to environmental protection at both national and local levels currently impose fines for over-discharge of pollutants, levy fines for causing pollution, and require closure of any facility which causes serious environmental problems. Under such laws and regulations, we are also required to conduct tests prescribed from time to time by the relevant PRC authorities for waste discharge and waste disposal. Non-compliance with such PRC laws and regulations relating to environmental protection may, depending on the seriousness of the circumstances, result in an order for rectification from the authorities, penalties or an order to suspend production.

RISK FACTORS

Our operations generate waste water, solid waste, gas pollution and noise pollution. To comply with the relevant laws and regulations, we have implemented effective environmental standards for our production processes and have set out detailed environmental procedures. We have installed environmental protection devices and equipment that reduce noise pollution, treat and recycle waste water and reduce gas pollution. The waste water, solid waste, gas pollution and noise pollution we generate during our production process, after internal processing, are all within the permitted levels. We have also set up an environment monitoring system for the generation and emission of waste water, solid waste, gas pollution and noise pollution and other pollutants to ensure full compliance with state and local regulations.

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 to update our environmental protection devices 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 materially and adversely affected.

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, labor 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 domestic consumer demand for our products and relies on domestic labor, any inadequately controlled outbreak of severe communicable disease in the PRC could materially and adversely affect our business, financial condition, results of operations and growth prospects.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares and an active trading market for our Shares 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 Joint Global Coordinators (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 four 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.

RISK FACTORS

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;
- 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 filament 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 and we do not expect our PRC subsidiary to distribute dividends in the foreseeable future.

Billion Fujian, our sole operating subsidiary in the PRC, declared dividends of RMB66.4 million for the distributable profits generated for the years between 2005 and 2007, which were paid to Billion H.K. on April 21, 2010. Billion Fujian also declared dividends of RMB33.7 million, RMB79.9 million and RMB324.6 million to us for the distributable profits generated for the years ended December 31, 2008, 2009 and 2010, respectively. These dividends were paid to Billion H.K. in May 2010, June 2010 and January 2011, respectively.

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. The timing, amount and currency of 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. Our Directors currently do not intend for Billion Fujian, our sole PRC subsidiary, to distribute any of its remaining undistributed earnings to Billion Development, our Hong Kong subsidiary and holding entity of Billion Fujian, in the foreseeable future. In the event our Directors determine to

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declare and pay dividends by our Company to our Shareholders, our Directors may, at their sole discretion, determine the manner, currency and sources of our dividend, as they deem appropriate, and we may use cash from operating, investing or financing activities of our Company, if any, to finance the payment of dividends to our Shareholders. In addition, in the event we determine to use dividends received from our subsidiary in the PRC to fund the payment of dividends to our Shareholders, our Shareholders may be subject to restrictions described in “ — Risks Relating to Conducting Business in the PRC — 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” above and we may be required to record a deferred PRC withholding tax liability as described in “— Risk Relating to Conducting Business in the PRC — We will be required to record a deferred PRC withholding tax liability if we intend to distribute dividend from our PRC subsidiary to our offshore holding company, which will adversely impact of our financial results” above. For further details of our dividend policy, please see “Financial Information — Dividend Policy” in this prospectus.

The interests of our Controlling Shareholders may not always coincide with our interests and the interests of our other Shareholders, and the Controlling Shareholders may exert significant control or substantial influence over us and may take actions that are not in, or may conflict with, our best interests and public Shareholders’ best interests.

The Controlling Shareholders will control the exercise of voting rights of 75% 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 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.

The sales or the availability for sales of substantial amounts of our Shares in the future could materially and adversely affect the market price of our Shares.

Sales of substantial amounts of Shares in the public market after the completion of the Global Offering, or the perception that these sales could occur, could adversely affect the market price of our Shares and could materially impair our future ability to raise capital through offerings of our Shares. There will be 2,299,000,000 Shares outstanding immediately after the Global Offering, assuming the Over-allotment Option is not exercised. Although our Controlling Shareholders, subject to certain exceptions, have agreed with the Underwriters to a lock-up until six months after the date of this prospectus as described under the section headed “Underwriting” in this prospectus, the Underwriters may release these securities from these restrictions at any time and such Shares will be freely tradable after the expiry of the lock-up period.

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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.

The costs of options to be granted under the Share Option Scheme may negatively 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 following 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 affect 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 to be granted thereunder are set out in the paragraph headed "G. Share Option Scheme" in Appendix VI of 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 the 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 the 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.

RISK FACTORS

You should not rely on any information contained in press coverage or other media in relation to the Global Offering, our business operations or our Group in connection with a decision to invest in the Shares.

Prior to the publication of this prospectus, there was press and media coverage regarding us and the Global Offering, including, but not limited to, news articles published in Hong Kong Commercial Daily, Hong Kong Economic Journal, Hong Kong Economic Times, Sing Tao Daily and Wenweipo newspaper on April 29, 2011. We have not authorized the publication of these news articles. In addition, there may be similar publications subsequent to the date of this prospectus but prior to the completion of the Global Offering. However, you should rely solely upon the information contained in this prospectus, the Application Forms and any formal announcements made by us in Hong Kong in making your investment decision regarding the Global Offering. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding the Global Offering, or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Accordingly, prospective investors in the Global Offering should not rely on any such information, reports or publications in making their decisions whether to invest in the Shares.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. As our business and operations are conducted through Billion Fujian in the PRC, and all of our manufacturing facilities are also located in the PRC, our Group's head office and our senior management members (other than the chief financial officer and company secretary of our Company, Ms. Ng Weng Sin) are and will continue to be based in the PRC. We do not carry on any business nor do we have any other form of presence in Hong Kong. Although Mr. Sze Tin Yau, an executive Director, holds a Hong Kong permanent identity card, and Mr. He Wenyao, an executive Director, holds a Hong Kong identity card, they will not ordinarily reside in Hong Kong. None of the executive Directors will be based in Hong Kong upon the Listing. We have applied to the Stock Exchange for a waiver from strict compliance with the requirement under Rule 8.12 of the Listing Rules.

We have received from the Stock Exchange a waiver from strict compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) We have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal communication channel with the Stock Exchange and will ensure that they comply with the Listing Rules at all times. The two authorized representatives appointed are Mr. Sze Tin Yau, chairman of the Board and an executive Director, and Ms. Ng Weng Sin, our chief financial officer and company secretary who is ordinarily resident in Hong Kong. Each of the authorized representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by mobile or residential telephone, facsimile or email. Each of the two authorized representatives has been duly authorized to communicate on our behalf with the Stock Exchange.
- (b) We have appointed Haitong International Capital Limited as the compliance adviser pursuant to Rule 3A.19 of the Listing Rules who will act as our additional authorized communication channel with the Stock Exchange for the period commencing on the Listing Date and ending on the date on which we distribute the annual report for the first full financial year after the Listing Date in accordance with Rule 13.46 of the Listing Rules.
- (c) Both authorized representatives have means to contact all members of the Board (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the members of the Board for any matters.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (d) We implement a policy whereby (i) each Director (including the independent non-executive Directors) will provide his or her respective mobile phone number, residential phone number, office phone number, facsimile number and email address to the authorized representatives; (ii) each Director (including the independent non-executive Directors) will provide valid phone numbers or means of communication to the authorized representatives when he or she travels; and (iii) each Director (including the independent non-executive Directors) and each authorized representative will provide his or her mobile phone number, residential phone number, office phone number, facsimile number and email address to the Stock Exchange.
- (e) All of the executive Directors and the independent non-executive Directors who are not ordinarily residents in Hong Kong have confirmed that they possess valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange in Hong Kong within a reasonable period of time, when required.

CONNECTED TRANSACTIONS

A member of our Group has entered into certain transactions with the connected persons, which would constitute non-exempt continuing connected transactions of our Company under the Listing Rules after the Listing. Our Company has received from the Stock Exchange a waiver from strict compliance with the announcement and independent shareholders' approval requirements set out in Rules 14A.47 and 14A.48 of the Listing Rules for such non-exempt continuing connected transactions. Further details of such non-exempt continuing connected transactions and the waiver are set out in the section headed "Connected Transactions" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus 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 in this prospectus or this prospectus misleading.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applicants under the Hong Kong Public Offering, this prospectus and the related Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The Listing is sponsored by the Joint Sponsors. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis, with one of the conditions that the Offer Price is agreed among the Joint Global Coordinators (on behalf of the Underwriters) and us. The International Placing is managed by the Joint Global Coordinators. The International Placing Agreement is expected to be entered into on or about the Price Determination Date, subject to agreement on the Offer Price among the Joint Global Coordinators (on behalf of the Underwriters) and us. If, for any reason, the Offer Price is not agreed among the Joint Global Coordinators (on behalf of the Underwriters) and us, the Global Offering will not proceed. 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 Shares are being offered at the Offer Price which is expected to be determined by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us on or around Thursday, May 12, 2011, and in any event no later than Friday, May 13, 2011.

If the Joint Global Coordinators (on behalf of the Underwriters) and us are unable to reach an agreement on the Offer Price, the Global Offering will not proceed and will lapse.

RESTRICTIONS ON OFFER AND SALE OF SHARES

No action has been taken to permit a public offer of the Offer Shares other than in Hong Kong or the general distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

authorities or an exemption therefrom. Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to confirm, or be deemed by his acquisition of Hong Kong Offer Shares to confirm, that he is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and related Application Forms, and on the terms and subject to the conditions set out in this prospectus and the Application Forms. No person is authorized 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 authorized by our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, the Joint Sponsors, any of their respective directors or any other persons or parties involved in the Global Offering.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee for the Listing of, and permission to deal in, the Shares in issue and the Shares to be issued pursuant to the Capitalization Issue, the Shares to be issued pursuant to (i) the Global Offering (including any Shares which may fall to be issued upon the exercise of the Over-allotment Option) and (ii) the exercise of any options that may be granted under the Share Option Scheme. Dealings in the Shares on the Stock Exchange are expected to commence on May 18, 2011.

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 allocation made in respect of any application will be invalid if permission for listing of, or dealing 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 three weeks, be notified to our Company by the Stock Exchange.

REGISTER OF MEMBERS AND STAMP DUTY

All Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Placing will be registered on our Company's share register of members to be maintained in Hong Kong by the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited. Our Company's principal register of members will be maintained by our Company's principal share registrar, Butterfield Fulcrum Group (Cayman) Limited, in the Cayman Islands.

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

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Main Board 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 Listing Date 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 emphasized that none of us, the Underwriters, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, any of their respective directors, agents or advisers or any other persons or parties 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.

PROCEDURES FOR APPLICATION FOR SHARES

The procedures for applying for the Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and on the relevant Application 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.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. As a result, any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding. Where information is presented in thousands or millions of units, amounts may have been rounded up or down.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. Sze Tin Yau	6C, Block 7, Harmony Garden, 9 Siu Sai Wan Road, Chai Wan, Hong Kong	Chinese
Mr. Wu Jinbiao	Unit E, 20/F, Sea View Villa, 28 Fisherman Street, Macau	Chinese
Mr. Wu Jianshe	No.33, Wen Yuan North Road, Fenglin District, Longhu Town, Jinjiang City, Fujian, the PRC	Chinese
Mr. He Wenyao	Building No.12, Wu Xing Xia Ze, Shishi City, Fujian, the PRC	Chinese
<i>Independent non-executive Directors</i>		
Mr. Yeung Chi Tat	Flat E, 60/F, Tower 3, Vision City, Tsuen Wan, New Territories, Hong Kong	Chinese
Ms. Zhu Meifang	Room 1402, No. 35 Lane 1661, Changning Road, Shanghai, the PRC	Chinese
Mr. Ma Yuliang	Room 403, Unit 33, No. 21, Zen Guang Road, Haidian District, Beijing, the PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED IN THE GLOBAL OFFERING

**Joint Global Coordinators,
Joint Bookrunners and
Joint Lead Managers**

UBS AG, Hong Kong Branch
52/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

CCB International Capital Limited
34/F, Two Pacific Place
88 Queensway
Admiralty
Hong Kong

Joint Sponsors

Merrill Lynch Far East Limited
15/F, Citibank Tower
3 Garden Road
Central
Hong Kong

CCB International Capital Limited
34/F, Two Pacific Place
88 Queensway
Admiralty
Hong Kong

Co-Managers

First Shanghai Securities Limited
19th Floor, Wing On House
71 Des Voeux Road, Central
Hong Kong

Guotai Junan Securities (Hong Kong) Limited
27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Legal advisers to our Company

As to Hong Kong and United States law:

Orrick, Herrington & Sutcliffe
43/F, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to the PRC law:

Tian Yuan Law Firm
11/F, Tower C, Corporate Square
No.35 Financial Street, Xicheng District
Beijing 100033
the PRC

As to Cayman Islands law:

Conyers Dill & Pearman
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Legal advisors to the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors and the Underwriters	<i>As to Hong Kong and United States law:</i> Fried, Frank, Harris, Shriver & Jacobson 9/F, Gloucester Tower, The Landmark 15 Queen's Road Central Hong Kong <i>As to the PRC law:</i> Jingtian & Gongcheng 34/F, Tower 3, China Central Place 77 JianGuo Road, Chaoyang District Beijing 100025 the PRC
Auditors and reporting accountants	KPMG <i>Certified Public Accountants</i> 8/F Prince's Building 10 Charter Road Central Hong Kong
Property valuer	Jones Lang LaSalle Sallmanns Limited 6/F Three Pacific Place 1 Queen's Road East Hong Kong
Receiving banks	The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong The Bank of East Asia, Limited 10 Des Voeux Road Central Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principal place of business in Hong Kong	Unit 1501, Office Tower Convention Plaza 1 Harbour Road Wanchai Hong Kong
Headquarter and principal place of business in the PRC	Fenglin Industrial Zone, Longhu Town Jinjiang, Fujian, the PRC
Company's website	<u>www.baihong.com</u> <i>(the information contained on the website does not form part of this prospectus)</i>
Company secretary	Ms. Ng Weng Sin, <i>HKICPA</i> and <i>HKACCA</i> 5/F, 267 Castle Peak Road Cheung Sha Wan Kowloon Hong Kong
Authorized representatives	Mr. Sze Tin Yau 6C, Block 7 Harmony Garden 9 Siu Sai Wan Road Chai Wan Hong Kong Ms. Ng Weng Sin 5/F, 267 Castle Peak Road Cheung Sha Wan Kowloon Hong Kong
Audit committee	Mr. Yeung Chi Tat (<i>Chairman</i>) Ms. Zhu Meifang Mr. Ma Yuliang
Nomination committee	Mr. Sze Tin Yau (<i>Chairman</i>) Mr. Yeung Chi Tat Ms. Zhu Meifang

CORPORATE INFORMATION

Remuneration committee	Mr. Sze Tin Yau (<i>Chairman</i>) Mr. Yeung Chi Tat Mr. Ma Yuliang
Compliance adviser	Haitong International Capital Limited 25/F New World Tower 16-18 Queen's Road Central Hong Kong
Principal bankers	China Construction Bank Corporation (Jinjiang Branch) 169 Yingbin Road Qingyang Jinjiang Fujian the PRC Agricultural Bank of China Holdings Limited (Jinjiang Branch) Yinxing Tower Yingbin Road Jinjiang Fujian the PRC
The Cayman Islands principal share registrar and transfer office	Butterfield Fulcrum Group (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 609 Grand Cayman KY1-1107 Cayman Islands
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong

INDUSTRY OVERVIEW

We believe that the sources of the information in this section 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 part has been omitted that would render such information false or misleading. Investors should also note that no independent verification has been carried out on any facts or statistics that are directly or indirectly derived from official government and non-official sources. We, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners and the Joint Lead Managers, any of the Underwriters, any of their respective directors and advisors or any other persons or parties involved in the Global Offering make no representation as to the accuracy of the information from official government and non-official sources, which may not be consistent with other information compiled within or outside China. Accordingly, the official government and non-official sources contained herein may not be accurate and should not be unduly relied upon.

Unless otherwise specified, the market and industry information and data presented in this Industry Overview section has been provided by CMAI and Frost & Sullivan.

SOURCES OF INFORMATION

We commissioned CMAI and Frost & Sullivan to conduct an analysis of and to prepare reports on the domestic and global polyester filament yarn industry and its downstream markets. CMAI is an independent consultant to petrochemical industry participants in strategic and commercial planning as well as feasibility and financial studies. It was founded more than 30 years ago and its Asia headquarters is based in Singapore. Frost & Sullivan is an independent consultant. It was founded almost 50 years ago and has more than 1,800 industry consultants, market research analysts, technology analysts and economists. We paid a fixed fee of US\$47,000 to CMAI for its report, which was dated December 2010 and supplemented in March and April 2011, and we paid a fixed fee of RMB260,000 to Frost & Sullivan for its report, which was dated January 2011. The reports from CMAI and Frost & Sullivan include various information relating to the polyester filament yarn industry and its downstream markets, such as information relating to the market size, consumption, production volume, designed capacity and other information about the domestic and global polyester filament yarn industry, and market information about the fabric and textile manufacturing industry and the apparel and footwear industry, which has been quoted in this prospectus. Such information includes both historical information and forecast information by CMAI and Frost & Sullivan. In preparing the reports and conducting analysis, CMAI and Frost & Sullivan exercised reasonable care and skills in applying analysis methods consistent with normal industry practice. All results were based on information available as of the dates of the reports. Other sources of information, including government, trade associations or market place participants, may have provided some of the information on which the analysis or data is based.

GENERAL INTRODUCTION

Polyester fiber is a man-made fiber made of synthetic polymers, which are usually produced by reacting purified terephthalic acid (“PTA”) and monoethylene glycol (“MEG”). The two main forms of polyester fiber are polyester filament and polyester staple. Polyester filament is also known as polyester filament yarn in its finished form and is widely used in the production of fabrics and textiles in various industries. Polyester staple fiber (“PSF”) looks similar to cotton and is usually used to stuff beddings.

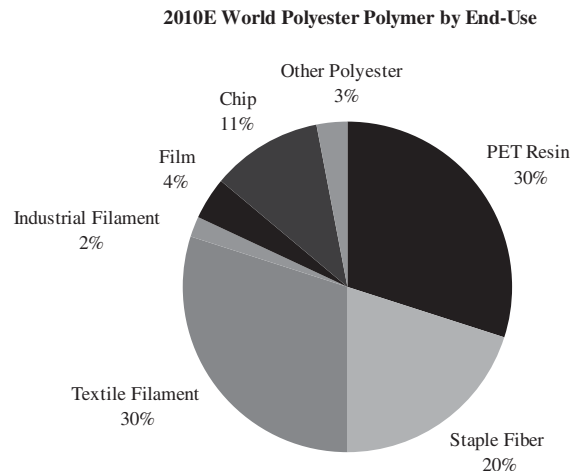
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The main category of polyester filament is polyester textile filament, which is generally used in producing fabrics and textiles used in the production of apparel and footwear, including shirts, pants, jackets, hats and various shoes, as well as home furnishings, such as bed sheets, blankets and upholstered furniture.

Another category of polyester filament is polyester industrial filament, which is used for industrial purposes, such as producing tire reinforcements, coated fabrics and plastic reinforcements. Polyester industrial filaments are used primarily in the manufacturing of safety belts and plastic reinforcements.

Compared to natural filament, polyester filament has the advantages of improved wrinkle resistance, durability and high color retention. Polyester filament also has high tenacity and modulus as well as low water absorption and minimal shrinkage in comparison with other industrial fibers.

The following chart sets forth the estimated distribution of the world's polyester polymer by end-use in 2010:



Source: CMAI

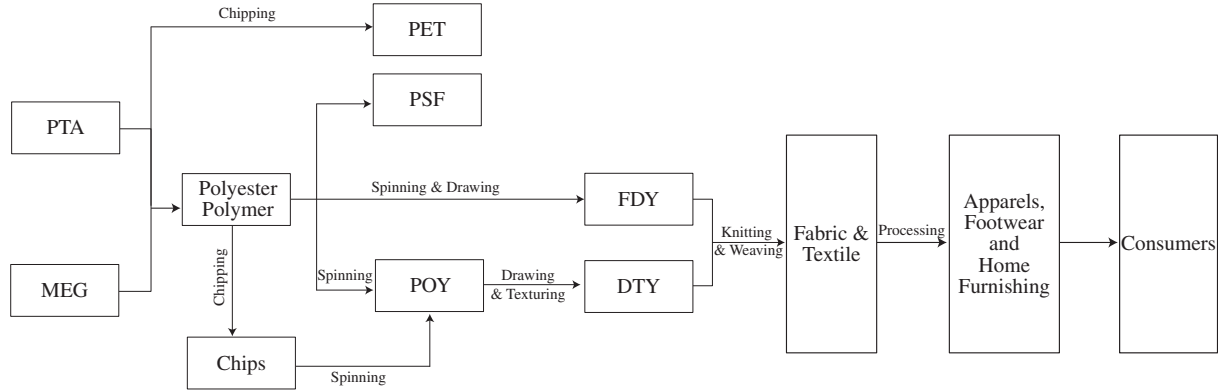
As shown in the chart above, polyester filament used for textile purposes is one major end-use of polyester polymer, accounting for an estimated 30% of the world's total polyester polymer consumption in 2010.

The Value Chain of Polyester Filament Yarns

The polyester value chain begins with two main raw materials, PTA and MEG. PTA and MEG are fed into a polyester plant to form polyester polymer or polyester melt. Polyester melt can then be fed into downstream FDY, POY and PSF spinning units, or in some cases fed into chip units to produce PET chips that can be sold to a POY or DTY spinning unit. The final products of the polyester value chain, namely DTY and FDY, are then used in various applications in the fabric and textile industry to produce fabric and textile which are further processed into apparel, footwear and home furnishings.

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The following diagram sets forth the main processes of the polyester value chain:



Polyester Filament Yarn Industry

Demand for polyester filament yarn is largely driven by the textile industry growth in emerging markets such as China and India. Northeast Asia has been the focal point of the world's polyester filament yarn production. In 2009, production of polyester filament yarn for textile purposes in northeast Asia accounted for 76% of the world's total production of polyester filament yarn for textile purposes, while China expanded its global share from 32% in 2000 to 66% in 2009 and is now the largest apparel and textile finished goods exporter globally. According to CMAI, China's share of polyester filament yarn production capacity is expected to be 69% of the global production capacity by 2015.

According to CMAI, from 2005 to 2009, polyester textile filament yarn demand has grown steadily at a CAGR of 5.8% globally and 8.9% in China, and will reach 18.6 million tons globally and 12.5 million tons in China in 2010, with China representing 67% of the global demand. The demand in China and globally is estimated to grow at a CAGR of 9.4% and 7.9%, respectively, from 2010 to 2015. CMAI estimated that consumption of DTY and FDY in China accounted for approximately 68% and 32%, respectively, of the total consumption of polyester filament yarns for textile purposes in 2009.

There are primarily three types of polyester filament yarns, namely, DTY, FDY and POY. DTY and FDY, the two main products of the polyester filament industry, have wide applications. DTY is generally used by fabric and textile manufacturers for a variety of applications for consumer products that require a cotton-like feel, such as high-end apparel, sports shoes, home furnishings and zipper tapes, while FDY is more commonly used in consumer products that require a silk-like or leather-like feel, such as high-end undergarments, sportswear and sports shoes, and home furnishings. POY is primarily used as a main raw material for the production of DTY. Polyester filament yarns are less likely to face significant competition from other synthetic or natural fibers in commodity applications due to their physical properties and prices. Improvements in post-processing technologies have further solidified the position of polyester fiber as the preferred material. Therefore, the polyester fiber markets are not expected to be replaced by other synthetic or natural fibers in the foreseeable future.

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In the past several years, cotton prices have remained at relatively high levels. According to the China National Cotton Exchange, average cotton prices were approximately RMB13,600 per ton, RMB13,200 per ton and RMB19,900 per ton in 2008, 2009 and 2010, respectively. As cotton prices reached historical heights in 2010, the price for cotton yarns also increased substantially. During this same period, the market demonstrated a strong demand for polyester filament yarns, which have the ability to serve as a substitute for cotton yarns to some extent. As cotton yarns and polyester filament yarns each have their own distinctive properties, cotton yarns cannot be fully substituted by polyester filament yarns, nor the other way around. However, CMAI expects that the demand for polyester filament yarn will continue to be strong and the market will continue to use polyester filament yarns as a partial substitute for cotton yarns, considering that: (a) cotton will continue to be in short supply both globally and domestically over the next two years; (b) the technologies involved in the manufacturing of polyester filament yarns, in particular, DTY, are constantly being improved, causing polyester filament yarns to have more features of cotton yarns and other additional advantages; and (c) the price difference between cotton yarns and polyester filament yarns will remain relatively wide. In terms of domestic demand for polyester filament yarns, CMAI expects that as the domestic economic growth will continue to stipulate the market development for apparel, footwear, home furnishings and fabric and textile industries, manufacturers in these industries will increase the proportion of polyester filament yarns used in their products for cost control purposes. To the extent that cotton remains in short supply and prices remain at high levels, it is expected that the polyester filament yarn market will continue to be positively impacted.

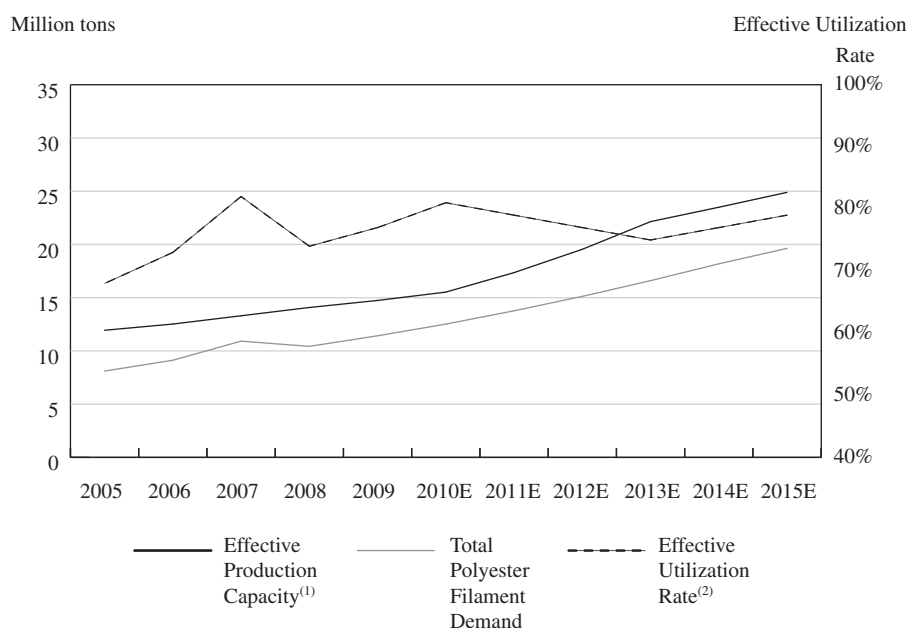
Domestic Demand and Supply of Polyester Filament Yarns

In China, the demand for polyester filament yarns has experienced a steady growth in the past few years. The market demand for polyester filament yarns is primarily driven by the demand for DTY, which represented an estimated 65% of total polyester filament yarns production for textile purposes in China in 2009. The FDY market is expected to slightly outperform that of DTY over the next few years due to the development of post-treatment technology and the lower cost level of FDY.

CMAI estimated the annual demand growth rate of DTY and FDY in China to be approximately 10% before 2013 with FDY achieving a slightly higher growth rate than DTY. The increase in the demand for DTY and FDY is expected to be driven by a robust growth in domestic consumption. CMAI expects that the competition amongst regular DTY and FDY producers will remain extremely intense and, therefore, the ability to produce differentiated DTY and FDY will be essential to enhance producers' market share and profitability.

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The following table sets forth the historical and estimated effective production capacity, total domestic demand for polyester filament yarns and the effective utilization rate in China from 2005 to 2015:



Source: CMAI

Note:

- (1) According to CMAI, effective production capacity is equal to the total production capacity less estimated capacities that are shut down for a long period of time as a result of obsolete technology or poor operation. The “effective production capacity” assumes the polyester filament yarns produced have the same linear density of about 150D.
- (2) According to CMAI, effective utilization rate is equal to effective production capacity divided by total polyester filament yarn demand in China.

The “effective production capacity” in the chart above assumes the polyester filament yarns produced have the same linear density of about 150D. However, the “total polyester filament demand” reflects demand for polyester filament yarns of different linear densities. As a result, the effective utilization rate of polyester filament yarns shown in the chart above is more reflective of the linear density of polyester filament yarns demanded and produced and to be demanded and produced as opposed to downtime and is not a result of low demand of polyester filament yarns.

According to CMAI, production of DTY and FDY in China concentrates in the eastern and southern areas in China, including Jiangsu Province, Zhejiang Province, Fujian Province and Guangdong Province. Generally, these regions have a strong economy and have high local purchasing power. However, the competition in these markets is primarily among local manufacturers as polyester filament yarn manufacturers are usually less inclined to expand their sales activities beyond the area where their manufacturing plants are located. According to Frost & Sullivan, the apparel and footwear industry, which is a main downstream industry of the polyester filament yarn industry, is expected to experience

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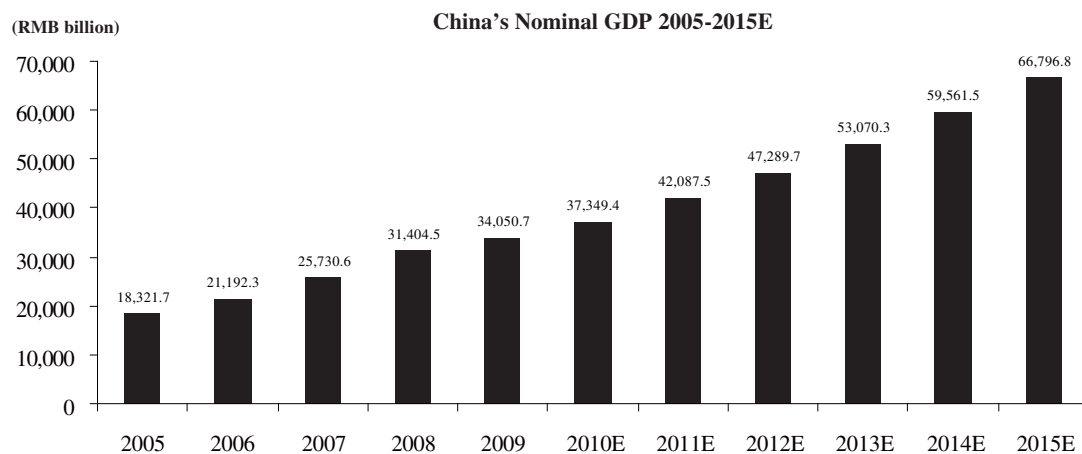
rapid growth in south China and, in particular, Fujian and Guangdong Provinces are expected to grow from 33.3% of China's entire production volume in 2009 to 45.0% of China's entire production volume by 2015. CMAI estimates that there will be supply shortages of polyester filament yarns for the coming years in south China, which primarily includes Fujian Province and Guangdong Province.

FACTORS AFFECTING THE PERFORMANCE OF THE POLYESTER FILAMENT YARN INDUSTRY

Growth in China's GDP, GDP Per Capita and Annual Urban Disposable Income

China's economic growth and its increasing domestic demand for consumer goods are the major drivers for the growth of polyester filament yarn industry in China. China experienced high growth rates from 2005 to 2009 as nominal GDP increased from RMB18,321.7 billion to RMB34,050.7 billion, representing a CAGR of 16.8%. Frost & Sullivan estimates that China's nominal GDP will further grow from RMB37,349.4 billion in 2010 to RMB66,796.8 billion in 2015, representing a CAGR of 12.3%. As a result of the rapid growth of China's GDP, nominal GDP per capita in China has also increased from RMB14,053 in 2005 to RMB25,575 in 2009, representing a CAGR of 16.1%, according to Frost & Sullivan. Frost & Sullivan estimates that China's nominal GDP per capita will further grow from RMB27,843 in 2010 to RMB48,569 in 2015, representing a CAGR of 11.8%.

The following chart sets forth the historical and estimated nominal GDP in China for the periods indicated.

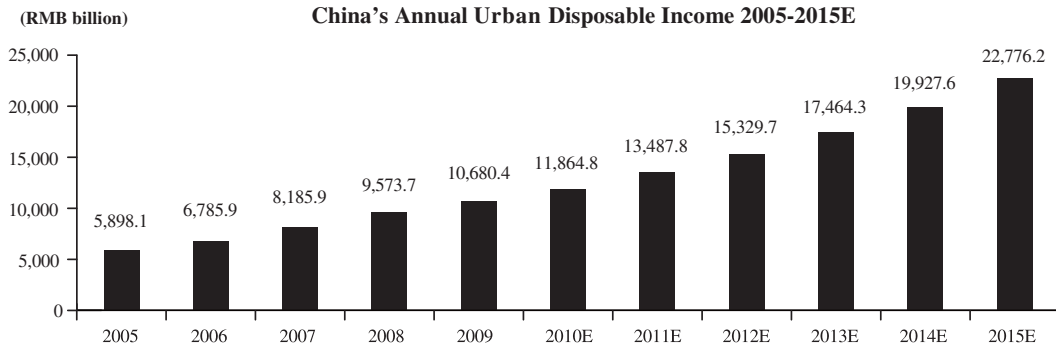


Source: Frost & Sullivan

According to Frost & Sullivan, China's annual urban disposable income has increased steadily from RMB5,898.1 billion in 2005 to RMB10,680.4 billion in 2009, representing a CAGR of 16.0%. An increased disposable income should effectively enhance the overall purchasing power of Chinese consumers, thereby creating opportunities for producers of consumer products, including apparel, footwear and home furnishings. Due to the rapid pace of urbanization, China's annual urban disposable income is estimated to grow from RMB11,864.8 billion in 2010 to RMB22,776.2 billion in 2015, at a CAGR of 13.9%, further underscoring the source of future demand growth in China.

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The following chart sets forth the historical and estimated annual urban disposable income in China for the periods indicated.

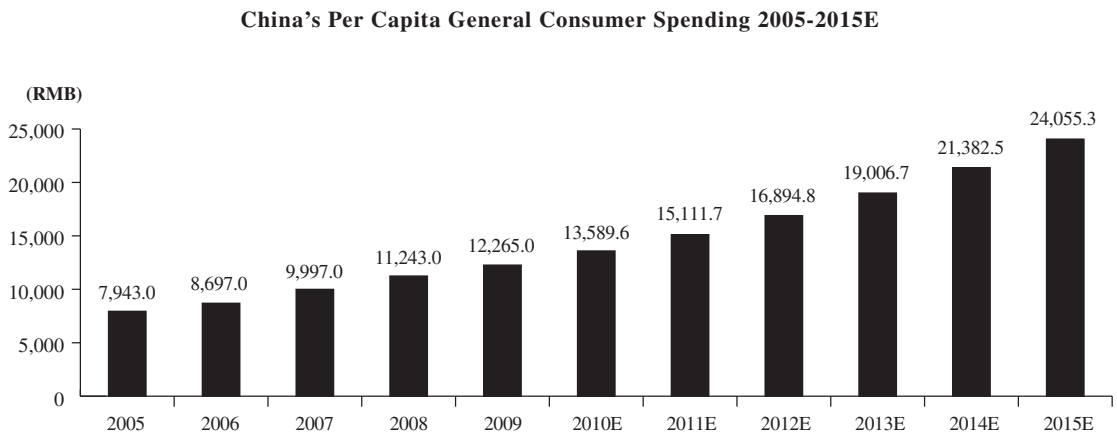


Source: Frost & Sullivan

Growth in China's Per Capita Consumer Spending

With the steady growth in China's annual disposable income, China's consumer spending has also increased steadily in the past several years. According to Frost & Sullivan, China's per capita general consumer spending increased from RMB7,943.0 in 2005 to RMB12,265.0 in 2009, representing a CAGR of 11.5%, and is estimated to grow from RMB13,589.6 in 2010 to RMB24,055.3 in 2015, representing a CAGR of 12.1%, creating the potential for vast opportunities for manufacturers of consumer products including apparel, footwear and home furnishings. According to Frost & Sullivan, polyester filament yarn manufacturers in China will continue to benefit from this development with an increasing demand for their products.

The following chart sets forth the historical and estimated per capita general consumer spending in China for the periods indicated.



Source: Frost & Sullivan

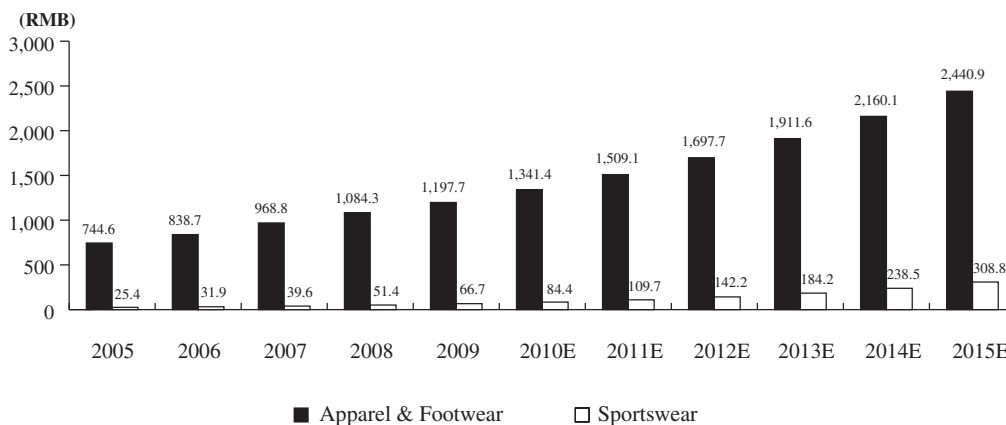
According to Frost & Sullivan, China's per capita consumer spending on apparel and footwear has increased slightly faster than the per capital consumer spending from 2005 to 2009, increasing steadily from RMB744.6 in 2005 to RMB1,197.7 in 2009, representing a CAGR of 12.6%. Frost & Sullivan estimates it to further increase from RMB1,341.4 to RMB2,440.9 by 2015, representing a CAGR of

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12.7%. In particular, the per capita Chinese consumer spending on sportswear, which includes sports apparel and footwear, has increased rapidly from RMB25.4 in 2005 to RMB66.7 in 2009, representing a CAGR of 27.3%. It is estimated to further increase from RMB84.4 in 2010 to RMB308.8 by 2015, representing a CAGR of 29.6%.

The following chart sets forth the historical and estimated per capita consumer spending on apparel and footwear, and sportswear in China for the periods indicated.

China's Per Capita Consumer Spending on Apparel and Footwear, and Sportswear 2005-2015E



Source: Frost & Sullivan

The increasing consumer spending on apparel and footwear in China has contributed to the growth of China's apparel and footwear manufacturers. According to Frost & Sullivan, the top ten Chinese manufacturers of branded apparel (excluding sport apparel) recorded a total sales volume of approximately 97.5 million units in 2010, with each of their sales volumes growing at a CAGR between 19.7% and 39.3% from 2007 to 2010. The top ten Chinese manufacturers of branded sportswear, which include both sports apparel and footwear, recorded a total sales volume of approximately 834.3 million units in 2010, with their sales volumes growing at a CAGR between 22.4% and 37.7% from 2007 to 2010.

Growth in China's Production Volume of Apparel and Footwear

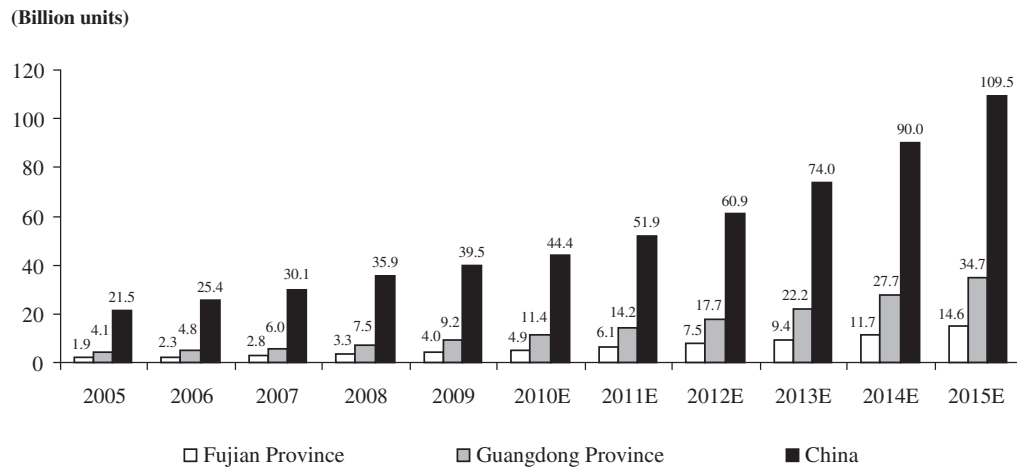
According to Frost & Sullivan, the overall production volume of apparel and footwear in China, including sports apparel and footwear, increased rapidly from approximately 21.5 billion units in 2005 to 39.5 billion units in 2009, representing a CAGR of 16.5%. Frost & Sullivan estimates the overall production volume of apparel and footwear to further increase from 44.4 billion units in 2010 to 109.5 billion units by 2015, representing a CAGR of 19.8%. In particular, Fujian Province and Guangdong Province have contributed significantly to the increase in China's overall production volume of apparel and footwear. The production volume of apparel and footwear in Fujian Province has more than doubled since 2005, increasing from approximately 1.9 billion units in 2005 to 4.0 billion units in 2009, representing a CAGR of 20.1%, and is estimated to further increase from 4.9 billion in 2010 to 14.6 billion units by 2015, representing a CAGR of 24.3%. The production volume of apparel and footwear in Guangdong Province has more than doubled since 2005, increasing from approximately 4.1 billion units in 2005 to 9.2 billion units in 2009, representing a CAGR of 22.0%, and is estimated to further increase

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from 11.4 billion in 2010 to 34.7 billion units by 2015, representing a CAGR of 24.9%. The aggregate production volume of apparel and footwear in Fujian Province and Guangdong Province accounted for 28.2% of China's total production volume in 2005. This percentage increased to 33.3% in 2009, and is expected to reach 45.0% in 2015, representing a leading position in China's apparel and footwear manufacturing industry.

The following chart sets forth the historical and estimated production volume of apparel and footwear in China, Fujian Province and Guangdong Province for the periods indicated.

China's Production Volume of Apparel and Footwear 2005-2015E



Source: Frost & Sullivan

Growth in China's Fabric and Textile Industry

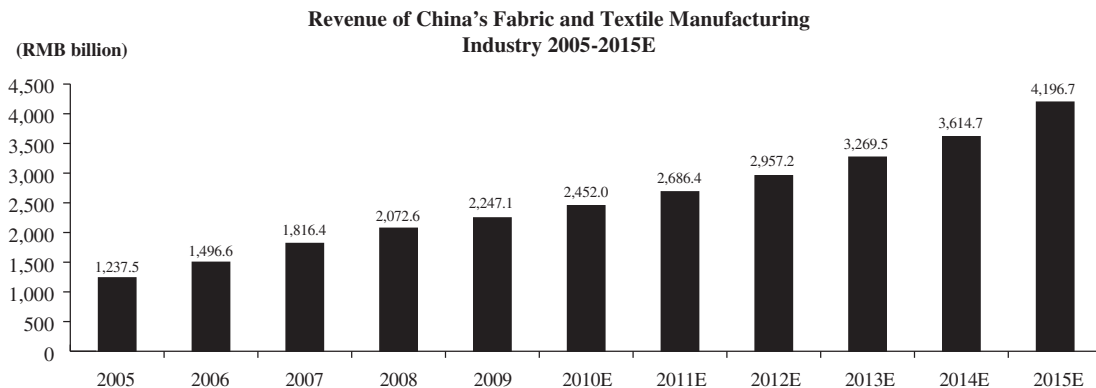
Fabric and textile manufacturing industry is the direct downstream industry of polyester filament yarn industry. China's fabric and textile industry experienced substantial growth in the 1980's when China's fabric and textile manufacturers started to provide original equipment manufacturing services for clients all over the world. According to Frost & Sullivan, with more than thirty years of steady growth, China is now the leading fabric and textile manufacturer and exporter around the world and plays a very important role in global fabric and textile industry. In particular, China is the largest polyester-based fabric and textile manufacturer in the world, which accounted for nearly 60% of global production output.

According to Frost & Sullivan, China's fabric and textile manufacturing industry has been growing at a high speed in the past years. The revenue from the fabric and textile manufacturing industry in China increased from RMB1,237.5 billion in 2005 to RMB2,247.1 billion in 2009, representing a CAGR of 16.1%. Driven by the recovering global and increasing domestic demand, Frost & Sullivan estimates that the revenue from the fabric and textile manufacturing industry will further increase from RMB2,452.0 billion in 2010 to RMB4,196.7 billion by 2015, representing a CAGR of 11.3%.

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In recent years, more and more Chinese fabric and textile manufacturers started to build their own brands. They place strong emphasis on the quality and diversity of their raw material, striving to increase their brand recognition. According to Frost & Sullivan, in recent years, many Chinese fabric and textile manufacturers started to focus on developing textile materials with higher quality and special functions, a trend which is expected to continue.

The following chart sets forth the historical and estimated revenue of the fabric and textile manufacturing industry in China for the periods indicated.



Source: Frost & Sullivan

Demand and Supply of Raw Materials for the Polyester Filament Yarn Industry

One important factor affecting the polyester filament yarn industry is the demand and supply dynamics as well as pricing of major feedstock, PTA and MEG.

PTA

Almost all PTA is consumed in the production for polyester fiber, PET bottle resin and polyester film. According to CMAI, global PTA demand was 37.6 million tons in 2009. The demand drivers for PTA vary by region. China is the main importer in the world and it alone accounted for 47% of global demand in 2009.

According to CMAI, the global capacity for PTA has increased steadily from 34.0 million tons in 2005 to 46.9 million tons in 2009 and is expected to increase further to an estimated 66.3 million tons in 2015. PTA capacity witnessed a faster expansion in China during the same period starting with 6.0 million tons in 2005, reaching 14.5 million tons in 2009 and is expected to increase further to approximately 28.7 million tons in 2015. PTA operation rate was 91% globally and 95% in China in 2005 but decreased to 81% globally and 79% in China in 2009 due to the global financial crisis. It is expected that, with increasing demand for PTA, the PTA operation rate will increase to 84% globally and 83% in China by 2015. According to CMAI, while the demand for PTA in China may not be met by the domestically produced PTA, it is expected that the gap between the supply and demand may gradually narrow as the domestic production capacity increases.

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The following table sets forth the historical and estimated PTA supply and demand in China and the rest of the world:

('000 tons)	PTA Supply/Demand Balance										
	2005	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E
Demand											
– China	12,178	14,046	16,507	16,176	17,485	18,844	20,741	22,597	24,784	27,120	29,188
– Rest of the World . .	18,970	19,695	20,948	20,257	20,120	21,196	22,365	23,530	24,623	25,500	26,542
Capacity											
– China	5,955	7,373	10,780	12,555	14,505	16,155	18,035	20,185	23,035	26,735	28,735
– Rest of the World . .	28,060	30,376	31,605	32,470	32,355	32,890	33,355	33,300	34,785	35,430	37,605

MEG

MEG is another major raw material used in the production of polyester fiber and PET resins. It is also widely used as automobile antifreeze. Demand for MEG is mainly driven by the demand for polyester fibers since 57% of the world's MEG consumption goes into the production of polyester fibers. According to CMAI, global MEG demand was 17.7 million tons in 2009. Demand for MEG in Asia accounted for almost 70% of the total world demand in 2009 with a total demand for 12.3 million tons, of which 7.1 million tons came from China alone.

According to CMAI, the global capacity for MEG has increased steadily from 17.6 million tons in 2005 to 22.1 million tons in 2009 and the global demand for MEG increased from 15.6 million tons in 2005 to 17.7 million tons in 2009. On a global basis, MEG will gradually shift from a long position to a balance position over the next four to five years, with the capacity increasing from 25.3 million tons in 2010 to 27.6 million tons in 2015 and demand increasing from 18.5 million tons in 2010 to 24.7 million tons in 2015.

China witnessed a significant capacity expansion of MEG during the same period starting with 1.3 million tons in 2005 and reaching 2.6 million tons in 2009 and it is expected to increase further in the next four to five years through a massive coal- and methanol-based planned capacity expansion within China. However, due to technical and governance restrictions, these coal- and methanol-based MEG projects are still uncertain in terms of scale and timing. If these coal- and methanol-based MEG expansions come onstream as planned, the China MEG market will switch to a long position over the estimated period.

The following table sets forth the historical and estimated MEG supply and demand in China and the rest of the world:

('000 tons)	MEG Supply/Demand Balance										
	2005	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E
Demand											
– China	5,050	5,781	6,704	6,584	7,112	7,693	8,297	9,029	9,901	10,834	11,662
– Rest of the World . .	10,581	10,777	11,215	10,680	10,620	10,828	11,247	11,732	12,210	12,584	13,002
Capacity											
– China	1,311	1,744	2,221	2,401	2,571	3,731	3,881	4,261	4,969	5,201	5,401
– Rest of the World . .	16,310	17,300	18,122	19,400	19,502	21,548	21,366	20,822	20,382	20,432	22,232

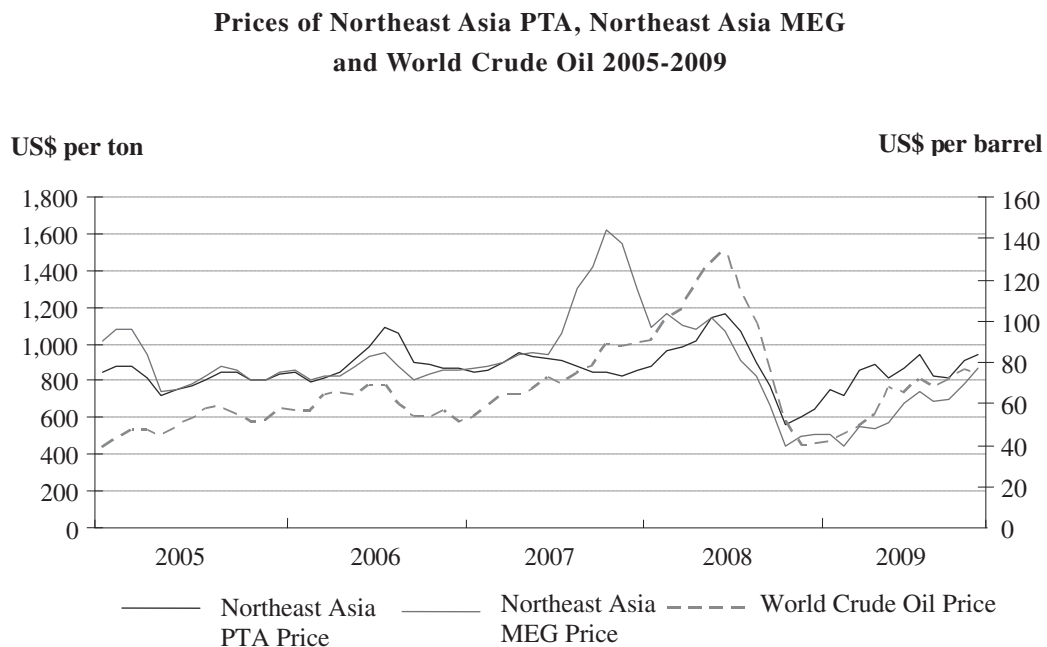
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HISTORICAL PRICES OF PTA, MEG AND CRUDE OIL

The historical price for PTA fluctuated during 2005 and 2009. According to CMAI, the monthly average spot price for PTA on cost and freight (“CFR”) terms, in northeast Asia (the “Northeast Asia PTA Price”) increased progressively from 2005 and reached its highest point at US\$1,164 per ton in July 2008. It then decreased substantially to its lowest point at US\$559 per ton in November 2008, which was primarily due to the global financial crisis. The historical price for MEG has fluctuated as well. According to CMAI, the monthly average spot price for MEG on CFR terms in northeast Asia (the “Northeast Asia MEG Price”) reached its highest point at US\$1,622 per ton in November 2007. The Northeast Asia MEG Price decreased to US\$449 per ton in November 2008 as a result of the global financial crisis. As the market demand for PTA and MEG increased after the global financial crisis, the Northeast Asia PTA Price and Northeast Asia MEG Price increased progressively in 2009. By the end of 2009, their respective prices had recovered to their historical trading levels in 2005 and 2006.

The historical price for crude oil also fluctuated between 2005 and 2009. According to the U.S. Energy Information Administration, the weekly average crude oil price of all countries on FOB term weighted by estimated export volume (the “World Crude Oil Price”) has increased progressively from about US\$35.2 per barrel in the week ended January 7, 2005 to US\$137.1 per barrel in the week ended July 4, 2008. It then decreased to about US\$34.6 per barrel in the week ended January 2, 2009, primarily due to the global financial crisis. The World Crude Oil Price has then increased gradually in 2009. By the end of 2009, it had recovered to its historical trading levels in the third quarter of 2007.

The following graph sets forth the historical prices of Northeast Asia PTA Price, Northeast Asia MEG Price and World Crude Oil Price from 2005 to 2009:



Source: CMAI and U.S. Energy Information Administration

COMPETITIVE ENVIRONMENT

Polyester filament yarns are generally classified as either regular or differentiated based on its end-use application. Regular polyester filament yarns have little differentiation and generally are sold at lower prices than differentiated polyester filament yarns. Differentiated polyester filament yarns are generally custom-made, high in unit value, less sensitive to raw material prices, and involve the use of advanced technology and production experience.

In general, the polyester filament yarn manufacturers compete on a variety of factors, such as price, product quality, performance or specifications, continuity of supply, customer service and variety of product offering. For regular polyester filament yarns, competitive advantage is gained through market share, economies of scale, and cost advantages of raw materials and logistics. For differentiated polyester filament yarns, competitive advantage is achieved through product differentiation, customized service, industry experience and operational excellence.

According to CMAI, the polyester filament yarn industry is highly competitive, with most of the production capacities of FDY and DTY concentrated in China, which are dominated by large manufacturers that apply the polyester melt direct spinning method. The polyester filament yarn industry in the PRC is highly fragmented. With over 300 polyester filament yarn manufacturers in China, the total designed capacity in China was approximately 19.8 million tpa in 2010. According to CMAI, the top five players in China collectively have a designed capacity of approximately 4.0 million tpa of polyester filament yarns, which represents approximately 20.3% of China's total designed capacity of polyester filament yarns, with each of the top five players accounting for no more than approximately 6.0% of China's total designed capacity.

According to CMAI, 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 filament yarn manufacturers, we also compete with international manufacturers based on product quality, product differentiation, brand recognition, production capacity, research and development capabilities, production technology and proximity to customers.

The production of polyester filament yarns is centralized in east China and south China, together accounting for over 90% of market share in China's polyester filament yarn market in terms of designed capacity, while south China represents 6.3% of market share in China's polyester filament yarn market in terms of designed capacity, according to CMAI. Within the broad polyester filament yarn industry of China, the markets in south China and east China are related in the sense that they share similar supply and demand structures and dynamics. However, due to higher logistic costs and longer delivery time to transport products between these two markets, polyester filament manufacturers are usually less inclined to expand their sales activities beyond the area where their manufacturing plants are located, unless an increase in logistic cost does not impact the total cost of products delivered to customers and the manufacturer can remain profitable. As a result, the competition in each of these markets is primarily among local manufacturers. CMAI expects that there will be supply shortage of polyester filament yarns for the coming years in south China.

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According to CMAI, there were five large polyester filament yarn manufacturers who provide high-quality and differentiated polyester filament yarns in south China in 2010, including Billion Fujian, Jinxing (Fujian) Fiber Textile Industrial Co., Ltd.* (錦興(福建)化纖紡織實業有限公司), Xianglu Polyester Fiber (Xiamen) Co., Ltd.* (翔鷺滌綸紡織(廈門)有限公司), Fujian Jinlun Fiber Shareholding Co., Ltd.* (福建省金綸高纖股份有限公司) and Guangdong Kaiping Chunhui Co., Ltd.* (廣東開平春暉股份有限公司). These five manufacturers collectively have a total designed capacity of approximately 1.2 million tpa of polyester filament yarns, accounting for over 92.0% of the total designed capacity in south China, and provided a substantial portion of polyester filament yarns used in the production of garments in south China.

The following table sets forth the designed capacity of POY and FDY of each of the top five polyester textile filament yarn manufacturers in south China in 2010:

Rank	Company	Province	Designed Capacity (’000 tpa)
1	Billion Fujian	Fujian	450
2	Fujian Jinlun	Fujian	215
3	Xianglu Fiber	Fujian	180
4	Jinxing	Fujian	160
5	Kaiping	Guangdong	150

Source: CMAI

The following table sets forth the designed capacity of DTY of each of the top five DTY manufacturers in China in 2010:

Rank	Company	Province	Designed Capacity (’000 tpa)
1	Zhejiang Hengyi	Zhejiang	300
2	Billion Fujian	Fujian	260
3	Rongsheng	Zhejiang	250
4	Jiangsu Shenghong	Jiangsu	220
5	Jiangsu Hengli	Jiangsu	200

Source: CMAI

The following table sets forth the combined designed capacity of DTY, FDY and POY of each of the top six polyester filament yarn manufacturers in China in 2010:

Rank	Company	Province	Designed Capacity (’000 tpa)
1	Zhejiang Tong Kun	Zhejiang	1,320
2	Zhejiang Hengyi	Zhejiang	1,280
3	Jiangsu Shenghong	Jiangsu	850
4	Jiangsu Hengli	Jiangsu	780
5	Rongsheng	Zhejiang	730
6	Billion Fujian	Fujian	710

Source: CMAI

REGULATIONS

This section sets out summaries of certain aspects of the PRC laws and regulations, which are relevant to our Group's operation and business.

Establishment, Operation and Management of a Foreign-owned Enterprise

The establishment, operation and management of corporate entities in the PRC are governed by *the Company Law of the PRC** (中華人民共和國公司法) (the "Company law"), which was promulgated by the Standing Committee of the NPC on December 29, 1993 and became effective on July 1, 1994. It was subsequently amended on December 25, 1999, August 28, 2004 and October 27, 2005 respectively. The companies are classified into categories – limited liability companies and limited companies by shares. The Company Law shall also apply to foreign-invested limited liability companies. According to the Company Law, where laws on foreign investment have other stipulations, such stipulations shall apply.

The establishment procedures, verification and approval procedures, registered capital requirement, foreign exchange restriction, accounting practices, taxation and labor matters of a wholly foreign-owned enterprise are also regulated by *the Wholly Foreign-owned Enterprise Law of the PRC** (中華人民共和國外資企業法), which was promulgated on April 12, 1986 and amended on October 31, 2000, and the *Implementation Regulation of the Wholly Foreign-owned Enterprise Law** (中華人民共和國外資企業法實施細則), which was promulgated on December 12, 1990 and amended on April 12, 2001.

Investment in the PRC conducted by foreign investors and foreign-owned enterprises is governed by *the Guidance Catalog of Industries for Foreign Investment** (外商投資產業指導目錄) (the "Catalog"), which was promulgated by the Ministry of Commerce 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) on October 31, 2007 and became effective on December 1, 2007. The Catalog is a long-standing tool that PRC policymakers have used to manage and direct foreign investment. The Catalog divides industries into three basic categories: encouraged industries, restricted industries and prohibited industries. Industries not listed in the Catalog are generally open to foreign investment unless specifically barred in other PRC regulations. Foreign-invested enterprises in encouraged industries are often permitted to establish wholly foreign-owned enterprises. Parts of industries in the restricted category may be limited to equity or contractual joint ventures, in some cases with the Chinese partner as the majority shareholder. Restricted category projects are also subject to higher-level government approvals. Industries in the prohibited section are closed to foreign investment.

Taxation

Income tax

According to EIT Law, which was promulgated on March 16, 2007 and became effective on January 1, 2008, the income tax rate for both domestic and foreign-invested enterprises shall be 25% commencing from January 1, 2008. The EIT Law provides certain transitional arrangements for the enterprises established prior to March 16, 2007 (i) where the foreign-invested enterprises enjoyed reduced tax rates under the then effective laws and regulations, such reduced tax rate shall be gradually increased to coincide with the Income Tax Law within five years starting from 2008; and (ii) where the foreign-invested enterprises are entitled to tax holidays for a fixed period under the then effective laws and regulations, such tax holidays may continue calculation until expiry. However, if the enterprise fails

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to enjoy the tax holiday due to a lack of profit, year of 2008 shall be regarded as the first profit-making year and the tax holiday shall be calculated since 2008. In order to clarify some provisions in the EIT Law, the *Implementation Regulation of the Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得稅法實施條例) was promulgated on December 6, 2007 and became effective on January 1, 2008.

According to the *Notice of the State Council on the Implementation of the Enterprise Income Tax Transitional Preferential Policy** (國務院關於實施企業所得稅過渡優惠政策的通知) issued on December 26, 2007 and became effective on January 1, 2008, enterprises which previously enjoy the 15% preferential tax rate shall gradually transit from this preferential tax rate to the unified 25% tax rate within five years commencing from January 1, 2008. The transitional tax rates applied to such enterprises are 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012. Enterprises which previously enjoy the 24% preferential tax rate shall apply the unified 25% tax rate from January 1, 2008.

Value-added tax

Pursuant to the *Provisional Regulations on Value-added Tax of the PRC** (中華人民共和國增值稅暫行條例), which was amended on November 5, 2008 and became effective on January 1, 2009, all entities or individuals in the PRC engaged in the sales of goods, the processing services, repair and replacement services, and the importation of goods are required to pay value-added tax (the “VAT”). VAT payable is calculated as “output VAT” minus “input VAT,” and the rate of VAT is 17% or in certain limited circumstances, 13%, depending on the products concerned.

Foreign Currency Exchange and Dividend Distribution

Foreign currency exchange

Pursuant to the *Foreign Exchange Administration Rules of the PRC** (中華人民共和國外匯管理條例) (the “Foreign Exchange Administration Rules”), which was promulgated by the State Council of the PRC* (中華人民共和國國務院) on April 1, 1996 and was amended on January 14, 1997 and August 1, 2008, Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loan unless prior approval of the State Administration of Foreign Exchange* (國家外匯管理局) (“SAFE”) is obtained. The income of foreign exchange of domestic institutions or individuals can be transferred back into China or deposited overseas. The specific requirements and term related to the transfer or deposit shall be prescribed by the foreign exchange administration department of the State Council in light of the balance of international payment and the status of foreign exchange administration.

Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for paying dividends by providing certain evidencing documents (board resolutions, tax certificates, etc.), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency transactions involving overseas direct investment or investment and exchange in securities, derivative products abroad are subject to registration with SAFE and approval or file with the relevant governmental authorities (if necessary).

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Dividend distribution

Before the promulgation of the EIT Law, the principal regulations governing distribution of dividends paid by wholly foreign-owned enterprise include *the Wholly Foreign-owned Enterprise Law* and *the Implementation Regulation of the Wholly Foreign-owned Enterprise Law*. Under these regulations, wholly foreign-owned enterprise in China may only pay dividends from accumulated after-tax profit, if any, determined in accordance with PRC accounting standards and regulations. Dividends paid to its foreign investors are exempted from withholding tax. However, this provision was revoked by the EIT Law. The EIT Law prescribes a standard withholding tax rate of 20% on dividends and other China-sourced passive income of non-resident enterprises. Subsequently, *the Implementation Regulation of the Enterprise Income Tax Law of the PRC* reduced the rate from 20% to 10%, effective from January 1, 2008.

The PRC and the government of Hong Kong signed *Arrangement between the Mainland of the PRC and Hong Kong 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政府關於對所得稅避免雙重徵稅和防止偷漏稅的安排) (the “Arrangement”) on August 21, 2006. According to the Arrangement, no more than 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident, provided that the recipient is a company that holds at least 25% of the capital of the PRC company. The 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if the recipient is a company that holds less than 25% of the capital of the PRC company.

Product Quality

*The Product Quality Law of the PRC** (中華人民共和國產品質量法) (the “Product Quality Law”) was promulgated on February 22, 1993 and amended on July 8, 2000.

Pursuant to the Product Quality Law, a seller is obliged:

- to adopt a check-for-acceptance system for stock replenishment to examine the quality certificates and other labels of such stock;
- to take measures in keeping products for sale in good quality;
- not to sell defective or deteriorated products or products which have been publicly ordered to cease sales;
- to sell products with labels that comply with the relevant provisions;
- not to forge the origin or a product, or to forge or falsely use the name and address of another producer;
- not to forge or falsely use product quality marks such as authentication marks; and
- not to mix impurities or imitations into the products, substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard product as a qualified one in the sale of products.

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Pursuant to the Product Quality Law, a producer shall:

- be responsible for the quality of products it produces;
- not produce products that have been publicly ordered to cease production;
- not forge the origin of a product, or to forge or falsely use the name and address of another producer;
- not forge or falsely use product quality marks such as authentication marks;
- not mix impurities or imitations into the produces, substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard product as a qualified one in the production;
- ensure that the marks on the products or the packaging of the products are true; and
- ensure that, for products that are easily broken, inflammable, explosive, toxic, erosive or radioactive and products that cannot be handled upside down in the process of storage or transportation or for which there are other special requirements, the packaging thereof must meet the corresponding requirements, carry warning marks or warning written in Chinese or draws attention to the method of handling in accordance with the relevant provisions of the state.

Violations of the Product Quality Law may result in the imposition of fines. In addition, the seller or producer may be ordered to suspend its operations and its business license may be revoked. Criminal liability may incur in serious cases.

According to the Product Quality Law, consumer or other victims who suffer injury or property losses due to product defects may demand compensation from the producer as well as the seller, Where the responsibility lies with the producer, the seller shall, after settling compensation, have the right to recover such compensation from the producer, and vice versa.

Labor

Pursuant to the *PRC Labor Law** (中華人民共和國勞動法) effective as of January 1, 1995, the *PRC Labor Contract Law** (中華人民共和國勞動合同法) effective as of January 1, 2008, and the *Implementation Regulations of the PRC Labor Contract Law** (中華人民共和國勞動合同法實施條例) effective as of September 18, 2008 (collectively, the “Labor Laws”), employers are obliged to enter into written labor contracts with employees on the date that they start employing the employees. The employers shall comply with the Labor Laws in many aspects including with no limitation to compensating their employees with wages in an amount equal to or above the local minimum wage standards, establishing and perfecting a labor safety and sanitation system. Violations of the Labor Laws may result in the imposition of fines or other administrative liabilities. Criminal liability may arise for serious violations.

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Pursuant to the *PRC Social Insurance Law** (中華人民共和國社會保險法) (the “Social Insurance Law”) promulgated on October 28, 2001 and will become effective as of July 1, 2011, employers in the PRC should register social insurance with the social insurance authorities within 30 days from establishment and register social insurance for their employees with the social insurance authorities within 30 days from the employment. The employers should also make contributions to the basic medical insurance fund, basic pension insurance fund, occupational injury insurance fund, maternity insurance fund and unemployment insurance fund for their employees.

Foreign Trade and Customs

Pursuant to the *PRC Foreign Trade Law** (中華人民共和國對外貿易法) (the “Foreign Trade Law”) adopted on May 12, 1994 and amended on April 6, 2004 by the Standing Committee of the NPC and effective as of July 1, 2004, the State allows free import and export of goods and technologies, unless it is otherwise provided under the laws and administrative regulations. Any foreign trade business operator that is engaged in the import and export of goods or technology shall be registered for archival purposes with the administrative department of foreign trade of the State Council or the institution entrusted thereby, unless it is otherwise provided for by any law, administrative regulation or the foreign trade department of the State Council.

Pursuant to the *PRC Regulations on the Administration of the Import and Export of Goods** (中華人民共和國貨物進出口管理條例) (the “Import and Export of Goods Regulations”), promulgated on December 10, 2001 and effective as of January 1, 2002, set out the detailed rules on the import and export of goods system as provided for by the Foreign Trade Law. For goods subject to import quotas, enterprises shall submit their applications for the intended import quotas for the year after in August each year. For goods subject to export quotas, such application shall be submitted in the first half of November each year. The Import and Export of Goods Regulations further stipulates that the foreign trade department under the State Council may implement an authorized dealer system for certain goods, according to which only authorized dealers are allowed to engage in the import and export of the relevant goods.

Pursuant to the *PRC Customs Law** (中華人民共和國海關法) adopted on January 22, 1987 and amended on July 8, 2000 by the Standing Committee of the NPC and effective as of January 1, 2001, unless otherwise provided, all imported and exported goods shall be declared and duties on them shall be paid by their consignor or consignee, or by a declaration enterprise entrusted by the consignor or consignee and approved by and registered with the customs. No enterprises or persons can make declarations without registering with customs or obtaining the relevant qualifications for declaration in accordance with the laws.

Work Safety

The State Administration of Work Safety is the PRC government authority exercising control and supervision of work safety nationwide. Pursuant to the *PRC Work Safety Law** (中華人民共和國安全生產法), promulgated on June 29, 2002, an enterprise must meet the safety production conditions as stipulated by the PRC laws and regulations and State or industry standards to commence its operations. Any entities that do not comply with such safety conditions will not be allowed to be engaged in any production or operating activities. Production and operating units should provide education and training programs to their employees regarding production safety. The design, manufacturing, installation, application, checking, maintenance, reforming and abandonment of safety facilities should follow the

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national standards or industrial standards. In addition, production and operating units should provide employees with protective equipments that meet national standards or industrial standards, and educate and supervise them in strictly complying with the production rules and regulations and operation procedures of the relevant units regarding safety.

Environmental Protection

Environmental protection law

The Ministry of Environmental Protection of the PRC* (中華人民共和國環境保護部) is responsible for the overall supervision and control of environmental protection in China. It formulates national standards for the discharge of waste materials and environmental protection and monitors the PRC environmental protection system. Environmental protection bureaus at the county level and above are responsible for environmental protection within their respective areas of jurisdiction.

Promulgated on December 26, 1989, *the PRC Environmental Protection Law** (中華人民共和國環境保護法) (the “Environmental Protection Law”) sets out the legal framework for environmental protection in the PRC. The Environmental Protection Law requires all operations that produce pollutants or other hazards to take environmental protection measures, and to establish an environmental protection responsibility system. Such system includes the adoption of effective measures to control and properly dispose of waste gas, waste water, waste residue, dust or other waste materials. Any entity that discharges waste material must report to and register with the relevant environmental protection authority. If an enterprise fails to report or register the environmental pollution caused by it, it will receive a warning or be penalized. Enterprises which fail to restore the environment or remedy the effects of the pollution within the prescribed time will be penalized or have their business licenses terminated. Enterprises discharging contaminants in excess of the discharge limits or standards prescribed by the central or local authorities must pay discharge fees for the excess in accordance with the state regulations, and they are also responsible for the treatment of the excessive discharge. Enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, as well as compensate any losses or damages suffered as a result of such environmental pollution.

Water pollution prevention

*The PRC Water Pollution Prevention Law** (中華人民共和國水污染防治法) (the “Water Pollution Prevention Law”) is the legal framework for the prevention and control of water pollution in respect of terrestrial and underground water from rivers, lakes, canals, channels and reservoirs. It was promulgated on May 11, 1984 and was revised twice on May 15, 1996 and February 28, 2008, respectively. The latest revision became effective on June 1, 2008. Environmental protection divisions under the local governments are vested with the functions to supervise and administer the prevention and control of water pollution, while the PRC State Environmental Protection Administration is in charge of the formulation of State water quality standards and State pollutant discharge standards. The provincial governments can supplement non- formulated items by setting local standards and filing reports to the State Environmental Protection Administration.

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Any enterprise or institution that discharges water pollutants is subject to a discharge fee in accordance with relevant regulations and an excess-pollutant discharge fee in case of discharges in excess of the prescribed level and has to take corrective measures. Entities that fail to comply with the Water Pollution Prevention Law will be subject to a warning notice, a penalty payment, suspension of operations and closure of business as determined by the relevant environmental authority-in-charge. Any entity that causes water pollution is obliged to ensure the elimination of the pollution and compensate direct losses suffered by entities or individuals.

Atmospheric pollution prevention

*The PRC Atmospheric Pollution Prevention Law** (中華人民共和國大氣污染防治法) (the “Atmospheric Pollution Prevention Law”) was promulgated on September 5, 1987 and revised on August 29, 1995 and April 29, 2000, respectively. It is aimed at prevention and control of atmospheric pollution. Administrative departments of environmental protection under the government at or above the county level shall be responsible for conducting unified supervision and management of the prevention and control of atmospheric pollution. Where atmospheric pollutants are discharged, the concentration of such pollutants should not exceed the standards prescribed by State and local authorities. In addition, a system of collecting fees has been implemented by the government for discharging pollutants on the basis of the categories and quantities of the atmospheric pollutants discharged.

Entities that fail to comply with the Atmospheric Pollution Prevention Law will be subject to (i) a warning notice, (ii) a fine, confiscation of illegal earnings, (iii) a suspension of operations or the closure of their operations as determined by the competent environmental authority-in-charge and (iv) potential criminal liability. Any entity that causes an atmospheric pollution hazard is responsible for eliminating the pollution and must compensate relevant entities or individuals for their loss resulting from the pollution.

Noise pollution prevention

*The PRC Noise Pollution Prevention Law** (中華人民共和國環境噪聲污染防治法) (the “Noise Pollution Prevention Law”), promulgated on October 29, 1996 and effective on March 1, 1997, establishes the framework for noise pollution prevention in the PRC. Under the Noise Pollution Prevention Law, any person undertaking a construction, renovation or expansion project which might cause environmental noise pollution must prepare and submit an environmental impact statement to the environmental protection department of the State Council (the “State Environmental Protection Department”) for approval. Facilities for the prevention and control of environmental noise pollution must be designed, approved by the State Environmental Protection Department prior to commencement of the project, built and placed into use simultaneously when the project commences work. Facilities for the prevention and control of environmental noise pollution may not be dismantled or left idle without the approval of the State Environmental Protection Department.

HISTORY AND CORPORATE STRUCTURE

HISTORY AND DEVELOPMENT

Our origin can be traced back to 2003, when Billion Fujian was established in the PRC by Billion H.K. as a wholly foreign-owned enterprise with an initial registered capital of US\$88.88 million. At the time of the establishment of Billion Fujian, Billion H.K. injected the registered capital in the form of capital and equipment. Billion H.K. was incorporated in Hong Kong in 1996 and is owned as to 50% by Mr. Sze Tin Yau and 50% by Mr. Wu Jinbiao. Mr. Sze Tin Yau and Mr. Wu Jinbiao have been overseeing the overall management and development of Billion Fujian since its establishment and gained a strong understanding of the differentiated polyester filament yarn industry in the PRC.

Billion Fujian has been our sole operating entity and is primarily engaged in the business of developing, manufacturing and selling regular and differentiated polyester filament yarns in the PRC. After its establishment in 2003, Billion Fujian commenced constructing of its production lines with designed capacity of approximately 200,000 tpa of differentiated polyester filament yarns and formally commenced manufacturing of differentiated polyester filament yarns in June 2005. Billion Fujian launched its products in the PRC market in 2005. The registered capital of Billion Fujian was increased from US\$88.88 million at the time of its establishment to US\$239.99 million on August 15, 2008.

We are one of the largest developers and manufacturers of polyester filament yarns in China, including drawn textured yarn, or DTY, and fully drawn yarn, or FDY, the two main polyester filament yarns. We also produce partially oriented yarns, or POY, which can be used as a raw material to produce DTY or separately sold to our customers. According to CMAI, in 2010, we were the sixth largest manufacturer in terms of combined designed capacity of DTY, FDY and POY in China and the largest in south China, and we were the second largest manufacturer of DTY in terms of designed capacity in China and the largest in south China. As of December 31, 2010, we had a designed capacity of approximately 450,000 tpa of FDY and POY and a designed capacity of DTY of approximately 260,000 tpa, which add up to a combined designed capacity of approximately 710,000 tpa. We market and sell our polyester filament yarns under our brands “百宏” and “Billion”. Our customers are mainly fabric and textile manufacturers based in China who produce and sell knitted fabrics and textiles to manufacturers of apparel, footwear and home furnishings. We also directly export a small portion of our products to North America, Europe, Southeast Asia and South America. In 2010, we sold polyester filament yarns to more than 2,100 customers in China and elsewhere in the world.

Apart from establishing Billion Fujian, Billion H.K. also established Baikai Group which includes Baikai Elastic Weaving (which was established in 1997), Baikai Wrap Knitting (which was established in 2002), Baikai Textile (which was established in 2000), Baikai Zipper (which was established in 2002) and Baikai Paper (which was established in 2001). Baikai Group has been under the operation and management of Mr. Lin Jinjing who is a brother-in-law of both Mr. Sze Tin Yau and Mr. Wu Jinbiao, both being our executive Directors. Mr. Lin Jinjing has been a director of each of Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper and Baikai Paper since 1997, 2002, 2000, 2008 and 2008, respectively. In about 2008, while Mr. Sze Tin Yau and Mr. Wu Jinbiao intended to expand the polyester filament yarn business, Mr. Lin Jinjing intended to remain focused on the textile industry in which he has solid experience. This difference in the focus of operation led to the disposal of interests in Baikai Group by Mr. Sze Tin Yau and Mr. Wu Jinbiao in July 2008 at nil consideration based on their mutual agreement, Mr. Lin Jinjing’s contributions to Baikai Group and as a gesture of gratitude towards

HISTORY AND CORPORATE STRUCTURE

Mr. Lin Jinjing as a brother-in-law of Mr. Sze Tin Yau and Mr. Wu Jinbiao, upon which each of the companies in Baikai Group became a wholly foreign-owned subsidiary of Baikai H.K. which in turn is wholly-owned by Mr. Lin Jinjing. Since July 2008, Mr. Sze Tin Yau and Mr. Wu Jinbiao have not been involved in the management of Baikai Group. It was decided that Mr. Sze Tin Yau and Mr. Wu Jinbiao would continue to focus on operating the polyester filament yarn business through Billion Fujian, while Mr. Lin Jinjing would continue to focus on operating the textile business through Baikai Group. Currently, Baikai Group is engaged in the businesses of manufacturing fabric, weave belt, knit products and high-end textile through Baikai Elastic Weaving; weaving, dyeing and processing high-end knit fabric through Baikai Wrap Knitting; manufacturing DTY, chemical fabric, clothing and accessories of clothing through Baikai Textile; manufacturing zippers, hardware die cast products and clothing through Baikai Zipper; and manufacturing paper boxes and rolls through Baikai Paper.

Our Group is a supplier of DTY, FDY, POY, semi-dull PET chips and spin finish oil to Baikai Group, while Baikai Group is a supplier of paper boxes and rolls to our Group. To the best knowledge of our Directors, although Baikai Textile also manufactures DTY, its DTY production capacity represents approximately 4% of our Group's POY and FDY production capacity of approximately 450,000 tpa, or less than 7% of our Group's DTY production capacity of approximately 260,000 tpa. Further, the DTY manufactured by Baikai Textile is mainly used for the production of core wired cables and ribbon weaving, the application and usage of which are different from those of the DTY manufactured by our Group. The DTY manufactured by our Group is mainly used for the production of fabric products. The DTY manufactured by Baikai Textile and the DTY manufactured by our Group are targeted at and sold to different customers. Our Company therefore considers that the businesses of Baikai Group do not compete with that of our Group as the products provided by our Group are different from those provided by Baikai Group. For details of the transactions between our Group and Baikai Group, please see the section headed "Connected Transactions" in this prospectus.

The following table illustrates our major business development milestones and achievements:

Year	Event
2005	We were awarded one of the Top 100 Outstanding Foreign Owned Enterprises for 2005* (2005 福建百家優秀外資企業) by Foreign Trade and Economic Cooperation Department of Fujian Province.
	We were awarded Top 10 Satisfied Brands of Chinese Consumers (中國消費者(用戶)十大滿意品牌).
2006	We were awarded one of the Top 100 Enterprises in Fujian Province for 2006* (2006 福建企業100強).
	We were awarded one of the Top 10 Main Industries in Fujian Province* (福建工業主要行業前十強).
	We were recognized as A Level Credible Tax Payer* (納稅信用A級納稅人) for 2004 to 2005.

HISTORY AND CORPORATE STRUCTURE

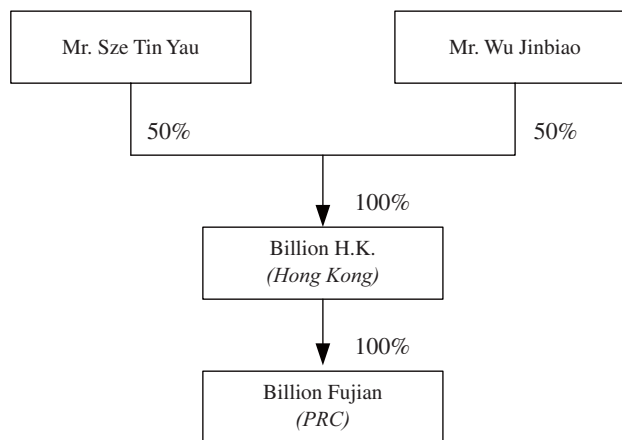
Year	Event
2008	We were awarded Fujian Provincial Enterprise Technology Center* (福建省省級企業技術中心). We were awarded Advanced Enterprise in Equipment Innovation for 2008* (2008年度設備革新先進企業). We obtained OEKO-TEX Standard 100 Certificate to use OEKO-TEX mark in respect of our product class I for baby articles from 2008 to 2011. We were recognized as A Level Credible Tax Payer* (納稅信用A級納稅人) for 2006 to 2007.
2009	We were awarded one of the Top 100 Key Industrial Enterprises in Fujian Province for 2009 to 2011* (福建百家重點工業企業). We were awarded A High and New Technology Enterprise* (高新技術企業). We were awarded Silver Prize of 618 Cross-Straight Employee Innovation Achievement* (618海峽兩岸職工創新成果獎銀獎).
2010	We were recognized as a National Development Site for Functional Differentiated Polyester Filament Yarns (國家功能性差別化聚酯纖維開發基地) in relation to our production and development of differentiated polyester filament yarns. We were recognized as AA Type Custom Administration Enterprise* (海關AA類管理企業). We were awarded Fujian Province Innovative Pioneer Enterprise* (福建省創新試點企業). We were awarded Fujian Province Intellectual Property Experiment Enterprise for 2010* (2010 福建知識產權試點企業). We obtained ISO14001:2004 Environment Management System Certificate for our environmental management standards in respect of our design, production and correlative management activities of polyester filament yarns.

HISTORY AND CORPORATE STRUCTURE

Year	Event
	We obtained ISO9001:2008 Quality Management System Certificate for our design, production and services of polyester filament yarns.
	We were recognized as A Level Credible Tax Payer* (納税信用A級納税人) for 2008 to 2009.
2011	We were the second largest DTY manufacturer in China in terms of designed capacity in 2010.
	We were awarded one of the Top 100 Tax Paying Enterprises in Fujian Province for 2010* (福建省2010納稅百強企業).

GROUP STRUCTURE PRIOR TO THE CORPORATE REORGANIZATION

Set out below is the shareholding structure of our Group immediately prior to the Corporate Reorganization:



CORPORATE REORGANIZATION

In order to prepare for the Listing, we underwent the Corporate Reorganization which involved the following steps:

(1) Incorporation of investment vehicles by Mr. Sze Tin Yau and Mr. Wu Jinbiao

In preparation for the Listing, Mr. Sze Tin Yau subscribed for one share in Kingom Power, which was incorporated in the BVI on July 9, 2010, to hold his interests in our Company. Mr. Sze Tin Yau is the sole shareholder and beneficial owner of Kingom Power. In addition, Mr. Wu Jinbiao also subscribed for one share in Winwett Investments, which was incorporated in the BVI on September 28, 2010, to hold his interests in our Company. Mr. Wu Jinbiao is the sole shareholder and beneficial owner of Winwett Investments.

(2) Incorporation of our Company

Our Company was incorporated as an exempted company under the laws of the Cayman Islands with limited liability on November 25, 2010 to act as the ultimate holding company of our Group. As of the date of incorporation of our Company, its authorized share capital was HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. On November 25, 2010, one Share was allotted and issued, credited as fully paid, to Codan Trust Company (Cayman) Limited as the initial subscriber, and was subsequently transferred to Kingom Power on the same day. On the same day, one Share was also allotted and issued, credited as fully paid, to Winwett Investments. Accordingly, Kingom Power and Winwett Investments became the Shareholders of our Company on November 25, 2010.

(3) Incorporation of the Intermediate Holding Companies

Billion Industrial Investment

On November 25, 2010, Billion Industrial Investment was incorporated in the BVI as an intermediate holding company of our Group. As of the date of its incorporation, the authorized share capital of Billion Industrial Investment was US\$50,000 divided into 50,000 shares of US\$1.0 each. On December 7, 2010, our Company subscribed for one share in Billion Industrial Investment. Accordingly, Billion Industrial Investment became the directly wholly-owned subsidiary of our Company.

Billion Development

Billion Development was incorporated in Hong Kong with limited liability on December 15, 2010 with an authorized share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. On the same day, one share in Billion Development was allotted and issued, credited as fully paid, to Billion Industrial Investment. Accordingly, Billion Development became an indirectly wholly-owned subsidiary of our Company.

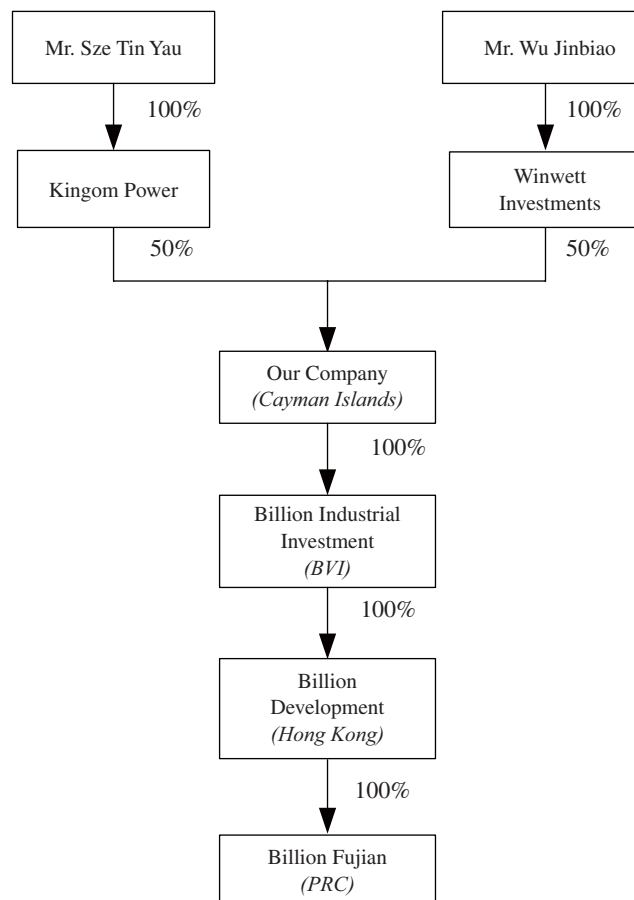
HISTORY AND CORPORATE STRUCTURE

(4) Transfers of Entire Equity Interests in Billion Fujian to Billion Development

On January 24, 2011, Mr. Sze Tin Yau, Mr. Wu Jinbiao, Billion Development and Billion H.K. entered into an equity transfer agreement pursuant to which (i) Billion H.K. agreed to transfer its entire equity interests in Billion Fujian to Billion Development; and (ii) as a consideration for such transfer, Mr. Sze Tin Yau and Mr. Wu Jinbiao agreed to procure our Company to allot and issue 99 Shares, credited as fully paid, to each of Kingom Power and Winwett Investments. Upon completion of the equity transfer on February 17, 2011 and the allotment and issue of Shares on March 17, 2011, each of Kingom Power and Winwett Investments held 100 Shares and continued to hold 50% interests in our Company immediately prior to the Capitalization Issue and the Global Offering.

GROUP STRUCTURE AFTER THE CORPORATE REORGANIZATION BUT PRIOR TO THE CAPITALIZATION ISSUE AND THE GLOBAL OFFERING

The corporate structure of our Group after the Corporate Reorganization but immediately prior to the Capitalization Issue and the Global Offering is set out below:

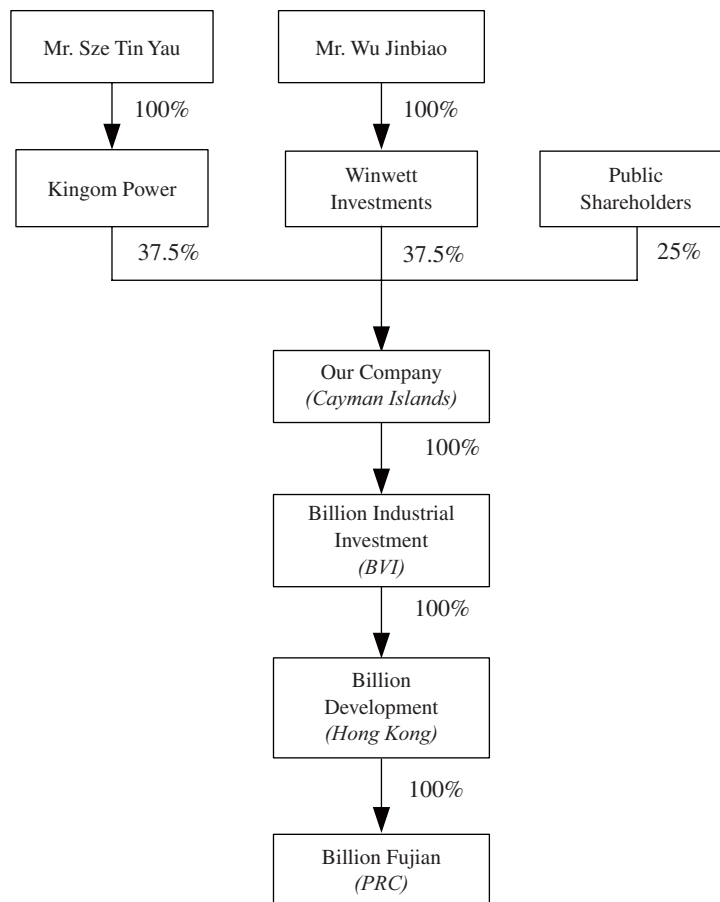


HISTORY AND CORPORATE STRUCTURE

GROUP STRUCTURE UPON COMPLETION OF THE CORPORATE REORGANIZATION, THE CAPITALIZATION ISSUE AND THE GLOBAL OFFERING

Pursuant to the Global Offering, assuming the Over-allotment Option is not exercised and no option to be granted under the Share Option Scheme is exercised, our Company will allot and issue new Shares representing 25% of its enlarged issued share capital.

The corporate structure of our Group upon completion of the Corporate Reorganization, the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and no option to be granted under the Share Option Scheme is exercised) is set out below:



HISTORY AND CORPORATE STRUCTURE

SAFE REGISTRATION

The Notice of SAFE on Issues Relating to Foreign Exchange Control on Fund Raisings by Domestic Residents Through Offshore Special Purpose Vehicles and Round-trip Investment (國家外匯管理局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) (the “Circular No. 75”) issued by SAFE, requires PRC residents to register with the local SAFE branch before establishing or controlling any company outside of China for the purpose of capital financing with assets or equities of PRC companies, referred to in the Circular No. 75 as offshore special purpose companies. Further, the PRC residents are required to file amendments to their registrations with the local SAFE branch if their offshore special purpose companies undergoes a material event involving changes in capital, such as changes in share capital, mergers and division, share transfers or exchanges, long-term equity or debt investments, etc.

Mr. Sze Tin Yau and Mr. Wu Jinbiao, our beneficial Shareholders, are residents of Hong Kong and Macau, respectively. As a result, Mr. Sze Tin Yau and Mr. Wu Jinbiao are not subject to the registration requirement under the Circular No. 75 by SAFE.

THE RULES ON THE MERGER AND ACQUISITION OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS

On August 8, 2006, six PRC governmental and regulatory agencies, including MOFCOM and the CSRC, promulgated the Provisions on the Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者並購境內企業的規定) (the “M&A Regulation”), which became effective on September 8, 2006 and was revised and reissued by MOFCOM in June 2009. Under the M&A Regulation, a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic company thereby converting it into an foreign-invested enterprise, or subscribes for new equity via an increase of registered capital thereby converting it into a foreign-invested enterprise; (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise. The acquisition shall be based on the appraisal result on the equity or assets to be acquired. According to Article 11 of the M&A Regulation, it is required that a PRC company, enterprise or individual who intends to take over its domestic affiliated company through a foreign company, which such company or individual establishes or controls, must obtain approval of MOFCOM. Avoiding this requirement by making investment through a PRC subsidiary of the foreign company or by other measures is not allowed. Article 40 of the M&A Regulation requires an offshore special purpose vehicle formed for the purposes of an offshore listing and controlled directly or indirectly by the PRC companies or individuals, to obtain CSRC approval prior to the listing and trading of the securities of such offshore special purpose vehicle on an overseas stock exchange.

Our Company’s PRC legal advisers, Tian Yuan Law Firm, has confirmed that the M&A Regulation is not applicable to our Listing and it is not necessary for us to obtain approval from the CSRC because the foreign invested enterprise involved in our Listing, namely Billion Fujian, was established as a wholly foreign-owned enterprise before September 8, 2006.

Furthermore, our Company’s PRC legal advisers, Tian Yuan Law Firm has confirmed that we have obtained all relevant approvals from the PRC government authorities for the Corporate Reorganization.

OVERVIEW

We are one of the largest developers and manufacturers of polyester filament yarns in China, including drawn textured yarn, or DTY, and fully drawn yarn, or FDY, the two main polyester filament yarns, which have a variety of end applications in consumer products, including apparel, footwear and home furnishings. We also produce partially oriented yarn, or POY, which may be used as a raw material for our DTY or sold separately to our customers. As of December 31, 2010, we had a designed capacity of approximately 450,000 tpa of FDY and POY and a designed capacity of approximately 260,000 tpa of DTY, which add up to a combined designed capacity of approximately 710,000 tpa of DTY, FDY and POY. According to CMAI, in 2010, we were the sixth largest manufacturer in China in terms of combined designed capacity of DTY, FDY and POY, and we were the second largest DTY manufacturer in China in terms of designed capacity.⁽¹⁾

Our sales are primarily focused in south China. According to CMAI, we were the largest manufacturer in terms of both designed capacity of DTY and designed capacity of FDY and POY in south China in 2010; and south China represented approximately 6.3% of China's total designed capacity for the polyester filament yarn market in 2010. According to Frost & Sullivan, the apparel and footwear industry is expected to experience rapid growth in south China and, in particular, Fujian and Guangdong provinces are expected to grow from representing 33.3% of China's entire production volume in 2009 to representing 45.0% of China's entire production volume by 2015. CMAI expects that the demand for polyester filament yarns in south China will continue to increase and there will continue to be a supply shortage of polyester filament yarns for the coming years in south China.

A majority of our DTY and FDY are “differentiated”, which is recognized in the industry as having special physical features and functionalities achieved through diversifying the chemical components of the filament or through changing the shape or linear density of the filament. We are able to produce differentiated DTY and FDY with special features and functionalities, such as ultraviolet resistant, water absorbing and sweat-dissipating, flame resistant, anti-abrasion, ultra-soft, ultra-white, ultra-bright and anti-bacterial. These products are widely utilized in the production of high-end fabrics and textiles for various consumer products that require such special features or functionalities. We believe that, with increased disposable income, consumers in China will gradually increase their demand for more diversified properties of apparel, footwear and home furnishings. As a result, we expect the demand for differentiated polyester filament yarns to continue to be higher than the demand for regular polyester filament yarns.

We market and sell our polyester filament yarns under our brands “百宏” and “Billion”. Our customers are mainly fabric and textile manufacturers based in China who produce and sell knitted fabrics and textiles to manufacturers of apparel, footwear and home furnishings. We also directly export a small portion of our products to North America, Europe, Southeast Asia and South America. In 2010, we sold polyester filament yarns to approximately 2,100 customers in China and elsewhere in the world. Due to our established reputation in the polyester filament yarn industry and our ability to provide a wide

Note:

⁽¹⁾ The polyester filament yarn industry uses “designed capacity” as a ranking tool as the production volume for polyester filament yarns may vary depending on the thickness, or linear density, of the yarns produced, while “designed capacity” is calculated by using a uniform linear density of 150D, which according to CMAI, is the most common linear density in the industry, thus creating a consistent basis for comparison.

variety of high-quality differentiated polyester filament yarns, many well-known leading apparel and footwear manufacturers in China, with whom we have no direct business relationship, have specifically requested their suppliers to supply fabrics and textiles made from our polyester filament yarns. These manufacturers include listed companies, such as Anta (安踏), 361 Degrees (361度), Xtep (特步), Peak (匹克), Lilanz (利郎), SeptWolves (七匹狼), and certain well-known apparel companies, such as K-boxing (勁霸). Many leading Chinese fabric and textile manufacturers are our direct customers who provide high-quality fabrics and textiles to domestic and international branded apparel companies, including several Hong Kong listed and China's A-share listed companies, such as Fynex Textile (鳳竹), some of which have established long-term relationships with us. We have also been appointed by SBS Zipper (SBS 潯興), China's largest and the world's second largest manufacturer of zippers, and one of our direct customers, as one of its designated suppliers for polyester filament yarns. In addition, we also have many direct overseas customers, including Bekaert, a multi-national home textile company based in Europe, and Universal Tekstil, a large textile manufacturer in Turkey.

In 2010, with the increasing recognition of our brand name and as we established closer relationships with our customers, we entered into annual strategic framework agreements with 186 of our large customers. These framework agreements, which are legally binding, provide for minimum purchase volume commitments by our customers, collaborative research and development of differentiated polyester filament yarns and the sharing of various market information. Our revenue generated from customers who entered into such framework agreements was RMB2,484.2 million for the year ended December 31, 2010, accounting for 57.6% of our total revenue in 2010. All of these customers renewed their framework agreements with us in 2011, and substantially all of these agreements provide for equal or higher minimum purchase volume commitments.

Supported by our highly qualified research and development staff, comprising approximately 500 engineers and researchers, we have independently developed 19 types of differentiated polyester filament yarns. Of these, we have obtained patents in the PRC for 17 types and have applied for patents in the PRC for the remaining two types. Of these 19 types of differentiated polyester filament yarns, we currently manufacture and sell 11 patented products to our customers. Of the remaining eight types of differentiated polyester filament yarns, six are being tested for production and two have passed trial production, and we plan to offer all of them in the future. Our revenue from patented differentiated polyester filament yarns as well as those under the patent application process amounted to RMB2,817.5 million for the year ended December 31, 2010, representing 65.4% of our total revenue in 2010. We believe our patented products are well recognized and highly competitive in the domestic and global markets. We also believe that our products undergoing patent applications have the potential to help us gain more market share in the differentiated polyester filament yarn market.

During the Track Record Period, we received various awards for our achievements. With our advanced research and development capabilities and achievements, we were recognized by China National Textile and Apparel Council, China Chemical Fiber Industry Association and China Textile Product Development Center as a National Development Site for Functional Differentiated Polyester Filament Yarns (國家功能性差別化聚酯纖維開發基地). In addition, we were recognized as a High and New Technology Enterprise* (高新技術企業), Provincial Enterprise Technology Center of Fujian Province* (福建省省級企業技術中心) and Fujian Province Innovative Pioneer Enterprise* (福建省創新試點企業) by the relevant provincial bureaus of Fujian Province. We were also selected as one of the Top One Hundred Key Industrial Enterprises in Fujian Province* (福建省百家重點工業企業) by Fujian Province Economy and Trade Committee, and were identified as one of the Top One Hundred Enterprises in Fujian Province* (福建企業100強) by Fujian Enterprise Evaluation Association, as well as AA Type

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Custom Administration Enterprise* (海關AA類管理企業) by Xiamen Custom and A Level Credible Tax Payer* (納稅信用A級納稅人) and one of the Top One Hundred Tax Paying Enterprises in Fujian Province for 2010* (福建省2010納稅百強企業) jointly by the state and local tax bureau of Fujian Province.

We commenced commercial production of polyester filament yarns in 2005 in the Fenglin Industrial Zone located in Longhu County, Jinjiang City, Fujian Province. Through organic growth, our designed capacity of FDY and POY increased from approximately 200,000 tpa as of January 1, 2008 to approximately 450,000 tpa as of December 31, 2010. We plan to further increase our designed capacity of FDY and POY at our current production site to approximately 475,000 tpa in June 2011. Our designed capacity of DTY increased from approximately 110,000 tpa as of January 1, 2008 to approximately 260,000 tpa as of December 31, 2010, and we plan to increase our designed capacity of DTY at our current production site to approximately 305,000 tpa by June 2011. In addition, we plan to construct a new production site, which is expected to commence production progressively starting from November 2011, to increase our designed capacity of FDY and POY by approximately 310,000 tpa to approximately 785,000 tpa and of DTY by approximately 188,000 tpa to approximately 493,000 tpa by the end of 2013 upon its completion.

Our primary raw materials for the production of polyester filament yarns are PTA and MEG, both of which are crude oil-based downstream commodities. Although there are a large number of PTA and MEG suppliers in China, we purchase substantially all of our PTA and MEG from a limited number of suppliers that have consistently supplied us with qualified raw materials at favorable discounts in large volumes and in a timely manner. We enter into annual supply agreements with some of these suppliers. We have more than four years of business relationships with our two largest suppliers and have on average more than two years of business relationships with our other large suppliers. During the Track Record Period, we did not experience any shortage of supply of PTA or MEG. Purchases from our five largest suppliers of raw materials accounted for 82.6%, 85.6% and 75.6% of our total purchases of raw materials for the years ended December 31, 2008, 2009 and 2010, respectively, and purchases from our largest supplier of raw materials accounted for 41.1%, 53.8% and 44.4% of our total purchases of raw materials during the respective periods.

For the years ended December 31, 2008, 2009 and 2010, our revenue was RMB2,113.6 million, RMB2,963.1 million and RMB4,309.7 million, respectively. Our gross profit for the same periods was RMB124.5 million, RMB249.6 million and RMB630.9 million, respectively, our gross profit margin for the same periods was 5.9%, 8.4% and 14.6%, respectively, and our net profit for the same periods was RMB56.7 million, RMB101.4 million and RMB446.0 million, respectively. The increase in our sales volume contributed to the increase in our revenue, which was primarily due to the continuous expansion of our production capacities and because the demand for our products and their end products, primarily apparel and footwear, recovered after the global financial crisis in 2008. The substantial increase in our gross profit margin for the year ended December 31, 2010 was primarily due to the increase in the average sales prices of our products at a much faster rate than that of our raw material prices, which was driven by the increasing market demand, as the domestic economies recovered from the financial crisis, and was stimulated by the substantial increase in the price of cotton. In particular, cotton prices increased substantially in the fourth quarter of 2010, during which time the market demonstrated a strong demand for polyester filament yarns, which have the ability to serve as a substitute for cotton yarns to some extent. CMAI expects that the market will continue to demonstrate a strong demand for polyester

filament yarns, which will continue to be used as partial substitutes for cotton yarns, considering the short supply of cotton in the near future, the continuous wide price difference between cotton yarns and polyester filament yarns, and the continuing development of technologies used to manufacture polyester filament yarns that have more cotton yarn-like features and additional advantages.

OUR COMPETITIVE STRENGTHS

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

We are a leader in the polyester filament yarn market in China, the largest polyester filament yarn market in the world.

We are one of the largest developers and manufacturers of polyester filament yarns in China. According to CMAI, in 2010, we were the sixth largest manufacturer in China and the largest manufacturer in south China in terms of combined designed capacity of DTY, FDY and POY, and we were the second largest DTY manufacturer in China and the largest DTY manufacturer in south China in terms of designed capacity. Through organic growth, our designed capacity of FDY and POY increased gradually from approximately 200,000 tpa as of January 1, 2008 to approximately 450,000 tpa as of December 31, 2010, comprising the designed capacity of approximately 160,000 tpa of FDY and approximately 290,000 tpa of POY. Our DTY production, which utilizes the POY we produce, had a designed capacity of approximately 260,000 tpa as of December 31, 2010. We believe our large production and sales volumes allow us to benefit from economies of scale in various ways, including discounted purchase prices of raw materials, strong bargaining power in pricing of our products, lower fixed unit costs for our products, and higher market recognition and awareness. In addition, supported by the scale of our operations, we are able to maintain a sizable research and development team and a quality control force, which helps us maintain our competitiveness.

Our strong research and development and commercialization capabilities allow us to offer a comprehensive portfolio of differentiated polyester filament yarns with higher profit margins.

Acknowledging the increasingly diversified requirements in the functionalities and features of textile consumer products, we emphasize the continuous development of innovative differentiated polyester filament yarns and improvement in our production processes in order to cater to the market demand for new types of products and expand our market share. Through close communication with our customers, we gain a better understanding of our customers' needs and, along with our strong research and development capabilities, we are able to design and develop new products that cater to market trends. Supported by our strong research and development team consisting of approximately 500 members, we have developed 19 types of differentiated polyester filament yarns, for which 17 have been granted PRC patents and two are under the patent application process in the PRC. These differentiated polyester filament yarns have special physical features and functionalities and generally have higher average sales prices and profit margins compared to regular polyester filament yarns. We are also cooperating with Donghua University (東華大學) in Shanghai, the top university in the textile industry in China previously known as China Textile University (中國紡織大學), in the research and development of new types of differentiated polyester filament yarns, to which we are entitled to patent rights. With our focus on the development of differentiated polyester filament yarns, our revenue from differentiated polyester filament yarns has accounted for a large portion of our total revenue. For the year ended December 31, 2010, our revenue from patented differentiated polyester filament yarns and those we have applied for patents was RMB2,817.5 million, representing 65.4% of our total revenue. We believe that, as we

continue to offer a wide variety of high-quality differentiated polyester filament yarns in the market, we should be able maintain our market share and improve our brand loyalty and awareness among our customers.

With advanced technology and flexibility to accommodate different specifications, our production machineries enable us to produce our newly-developed differentiated polyester filament yarns with special physical features and functionalities, such as ultraviolet resistant, water absorbing, sweat discharging, flame resistant, anti-abrasion, ultra-soft, ultra-white and ultra-bright, to better serve our downstream customers. As of the Latest Practicable Date, our production lines composed of various advanced equipment and machineries, the majority of which were supplied by top textile machinery producers, such as Barmag from Germany and TMT from Japan. These advanced machineries also help to maintain the constant production of high-quality polyester filament yarns and allow us to produce our products at a higher production efficiency compared to less advanced machineries.

In the past several years, we have received various awards for our research and development achievements. We were recognized by China National Textile and Apparel Council, China Chemical Fiber Industry Association and China Textile Product Development Center as a National Development Site for Differentiated Functional Polyester Filament Yarns* (國家功能性差別化聚酯纖維開發基地) in relation to our production and development of differentiated polyester filament yarns. We were recognized as a High and New Technology Enterprise* (高新技術企業), a Fujian Province Innovative Pioneer Enterprise* (福建省創新試點企業) and a Provincial Technology Center of Fujian Province* (福建省省級企業技術中心) by the government of Fujian Province. We were also selected as an Advanced Enterprise for Equipment Innovation* (設備革新先進企業) by the government of Jinjiang City, Fujian Province. In addition, we were the silver award winner of 618 Cross-Straight Employee Innovation Achievement* (618海峽兩岸職工創新成果獎銀獎) for our development of a type of differentiated polyester filament yarn known as “three dimensional hollow synthetic yarn”.

We are well-positioned to benefit from the rapid growth of China’s consumer product market.

As a raw material producer for various fabrics and textiles, which are used in the production of apparel, footwear and home furnishings, we have benefited from China’s dynamic and fast-growing consumer product market amid the strong growth of China’s GDP and growing disposable income of urban households. According to Frost & Sullivan, China’s general consumer spending steadily increased from RMB5,355.1 billion in 2005 to RMB10,250.4 billion in 2009, representing a CAGR of 17.6%. In particular, China’s consumer spending on apparel and footwear nearly doubled from 2005 to 2009, steadily increasing from RMB502.0 billion in 2005 to RMB1,001.0 billion in 2009, representing a CAGR of 18.8%. With this steady growth, manufacturers of apparel, footwear and home furnishings have emerged and grown rapidly in the past several years, along with numerous fabric and textile manufacturers. By offering a variety of high-quality differentiated polyester filament yarns and with our increased production capacity, we were able to seize this growth opportunity and establish our reputation as a provider of consistently high-quality differentiated products among fabric and textile manufacturers and consumer product manufacturers in China.

Many well-known leading apparel and footwear manufacturers in China, with whom we have no direct business relationship, have specifically requested their suppliers to supply fabrics and textiles made from our polyester filament yarns. These manufacturers include listed companies, such as Anta, 361 Degrees, Xtep, Peak, Lilanz, SeptWolves and certain well-known apparel companies, such as K-boxing. Our direct customers also include well-known fabric and textile manufacturers who provide high-quality

fabrics and textiles to domestic and international branded sportswear companies, including several Hong Kong listed and China's A-share listed companies, such as Fynex Textile. We have also been appointed by SBS Zipper, China's largest and the world's second largest manufacturer of zippers.

We are strategically located in an area with developed upstream and downstream industries as well as convenient transportation networks.

We believe our strategic location also contributes to our success. We primarily focus our sales in Fujian Province and Guangdong Province, which contributed to a substantial portion of our revenue during the Track Record Period. For the years ended December 31, 2008, 2009 and 2010, our sales in Fujian Province accounted for approximately 82.3%, 77.7% and 76.0%, respectively, of our total revenue, and our sales in Guangdong Province accounted for approximately 9.7%, 10.9% and 13.2%, respectively, of our total revenue. According to Frost & Sullivan, there was rapid growth in the GDP in Fujian Province at a CAGR of 16.9% and that of Guangdong Province at a CAGR of 15.0% from 2005 to 2009. The apparel manufacturing industry in these areas developed rapidly in the past few years, which in turn stimulated the demand for polyester filament yarns in these areas and contributed to our success. In addition, the region of Jinjiang City and its neighboring areas in Fujian Province is regarded as one of the largest apparel production bases and a famous textile production base in China. Jinjiang City and its neighboring areas in Fujian Province have a complete downstream textile production chain, composed of a large number of fabric and textile manufacturers and apparel, footwear and home furnishings manufacturers. China Textile Industry Association has named eight famous production bases for different types of apparel in Jinjiang City and its neighboring areas, which include the production bases for undergarments, children's apparel, pants, sportswear, casual wear, sport utility casual wear and apparel accessories. By leveraging our strategic location in Jinjiang City, we are able to supply our products to our customers at lower transportation costs and within a shorter period of time, closely communicate with our customers and provide timely service to our customers.

We are also located in an area with ample raw material supplies, including major PTA manufacturers in Jinjiang City and its neighboring areas. This advantage allows us to obtain raw materials at relatively lower transportation costs and within a shorter time period. Our proximity to Shenhui Port, a national open port, also facilitates the transportation of our raw materials from domestics and overseas suppliers by sea, which is more cost-efficient than transportation by road.

Most of our products are delivered to our customers by road, including Highway 308, a provincial highway, and Shenhui Highway, a national highway. Our close proximity to these highways allows us to transport our products on a timely and cost-efficient basis to our customers in China.

We provide high-quality products and timely services which help us build our brand awareness and customer loyalty.

As we believe a reputation of high product quality and timely service provides us with the strength for long-term growth, we emphasize our high-quality products and timely customer services by implementing procedures and mechanisms to achieve this goal. We believe our high-quality products and timely services have enhanced our brand awareness and helped us to build a loyal customer base. For the years ended December 31, 2008, 2009 and 2010, we had approximately 1,600, 2,100 and 2,100 customers, respectively, a majority of which have been our customers for more than three years.

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To maintain the consistent quality of our products, we have a large quality control force, consisting of approximately 690 personnel, as of March 31, 2011, and we are equipped with various advanced testing devices and machineries. We have adopted a comprehensive set of stringent quality control procedures at all stages of our production processes to ensure product quality. Our quality management systems have been awarded ISO9001:2008 certification for the design, production and service of polyester filament yarns. We are also permitted to use the internationally recognized “Oeko-Tex” mark on our polyester filament yarns, indicating a successful testing result for harmful substances. We are devoted to the timely pre-sales and post-sales services to our customers in order to strengthen our customer relationship and to sustain our long-term growth. To achieve this goal, we have implemented and have committed to our customers the performance of a strict customer service scheme, under which our sales personnel are required to visit our customers within certain time limits upon our customers’ request based on their geographical area. We believe that this scheme has enhanced our customer loyalty and will continue to help us build a reputation of timely services.

We are led by a professional management team with extensive experience in the industry.

Our senior management team and executive directors have an average of more than 15 years’ experience in the textile and polyester filament yarn industries. In particular, Mr. Sze Tin Yau and Mr. Wu Jinbiao, our executive directors, have approximately 20 years and 25 years of experience in polyester filament yarn production and management, respectively. Our senior management team has an extensive industry experience as well as rich knowledge in all areas of the polyester filament yarn industry, including sales and marketing, research and development, production and finance. We believe that our management team has the leadership, in-depth industry knowledge and outlook which are necessary to form sound business strategies and develop cost-effective business growth and also the insight to seize market opportunities.

OUR BUSINESS STRATEGIES

Our goal is to maintain our leading position in the polyester filament yarn industry in China and continue to increase our market share. We will continue to seek opportunities to achieve business growth and maximize the benefits to our shareholders. We plan to achieve this goal through the following strategies:

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

We seek to maintain our leading position in the polyester filament yarn industry in China by capturing the increasing domestic market demand and further grow our market share in the domestic market by continuing to expand our production capacity. We expect to achieve our goal by further increasing our designed capacity of polyester filament yarns. We plan to further increase our designed capacity of polyester filament yarns in our current production site from approximately 450,000 tpa as of December 31, 2010 to approximately 475,000 tpa in June 2011 by adding one FDY spinning production line with a designed capacity of approximately 12,000 tpa and one POY spinning production line with a designed capacity of approximately 13,000 tpa. We also plan to add 25 DTY texturing machines in our current production site, increasing our designed capacity of DTY from approximately 260,000 tpa as of December 31, 2010 to approximately 305,000 tpa by June 2011.

In addition, we plan to construct a new production site near our existing production site in Jinjiang City, Fujian Province, which is expected to commence productions progressively starting from November 2011. Upon its completion, the new production site is expected to increase our designed capacity of FDY and POY by approximately 310,000 tpa to approximately 785,000 tpa and increase our designed capacity of DTY by approximately 188,000 tpa to approximately 493,000 tpa by the end of 2013. The new production site is designed to have 12 FDY spinning production lines with a total designed capacity of approximately 175,000 tpa, eight POY spinning production lines with a designed capacity of approximately 135,000 tpa, and 110 DTY texturing machines with a total designed capacity of approximately 188,000 tpa. We believe that this increased production capacity will provide us with additional cost saving advantages from economies of scale and allow us to meet the additional demand for our products and further expand our market share and coverage.

We expect these new machineries and equipment to have more up-to-date designs and technologies. Together with our operating expertise, we expect to utilize these new machineries and equipment to improve our production efficiency and product quality, generate higher energy savings and lower our production costs. We have also engaged Donghua University to study our polymerization and spinning production lines and use computer model and simulation technology to help us improve our production processes, enhance our production efficiency and develop new product. We believe this study should increase our production efficiency for our existing production lines.

Continue to utilize technologically advanced equipment to produce differentiated products with strong demand and special features and functionalities

We plan to utilize machineries and equipment with up-to-date technologies to help us commercialize our research and development achievements and further diversify our product portfolio with more innovative differentiated polyester filament yarns. In particular, our DTY texturing machines, FDY spinning machines and POY spinning machines are all expected to be supplied by the well-known German supplier, Barmag, and the well-known Japanese supplier, TMT. These new machineries are expected to be capable of producing polyester filament yarns with more diversified properties and functionalities. We believe this should help us seize the market opportunities for new types of differentiated polyester filament yarns and increase our competitiveness.

In designing our new production site, we also considered the potential market demand and market trend for each of FDY and DTY in order to enhance our competitiveness. According to CMAI, the increase in the demand for polyester filament yarns is primarily driven by a robust growth in China's domestic consumption, and in particular, the FDY market is expected to slightly outperform that of DTY in the coming years, due to the development of post-treatment technology and the lower cost level of FDY. To seize this market opportunity, our new production site is designed to have a approximately 175,000 tpa of FDY in designed capacity.

Continue to strengthen our research and development capabilities and further commercialize our new products

We plan to strengthen our research and development capabilities in highly technological and highly profitable differentiated polyester filament yarns. We intend to increase investments in research and development activities, including hiring more senior and experienced experts and engineers, as well

as buying more advanced research and development equipment and testing equipment. In addition, we plan to continue to cooperate with Donghua University in developing new types of differentiated polyester filament yarns, which has helped our research and development activities in the past.

To enhance the competitiveness of our differentiated polyester filament yarns in terms of product quality and functionality, we have applied for the certification as a National Standard Laboratory (國家標準實驗室) by China National Accreditation Service for Conformity Assessment (“CNAS”) (中國合格評定國家認可委員會) for testing laboratories of polymerization raw materials and filament yarn physical features. National Standard Laboratories are considered to be more reliable in terms of testing and measurement and are more likely to achieve the highest level of the laboratory standards in China. National Standard Laboratories have the right to issue test results to a third party and print the laboratory proof on the packaging of the qualified products. We believe that, as of the Latest Practicable Date, we had fulfilled the relevant requirements and criteria for the certification as a National Standard Laboratory.

As of the Latest Practicable Date, we were in the process of commercializing six types of differentiated polyester filament yarns and were in the process of developing five types of differentiated polyester filament yarns. Based on our research and development plans for our new products, each of which is lead by individual research and development managers, we expect to commercialize three of the six types of differentiated polyester filament yarns by the end of 2011 and the other three by the end of 2012. With the expansion of our research and development capabilities, we expect to commence the development of five new types of differentiated polyester filament yarns in each of 2012 and 2013 and more new types of differentiated polyester filament yarns from 2014 onwards. Our new production site will allow us to commercialize the new types of differentiated polyester filament yarns and to meet the additional demand for our differentiated polyester filament yarns. In particular, we designed our new production site with a focus on the production of ultra-thin and highly-functional differentiated polyester filament yarns.

Further expand our marketing network and strengthen our relationships with fabric and textile manufacturers and end customers to enhance our brand awareness and reputation

We plan to maintain our leading market position through our successful sales and marketing activities. We will continue to use different marketing networks to promote our brand awareness and recognition, such as attending industrial exhibitions in China and abroad, enhancing our product promotion activities and expanding our marketing team. We plan to offer more training programs on product knowledge and sales techniques to enhance the overall performance of our sales and marketing staff. We also plan to further expand our market coverage in domestic and overseas markets which have demands for our products. For example, to further increase our market share in the domestic market and to expand in the international market, we plan to increase our marketing activities in Guangdong Province, Vietnam and South America, where the apparel and consumer product manufacturing industries are rapidly developing.

We plan to further strengthen our communication and business relationships with our primary customers, namely, fabric and textile manufacturers. We entered into annual strategic framework agreements with some of our large customers in 2010, which provide for, among other things, the collaborative research and development of differentiated polyester filament yarns and sharing of various market information. Through the joint research activities conducted with our direct customers and by sharing various market information such as new trends or novel technologies, we believe we should be able to better anticipate market trends for our products and, as a result, conduct our research and

development activities in a more effective and timely manner. We expect to continue this effort and enhance our communication with our direct customers through such cooperation arrangements.

We also plan to establish, through strategic cooperation, direct communication channels with the end customers of our polyester filament yarns, which primarily include apparel and footwear manufacturers. We intend to have our research and development personnel communicate directly with our end customers on a regular basis to understand their requirements on the physical and chemical features of the differentiated polyester filament yarns and to involve our end customers in the testing and trial use of our product samples as well as textile samples made by our products. In addition, we plan to build an operation center in East Sea District, Quanzhou City, Fujian Province, where many of our end consumers are building their headquarters, including Anta, 361 Degrees, Xtep, Peak and SeptWolves. Upon its completion, which we expect to be 2013, we plan to move our sales and marketing department and our research and development department to the operation center.

We believe a direct communication channel with our end consumers should enable us to obtain their opinions and requirements on the clothing and footwear materials more quickly, help us respond to market needs more effectively and allow us to develop new types of polyester filament yarns or adjust our existing polyester filament yarns more timely. At the same time, we will further take advantage of our close proximity to, and regular communications with, Hong Kong and Taiwan to keep abreast of changes in demands for polyester filament yarns and trends in the foreign textile industry and respond to the market as quickly as possible. We believe that these initiatives should help to enhance our reputation as an industry leader and further strengthen our leading position in the industry.

OUR PRODUCTS

We primarily produce drawn textured yarn, or DTY, fully drawn yarn, or FDY, and partially oriented yarn, or POY. DTY and FDY, the two main products of the polyester filament yarn industry, have wide applications. DTY is generally used by fabric and textile manufacturers for a variety of applications for consumer products that require a cotton-like feel, such as high-end apparel, sportswear, sports shoes, home furnishings and zipper tapes, while FDY is more commonly used in consumer products that require a silk-like or leather-like feels, such as high-end undergarments, high-end sportswear and home furnishings.

We primarily produce differentiated polyester filament yarns, including DTY, FDY and POY, by adding additives, adjusting our production equipment and utilizing special procedures. Each differentiated polyester filament yarn has special features or functionalities such as ultraviolet resistant, water absorbing and sweat-dissipating, flame resistant, anti-abrasion, ultra-soft, ultra-white and ultra-bright. As of the Latest Practicable Date, we had developed 19 types of differentiated polyester filament yarns independently, of which we have obtained PRC patents for 17 types and have applied for PRC patents for the remaining two types in the PRC. In addition, we have been licensed with five-year exclusive rights to use, manufacture and sell five types of patented differentiated polyester filament yarns from Donghua University (東華大學) in Shanghai, the top university in the textile industry in China previously known as China Textile University (中國紡織大學). As of the Latest Practicable Date, we were able to offer for general sales and keep regular stock for the 11 types of patented differentiated polyester filament yarns to our customers. The remaining six types of patented differentiated polyester filament yarns and the two types of differentiated polyester filament yarns that we applied patents for have not been marketed and are reserved for future sales, of which six are being tested for production and

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two have passed trial production. We expect to commercialize three of the six products in 2011 and the other three in 2012. We believe none of these 24 differentiated polyester filament yarns mentioned above are obsolete. In addition, through our joint efforts with Donghua University, we have commercialized the five types of more specialized differentiated polyester filament yarns licensed from Donghua University and may produce them at our customers' requests.

Based on our research and development plans for our new products, each of which is led by individual research and development managers, we expect to further commence the development of five new types of differentiated polyester filament yarns in each of 2012 and 2013. We are also in the process of developing one new type of differentiated polyester filament yarn through our cooperation with Donghua University, which we will have proprietary rights to apply for patents pursuant to our cooperation agreements.

A majority of our sales volume is attributable to the sale of DTY. For the years ended December 31, 2008, 2009 and 2010, the sales volume of our DTY accounted for 48.7%, 70.6% and 63.0%, respectively, of the total sales volume of our polyester filament yarns.

The table below sets forth our sales volume for our polyester filament yarns for the periods indicated:

	Year ended December 31,					
	2008		2009		2010	
	(tons)	%	(tons)	%	(tons)	%
DTY	97,051	48.7	236,450	70.6	238,821	63.0
FDY	39,811	20.0	42,961	12.8	80,705	21.3
POY	37,706	18.9	27,388	8.2	11,950	3.2
Others ⁽¹⁾	24,644	12.4	28,190	8.4	47,837	12.5
Total	199,212	100.0	334,989	100.0	379,313	100.0

Note:

(1) Others represents PET chips and wasted filament.

DTY (Drawn Textured Yarn)

DTY is a type of polyester filament yarn produced by processing POY through a texturing process. This process disperses, curls and entangles the filaments composing the POY yarn, which gives DTY a fluffy appearance and gives it the properties of both natural and synthetic fiber. DTY is typically used to produce fabrics and textiles for high-end apparel, high-end sports shoes, sports bags, home furnishings and zipper tapes.



Properties

- High elasticity, highly fluffy, comfortable hand feel, sheeny and gentle
- Warm, readily washable with quick drying function
- Anti-wrinkle and anti-wear

We offer DTY with a filament count of 24f to 576f, a linear density of 30D to 1200D and a denier per filament of 0.28dpf to 6.25dpf.

FDY (Fully Drawn Yarn)

FDY is a type of highly drawn polyester filament yarn which can be used to produce high strength fabrics and textiles. We produce both semi-dull FDY and bright FDY. The fabrics and textiles made from bright FDY have a bright luster. FDY is typically used to produce fabrics and textiles for high-end undergarments, high-end sportswear and home furnishings.



Properties

- High strength, smooth and lubricating hand feel and sheeny
- Warm, readily washable with quick drying function
- Anti-wear

We offer FDY with a filament count of 18f to 192f, a linear density of 30D to 600D and a denier per filament of 0.5dpf to 6.25dpf.

POY (Partially Oriented Yarn)

POY is a type of polyester filament yarn yet to be processed through the drawing process, which is the primary form of polyester filament yarn made through the polymerizing and spinning processes. It is primarily used as a main raw material for DTY. Our POY is primarily used by us as a raw material for our production of DTY. Any POY not consumed by our DTY production capacity is sold separately as end products.



Properties

- Low strength, smooth, shiny and sheeny
- Can be further drawn
- High extensibility

We offer POY with a filament count of 24f to 288f, a linear density of 50D to 1000D and a denier per filament of 0.34dpf to 6.25dpf.

PET Chips

Polyester chips, or PET chips, are dried particles of polyester melt. When we have surplus polyester melt during the production process of our polyester filament yarns, we produce PET chips and stock them for use at times when the production demand is beyond our polymerization capacity. This allows us to minimize changes in the amount and proportion of raw materials we fill in our polymerizing production facilities during a given time, and thus maintaining the quality of our products. We occasionally sell PET chips to FDY and POY manufacturers who we understand use the traditional

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method rather than the polyester melt direct spinning method to produce polyester filament yarns. See “—Production—Production Processes—Polyester Melt Direct Spinning Method and Integrated DTY Production.” We produce both bright PET chips and semi-dull PET chips.

Properties

- Used as a raw material for the production of polyester filament yarns



END APPLICATIONS OF OUR PRODUCTS

The end application of our products primarily include apparel, footwear and home furnishings. Below are examples of some of the end applications that can be made by using polyester filament yarns:



Properties of our products

- Ultraviolet resistant
- Water absorbing and sweat-dissipating
- Flame resistant
- Anti-abrasion
- Ultra-white
- Ultra-soft
- Ultra-bright
- Anti-bacterial

Companies specifically requested fabrics and textiles made from our products

- Anta (安踏)
- 361 Degrees (361度)
- Xtep (特步)
- Peak (匹克)
- Lilanz (利郎)
- K-boxing (勁霸)
- SeptWolves (七匹狼)

PRODUCTION*Production Processes***Polyester Melt Direct Spinning Method and Integrated DTY Production**

We use the technologically advanced polyester melt direct spinning method to produce polyester filament yarns. In the traditional production process, FDY and POY manufacturers have to heat up and melt PET chips, the particles of dried polyester melt, as the main raw material to produce FDY and POY. In contrast, we combine purified terephthalic acid, or PTA, and mono-ethylene glycol, or MEG, two chemical compounds derived from crude oil, in a reactor under high pressure and temperature to produce polyester melt and then transport it directly through pipelines to our spinning production lines to produce FDY and POY. This integrated production process enables us to produce polyester filament yarns more efficiently and at a lower cost.

We believe that the production of both POY and DTY also differentiates ourselves from many DTY producers on the market. We primarily use POY produced by us in our production of DTY. Unlike many DTY producers who we understand purchase POY in the market to produce DTY. The ability to produce both POY and DTY allows us to reduce our DTY production costs as there is no need for commercial package or vehicle transportation of POY in our DTY production. As of December 31, 2010, our designed capacity of POY was approximately 290,000 tpa while our designed capacity of DTY was approximately 260,000 tpa.

Production Process for our Polyester Filament Yarns

The production of our polyester filament yarns, both regular and differentiated, primarily involves two or three main production processes.

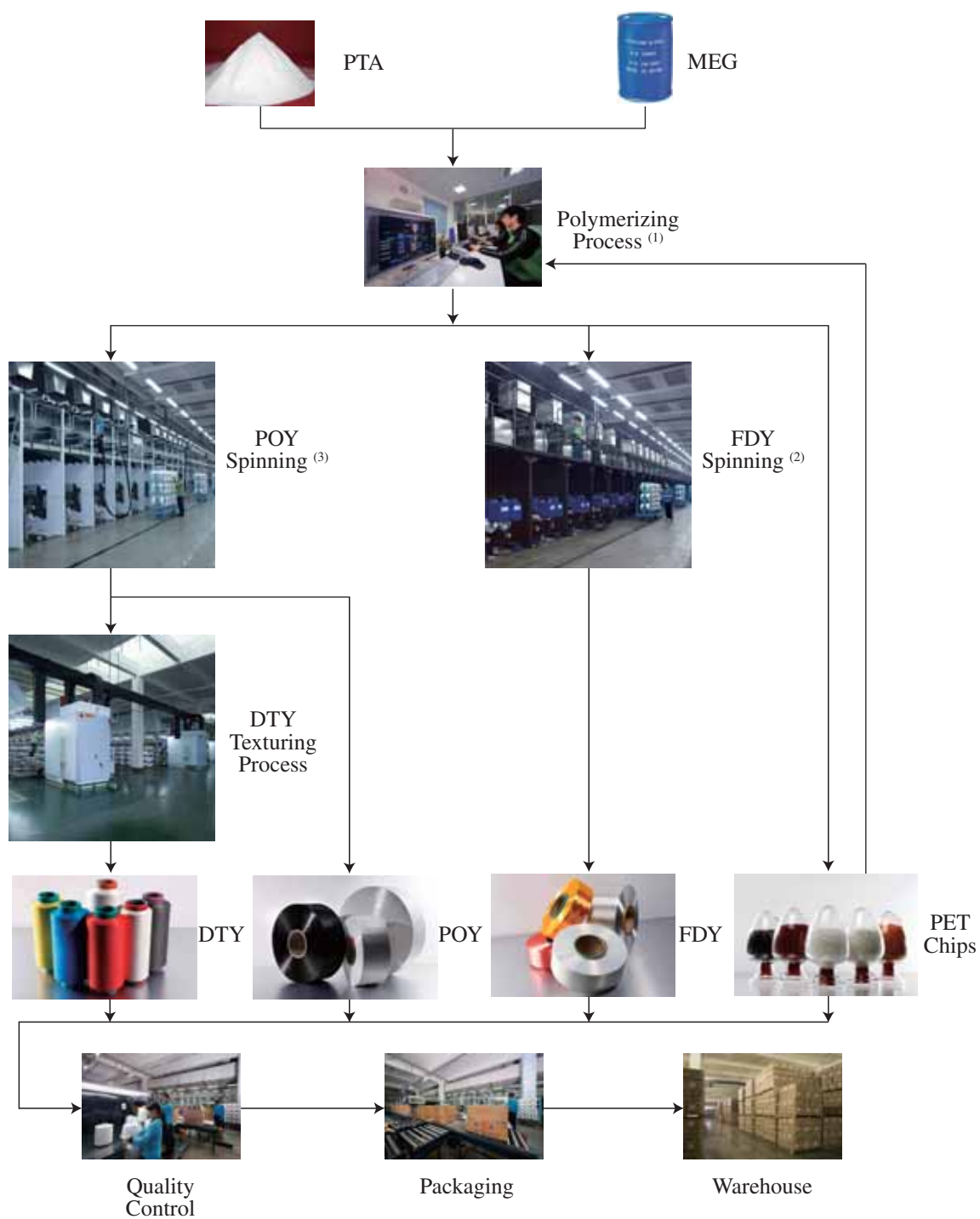
The production of FDY and POY generally involves two main production processes, namely, the polymerizing and spinning processes. The polymerizing process mixes together PTA and MEG, our main raw materials, to react with each other under high temperature and high pressure to produce polyester melt. In the spinning process, polyester melt is first pushed through the spinning holes on the spinneret into polyester filaments which are then drawn and combined into polyester filament yarns. In the spinning process, FDY is fully drawn through a heated drawing process while POY is processed through a pre-orientation process to prepare for further texturing. After the main production processes, FDY and POY are wound into reels separately.

The production of DTY uses POY as a raw material. The POY is processed through a texturing process, which disperses, curls and entangles the filaments composing the POY. After the texturing process is completed, DTY thread is wound into reels.

All of our polyester filament yarns are then inspected by our quality control personnel, packed into boxes and then stored in our warehouse.

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The chart below shows our production processes for our DTY, FDY and POY products.



Notes:

- (1) The polymerizing process includes mixing of raw materials, esterifying, pre-polymerizing and final polycondensation.
- (2) The spinning process for FDY includes extrusion, spinning, drawing with heated godets, and high-speed winding.
- (3) The spinning process for POY includes extrusion, spinning and winding.

Production Process for Differentiated Polyester Filament Yarns

We achieve special features and functionalities of differentiated polyester filament yarns by applying various methods during the production process of our polyester filament yarns. For example, we add special chemical additives during the polymerizing process to achieve special features such as ultraviolet resistant and ultra-white on our polyester filament yarns. We also change the number, size and shape of spinning holes on the spinneret to create various shapes of cross-sections of filaments in order to achieve special features such as water-absorbing and sweat-dissipating and ultra-soft. In addition, we adjust the various parameters and processing measures in the spinning and texturing processes to achieve different textures and feels of our polyester filament yarns.

Production Process for PET Chips

The production of PET chips involves only one main production process, the polymerizing process, as described above. After the polymerizing process, polyester melt is cooled, cut into small parcels, dried, tested for quality, packed and then stored in our warehouse.

Production Facilities and Capacity

Current Production Facilities and Capacity

Our production facilities occupy an area of 275,398 square meters and are located in the Fenglin Industrial Zone, Longhu County, Jinjiang City, Fujian Province. We have easy access to Highway 308, a provincial highway, and we are 25 kilometers away from Shenhai Highway, a national highway that connects Shenyang, Liaoning Province with Haikou, Hainan Province. We are also ten kilometers away from Shenhui Port, a national open port located in Jinjiang City, Fujian Province. Easy access to the highways and port facilities enables us to deliver our products to our customers and to transport raw materials from our suppliers in a cost-efficient and timely manner.

We have two polymerizing production lines, which supply polyester melt, an intermediate product used in the production of our FDY and POY. One production line has a designed capacity of approximately 200,000 tpa and commenced production in June 2005. The other production line has a designed capacity of approximately 260,000 tpa and commenced production in September 2008. Any polyester melt not consumed by our FDY and POY production capacities is used to produce PET chips.

The two polymerizing production lines are composed of various equipment and machineries, the core components of which were imported from various countries, including Germany, Japan and the United States.

The outflow speed of polyester melt from the polymerizing production lines may be adjusted based on the production requirement for the polyester filament yarns. The outflow speed of our polymerizing production lines may be adjusted downwards by up to 50% and may be adjusted upwards by up to 20% of its designed capacity.

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The following table sets forth the effective designed capacity, production volume and effective utilization rate of our polymerizing production lines during the period indicated.

Production Facilities	Year ended December 31,								
	2008			2009			2010		
	Effective Designed Capacity ⁽¹⁾	Production Volume ⁽²⁾	Effective Utilization Rate ⁽³⁾	Effective Designed Capacity ⁽¹⁾	Production Volume ⁽²⁾	Effective Utilization Rate ⁽³⁾	Effective Designed Capacity ⁽¹⁾	Production Volume ⁽²⁾	Effective Utilization Rate ⁽³⁾
	(ton)	(ton)	%	(ton)	(ton)	%	(ton)	(ton)	%
Polymerizing production lines	287,000	193,730	67.6	460,000	348,872	75.8	460,000	358,778	78.0

Notes:

- (1) Effective designed capacity of our polymerizing production lines are calculated by multiplying the total designed daily production capacity of our polymerizing production lines by 350 days. The effective designed capacity for the year ended December 31, 2008 has been adjusted on a pro rata basis to reflect the actual production period of the second polymerization production line during 2008, which was the first production year for the second polymerization production line.
- (2) Production volume represents the actual production volume during the year indicated.
- (3) Effective utilization rate for each of the year indicated is derived by dividing the actual production volume by the effective design capacity.

As of the Latest Practicable Date, we had nine FDY production lines, 17 POY production lines and 180 DTY texturing machines. All of our production lines have been operated on a 24-hour and 365-day basis, stopped only for regular inspection and maintenance work and unexpected incidents. The effective utilization rate had fluctuated during the Track Record Period because the production volume of our FDY and POY spinning production lines and our DTY texturing machines may vary significantly depending on the weight, or the linear density, of the polyester filament yarns produced as the production speed of the production lines is relatively stable. As a result, the smaller the linear density, the lighter the production volume may be during a given time, and vice versa. Therefore, the utilization rates are more reflective of polyester filament yarn with specification of smaller linear density produced as opposed to downtime and do not reflect, and are not a result of low demand of our polyester filament yarns.

The following table sets forth the effective designed capacity, production volume and effective utilization rate of our polyester filament yarn production lines during the period indicated.

Production Facilities	Year ended December 31,								
	2008			2009			2010		
	Effective Designed Capacity ⁽¹⁾	Production Volume ⁽²⁾	Effective Utilization Rate ⁽³⁾	Effective Designed Capacity ⁽¹⁾	Production Volume ⁽²⁾	Effective Utilization Rate ⁽³⁾	Effective Designed Capacity ⁽¹⁾	Production Volume ⁽²⁾	Effective Utilization Rate ⁽³⁾
	(ton)	(ton)	%	(ton)	(ton)	%	(ton)	(ton)	%
FDY spinning production lines ⁽⁴⁾ . . .	85,000			160,000			160,000		
POY spinning production lines ⁽⁴⁾ . . .	178,000	172,292	65.6	290,000	325,287	72.3	290,000	321,925	71.5
DTY texturing machines ⁽⁴⁾	137,000	94,457	68.9	211,000	249,779	118.4 ⁽⁵⁾	260,000	237,780	91.5

Notes:

- (1) Effective designed capacity of our FDY spinning production line, our POY spinning production line and our DTY texturing machine is calculated by multiplying the daily production capacity by 350 days, assuming the FDY, POY and DTY produced have the most representative linear density of around 150D, adjusted on a pro rata basis to reflect the actual production period during the first production year of each of the production lines or texturing machines.

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- (2) Production volume represents the actual production volume during the year indicated.
- (3) Effective utilization rate for each of the year indicated is derived by dividing the actual production volume by the effective designed capacity.
- (4) The production volume for the FDY spinning production lines and POY spinning production lines is combined together because the FDY spinning production lines may be used and have been used to produce POY during the Track Record Period when the production of POY by POY production lines is insufficient.
- (5) Our effective utilization rate for DTY was higher than 100% during the year ended December 31, 2009 as we produced more DTY with higher linear density during this year than the 150D linear density used in the calculation of our effective designed capacity as designed in note 1 above.

Our spinning machines for FDY and POY were all imported from Germany and Japan. Of the nine FDY spinning production lines, four are composed of spinning machines imported from a well-known German supplier, Barmag, and five are composed of spinning machines imported from a well-known Japanese supplier, TMT. All of our 17 POY spinning production lines are composed of POY spinning machines imported from Barmag. Of our 180 DTY texturing machines, 53 were imported from Barmag, 98 imported from TMT, and 29 were supplied by Jiangsu Hongyuan, the largest domestic texturing machine producer.

The layout of our production facilities as well as the polymerizing production lines were designed by China Textile Industry Engineering Institute (“CTIEI”), a well-known domestic design institution in the fabric and textile industry in the PRC.

Expansion of Existing Production Site

We are currently constructing one additional FDY spinning production line and one additional POY production line. Upon their completion, our designed capacities of FDY and POY are expected to increase by approximately 12,000 tpa and approximately 13,000 tpa, respectively. We are also installing 25 DTY texturing machines, which are expected to increase our designed capacity of DTY by approximately 45,000 tpa upon completion. We expect these production facilities to be completed in June 2011 and to increase our total designed capacity of FDY and POY by approximately 25,000 tpa to approximately 475,000 tpa and of DTY by approximately 45,000 tpa to approximately 305,000 tpa.

The spinning machines for the additional FDY and POY production lines are expected to be imported from Barmag of Germany and 16 out of the 25 DTY texturing machines are expected to be purchased from Barmag of Germany while nine are expected to be purchased from TMT of Japan. We expect to spend a total of RMB300.0 million on capital expenditures for these production facilities, of which RMB13.5 million has been spent as of December 31, 2010. We estimate we will spend the remaining RMB286.5 million in the year ending December 31, 2011. We intend to finance these capital expenditure from the proceeds of the Global Offering and cash generated from our operating and other financing activities.

Construction of New Production Site

We plan to construct a new production site in Jinjiang City, Fujian Province, for which we plan to purchase and apply the land use right through a public tender for an expected 500,000 square meters of land. This land is located approximately two kilometers away from our existing production site in Fenglin Industrial Zone. We expect our new production site to commence production progressively starting from

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November 2011 and to be in full operation by the end of 2013. Upon its completion, our new production site is expected to expand our designed capacity of FDY and POY by approximately 310,000 tpa to reach approximately 785,000 tpa and our designed capacity of DTY by approximately 188,000 tpa to approximately 493,000 tpa.

We expect to spend a total of RMB3.3 billion on capital expenditures between 2011 and 2013 to acquire land use rights for our new production facilities, to complete the construction of new production facilities and to purchase and install new machineries at our new production site, all of which are expected to be funded by the proceeds of the Global Offering and cash generated from operating and financing activities.

The following table sets forth certain historical and forward-looking information relating to our existing production facilities and new production facilities upon their completion.

Production Facilities	Number of Facilities	Principle Products	Location	Expected Commencement Date	Designed Capacity ^{(1), (2)} (ton per annum)
Polymerizing					
production lines	2	Polyester melt	Current production site	In operation	460,000
	1	Polyester melt	New production site	By December 2012	110,000
	1	Polyester melt	New production site	By August 2013	220,000
Subtotal:					790,000 ⁽³⁾
FDY spinning					
production lines	9	FDY	Current production site	In operation	160,000
	1	FDY	Current production site	in June 2011	12,000
	6	FDY	New production site	By November 2012	105,000
	6	FDY	New production site	From August 2013 to October 2013	70,000
Subtotal:					347,000
POY spinning					
production lines	17	POY	Current production site	In operation	290,000
	1	POY	Current production site	in June 2011	13,000
	8	POY	New production site	From October 2013 to the end of 2013	135,000
Subtotal:					438,000 ⁽⁴⁾
DTY texturing					
machines	180	DTY	Current production site	In operation	260,000
	25	DTY	Current production site	From April to June 2011	45,000
	20	DTY	New production site	By December 2011	34,000
	90	DTY	New production site	By December 2012	154,000
Subtotal:					493,000

Note:

- (1) Designed capacity represents the annual designed capacity. The designed capacity of a polymerizing production line is calculated by multiplying the designed daily production capacity by 350 days. The designed capacity of a

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FDY spinning production line, a POY spinning production line and a DTY texturing machine is calculated by multiplying the daily production capacity by 365 days, assuming the FDY, POY and DTY produced are of the maximum linear density of the designed denier range.

- (2) The designed capacities for those production lines and texturing machines in operation represent the designed capacity as of December 31, 2010.
- (3) Polyester melt is an intermediate product, which is used to produce FDY and POY. Any polyester melt not consumed by our FDY and POY production capacities is used to produce PET chip.
- (4) POY is primarily used by us as raw material for the production of DTY. Any POY not consumed by our DTY production capacity is sold separately as end products.

With the continuous economic development in the PRC, the polyester filament yarn market in the PRC has experienced steady growth and is expected to continue its growth in the coming years. In particular, with the strong market demand in Fujian and Guangdong Provinces driven by the expected rapid growth in the apparel and footwear industries, which according to Frost & Sullivan, are expected to grow to 45.0% of China's entire production volume by 2015, the expected demand for high-quality and functional apparel and footwear in the coming few years and the general supply shortage of polyester filament yarns in Fujian Province and, in particular, Guangdong Province, we expect the demand for our polyester filament yarns to remain strong. In light of this, we anticipate that our new production capacity can be absorbed by the market.

Maintenance

We operate our production facilities on a continuous and uninterrupted basis and conduct regular maintenance and repair work on our production lines. We have implemented a repair and maintenance system for our equipment and production facilities to ensure production efficiency and safety. In addition, we suspend our production every two years for further maintenance and repair, which usually lasts for seven to ten days. We have backup spinning machines for our FDY and POY spinning production lines and we use them when we conduct maintenance. The temporary maintenance or repair work does not affect our overall production capacity. During the Track Record Period, we did not experience any substantial disruption to our operations.

RAW MATERIALS AND PROCUREMENT

Primary Raw Materials

Our primary raw materials for the production of polyester filament yarns are purified terephthalic acid, or PTA, and mono ethylene glycol, or MEG. On average, we use 0.86 tons of PTA and 0.34 tons of MEG to produce one ton of polyester filament yarns.

PTA is an organic compound developed from crude oil. It is widely used as a raw material in the production of polyester products and polyester bottle resin. We primarily purchase PTA from suppliers in Fujian Province and we also import a small portion of PTA from Taiwan. We from time to time solicit offer prices of PTA from approximately 20 PTA suppliers. We did not experience any shortage of supply during the Track Record Period. Currently, we primarily purchase PTA from three domestic suppliers. Our management team believes that there will be sufficient supply of PTA for the foreseeable future.

MEG is an organic compound developed from crude oil and is widely used as automotive antifreeze and as a raw material to polymers. At room temperature MEG is an odorless and colorless liquid. We primarily purchase MEG produced in Guangdong Province and we also import a small portion of MEG from Taiwan. We from time to time solicit offer prices of MEG from approximately ten suppliers of MEG. We did not experience any shortage of supply during the Track Record Period. Currently, we primarily purchase MEG from three domestic suppliers. Our management team believes that there will be sufficient supply of MEG for the foreseeable future.

Spin Finish Oil and Other Raw Materials

We also use a small amount of spin finish oil and other additives in our production processes. We use spin finish oil in our production as a lubricant in the spinning process of polyester filament yarns to prevent the filament from breaking. We mainly purchase spin finish oil from two German suppliers and two Japanese suppliers and we from time to time solicit offer prices from other potential suppliers. We use a number of additives in our production processes. We also purchase a small amount of catalysts from time to time for use in our production. We did not experience any shortage of supply of spin finish oil and the other raw materials during the Track Record Period. Our management team believes that there will be sufficient supply of spin finish oil and other raw materials for the foreseeable future.

Procurement and Suppliers

Our procurement department is responsible for acquiring raw materials, selecting suppliers as well as coordinating with our quality control department to ensure that the delivered raw materials meet our specifications.

Procurement Terms

We usually enter into purchase contracts for a fixed term of one year or less with our major suppliers of PTA and MEG. These contracts usually set forth the estimated monthly delivery amount and a price determination mechanism, which is usually by reference to the suppliers' price announced publicly and may be adjusted by current market prices. We also enter into purchase contracts for fixed amounts and fixed prices with domestic and overseas suppliers from time to time when we believe such purchases are in our interest.

Our suppliers usually deliver their products directly to our production site or Shenhui Port. In the case of MEG, our suppliers generally deliver MEG to our MEG tanks at Shenhui Port. We typically pay our domestic suppliers by cash, bank bills and letters of credit and we usually pay our overseas suppliers by letters of credit.

Our letters of credit for the purchase of imported raw materials usually have a term of 90 days. Upon the expiry of the letters of credit, depending on the then prevailing exchange and interest rates, we may either pay back the letter of credit by cash or enter into a non-deliverable forward arrangement, or NDF arrangement, with our local banks. The NDF arrangement includes a deposit-secured foreign currency loan and a forward foreign exchange contract. Pursuant to the deposit-secured foreign currency loan, we will deposit a specified amount of Renminbi as collateral and borrow the equivalent amount of foreign currency (using the then-effective exchange rate) to pay back all or part of the letter of credit. Pursuant to the forward foreign exchange contract, at the expiry of the foreign currency loan, which usually has a term of one year, we will purchase such amount of foreign currency using a pre-agreed

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exchange rate. We entered into these arrangements for the purpose of securing a fixed additional income in connection with our secured foreign currency loans as the net difference in the then-effective foreign exchange rate at the time of signing of such arrangement and the pre-agreed foreign exchange rate on the loan amount will be paid to us upon the expiry of the foreign currency loan.

We usually maintain an inventory of raw materials based on our production schedule and keep sufficient supply of PTA and MEG for two to four weeks of polyester filament yarn production. From time to time we may increase our purchase volume of raw materials when we believe that the cost of raw materials and our estimates of production and sales make it prudent to do so.

Suppliers

Most of our suppliers have supplied us with their products for more than three years. When selecting suppliers, our procurement department primarily focuses on the quality of the raw materials and considers the stability of supply, timeliness of delivery and location of the suppliers. Our procurement department then compares the prices offered by a few preferred suppliers and negotiates with such suppliers to determine from which supplier we shall purchase raw materials.

Although we from time to time solicit offer prices from a number of suppliers of PTA and MEG, we currently primarily purchase PTA from three suppliers and MEG from three suppliers. We purchase raw materials from only a limited number of suppliers because these suppliers provide us with continuous and timely supply of raw materials at higher volume discounts. We review the performance of our suppliers through a supplier management mechanism, which includes reviews by our procurement department, quality control department and finance department on a supplier's performance. If a supplier fails to achieve our desired performance standard, we will stop purchasing from such supplier.

We did not engage in any hedging activities or enter into any futures contracts to stabilize the prices of our raw materials during the Track Record Period.

All of our five largest suppliers are Independent Third Parties. For the years ended December 31, 2008, 2009 and 2010, purchases from our five largest suppliers accounted for 82.6%, 85.6% and 75.6%, respectively, of our total purchases and purchases from our largest supplier accounted for approximately 41.1%, 53.8% and 44.4%, respectively, of our total purchases. None of our Directors, chief executives, management, associates or Shareholders holding more than 5% of our issued share capital had any interest in any of our five largest suppliers during the Track Record Period.

UTILITIES

Our primary utilities used for the production of polyester filament yarns are water and electricity. We also use a small amount of coal and heat transfer oil in our production.

Electricity

We require a significant amount of electricity in our production processes. On average, we use approximately 1,200 Kwh of electricity to produce one ton of polyester filament yarn. We consumed 252.4 Gwh, 402.8 Gwh and 458.1 Gwh of electricity for the years ended December 31, 2008, 2009 and 2010, respectively.

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Electricity used in our production is high-voltage industrial electricity supplied by a 110kV power station through a power line directly connected to our production site. We also have a back-up power line from another power station which can supply electricity for our production if the main electricity line is cut off. During the Track Record Period, we experienced a few minor power stoppages, each lasting only a few seconds, and did not experience any material stoppages of, or restrictions on, electricity supply. Please refer to “Risk Factors — Our operations are subject to uncertainties and we may not have sufficient insurance coverage for all the risks related to our operations” and “Risk Factors — We rely on external supplies of electricity and water for our product in processes.”

Water

On average, we consume approximately 4.6 kilograms of water to produce one ton of polyester filament yarn. We consumed approximately 1,105,000 tons, 1,407,000 tons and 1,505,000 tons of water for the years ended December 31, 2008, 2009 and 2010, respectively. We rely on the local municipal water supply system for the water used in our production. Our production site is located near the Jinjiang City Longhu Water Plant.

To conserve water for our production, we constructed a conservation system at our production site. The conservation system has a storage capacity of 6,000 tons of water, which can supply water for three days of production. During the Track Record Period, we did not experience any material shortages of water supply.

INVENTORY MANAGEMENT

We monitor and control the inventory levels of our raw materials and finished products to optimize our operations, sales and delivery of our polyester filament yarns. Our inventory primarily consists of PTA, MEG, finished polyester filament yarns and PET chips. Our storage facilities are located at our production site with a total floor area of approximately 69,500 square meters. Our PTA storage facilities can store up to approximately 40,000 tons of PTA and our finished products storage facilities can store up to approximately 40,000 tons of finished products. We have also entered into an agreement with Jinjiang Pacific Ports Development Co., Ltd.* (晉江太平洋港發展有限公司), pursuant to which we are entitled to use two MEG tanks for a 20 year period at Shenhui Port. Together with two other MEG tanks at our production site, we have a total storage capacity of approximately 13,000 tons of MEG.

We typically maintain inventories of PTA and MEG at levels sufficient for two to four weeks of polyester filament yarn production. Other raw materials, such as spin finish oil, are purchased whenever their inventory level is lower than the prescribed level pursuant to our production schedule. The inventory level of our finished products is managed based on our sales and delivery schedules. To ensure that there is sufficient inventory at all times in our storage facilities to meet purchase orders, we conduct monthly reviews of our physical inventories.

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SALES AND MARKETING

As of the December 31, 2010, our sales and marketing department consisted of two senior management members and 34 sales personnel. In an effort to expand our operations, we intend to further increase the size of our sales force.

Sales

During the Track Record Period, all of our sales activities were conducted by our sales and marketing department directly with our customers.

Sales to our domestic customers have accounted for a substantial portion of our revenue during the Track Record Period. Our direct customers are primarily fabric and textile manufacturers located in Fujian Province and Guangdong Province. We also sell a small portion of our products to domestic trading companies who then sell our products to fabric and textile manufacturers. Our sales personnel directly contact our customers and communicate with them regularly to collect information on their preferences, special requirements and general demands with respect to our polyester filament yarns. Our sales personnel also contact our indirect customers from time to time to collect such information. Based on this information, we were able to develop the differentiated polyester filament yarns our customers required in a timely manner, which generally have higher profit margins. In furtherance of our commitment to providing timely and quality service to our customers, we implemented a policy to ensure our sales and marketing team visit our customers' sites at their requests within 24 hours if they are located in Fujian Province and within 48 hours if they are located outside Fujian Province but within China. Our sales personnel also frequently communicate with our customers to strengthen our relationship with our customers and to better understand their preferences to our products.

In addition to sales to domestic customers, we also export a portion of our products. Export sales increased from 6.8% of our revenue in the year ended December 31, 2008 to 9.7% in the year ended December 31, 2010, which primarily included sales of DTY. We directly export our polyester filament yarns to overseas customers without using domestic trading companies. Our overseas customers are primarily fabric and textile manufacturers located in Europe, Southeast Asia, North America and South America, including our long-term customer Bekaert, a multi-national home textile company based in Europe. From time to time, we sell a portion of our polyester filament yarns to large trading companies located in such markets to facilitate our expansion into new markets.

The geographical breakdown of our revenue during the Track Record Period is as follows:

	Year ended December 31,					
	2008		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%
Domestic sales						
Fujian Province	1,738,878	82.3	2,301,057	77.7	3,276,500	76.0
Guangdong Province	205,353	9.7	321,722	10.9	569,691	13.2
Other Provinces	25,326	1.2	27,012	0.8	46,975	1.1
Export sales	144,057	6.8	313,307	10.6	416,565	9.7
Total.	<u>2,113,614</u>	<u>100.0</u>	<u>2,963,098</u>	<u>100.0</u>	<u>4,309,731</u>	<u>100.0</u>

Marketing

Our sales and marketing department is responsible for conducting marketing activities and building relationships with potential customers. We use various marketing channels to promote our brand recognition and reputation, including attending various industrial exhibitions in China, advertising on outdoor billboards, dispatching marketing brochures and advertising through website. Through these activities, we expect to enhance our brand recognition in the fabric and textile industry and expand our sales to cover new customers. We expect to further expand the scope of our marketing activities, including attending well-known overseas industrial exhibitions and establishing strategic cooperation with end users of our products. We also intend to provide more training programs to our sales and marketing personnel to improve their product knowledge and sales skills. In addition, we plan to increase our marketing activities in domestic and overseas markets where we believe there is demand for our products, such as Guangdong Province in China, Vietnam, South America and other foreign countries, to further increase our domestic market share and to expand our international exposure.

PRICING AND TERMS OF SALES

Pricing

We set the sales prices of our polyester filament yarns based on a variety of factors, including raw material prices, production costs, market conditions and the potential movement of market conditions, our inventory condition and the quality of the product required by a customer. PTA and MEG, our primary raw materials, are derived from crude oil and their prices are indirectly related to the movement of international and domestic crude oil prices. As such, we adjust our sales prices from time to time to pass on the expected increase in our raw material costs to our customers. However, we may not be able to, and there is no guarantee that we will be able to, pass on all the increased costs of PTA and MEG to our customers on a timely manner, or at all. Any increase in raw material prices that we are unable to pass through to our customers will increase our production costs and adversely affect our profit margin. For a detailed description of the impact of the fluctuations in the price of our raw materials, please see “Risk Factors — Risks relating to Our Business — Our business and profitability may be affected by fluctuations in the 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 believe that, with the increasing market demand for differentiated polyester filament yarns, the price of differentiated polyester filament yarns will remain higher than the price of regular polyester filament yarns of the same specification. Depending on the complexity of the manufacturing process, including any adjustments to our manufacturing process or special technology that we must use, the prices of our differentiated polyester filament yarns may vary.

We generally offer uniform sales prices to most of our customers and give small discounts to long-term customers with large purchase orders. Members from our management, sales and marketing department and procurement department meet on a frequent basis to review the sales prices of our polyester filament yarns in order to respond to the changes of the various factors affecting our sales prices, in particular, the change of international and domestic crude oil price.

Our products are not subject to any pricing controls under the PRC laws and regulations.

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Terms of Sales

We enter into individual purchase orders with our customers for sales of our products. The terms included in these purchase orders usually include a specification of the product, unit price, volume, delivery terms and payment terms.

For domestic sales, we typically deliver our polyester filament yarns within 7 to 30 days after we enter into purchase orders. Our customers typically pay the full contract price before we deliver our polyester filament yarns. Our sales orders with our customers provide for mutually agreed sales price and do not provide for price adjustment mechanisms. For our export sales, we typically despatch products within 30 days after we enter into sales contracts and we typically receive payment upon shipment of our polyester filament yarns through letters of credit issued by our customers. When the demand for our polyester filament yarns outpaces our capacity, we typically enter into contracts with priority allocations to our major customers.

Transportation

Our domestic customers typically require us to deliver our polyester filament yarns to their designated locations. We primarily arrange and pay third-party transportation companies for the delivery of our products. Some of our long-term customers or customers located close to us arrange their own vehicles to transport our polyester filament yarns to their locations. We usually arrange the transportation to the designated delivery points for products sold to our overseas customers.

CUSTOMERS

Our main customers are fabric and textile manufacturers who use our polyester filament yarns to produce and supply knitted fabrics and textiles to manufactures of apparel and other consumer products. Our domestic customers are primarily based in Fujian and Guangdong Provinces. Our overseas customers are primarily located in Europe, Southeast Asia, North America and South America.

In 2010, with the increasing recognition of our brand name and as we established closer relationships with our customers, we entered into annual strategic framework agreements with 186 of our large customers. These framework agreements, which are legally binding, provide for the minimum purchase volume commitments by our customers, the collaborative research and development of differentiated polyester filament yarns and the sharing of various market information. Our revenue generated from customers with whom we entered into such framework agreements accounted for 57.6% of our total revenue for the year ended December 31, 2010. All of these customers renewed their framework agreements with us in 2011, and substantially all of these agreements provide for equal or higher minimum purchase volume commitments. If any of our customers fails to purchase the minimum volume while our products meet the price and quality requirements, we have the right to take legal actions and seek for any related damages.

Our sales have historically been concentrated in Fujian Province, which accounted for 82.3%, 77.7% and 76.0% of our revenue for the years ended December 31, 2008, 2009 and 2010, respectively. With our sales and marketing efforts, we have increased the proportion of our sales to customers in Guangdong Province since 2008. Our sales to Guangdong Province accounted for 9.7%, 10.9% and 13.2% of our revenue for the years ended December 31, 2008, 2009 and 2010, respectively. We also increased the proportion of our export sales from 6.8% of our revenue for the year ended December 31, 2008 to 9.7% of our revenue for the year ended December 31, 2010.

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We have a diversified customer base. For the three years ended December 31, 2008, 2009 and 2010, we had approximately 1,600, 2,100 and 2,100 customers, respectively, a majority of which have been our customers for more than three years as of December 31, 2010. Revenue from our five largest customers, other than Baikai Group, accounted for 8.1%, 7.6% and 10.5% of our total revenue for the years ended December 31, 2008, 2009 and 2010, respectively. Our largest customer, Baikai Group accounted for 8.4%, 7.7% and 7.4% of our total revenue for the years ended December 31, 2008, 2009 and 2010, respectively. Baikai Group comprises five of our connected parties and is considered as one customer in calculating our five largest customers. Other than Baikai Group, four of our five largest customers are Independent Third Parties and none of our Directors, chief executives, management, associates or Shareholders holding more than 5% of our issued share capital had any interest in any of these four largest customers during the Track Record Period.

COMPETITION

The polyester filament yarn industry in the PRC is highly fragmented. According to CMAI, there were over 300 polyester filament yarn manufacturers in China and the total designed capacity in China was approximately 19.8 million tpa in 2010. The production of polyester filament yarn is centralized in east and south China, where Jiangsu, Zhejiang, Fujian and Guangdong Provinces are the major regions of supply. According to CMAI, high local consumption rates combined with logistic conveniences for both domestic and imported raw materials provides these regions with cost advantages. In addition to the domestic polyester filament yarn manufacturers, we also compete with international manufacturers based on product quality, product differentiation, brand recognition, production capacity, research and development capabilities, production technology and proximity to customers.

We believe the barrier for entry into the polyester filament yarn industry is very high. In particular, the construction of polyester filament yarn production facilities requires substantial investments to achieve production capacities that provide a reasonable economic return. The production of high-quality and differentiated polyester filament yarns requires technical knowledge and significant investment in research and development. In addition, new market entrants face obstacles in obtaining customer acceptance without a track record.

Our sales were primarily focused in south China during the Track Record Period and, according to CMAI, we were the largest manufacturer in terms of both designed capacity of DTY and designed capacity of FDY and POY in south China in 2010. According to CMAI, there are five large polyester filament yarn manufacturers including us, Jinxing (Fujian) Fiber Textile Industrial Co., Ltd.* (錦興(福建)化纖紡織實業有限公司), Xianglu Polyester Fiber (Xiamen) Co., Ltd.* (翔鷺滌綸紡織(廈門)有限公司), Fujian Jinlun Fiber Shareholding Co., Ltd.* (福建省金綸高纖股份有限公司) and Guangdong Kaiping Chunhui Co., Ltd.* (廣東開平春暉股份有限公司). According to CMAI, we and these four manufacturers collectively have a total designed capacity of approximately 1.2 million tpa of polyester filament yarns, accounting for approximately 92.0% of the total designed capacity in south China, and provided a substantial portion of polyester filament yarns used in the production of garments in south China. According to CMAI, our market share based on designed capacity of FDY and POY in south China is approximately 36%. While our key focus is south China, most of the polyester filament yarn manufacturers in China, including the top five players, are located in east China, where we believe the competition is more intense. According to CMAI, the top five players in China collectively have a designed capacity of approximately 4.0 million tpa of polyester filament yarns, which represents approximately 20.3% of China's total designed capacity of polyester filament yarns, with each of the top five players accounting for no more than approximately 6.0% of China's total designed capacity.

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We believe that we are well-positioned to compete effectively in the PRC and international markets and that our strengths will distinguish us from our competitors. See “—Our Competitive Strengths” for a discussion of our competitive strengths.

MAJOR AWARDS AND RECOGNITIONS

During the Track Record Period, we were granted the following major awards, recognitions and certifications:

<u>Award, Recognitions and Certifications</u>	<u>Awarding or Granting Organization</u>	<u>Date of Issue</u>
Top One Hundred Tax Paying Enterprises in Fujing Province for 2010* (福建省2010年度納稅百強企業)	Fujian Province State Tax Bureau and Fujian Province Local Tax Bureau	March 2011
National Development Site for Functional Differentiated Polyester Filament Yarns* 國家功能性差別化聚酯纖維開發基地	China National Textile and Apparel Council China Chemical Fiber Industry Association China Textile Product Development Center	December 2010
Fujian Province Intellectual Property Experiment Enterprise for 2010* 2010 福建知識產權試點企業	Fujian Province Intellectual Property Rights Bureau	December 2010
A Level Credible Tax Payer for 2004 to 2009* 納稅信用A級納稅人	Fujian Province State Tax Bureau Fujian Province Local Tax Bureau	December 2010, October 2008 and December 2006
Fujian Province Innovative Pioneer Enterprise* 福建省創新試點企業	Fujian Province Science and Technology Bureau	July 2010
AA Type Custom Administration Enterprise* 海關AA類管理企業	Xiamen Custom	February 2010
Fujian High and New Technology Enterprise* 福建高新技術企業	Fujian Province Science and Technology Bureau, Fujian Province Bureau of Finance, Fujian Province State Tax Bureau, Fujian Province Local Tax Bureau	October 2009

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<u>Award, Recognitions and Certifications</u>	<u>Awarding or Granting Organization</u>	<u>Date of Issue</u>
Top One Hundred Enterprises in Fujian Province* 福建企業100強	Fujian Enterprise Evaluation Association	September 2009
618 Cross-Straight Employee Innovation Achievement* 618 海峽兩岸職工創新成果獎銀獎	Cross-Straight Employee Innovation Achievement Committee	June 2009
2008 Advanced Enterprise in Equipment Innovation* 2008年度設備革新先進企業	Jinjiang City Government	April 2009
Top One Hundred Key Industrial Enterprises in Fujian Province* 福建省百家重點工業企業	Fujian Province Economy and Trade Committee	March 2009
2007-2008 Trustworthy Enterprise* 2007-2008 重合同守信用企業	Jinjiang City Administration of Industry and Commerce	January 2009
Provincial Enterprise Technology Center of Fujian Province* 福建省省級企業技術中心	Fujian Province Economy and Trade Committee	December 2008
2007-2008 Trustworthy Enterprise* 2007-2008 重合同守信用單位	Quanzhou City Government	December 2008

QUALITY ASSURANCE AND QUALITY CONTROL

We have adopted a comprehensive set of stringent quality control procedures at all stages of our production process to ensure product quality. Our quality control system ensures that our polyester filament yarns comply with the various standards set by us as well as industrial standards. Our quality control systems have been evaluated and certified by China United Certification Center and we have received ISO9001:2008 certification for our quality management system for the design, production and service of polyester filament yarns.

Our polyester filament yarns comply with the requirements set out in the national product standards. Our DTY products comply with the national standard GB/T14460-2008, our FDY products comply with the national standard GB/T8060-2008, our POY products comply with the industrial standard FZ/T54003-2004 and our PET chip products comply with the national standard GB/T14189-2008.

In addition, we were granted with the authorization to use Oeko-Tex mark on our FDY, DTY and POY products, which certifies that our polyester filament yarns passed the test for harmful substances based on the results of inspection made according to Oeko-Tex Standard 100, product class I for baby articles.

Raw Materials and Product Quality Control

We conduct chemical and physical testing on the raw materials we receive from our suppliers to ensure that they meet our quality requirements for use in our production. Our quality control team tests

PTA and MEG samples at our testing laboratories to determine their chemical composition and purity. During the Track Record Period, we did not experience any material quality defects for PTA and MEG purchased from our suppliers.

Our quality control procedures require inspections by our quality control team at various stages of our different production processes and on our finished products to ensure that our finished products conform to the relevant requirements. In particular, our quality control team inspects the appearance and color of our polyester filament yarns and conducts tests on the chemical compositions and physical properties of our polyester filament yarns at various stages throughout the production process.

Quality Control Personnel and Facilities

As of December 31, 2010, we had a team of 685 quality control personnel, including six chemical laboratory technicians, 14 physics laboratory technicians, 22 quality inspectors of accessory materials, 221 color matching inspectors and 422 appearance inspectors. In addition, we conduct regular training sessions and administer regular assessments for our quality control team in order for them to stay current in their testing knowledge and skills.

We purchase various advanced testing machines, such as heated stretch devices, Uster stretch testers, Uster evenness testers, spin finish analyzers and various other testing devices, many of which were imported from Switzerland, United States, Germany and Japan. These testing devices allow our quality control team to test the chemical compositions and physical properties of our polyester filament yarns, and to detect any defects in our polyester filament yarns. We configure and maintain our testing equipment and instruments regularly to ensure the accuracy of our quality testing.

RESEARCH AND DEVELOPMENT

We believe that our research and development efforts are crucial to our competitiveness and market share. We focus our research and development efforts on the development of new differentiated polyester filament yarns and on production process improvements. With the expansion of our offerings of differentiated polyester products, the reinforcement of our production process, and the acquisition of high-technology manufacturing and testing devices, we believe we may further increase our market share by providing high-quality and high technology products to our customers.

As of March 31, 2011, we had approximately 500 research and development personnel, including approximately 220 core research and development engineers and technicians. Of our core research and development engineers and technicians, approximately 100 have college degrees and above. Supported by our research and development department, we had independently developed 19 types of differentiated polyester filament yarns. As of the Latest Practicable Date, we offered for general sales the 11 types of the PRC patented differentiated polyester filament yarns to our customers. The remaining six types of the PRC patented differentiated polyester filament yarns and the two types of differentiated polyester filament yarns which we have applied for the PRC patents have not been marketed and are reserved for future sales. For the year ended December 31, 2010, our revenue from patented differentiated polyester filament yarns and those under the patent application process RMB2,817.5 million which accounted for 65.4% of our total revenue.

We are currently in the process of commercializing six types of differentiated polyester filament yarns and are in the process of developing five types of differentiated polyester filament yarns. In addition, we expect to commence the development of five new types of differentiated polyester filament yarns in each of 2012 and 2013. We also engaged in the research and development to save energy in our production process and to improve the function and production capacity of our machineries. We successfully developed a steam recycling system with CTIEI and we invented a spinneret and a cooling and humidifying device.

We have a close relationship with Donghua University (東華大學) in Shanghai, the top university in the textile industry in China previously known as China Textile University (中國紡織大學). We started our cooperation with Donghua University in 2007 primarily focusing on the research of polymerizing and production technologies. In May 2008, we were licensed with five years of exclusive rights to use, manufacture and sell five types of differentiated polyester filament yarns from Donghua University, all of which were developed by Donghua University. These products have been commercialized under our joint research effort with Donghua University. In 2010, we entered into a cooperation agreement with Donghua University for the collaborative research and development of new types of differentiated polyester filament yarns. Pursuant to the cooperation agreement, we are entitled to the intellectual property rights of the new patents and technological know-how developed through our cooperation. In exchange, we are responsible for the research costs and we pay an annual fixed fee to Donghua University. Through our cooperation with Donghua University, we expect to complete the research and development for two new types of differentiated polyester filament yarns each year, which we are entitled to patent rights. In addition, pursuant to the cooperation agreements, we have established a polyester filament yarn technology center devoted to the joint research projects with Donghua University. We do not have any profit sharing arrangement with Donghua University.

We have received various awards and recognitions for our research and development achievements, including the recognition by China National Textile and Apparel Council, China Chemical Fiber Industry Association and China Textile Product Development Center as a National Development Site for Differentiated Polyester Filament Yarns (國家功能性差別化聚酯纖維開發基地). We were also recognized as a High and New Technology Enterprise* (高新技術企業), a Fujian Province Innovative Pioneer Enterprise* (福建省創新試點企業), a Provincial Enterprise Technology Center of Fujian Province* (福建省省級企業技術中心) and an Advanced Enterprise for Equipment Innovation* (設備革新先進企業). We also won the silver award of 618 Cross-Straight Employee Innovation Achievement* (618海峽兩岸職工創新成果獎銀獎) for our development of a type of differentiated polyester filament yarn known as “three dimensional hollow synthetic yarn”. See “—Major Awards and Recognitions” for details of the awards and recognitions.

To increase the competitiveness of our differentiated polyester filament yarns and to further improve the quality of our products, we are currently upgrading our testing and research laboratory and we have applied for the certification of our laboratory as a National Standard Laboratory by CNAS. A National Standard Laboratory is recognized as more reliable and meeting the highest laboratory standards in China for testing and calibration. It is authorized to issue testing results to third parties and the qualified products may have the laboratory’s certification printed on its package. The requirements for the certification as a National Standard Laboratory include the fulfillment of certain management criteria and certain technical requirements. The management criteria include, among other things, a team of management and technical personnel, which shall consist of qualified management and testing experts, and an effective laboratory management system, which shall include procedures that maintain and control the management documents and laboratory records and mechanisms based on quality principles and

targets that can continuously improve the management system. The technical requirements include, among other things, a team of qualified testing personnel, equipment and environment conditions that comply with laboratory requirements, accurate testing and measuring methodologies, and an effective implementation system that maintains equipment and measuring standards.

For the years ended December 31, 2008, 2009 and 2010, our research and development expenses were RMB2.0 million, RMB46.1 million and RMB51.8 million, respectively.

INTELLECTUAL PROPERTY

Patent, Patent Applications and Licensed Patents

In order to protect our intellectual property rights, we have obtained 19 registered patents in China for 17 new types of differentiated polyester filament yarns and new device we developed, and for a two device, the patent of which was acquired from a third party in January 2008. We have also applied for two patents in China for new types of differentiated polyester filament yarns we developed and two patents for two devices we developed. Regarding the two types of differentiated polyester filament yarns and the two devices that we have applied for patents, our Directors confirmed that they were not aware of any potential factor which could impede our patent applications as of the Latest Practicable Date.

Donghua University has licensed us the exclusive rights to use six registered patents, including five types of differentiated polyester filament yarns and a new device, for a term of five years until November 2013.

The table below sets forth certain information on our 19 registered patents in China for the 17 types of differentiated polyester filament yarns and a new device we developed, and for a device, the patent of which was acquired from a third party.

Patent Name	Classification	Effective Period		Description
Baiku yarn* (百酷絲)	Utility Model	April 14, 2009	April 13, 2019	Absorbent and dry keeping DTY
Bainuan yarn* (百暖絲)	Utility Model	April 14, 2009	April 13, 2019	Warm keeping DTY which can be used to produce underwear and bed linens
Baiwei ultra-soft fiber* (一種百微超柔絲纖維)	Utility Model	April 14, 2009	April 13, 2019	High elasticity DTY which is soft in texture with soft luster
A profile fiber* (一種異型纖維)	Utility Model	April 14, 2009	April 13, 2019	Dry keeping and multi-colored DTY
A golden yarn* (一種金絲線)	Utility Model	April 14, 2009	April 13, 2019	High in strength FDY which is environmentally friendly in its production
A florescent extra-white fiber* (一種熒光增白纖維)	Utility Model	April 20, 2009	April 19, 2019	Environmentally friendly and high color fastness DTY
A black flame resistant fiber* (一種黑色阻燃纖維)	Utility Model	April 20, 2009	April 19, 2019	Flame resistant DTY in bright black color
Ultraviolet resistant low elasticity yarn* (抗紫外線滌綸低彈絲)	Utility Model	April 20, 2009	April 19, 2019	Ultraviolet resistant DTY

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Patent Name	Classification	Effective Period		Description
Three-dimensional ultra-bright yarn* (三維超亮光絲)	Utility Model	April 22, 2009	April 21, 2019	Ultra-bright FDY with light reflecting feature
Full bright dyed yarn* (大有光有色光絲) . . .	Utility Model	April 22, 2009	April 21, 2019	Environmentally friendly FDY with light reflecting feature
Black crystal bamboo charcoal fiber yarn* (黑晶竹炭纖維絲)	Utility Model	April 22, 2009	April 21, 2019	Mold resistant DTY with bacteria resistant, warm keeping feature
A new type of nozzle with no shuttle* (一種新型無梭機織頭)	Utility Model	December 28, 2006	December 27, 2016	A type of nozzle used in the spinning process of FDY which exempts the use of shuttle
Anti-distortion and -pilling low shrinkage FDY fiber* (抗變形的低縮率抗起球功能FDY纖維絲)	Utility Model	April 29, 2010	April 28, 2020	High in strength FDY with warm-keeping and low shrinkage feature
Fine denier hollow and ultra-bright reflex FDY profile fiber* (特粗旦超亮反光異形FDY纖維)	Utility Model	April 29, 2010	April 28, 2020	Ultra-bright reflex FDY with warm- keeping feature
Anti-bacterial flame resistant and moisture absorbing synthetic fiber* (抗菌阻燃排汗合成纖維)	Utility Model	April 29, 2010	April 28, 2020	Anti-bacterial DTY with flame resistant and moisture absorbing feature
High polymer material profile fiber* (高分子材料異形纖維)	Utility Model	April 29, 2010	April 28, 2020	W-Type DTY with soft and warm-keeping feature
Whiting anti-bacterial moisture absorbing synthetic fiber * (增白抗菌排汗合成纖維)	Utility Model	April 29, 2010	April 28, 2020	Anti-bacterial DTY with moisture absorbing feature
Imitation sherpa fleece thermal synthetic chelating fiber* (仿羊羔絨保暖合成功能纖維絲)	Utility Model	April 29, 2010	April 28, 2020	Highly tenacious DTY with soft and warm-keeping feature
A shaped plate* (一種成形板)	Utility Model	July 28, 2010	July 27, 2020	Advice with anti-fluff and anti-soap feature

The table below sets forth certain information on two types of differentiated polyester filament yarns and two new devices we developed, which are under the patent application process in China.

Patent Name	Classification	Date of Application	Description
An esterification waste heat recovery device* (酯化蒸氣餘熱回收方法裝置)	Invention	January 19, 2009	Environmentally friendly device which esterifies waste heat for refrigeration
A yarn type of carpet silk* (一種滌綸地毯絲)	Utility Model	April 20, 2009	Heavy-denier (600 ~ 1200D) DTY with anti-distortion feature)

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Patent Name	Classification	Date of Application	Description
A new type of high polymer material profile fiber* (新型高分子材料異形纖維)	Utility Model	April 29, 2010	Dual-net DTY with wide applications
A melt direct spinning cooling humidification device* (一種熔體直紡冷卻加濕裝置)	Utility Model	July 28, 2010	Device installed on the air conditioning system with cooling and humidifying features

The table below sets forth certain information on the five patents of differentiated polyester products (including one related device) and the device patent, for which five years of exclusive rights were granted to us by Donghua University.

Patent Name	Classification	Start of Exclusive Rights	End of Exclusive Rights	Description
Down-like material* (仿羽絨材料)	Utility Model	May 10, 2008	November 9, 2013	Environmentally friendly and high functionality
A “U” shape fiber* (一種“U”型纖維)	Utility Model	May 10, 2008	November 9, 2013	Moisture absorbing, air and moisture permissible and anti-pilling FDY
An air and moisture permissible PTT fiber and related spinneret* (一種透氣導濕PTT纖維及其所用的噴絲板)	Utility Model	May 10, 2008	November 9, 2013	Environmentally friendly with high functionality and comfort, air and moisture permissible and moisture absorbing
A thin denier hollow anti-bacteria PTT fiber* (一種細旦中空抗菌PTT纖維)	Utility Model	May 10, 2008	November 9, 2013	Environmentally friendly and high functionality, bacterial resistant and warm-keeping
A three dimensional curly hollow synthetic fiber* (一種三維捲曲中空合成纖維)	Utility Model	May 10, 2008	November 9, 2013	Environmentally friendly with health function, warm-keeping
A new type of profile fiber spinneret* (一種新型異性纖維噴絲板)	Utility Model	May 10, 2008	November 9, 2013	A spinneret that can produce “U” shape FDY with soft and water absorbing feature

Trademarks and Other Intellectual Properties

As of the Latest Practicable Date, we have registered in China nine trademarks, including our brands “百宏” and “Billion”, for our polyester filament yarns and we have registered Hong Kong trademarks for polyester filament yarns. We also used to jointly own ten “Billion” trademarks with certain entities of Baikai Group. On May 1, 2011, we entered into a trademark transfer agreement with all these entities, pursuant to which such entities will transfer the ten trademarks to us at nil consideration. We will apply for a change of registered owner at the competent trademark authorities in the PRC and have engaged trademark agents to handle the registration of the trademark transfer. As advised by our PRC legal advisers, Tian Yuan Law Firm, registration will generally be completed within 12 months upon filing with the competent trademark authorities in the PRC in accordance with the relevant regulations and legal procedures.

We have also entered into employment contracts, confidentiality agreements, non-compete agreements and cooperation agreements, with our research and development personnel and parties we cooperate with in research and development activities to protect our intellectual property rights.

In addition to patented intellectual property rights and trademarks, we rely on trade secrets, proprietary technologies, know-how and processes and other intellectual property rights in our operations. For risks associated with our intellectual property rights, see “Risk Factors — Risks Relating to Our Business — Our intellectual property rights may be infringed by our competitors” and “Risk Factors — Risks Relating to Our Business — We may be affected by claims by third parties alleging possible infringement of their intellectual property rights.”

WORK SAFETY

We are subject to certain PRC laws on occupational health and safety, including *the Work Safety Law of the PRC*. Our managers in the production departments oversee our compliance with relevant laws, conduct regular safety performance reviews, identify safety risks, implement accident prevention measures and ensure our compliance with safety performance requirements.

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 machinery. Our employees who are involved in production and quality control are required to attend internal training courses and take examinations on workplace safety. As confirmed by our Directors and our PRC legal advisers, Tian Yuan Law Firm, no serious or material work-related injuries or fatalities occurred at our production facilities during the Track Record Period. There were three work-related injuries during the Track Record Period and through the Latest Practicable Date which we have settled with the three respective employees involved in these accidents. See “Risk Factors — Risk Relating to Our Business — We may encounter work-related accidents in our operations”.

According to our PRC legal advisers, Tian Yuan Law Firm, we complied with all applicable health and safety laws and regulations during the Track Record Period and were not subject to any material occupational health and safety claims, lawsuits, penalties or disciplinary actions as of the Latest Practicable Date.

ENVIRONMENTAL MATTERS

Our operations are subject to various PRC laws and regulations concerning environmental protection. We believe that compliance with environmental standards is important to our operations. Our operations are 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 Environmental Noise Pollution*; (iv) *the Prevention and Control of Atmospheric Pollution Law*; (v) *the Law of the PRC on Promoting Clean Production*; (vi) *the Prevention and Control of Solid Waste Pollution*; and (vii) *the Law of the PRC on Appraising the Environmental Impact*. See “Regulations”. Under the PRC law, we may commence a construction project only after we register or file an environmental impact assessment for such project and obtain approval from the relevant environmental authorities.

We have implemented environmental standards for our production processes and have set out detailed environmental procedures. Our environmental management systems have been evaluated and certified by China United Certification Center and we have obtained ISO14001:2004 Environment Management System Certificate for our environmental management standards in respect of our design, production and correlative management activities of polyester filament yarns.

With regard to our operations, we are committed to strict and full compliance with the relevant PRC environmental protection requirements. We recognize that the environment may be negatively affected as a result of our operations and we strive to reduce the adverse impact on the environment by using technologies to conserve and efficiently use resources in our production process. We have installed environmental protection devices and equipment that reduce noise pollution, treat and recycle waste water and reduce gas pollution. Such devices and equipment increase the efficiency of our operations, reduce the consumption of water, contribute to the reduction of greenhouse effect and reduce the amount of dust produced during loading and storage. In addition, the low levels of waste water, gas pollution, noise pollution and solid waste we generate during our production process, after internal processing, are all within the permitted levels. We have also set up an environment monitoring system for the emission of waste water, polluted air, noise and other wastes to ensure full compliance with state and local regulations.

For the years ended December 31, 2008, 2009 and 2010, our expenditure in respect of compliance with applicable environmental protection requirements amounted to approximately RMB89,000, RMB139,000 and RMB112,000, respectively. It is expected that we will incur approximately RMB550,000 on compliance with applicable environmental protection requirements for the year ending December 31, 2011.

REAL PROPERTIES

We own the land use rights for our production site in the Fenglin Industrial Zone located in Longhu County, Jinjiang City, Fujian Province, which occupies an area of 275,398 square meters. We constructed and own all the buildings on it, which include 63 buildings with a gross total floor area of 384,289 square meters. As confirmed by our PRC legal advisers, Tian Yuan Law Firm, as of the Latest Practicable Date, other than two safety guard stations with a total floor area of 328 square meters, we have obtained all land use right certificates and building ownership certificates for the land and buildings and have not pledged or encumbered any such land or buildings.

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We also own the land use right for a parcel of land adjacent to and outside the abovementioned parcel of land, which occupies an area of 6,879 square meters. We are constructing a 4-story industrial building on this parcel of land, which shall serve as our additional production facilities with a designed capacity of FDY and POY of approximately 25,000 tpa. The development of these facilities is scheduled to be completed in August 2011. These facilities are expected to have a gross floor area of approximately 28,451 square meters.

The table below sets forth certain information on the major production buildings owned by us in our existing production site:

Plant Name	Facilities	Gross Floor Area (sqm)
Polymerizing plant 1	Polymerizing production line 1	10,996
Polymerizing plant 2	Polymerizing production line 2	9,925
Spinning plant 1	Four FDY spinning production lines Ten POY spinning production lines	59,849
Spinning plant 2	Five FDY production lines Seven POY production lines	66,194
Texturing plant 1 and 2	71 DTY texturing machines	39,522
Texturing plant 3	28 DTY texturing machines	24,205
Texturing plant 4	67 DTY texturing machines	40,019
Texturing plant 5	14 DTY texturing machines	15,835

We are also entitled to the land use right for a parcel of vacant land located at the coastal corporate headquarters area in East Sea District, Quanzhou City, Fujian Province, which occupies an area of 11,228 square meters. We plan to construct our operation center on this parcel of land with a total planned floor area of 76,347 square meters. The construction of this operation center is expected to commence in May 2011 and be completed by September 2013. Upon completion, we plan to move our sales and marketing department and research and development department to the operation center. The capital expenditures for the construction of this operation center are expected to be approximately RMB191 million, which we plan to finance from our proceeds raised from the Global Offering.

As of the Latest Practicable Date, we plan to purchase the land use right through a potential public tender for an expected 500,000 square meters of land for our new production site which is close to our existing production site in Fenglin Industrial Zone.

Please refer to “Appendix IV — Property Valuation” for further details of our owned and leased properties.

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EMPLOYEES

We had a total of 2,725, 3,586 and 3,544 employees as of December 31, 2008, 2009 and 2010, respectively. The following table provides a breakdown of our employees by function as of December 31, 2010.

	Number of employees	% of total
Production	2,041	57.7%
Quality control	685	19.3%
Research and development	501	14.1%
Support and others	182	5.1%
Accounting and Finance	49	1.4%
Administration and management	40	1.1%
Sales and marketing	35	1.0%
Procurement	11	0.3%
Total	3,544	100.0%

The remuneration package we offer to our employees includes salary and housing. In general, we determine employee salaries based on each employee's qualifications, position and seniority. We review the performance of our employees annually and decide their salary raises, bonuses and promotions based on their performance.

We provide various trainings for our employees to improve their work skills. We provide orientation training for newly hired employees and continue to provide them with professional trainings during their terms of employment. Our training programs for our employees cover various topics, such as professional skills, quality control, production safety and regulations, and internal procedures, all of which are designed to improve the overall performance of our employees. We also provide management trainings for our management personnel to promote their management skills.

INSURANCE

We contribute to social welfare insurance for our full-time employees in accordance with the relevant PRC regulations, which includes contributions to basic medical insurance fund, basic pension insurance fund, occupational injury insurance fund, maternity insurance fund and unemployed insurance fund. We maintain all-risk property insurance for primarily all of our production facilities in our production site and the vehicles used in our operations.

We do not maintain product liability 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 "Risk Factors — Risks Related to Our Business — Our operations are subject to uncertainties and we may not sufficient insurance coverage for all the risks related to our operations". As of the Latest Practicable Date, we have not been subject to any claims for product liability or any other litigation, nor have we experienced any material business interruptions.

We believe our current level of insurance coverage is adequate and in line with the practice of the polyester filament yarn industry in China.

LEGAL COMPLIANCE AND PROCEEDINGS

Our Company and its subsidiary may from time to time be involved in litigations incidental to the conduct of their business. As of the Latest Practicable Date, to the best of our knowledge, we were not aware of any pending or threatened litigation, arbitration or administrative proceedings against our Company or its subsidiaries that could have a material adverse effect on our business, financial condition or results of operations. Tian Yuan Law Firm has confirmed that as of the Latest Practicable Date, our Group had complied with all the PRC laws and regulations and had obtained all requisite permits, licenses and approvals for its operations in all material aspects.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately following completion of the Global Offering and the Capitalization Issue, the Controlling Shareholders will control the exercise of voting rights of 75% of the Shares eligible to vote in general meetings of our Company (assuming the Over-allotment Option is not exercised and no option to be granted under the Share Option Scheme is exercised).

Our Directors have confirmed that to the best of their knowledge, information and belief, neither our Controlling Shareholders nor our Directors have any interest in businesses which may directly or indirectly compete against the businesses of our Company.

NON-COMPETITION UNDERTAKING OF THE CONTROLLING SHAREHOLDERS

Each of the Controlling Shareholders has entered into the Deed of Non-competition in favor of our Company (and its subsidiaries), pursuant to which each of the Controlling Shareholders has undertaken with our Company (for itself and for the benefit of its subsidiaries) that it or he would not, and would procure that its or his respective associates (other than any members of our Group) would not, during the restricted period set out below, directly or indirectly, either on its or his own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, principal, agent, director, employee or otherwise) any business which is or may be in competition with the business of any member of our Group from time to time (the “Restricted Business”).

Such non-compete undertaking does not apply to:

- (a) any interests in the shares of any member of our Group; or
- (b) interests in the shares of a company other than our Group which shares are listed on a recognized stock exchange provided that:
 - (i) any Restricted Business conducted or engaged in by such company (or the net asset value relating thereto) accounts for no more than 10% of that company’s total consolidated turnover or total consolidated assets, as shown in that company’s latest audited accounts; or
 - (ii) the total number of the shares held by the relevant Controlling Shareholder and/or its/his associates in aggregate does not exceed 5% of the issued shares of that class of that company in question and such Controlling Shareholder and/or its/his associates are not entitled to appoint a majority of the directors of that company and at any time there should exist at least another shareholder of that company whose shareholding in that company should be higher than the total number of shares held by such Controlling Shareholder and/or its/his associates in aggregate; or
 - (iii) the relevant Controlling Shareholder and/or its/his associates do not have control over the board of directors of such company.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

The “restricted period” stated in the Deed of Non-competition refers to the period during which (i) the Shares of our Company remain listed on the Stock Exchange; (ii) the relevant Controlling Shareholder or any of its/his associate still holds directly or indirectly an equity interest in our Company; and (iii) the Controlling Shareholders and/or their respective associates jointly or severally are entitled to exercise or control the exercise of not less than 30% in aggregate of the voting rights at general meetings of shareholders of our Company.

DIRECTORS

Each of our Directors confirms that he or she does not have any competing business with our Group. Moreover, pursuant to their service agreements, executive Directors shall not at any time during their term of service with our Group, without the prior written consent of the Board, be or become a director of any company (other than our Company or any other member of our Group) or be engaged, concerned or interested directly or indirectly in any other business, trade or occupation.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to manage the conflict of interests arising from the competing business and to safeguard the interests of our Shareholders:

- (a) the independent non-executive Directors will review, on an annual basis, the compliance with the undertaking given by our Controlling Shareholders under the Deed of Non-competition;
- (b) the Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-competition;
- (c) our Company will disclose decisions with basis on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the non-compete undertaking of the Controlling Shareholders under the Deed of Non-competition in the annual reports of our Company; and
- (d) the Controlling Shareholders will make an annual declaration on compliance with their undertaking under the Deed of Non-competition in the annual report of our Company.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the matters described above and the following factors, we believe that our Group is capable of carrying on its business independently of our Controlling Shareholders and their respective associates following completion of the Global Offering.

Management independence

Our Board comprises four executive Directors and three independent non-executive Directors. Mr. Sze Tin Yau, a Controlling Shareholder, is one of our executive Directors and the chairman of the Board. Mr. Wu Jinbiao, a Controlling Shareholder, is one of our executive Directors and the president of our Company.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Save as disclosed above, no other Controlling Shareholder holds any directorship in our Company.

Each of our Directors is aware of his or her fiduciary duties as a Director of our Company which require, among other things, that he or she 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 our 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. In addition, we have an independent senior management team to carry out the business decisions of our Group independently.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders following completion of the Global Offering.

Operational independence

We have independent access to sources of supplies or raw materials for the production of our polyester filament yarns, as well as independent access to our distributors and other customers. We have also established a set of internal control procedures to facilitate the effective operation of our business. Our Group has our own registered trademarks for which we are able to utilize in marketing our polyester filament yarns.

In addition, our Directors consider that our operations do not depend on our Controlling Shareholders for the following reasons:

- (i) there is no competing business between our Group and any of our Controlling Shareholders;
- (ii) we are not relying on any guarantee provided by any of our Controlling Shareholders in respect of bank borrowings nor have we been given any guarantee for the benefit of any of our Controlling Shareholders.

On the basis of the matters described in this section, we believe that we are capable of carrying on our business independently of the Controlling Shareholders and their respective associates. Our Group, our Controlling Shareholders and their associates did not have any common or shared facilities or resources during the Track Record Period and through the Latest Practicable Date.

Financial independence

Our Group has an independent financial system and makes financial decisions according to our Group's own business needs.

Our Directors confirm that as of the Latest Practicable Date, our Group had no financial assistance and guarantee to and from our Controlling Shareholders. Therefore, there is no financial dependence on our Controlling Shareholders.

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

Billion Fujian, a member of our Group, has entered into certain transactions with parties who are connected persons of our Company and transactions with these connected persons will continue after the Listing, thereby constituting continuing connected transactions for our Company under the Listing Rules. A summary of these continuing connected transactions is set out below:

Type of Transaction	Term	Applicable Listing Rule	Waiver Sought
Non-exempt continuing connected transactions			
1.(a) Sales of DTY, FDY and POY by Billion Fujian to Baikai Elastic Weaving	From January 1, 2011 to December 31, 2013	Rule 14A.35	Announcement and independent Shareholders' approval requirements
(b) Sales of DTY and FDY by Billion Fujian to Baikai Wrap Knitting	From January 1, 2011 to December 31, 2013		
(c) Sales of semi-dull PET chips, POY and spin finish oil by Billion Fujian to Baikai Textile	From January 1, 2011 to December 31, 2013		
(d) Sales of DTY by Billion Fujian to Baikai Zipper	From January 1, 2011 to December 31, 2013		
2. Provision of paper boxes and rolls and related processing services by Baikai Paper to Billion Fujian	From January 1, 2011 to December 31, 2013	Rule 14A.35	Announcement and independent Shareholders' approval requirements
Exempted continuing connected transaction			
3. Sales of DTY and POY by Billion Fujian to Hengxinglong Polyester	From January 1, 2011 to December 31, 2013	Rule 14A.33(3)	Not applicable

CONNECTED TRANSACTIONS

CONNECTED PERSONS

The relevant connected persons, with whom a member of our Group has entered into continuing connected transactions, are as follows:

- (a) *Baikai Elastic Weaving*: Baikai Elastic Weaving is engaged in the business of manufacturing fabric, weave belt, knit products and high-end textile, and is a wholly foreign-owned subsidiary of Baikai H.K. Baikai H.K. is wholly-owned by Mr. Lin Jinjing (“Mr. Lin”) who is a brother-in-law of both Mr. Sze Tin Yau and Mr. Wu Jinbiao, both being our executive Directors. Mr. Lin controls the exercise of 100% of the voting power at general meetings and is the sole director of Baikai Elastic Weaving. Accordingly, Baikai Elastic Weaving is an associate of Mr. Sze Tin Yau and Mr. Wu Jinbiao and therefore a connected person of our Company. None of Mr. Sze Tin Yau and Mr. Wu Jinbiao is beneficially interested in Baikai Elastic Weaving.
- (b) *Baikai Wrap Knitting*: Baikai Wrap Knitting is engaged in the business of weaving, dyeing and processing high-end knit fabric, and is a wholly foreign-owned subsidiary of Baikai H.K. Baikai H.K. is wholly-owned by Mr. Lin. Mr. Lin controls the exercise of 100% of the voting power at general meetings and is the sole director of Baikai Wrap Knitting. Accordingly, Baikai Wrap Knitting is an associate of Mr. Sze Tin Yau and Mr. Wu Jinbiao and therefore a connected person of our Company. None of Mr. Sze Tin Yau and Mr. Wu Jinbiao is beneficially interested in Baikai Wrap Knitting.
- (c) *Baikai Textile*: Baikai Textile is engaged in the business of manufacturing DTY, chemical fabric, clothing and accessories of clothing, and is a wholly foreign-owned subsidiary of Baikai H.K. Baikai H.K. is wholly-owned by Mr. Lin. Mr. Lin controls the exercise of 100% of the voting power at general meetings and is the sole director of Baikai Textile. Accordingly, Baikai Textile is an associate of Mr. Sze Tin Yau and Mr. Wu Jinbiao and therefore a connected person of our Company. None of Mr. Sze Tin Yau and Mr. Wu Jinbiao is beneficially interested in Baikai Textile. Although Baikai Textile also manufactures DTY, its DTY production capacity is relatively small as compared to our Group’s DTY production capacity of approximately 260,000 tpa. Further, the DTY manufactured by Baikai Textile is mainly used for the production of core wired cables and ribbon weaving, the application and usage of which are different from those of the DTY manufactured by our Group. The DTY manufactured by our Group is mainly used for the production of fabric products. The DTY manufactured by Baikai Textile and the DTY manufactured by our Group are targeted at and sold to different customers.
- (d) *Baikai Zipper*: Baikai Zipper is engaged in the business of manufacturing zippers, hardware die cast products and clothing, and is a wholly foreign-owned subsidiary of Baikai H.K. Baikai H.K. is wholly-owned by Mr. Lin. Mr. Lin controls the exercise of 100% of the voting power at general meetings and is the sole director of Baikai Zipper. Accordingly, Baikai Zipper is an associate of Mr. Sze Tin Yau and Mr. Wu Jinbiao and therefore a connected person of our Company. None of Mr. Sze Tin Yau and Mr. Wu Jinbiao is beneficially interested in Baikai Zipper.

CONNECTED TRANSACTIONS

- (e) *Baikai Paper*: Baikai Paper is engaged in the business of manufacturing paper boxes and rolls, and is a wholly foreign-owned subsidiary of Baikai H.K. Baikai H.K. is wholly-owned by Mr. Lin. Mr. Lin controls the exercise of 100% of the voting power at general meetings and is a director of Baikai Paper. Accordingly, Baikai Paper is an associate of Mr. Sze Tin Yau and Mr. Wu Jinbiao and therefore a connected person of our Company. None of Mr. Sze Tin Yau and Mr. Wu Jinbiao is beneficially interested in Baikai Paper.
- (f) *Hengxinglong Polyester*: Hengxinglong Polyester is engaged in the business of processing products related to polyester filament yarns and chemical fabric, and is wholly-owned by Mr. Wu Qingshun, the son of Mr. Wu Jianshe, our executive Director. Accordingly, Hengxinglong Polyester is an associate of Mr. Wu Jianshe and therefore a connected person of our Company.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Set out below are the details of the non-exempt continuing connected transactions entered into between the connected persons and a member of our Group (the “Non-exempt Continuing Connected Transaction(s)”). Having considered that the products to be provided by our Group under the Non-exempt Continuing Connected Transactions with Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile and Baikai Zipper (the “Baikai Sales Arrangement”) are of the same nature and the relevant counter parties are controlled by the same ultimate shareholder, namely Mr. Lin, the sales arrangements with Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile and Baikai Zipper are aggregated under Rule 14A.25 of the Listing Rules. The applicable percentage ratio (other than the profits ratio) of the Baikai Sales Arrangement are in aggregate, on an annual basis, expected to be more than 5%. The applicable percentage ratio (other than the profits ratio) of the Non-exempt Continuing Connected Transaction with Baikai Paper (the “Baikai Purchase and Processing Arrangement”) is also, on an annual basis, expected to be more than 5%. As such, each of the Baikai Sales Arrangement and the Baikai Purchase and Processing Arrangement is subject to the reporting, announcement and independent shareholders’ approval requirements set out in Rules 14A.45 to 14A.48, and the annual review requirements set out in Rules 14A.37 to 14A.40 and the requirements set out in Rules 14A.35(1) and 14A.35(2) of the Listing Rules.

(1) Baikai Sales Arrangement – Sales agreements with Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile and Baikai Zipper

(a) Sales of DTY, FDY and POY by Billion Fujian to Baikai Elastic Weaving

Nature of transaction

On March 31, 2011, Baikai Elastic Weaving and Billion Fujian entered into a sales agreement pursuant to which Billion Fujian agreed to provide DTY, FDY and POY to Baikai Elastic Weaving. The sales agreement is for a term of three years from January 1, 2011 to December 31, 2013 and is renewable for a further term of three years at our option subject to compliance with applicable requirements of the Listing Rules. We have the right to terminate the agreement at any time before expiration subject to compliance with the Listing Rules.

CONNECTED TRANSACTIONS

For the three years ended December 31, 2008, 2009 and 2010, our sales of DTY, FDY and POY to Baikai Elastic Weaving amounted to approximately RMB22,180,000, RMB58,976,000 and RMB58,276,000, and accounted for approximately 1.05%, 1.99% and 1.35% of our total sales during the same periods, respectively.

Price determination

The prices for the sales of DTY, FDY and POY to Baikai Elastic Weaving are agreed between Baikai Elastic Weaving and us from time to time after arm's length negotiation and are comparable to market prices of similar products that we sell to other independent customers.

Annual caps

Our Directors anticipate that the annual caps of the transaction amounts under the sales agreement with Baikai Elastic Weaving will be approximately RMB77,000,000, RMB85,000,000 and RMB95,000,000, respectively, for each of the three years ending December 31, 2011, 2012 and 2013. The above annual caps are based on (i) the actual sales made to Baikai Elastic Weaving in the year ended December 31, 2010; (ii) the prevailing market price for the sales of similar products; (iii) the expected increase in our production capacity; and (iv) the estimated growth of Baikai Elastic Weaving which requires more of our products.

(b) Sales of DTY and FDY by Billion Fujian to Baikai Wrap Knitting

Nature of transaction

On March 31, 2011, Baikai Wrap Knitting and Billion Fujian entered into a sales agreement pursuant to which Billion Fujian agreed to provide DTY and FDY to Baikai Wrap Knitting. The sales agreement is for a term of three years from January 1, 2011 to December 31, 2013 and is renewable for a further term of three years at our option subject to compliance with applicable requirements of the Listing Rules. We have the right to terminate the agreement at any time before expiration subject to compliance with the Listing Rules.

For the three years ended December 31, 2008, 2009 and 2010, our sales of DTY and FDY to Baikai Wrap Knitting amounted to approximately RMB19,658,000, RMB66,156,000 and RMB107,970,000, and accounted for approximately 0.93%, 2.23% and 2.51% of our total sales during the same periods, respectively.

Price determination

The prices for the sales of DTY and FDY to Baikai Wrap Knitting are agreed between Baikai Wrap Knitting and us from time to time after arm's length negotiation and are comparable to market prices of similar products that we sell to other independent customers.

Annual caps

Our Directors anticipate that the annual caps of the transaction amounts under the sales agreement with Baikai Wrap Knitting will be approximately RMB118,000,000, RMB120,000,000 and RMB123,000,000, respectively, for each of the three years ending December 31, 2011, 2012 and 2013.

CONNECTED TRANSACTIONS

The above annual caps are based on (i) the actual sales made to Baikai Wrap Knitting in the year ended December 31, 2010; (ii) the prevailing market price for the sales of similar products; (iii) the expected increase in our production capacity; and (iv) the estimated growth and increase in production capacity of Baikai Wrap Knitting and the anticipated increase in demand for the products of Baikai Wrap Knitting within the PRC domestic market, which require more of our products.

(c) Sales of semi-dull PET chips, POY and spin finish oil by Billion Fujian to Baikai Textile

Nature of transaction

On March 31, 2011, Baikai Textile and Billion Fujian entered into a sales agreement pursuant to which Billion Fujian agreed to provide semi-dull PET chips, POY and spin finish oil to Baikai Textile. The sales agreement is for a term of three years from January 1, 2011 to December 31, 2013 and is renewable for a further term of three years at our option subject to compliance with applicable requirements of the Listing Rules. We have the right to terminate the agreement at any time before expiration subject to compliance with the Listing Rules.

For the three years ended December 31, 2008, 2009 and 2010, our sales of semi-dull PET chips, POY and spin finish oil to Baikai Textile amounted to approximately RMB133,281,000, RMB95,726,000 and RMB145,648,000, and accounted for approximately 6.31%, 3.23% and 3.38% of our total sales during the same periods, respectively.

Price determination

The prices for the sales of semi-dull PET chips, POY and spin finish oil to Baikai Textile are agreed between Baikai Textile and us from time to time after arm's length negotiation and are comparable to market prices of similar products that we sell to other independent customers.

Annual caps

Our Directors anticipate that the annual caps of the transaction amounts under the sales agreement with Baikai Textile will be approximately RMB175,000,000, RMB183,000,000 and RMB192,000,000, respectively, for each of the three years ending December 31, 2011, 2012 and 2013. The above annual caps are based on (i) the actual sales made to Baikai Textile in the year ended December 31, 2010; (ii) the prevailing market price for the sales of similar products; (iii) the expected increase in our production capacity; and (iv) the estimated growth of Baikai Textile and the anticipated increase in demand for the products of Baikai Textile within the PRC domestic market, which require more of our products.

(d) Sales of DTY by Billion Fujian to Baikai Zipper

Nature of transaction

On March 31, 2011, Baikai Zipper and Billion Fujian entered into a sales agreement pursuant to which Billion Fujian agreed to provide DTY to Baikai Zipper. The sales agreement is for a term of three years from January 1, 2011 to December 31, 2013 and is renewable for a further term of three years at our option subject to compliance with applicable requirements of the Listing Rules. We have the right to terminate the agreement at any time before expiration subject to compliance with the Listing Rules.

CONNECTED TRANSACTIONS

For the three years ended December 31, 2008, 2009 and 2010, our sales of DTY to Baikai Zipper amounted to approximately RMB1,278,000, RMB8,122,000 and RMB5,983,000, and accounted for approximately 0.06%, 0.27% and 0.14% of our total sales during the same periods, respectively.

Price determination

The prices for the sales of DTY to Baikai Zipper are agreed between Baikai Zipper and us from time to time after arm's length negotiation and are comparable to market prices of similar products that we sell to other independent customers.

Annual caps

Our Directors anticipate that the annual caps of the transaction amounts under the sales agreement with Baikai Zipper will be approximately RMB8,000,000, RMB8,000,000 and RMB8,000,000, respectively, for each of the three years ending December 31, 2011, 2012 and 2013. The above annual caps are based on (i) the actual sales made to Baikai Zipper in the year ended December 31, 2010; (ii) the prevailing market price for the sales of similar products; (iii) the expected increase in our production capacity; and (iv) the estimated growth of Baikai Zipper which requires more of our products.

(2) Baikai Purchase and Processing Arrangement – Purchase agreement and processing agreement with Baikai Paper

Nature of transaction

On March 31, 2011, Baikai Paper and Billion Fujian entered into a purchase agreement pursuant to which Baikai Paper agreed to provide paper boxes and rolls to Billion Fujian. On the same day, Baikai Paper and Billion Fujian entered into a processing agreement pursuant to which Baikai Paper shall provide processing services in relation to the provision of paper boxes and rolls to Billion Fujian. Each of the purchase agreement and processing agreement is for a term of three years from January 1, 2011 to December 31, 2013 and is renewable for a further term of three years at our option subject to compliance with applicable requirements of the Listing Rules. We have the right to terminate each of the purchase agreement and processing agreement at any time before expiration subject to compliance with the Listing Rules.

For the three years ended December 31, 2008, 2009 and 2010, the provision of paper boxes and rolls and related processing services by Baikai Paper amounted to approximately RMB28,389,000, RMB30,975,000 and RMB54,951,000, and accounted for approximately 1.47%, 1.21% and 1.56% of our total purchases during the same periods, respectively.

Price determination

The prices for the provision of paper boxes and rolls and related processing services to us are agreed between Baikai Paper and us from time to time after arm's length negotiation and are comparable to market prices of similar products and services that we pay to other independent suppliers.

CONNECTED TRANSACTIONS

Annual caps

Our Directors anticipate that the annual caps of the transaction amounts under the purchase agreement and processing agreement with Baikai Paper will be approximately RMB96,000,000, RMB120,000,000 and RMB170,000,000, respectively, for each of the three years ending December 31, 2011, 2012 and 2013. The above annual caps are based on:

- (i) the actual transaction amount we paid to Baikai Paper in the year ended December 31, 2010;
- (ii) the prevailing market price for the provision of similar products and services;
- (iii) the production base of Baikai Paper is in close proximity to our Group, which allows timely delivery of the paper boxes and rolls and minimizes our costs of delivery;
- (iv) the paper boxes and rolls produced or processed by Baikai Paper are of high quality and are suitable for our use;
- (v) our designed capacity of each of DTY, POY and FDY in 2010 of approximately 260,000 tpa, 290,000 tpa and 160,000 tpa, respectively;
- (vi) the expected annual increases in our designed capacity of DTY of approximately 79,000 tpa in 2011 (representing an increase of approximately 30.4% from 2010) and approximately 154,000 tpa in 2012 (representing an increase of approximately 45.4% from 2011);
- (vii) the expected annual increases in our designed capacity of POY of approximately 13,000 tpa in 2011 (representing an increase of approximately 4.5% from 2010) and approximately 135,000 tpa in 2013 (representing an increase of approximately 44.6% from 2012);
- (viii) the expected annual increases in our designed capacity of FDY of approximately 12,000 tpa in 2011 (representing an increase of approximately 7.5% from 2010), approximately 105,000 tpa in 2012 (representing an increase of approximately 61.0% from 2011) and approximately 70,000 tpa in 2013 (representing an increase of approximately 25.3% from 2012);
- (ix) the estimated growth of our sales and production which requires more paper boxes and rolls and related processing services to be provided by Baikai Paper; and
- (x) having considered all of the above, the annual caps are acknowledged by Baikai Paper, and are set out in the purchase agreement and processing agreement.

WAIVER FOR NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS FROM THE STOCK EXCHANGE

Our Directors (including the independent non-executive Directors) consider that (i) each of the Baikai Sales Arrangement and the Baikai Purchase and Processing Arrangement has been entered into in the ordinary and usual course of business of our Group; and is based on arm's length negotiation and on normal commercial terms that are fair and reasonable and are in the interests of the Shareholders as a whole; and (ii) the annual caps for the Baikai Sales Arrangement and the Baikai Purchase and Processing Arrangement are fair and reasonable.

CONNECTED TRANSACTIONS

Each of the applicable percentage ratios of the Baikai Sales Arrangement and the Baikai Purchase and Processing Arrangement is, on an annual basis, expected to be more than 5%. As such, the Baikai Sales Arrangement and the Baikai Purchase and Processing Arrangement are subject to the reporting, announcement and independent shareholders' approval requirements set out in Rules 14A.45 to 14A.48, the annual review requirements set out in Rules 14A.37 to 14A.40 and the requirements set out in Rules 14A.35(1) and 14A.35(2) of the Listing Rules.

As the Baikai Sales Arrangement and the Baikai Purchase and Processing Arrangement will continue after the Listing on a recurring basis, our Directors consider that strict compliance with the announcement and independent shareholders' approval requirements under the Listing Rules would be unduly burdensome and impractical.

Accordingly, we have applied for, and have received from, the Stock Exchange a waiver from strict compliance with the announcement and independent shareholders' approval requirements set out in Rules 14A.47 and 14A.48 of the Listing Rules for the Baikai Sales Arrangement and the Baikai Purchase and Processing Arrangement.

In respect of Rules 14A.35(2) of the Listing Rules, the maximum aggregate annual caps for the Baikai Sales Arrangement and the Baikai Purchase and Processing Arrangement shall not exceed the applicable limits set out below:

Non-exempt Continuing Connected Transactions	Annual caps for the year ending December 31		
	2011	2012	2013
	(RMB)	(RMB)	(RMB)
Baikai Sales Arrangement	378,000,000	396,000,000	418,000,000
Baikai Purchase and Processing Arrangement	96,000,000	120,000,000	170,000,000

Our Company will comply with the requirements set out in Chapter 14A of the Listing Rules, including Rules 14A.35(1), 14A.35(2), 14A.36 to 14A.40 and 14A.45 of the Listing Rules in relation to the Baikai Sales Arrangement and the Baikai Purchase and Processing Arrangement and that the maximum aggregate annual values of the Baikai Sales Arrangement and the Baikai Purchase and Processing Arrangement for the three years ended December 31, 2011, 2012 and 2013 are not expected to exceed the annual caps, and will re-comply with Rules 14A.35(3) and (4) of the Listing Rules if any of the respective annual caps set out above are exceeded, or when the relevant agreement is renewed or when there is a material change to the terms of the relevant agreement.

CONFIRMATION FROM THE JOINT SPONSORS

The Joint Sponsors are of the view that (i) the Baikai Sales Arrangement and the Baikai Purchase and Processing Arrangement for which waivers are sought have been entered into in the ordinary and usual course of business of our Group on normal commercial terms and are fair and reasonable and in the interests of our Shareholders as a whole; and (ii) the annual caps for the Baikai Sales Arrangement and the Baikai Purchase and Processing Arrangement are fair and reasonable.

CONNECTED TRANSACTIONS

EXEMPTED CONTINUING CONNECTED TRANSACTION

The following connected transaction will constitute an exempted continuing connected transaction for our Group under Rule 14A.33(3) of the Listing Rules and accordingly, will be exempted from the reporting, annual review, announcement and independent shareholders' approval requirements stipulated under the Listing Rules. The following transaction is undertaken on an arms' length basis and on normal commercial terms or terms more favorable to our Group and the percentage ratios (other than the profits ratio) of the following transaction on an annual basis are less than 0.1%.

Sales agreement with Hengxinglong Polyester

Nature of transaction

On March 31, 2011, Hengxinglong Polyester and Billion Fujian entered into a sales agreement pursuant to which Billion Fujian agreed to provide DTY and POY to Hengxinglong Polyester. The sales agreement is for a term of three years from January 1, 2011 to December 31, 2013 and is renewable for a further term of three years at our option subject to compliance with applicable requirements of the Listing Rules. We have the right to terminate the agreement at any time before expiration subject to compliance with the Listing Rules.

For the three years ended December 31, 2008, 2009 and 2010, our sales of DTY and POY under such agreement to Hengxinglong Polyester amounted to approximately RMB2,563,000, RMB4,019,000 and RMB2,001,000, and accounted for approximately 0.12%, 0.14% and 0.05% of our total sales during the same periods, respectively.

Price determination

The prices for the sales of DTY and POY to Hengxinglong Polyester are agreed between Hengxinglong Polyester and us from time to time after arm's length negotiation and are comparable to market prices of similar products that we sell to other independent customers.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board of Directors is responsible and has general powers for the management and conduct of our business. The following table sets forth information regarding members of the Board of Directors.

Name	Age	Position
Mr. Sze Tin Yau	41	chairman and executive Director
Mr. Wu Jinbiao	48	president and executive Director
Mr. Wu Jianshe	56	vice president and executive Director
Mr. He Wenyao	44	vice president and executive Director
Mr. Yeung Chi Tat	41	independent non-executive Director
Ms. Zhu Meifang	45	independent non-executive Director
Mr. Ma Yuliang	72	independent non-executive Director

Executive Directors

Mr. Sze Tin Yau (施天佑), aged 41, is a co-founder of our Group, the chairman of the Board, an executive Director and an authorized representative of our Company. He was appointed as an executive Director on November 25, 2010. He will exercise the right and powers of the chairman of the Board as stipulated in the Articles of Association of our Company. Mr. Sze has approximately 20 years of experience in the polyester filament yarn industry and is primarily responsible for the overall corporate strategies, planning and business development of our Group. Prior to establishing our Group in 2003, he was the general manager of Yuhua Garment Industrial Co., Ltd.* (福建晉江裕華服裝實業有限公司) from March 1990 to April 2000 and was the chairman of the board of directors of Baikai Textile from May 2000 to October 2003. He is a founder and shareholder of Billion H.K. and has been the chairman of the board of directors of Billion H.K. since its incorporation in 1996. Mr. Sze was elected and appointed as a member of the Chinese People's Political Consultative Conference of Fujian Province (福建省政協委員) in December 29, 2007. He has also been appointed as a Standing Committee of Business Association of Fujian Province (福建省工商業聯合會總商會第八屆執行委員會執行委員) in July 2002. His other social undertakings include vice-chairman of the Chamber of International Commerce of Fujian Province (中國國際商會福建商會副會長) and lifelong honorary president of Jinjiang City Charity Federation (晉江市慈善總會永遠榮譽會長). He is currently studying EMBA program in Peking University* (北京大學).

With rich experience in polyester filament yarn industry, he has managed to win our Group a leading position in the industry by promoting our Group's business, expanding production capacity and developing a premium brand.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Wu Jinbiao (吳金鏢), aged 48, is a co-founder of our Group and an executive Director. He is also the president of our Company. He was appointed as an executive Director on November 25, 2010. Mr. Wu Jinbiao has approximately 25 years of experience in the differentiated polyester filament yarn industry and is primarily responsible for the daily operation of our Group. Prior to establishing our Group in 2003, Mr. Wu Jinbiao is also a founder and shareholder of Billion H.K. and has been a director of Billion H.K. since its incorporation in 1996. Also, he was the deputy general manager of Yuhua Garment Industrial Co., Ltd.* (福建晉江裕華服裝實業有限公司) from May 1985 to April 2000 and was the executive director and general manager of Baikai Textile from May 2000 to October 2003. Mr. Wu Jinbiao was elected and appointed as a Standing Committee of the Chinese People's Political Consultative Conference of Jinjiang City (晉江市政協委員會常委) for the 11th session. He was recognized as an Advanced Individual of Textile Industry of Fujian Province (福建省紡織工業先進個人) on February 26, 2007. Mr. Wu Jinbiao is also the honorary president of Jinjiang City Charity Federation (晉江市慈善總會榮譽會長). He is currently undertaking a Tsinghua University business administration program organised by Yangtze Delta Region Institute of Tsinghua University* (清華長三角研究院).

Mr. Wu Jianshe (吳建設), aged 56, is an executive Director. He is also a vice president of our Company. He was appointed as an executive Director on November 25, 2010. Mr. Wu Jianshe has approximately 25 years of experience in the textile industry. He joined our Group upon its establishment in 2003 as a Director and has been primarily responsible for sales and marketing of our Group. Prior to joining our Group, from May 1985 to April 1998, he was the general business manager of Jinjiang Longhu Henglong Zip Textile Co., Ltd* (晉江龍湖恒隆拉鍊織造有限公司). He was also the sales manager of Hengxinglong Polyester from May 1998 to August 2003. Mr. Wu Jianshe is currently studying MBA program in Huaqiao University* (華僑大學).

Mr. He Wenyao (何文耀), aged 44, is an executive Director. He is also a vice president of our Company. He was appointed as an executive Director on November 25, 2010. Mr. He Wenyao has approximately 22 years of experience in the textile industry. He joined our Group upon its establishment in 2003 and has been primarily responsible for procurement of raw materials, formulating the budget, market research, cost-control management and logistics arrangement for our Group. Prior to joining our Group, Mr. He Wenyao was the deputy general manager of Shishi City Yaofu Garment and Knitting Co., Ltd.* (石獅市耀富製衣織造有限公司) from June 1988 to September 2003. He is currently studying MBA program in Huaqiao University* (華僑大學). Mr. He Wenyao is a brother-in-law of Mr. Sze Tin Yau.

Independent Non-executive Directors

Mr. Yeung Chi Tat (楊志達), aged 41, was appointed as an independent non-executive Director on March 31, 2011. Mr. Yeung is currently the president of the Hong Kong headquarters of the International Financial Management Association and the vice-president of Hong Kong Wine Merchants' Chamber of Commerce.

Mr. Yeung currently holds positions in the following companies listed on the Main Board:

Name of company	Title
Dynasty Fine Wines Group Limited	Financial controller and company secretary
Ta Yang Group Holdings Limited	Independent non-executive director
ANTA Sports Products Limited	Independent non-executive director
Boer Power Holdings Limited	Independent non-executive director

DIRECTORS AND SENIOR MANAGEMENT

Mr. Yeung was an independent non-executive director of China Eco-Farming Limited which is listed on the Growth Enterprise Market of the Stock Exchange, from September 30, 2008 to May 12, 2010. Mr. Yeung received a bachelor's degree in Business Administration from the University of Hong Kong in 1993 and a master's degree in Professional Accounting with distinction from Hong Kong Polytechnic University in 2004. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, an associate member of the Institute of Chartered Accountants in England and Wales, a senior international finance manager of the International Financial Management Association and a Certified Public Accountant practicing in Hong Kong. Mr. Yeung worked at KPMG for approximately 10 years from 1993 to 2004. He possesses extensive experience in auditing, corporate restructuring and corporate finance.

Ms. Zhu Meifang (朱美芳), aged 45, was appointed as an independent non-executive Director on March 31, 2011. Ms. Zhu is currently a professor in Donghua University (東華大學). Ms. Zhu worked for approximately 20 years at Donghua University since January 1989 where she has worked as a teacher, dean in materials science department, doctoral tutor and vice president of Donghua University at different phases. She has accumulated rich fiber related experience, which we believe can provide constructive instruction to our business. Ms. Zhu obtained a bachelor's degree in chemical fiber in July 1986 from China Textile University* (中國紡織大學) (currently known as Donghua University), a master's degree in chemical fiber and a doctorate degree in materialogy from the same university in April 1989 and April 2000, respectively. Her study in fiber industry has won her several national-level awards over the years.

Mr. Ma Yuliang (馬玉良), aged 72, was appointed as an independent non-executive Director on March 31, 2011. Mr. Ma is currently retired and was appointed the deputy head (副司長) of Textile Industry Department Reforming Section* (紡織工業部體制改革司) in 1988 and was appointed as an officer (主任) of Economic and Trade Department* (經濟貿易部) of the Textile Association of China* (中國紡織總會) in 1996, respectively. Mr. Ma was appointed the division chief (處長) of No. 4 Division of the Reforming Bureau* (改革局四處) of State Economic Commission* (國家經濟委員會) in 1987. Mr. Ma was an independent director of Jilin Chemical Fiber Co., Ltd.* (吉林化纖股份有限公司), a company listed on the Shenzhen Stock Exchange, from 2001 to 2008, and Zhejiang Furun Co., Ltd.* (浙江富潤股份有限公司), a company listed on the Shanghai Stock Exchange, from 2002 to 2008. He obtained a bachelor's degree in management engineering from Jilin University of Technology* (吉林工業大學) currently known as Jilin University (吉林大學), in 1963. Mr. Ma was accredited as a senior engineer by Bureau of Personnel, State Economic and Trade Commission* (國家經委人事局) in 1988.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Ye Jingping (葉敬平), aged 52, is a vice president of our Company and a senior engineer. He has approximately 27 years of experience in polyester filament yarn industry and is primarily responsible for our overall product manufacture and research and development. He joined our Group in 2003. Prior to joining our Group, he was a technician, engineer, workshop manager and deputy general manager of Xiamen Chemical Polyester Factory* (廈門化纖廠) from August 1983 to May 2000. Mr. Ye graduated from the Faculty of Textile Chemical Engineering of East China Institute of Textile Engineering (華東紡織工學院) currently known as Donghua University (東華大學) in Chemical Fiber, in July 1983. Mr. Ye was accredited as the Model Worker in Quanzhou (泉州市勞動模範) in April 2006 and as the advanced worker for technology development in light industry* (輕紡技術開發先進工作者) by Fujian Province Light Industry Bureau* (福建省輕工業廳) in 1993. He achieved the second award for science and technology progress* (科學進步成果二等獎) by his program named trial-manufacture of polyester lan cable* (滌綸網絡絲新產品試製) in 1988.

Mr. Wang Jinyu (王金瑜), aged 33, is a vice president of our Company. He has approximately 13 years of experience in polyester filament yarn industry. He participated in the operation of Billion Fujian since its establishment in 2003 and has been an assistant to the chairman since joining. His responsibilities during the Track Record Period included public relations and corporate administration. Prior to joining our Group, he worked as the assistant to the chairman of the board of directors in Baikai Textile from March 2003 to October 2003. Mr. Wang worked as the head of public relations department in Jinxing (Fujian) Fiber Textile Industry Co., Ltd.* (錦興(福建)化纖紡織實業有限公司) from February 1998 to February 2003. Mr. Wang is currently studying MBA program in Peking University HSBC Business School* (北京大學滙豐商學院).

Ms. Ng Weng Sin (吳永禧), aged 39, is the chief financial officer of our Company. She is also our company secretary and one of the authorized representatives of our Company. Ms. Ng has over 14 years of experience in finance, auditing and accounting. Ms. Ng joined our Group in August 2010 and is primarily responsible for the overall financial and accounting affairs of our Group. Prior to joining our Group, Ms. Ng worked at Deloitte & Touche from August 1997 to September 2001. From 2001 to 2006, she worked at finance departments in Rosedale Hotel Holdings Limited (a company listed on the Main Board, formerly known as Hong Kong Wing On Travel Service Limited), Hua Yang Printing Holdings Co. Ltd. (a subsidiary of Grand Toys International Limited which is a company listed on NASDAQ) and Norstar Automobile Industrial Holding Limited (a subsidiary of Norstar Founders Group Limited which is listed on the Main Board). From May 2006 to February 2010, she was the financial controller, company secretary and authorized representative of China Information Technology Development Limited (8178) (中國信息科技發展有限公司). Ms. Ng obtained her bachelor's degree of arts in accountancy in 1996 and a master's degree of professional accounting in 2010 from the Hong Kong Polytechnic University. She is also a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Qiu Dahong (裘大洪), aged 46, joined our Group in October 2007 and is the assistant to the president of our Company. Mr. Qiu is primarily responsible for personnel management and training program. Prior to joining our Group, he was a specialist, department head and senior specialist in the primary processing department, false twist department and design and development department of Xiamen Xianglu Chemical Fiber Stock Corp., Ltd.* (廈門翔鷺化纖股份有限公司) from August 1994 to December 2003. He worked as the deputy general manager from January 2004 to February 2006 in Zhejiang Shaoxing Huamao Fiber Co., Ltd.* (浙江紹興華茂化纖有限公司). He has also been a qualified engineer accredited by the Personnel Department of Fujian Province* (福建省人事廳) since July 16, 1999. Mr. Qiu graduated from China Textile University (中國紡織大學) (currently known as Donghua University (東華大學)) in mechanical manufacture technology and equipment in July 1986.

Mr. Zhang Bochen (張伯臣), aged 53, joined our Group in May 2009 and is the assistant to the president of our Company. Mr. Zhang is primarily responsible for assisting the president for the overall management of our Group. Prior to joining our Group, he was an assistant to general manager of Jiangsu Shenghong Chemical Fiber Co., Ltd.* (江蘇盛虹化纖有限公司) from February 2004 to February 2005. From March 2007 to May 2009, he was a general manager of Taiya Chemical Fiber (Zhongshan) Co., Ltd.* (太亞化學纖維(中山)有限公司), responsible for the factory construction, production management and the sales of the products. Mr. Zhang obtained his bachelor's degree of science in engineering in June 1981 from the Department of Polymer Engineering of National Taiwan University of Science and Technology (國立台灣科技大學).

Mr. Lv Zhiwei (呂志偉), aged 30, joined our Group in August 2007 and is the sales director (銷售總監). Mr. Lv is primarily responsible for the sales and marketing. Prior to joining our Group, he was a business specialist of Xiamen Xianglu Chemical Fiber Stock Corp., Ltd.* (廈門翔鷺化纖股份有限公司) from September 2003 to July 2006. From July 2006 to June 2007, he was an assistant to general manager of Dragon Aromatics (Zhangzhou) Co., Ltd.* (騰龍芳烺(漳州)有限公司). Mr. Lv obtained his bachelor's degree in international economics and trade in July 2003 from Xi'an Communication University* (西安交通大學).

Mr. Xu Xiaofeng (許曉峰), aged 35, joined our Group in August 2004 and is the financial manager. Mr. Xu is primarily responsible for daily finance related work of our Group. Prior to joining our Group, he was working at the financial department of Fujian Jinjiang Hongyu Coating Knitting Co., Ltd.* (福建晉江鴻裕塗層織物有限公司) from October 1997 to June 2004. Mr. Xu obtained his diploma in banking accounting in June 1997 from Fuzhou University (福州大學). He was also qualified as a Medium Level Accountant of the PRC in December 2003.

COMPANY SECRETARY

Ms. Ng Weng Sin. Please refer to the sub-section headed "Senior Management" above for Ms. Ng Weng Sin's biography.

DIRECTORS AND SENIOR MANAGEMENT

MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. As our business and operations are conducted through Billion Fujian in the PRC, and all of our manufacturing facilities are also located in the PRC, our Group's head office and our senior management members (other than the chief financial officer and company secretary of our Company, Ms. Ng Weng Sin) are and will continue to be based in the PRC. We do not carry on any business nor do we have any other form of presence in Hong Kong. Although Mr. Sze Tin Yau, an executive Director, holds a Hong Kong permanent identity card, and Mr. He Wenyao, an executive Director, holds a Hong Kong identity card, they will not ordinarily reside in Hong Kong. None of the executive Directors will be based in Hong Kong upon the Listing. Our Company has applied to the Stock Exchange for a waiver from the strict compliance with the requirement under Rule 8.12. For details of the waiver, please see "Waivers from Strict Compliance with the Listing Rules — Management Presence" in this prospectus.

BOARD COMMITTEES

Audit committee

Our Company established an audit committee pursuant to a resolution of our Directors passed on March 31, 2011 in compliance with Rule 3.21 of the Listing Rules. The primary duties of the audit committee are to make recommendations to the Board on the appointment and removal of our external auditor; to review our financial statements and to provide material advice regarding financial reporting; to oversee the internal control procedures of our Company. At present, the audit committee of our Company consists of three members, namely Mr. Yeung Chi Tat, Ms. Zhu Meifang and Mr. Ma Yuliang. Mr. Yeung Chi Tat is the chairman of the audit committee.

Remuneration committee

Our Company established a remuneration committee on March 31, 2011 with written terms of reference. The primary duties of the remuneration committee are to make recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group; to review performance based remuneration; and to ensure none of our Directors determine their own remuneration. The remuneration committee consists of three members, namely Mr. Sze Tin Yau, Mr. Yeung Chi Tat and Ms. Zhu Meifang. Mr. Sze Tin Yau is the chairman of the remuneration committee.

Nomination committee

We established a nomination committee on March 31, 2011. The primary function of the nomination committee is to make recommendations to the Board regarding candidates to fill vacancies on the Board. The nomination committee consists of three members, namely Mr. Sze Tin Yau, Mr. Yeung Chi Tat and Mr. Ma Yuliang. Mr. Sze Tin Yau is the chairman of the nomination committee.

DIRECTORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISER

Our Company has appointed Haitong International Capital Limited as its compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to the compliance adviser's agreement to be entered into between our Company and Haitong International Capital Limited and Rule 3A.23 of the Listing Rules, Haitong International Capital Limited will advise our Company on the following matters:

- (a) 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) where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where its business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares of our Company.

The term of the appointment shall commence on the Listing Date and end on the date on which our Company distributes its annual report in respect of its financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

REMUNERATION OF DIRECTORS AND HIGHEST PAID INDIVIDUALS DURING THE TRACK RECORD PERIOD

For information on Directors' remuneration during the Track Record Period as well as information on the highest paid individuals, please refer to notes 7 and 8 to our combined financial statements included in the Accountants' Report set out in Appendix I to this prospectus and Statutory and General Information set out in Appendix VI to this prospectus.

SHARE CAPITAL

The authorized share capital of our Company is as follows:

HK\$

Authorized share capital:

10,000,000,000	Shares	100,000,000

Assuming the Over-allotment Option is not exercised at all, our Company's issued share capital immediately following completion of the Global Offering and the Capitalization Issue will be as follows:

Issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering and the Capitalization Issue:

(Shares ^{Note})		HK\$
200	Shares in issue as of the date of this prospectus	2
1,724,249,800	Shares to be issued under the Capitalization Issue	17,242,498
574,750,000	Shares to be issued under the Global Offering	5,747,500
2,299,000,000	Total	22,990,000

Assuming the Over-allotment Option is exercised in full, 86,212,500 additional Shares will be issued and our Company's issued share capital immediately following completion of the Global Offering and the Capitalization Issue will be as follows:

Issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering and the Capitalization Issue:

(Shares ^{Note})		HK\$
200	Shares in issue as of the date of this prospectus	2
1,724,249,800	Shares to be issued under the Capitalization Issue	17,242,498
660,962,500	Shares to be issued under the Global Offering	6,609,625
2,385,212,500	Total	23,852,125

Note: The Shares referred to in the above tables have been or will be fully paid or credited as fully paid when issued.

SHARE CAPITAL

RANKING

The Offer Shares are ordinary shares in the share capital of our Company and will rank equally in all respects with all Shares in issue or to be issued as set out in the above tables, and will qualify and rank equally for all dividends or other distributions declared, made or paid after the date of this prospectus.

THE SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarized in the paragraph headed “G. Share Option Scheme” in Appendix VI to this prospectus.

GENERAL MANDATE TO ISSUE SHARES

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

- (a) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalization Issue (excluding any Shares which may fall to be issued pursuant to the Over-allotment Option); and
- (b) the aggregate nominal value of share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to below.

This mandate will expire at the earliest of:

- (a) the conclusion of our Company’s next annual general meeting; or
- (b) the expiration of the period within which our Company is required by law or the Articles of Association to hold its next annual general meeting; or
- (c) when varied or revoked by an ordinary resolution of our Company’s Shareholders in a general meeting.

For further details of this general mandate, see the paragraph headed “A. Further Information about our Company – 4. Written resolutions of our Shareholders passed on March 31, 2011” in Appendix VI to this prospectus.

SHARE CAPITAL

GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue or to be issued immediately following completion of the Global Offering and the Capitalization Issue (excluding any Shares which may fall to be issued upon the exercise of the Over-allotment Option).

This mandate only relates to repurchases made on the Stock Exchange, or any other approved stock exchange(s) on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed “A. Further Information about our Company — 5. Repurchase of our Shares” in Appendix VI to this prospectus.

This mandate will expire at the earliest of:

- (a) the conclusion of our Company’s next annual general meeting; or
- (b) the expiration of the period within which our Company is required by law or the Articles of Association to hold its next annual general meeting; or
- (c) when varied or revoked by an ordinary resolution of our Company’s Shareholders in a general meeting.

For further details of this repurchase mandate, see the paragraph headed “A. Further Information about our Company – 4. Written resolutions of our Shareholders passed on March 31, 2011” in Appendix VI to this prospectus.

SUBSTANTIAL SHAREHOLDERS

Each of the following persons will, immediately following completion of the Global Offering and the Capitalization Issue (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme), have an interest or short position in Shares or underlying Shares which would be required 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, directly or indirectly, be 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	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding in our Company immediately following completion of the Global Offering and the Capitalization Issue
Mr. Sze Tin Yau	Interest in a controlled corporation	862,125,000	37.5%
Kingom Power ⁽¹⁾	Beneficial owner	862,125,000	37.5%
Mr. Wu Jinbiao	Interest in a controlled corporation	862,125,000	37.5%
Winwett Investments ⁽²⁾ . . .	Beneficial owner	862,125,000	37.5%

Notes:

- (1) Kingom Power is wholly-owned and controlled by Mr. Sze Tin Yau and Mr. Sze Tin Yau is therefore deemed to be interested in the Shares held by Kingom Power. Mr. Sze Tin Yau, being one of the largest Shareholders, has confirmed that he was brought up in the PRC and has lived in the PRC for a substantial period of time. Although Mr. Sze Tin Yau is a holder of Hong Kong permanent identity card, he will not ordinarily reside in Hong Kong. Mr. Sze Tin Yau has never been a full time government official in the PRC and/or Hong Kong or a full-time employee of a state or government-owned or operated entity in the PRC and/or Hong Kong.
- (2) Winwett Investments is wholly-owned and controlled by Mr. Wu Jinbiao and Mr. Wu Jinbiao is therefore deemed to be interested in the Shares held by Winwett Investments. Mr. Wu Jinbiao, being one of the largest Shareholders, has confirmed that he was brought up in the PRC and has lived in the PRC for a substantial period of time. Although Mr. Wu Jinbiao is a holder of Macau permanent identity card, he will not ordinarily reside in Macau. Mr. Wu Jinbiao has never been a full-time government official in the PRC and/or Macau or a full-time employee of a state or government-owned or operated entity in the PRC and/or Macau.

Save as disclosed herein, our Directors are not aware of any person who will, immediately after completion of the Global Offering and the Capitalization Issue, have an interest or short position in Shares or underlying Shares which would be required 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, directly or indirectly, be 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.

FINANCIAL INFORMATION

You should read the following discussion and analysis of our financial condition and results of operations together with our combined financial statements as of and for each of the years ended December 31, 2008, 2009 and 2010, as well as the accompanying notes included in the accountants' report set out in Appendix I to this prospectus. Our combined financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). 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.

SELECTED FINANCIAL INFORMATION AND OPERATING DATA

Selected Combined Financial Information

The selected combined statements of comprehensive income, balance sheets and cash flow information for the years ended December 31, 2008, 2009 and 2010 set forth below are extracted from our combined financial statements included in the Accountants' Report set out in Appendix I to this prospectus and are qualified in their entirety by reference to such financial statements, including the notes thereto, and should be read in conjunction with them and with "— Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein.

The table below sets forth our selected combined statements of comprehensive income information for the years ended December 31, 2008, 2009 and 2010:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Revenue	2,113,614	2,963,098	4,309,731
Cost of sales	(1,989,150)	(2,713,454)	(3,678,783)
Gross profit	124,464	249,644	630,948
Other revenue	42,705	28,223	35,073
Other net gain/(loss)	452	(2,574)	21,287
Distribution costs	(8,384)	(25,055)	(26,580)
Administrative expenses	(23,774)	(81,851)	(91,049)
Profit from operations	135,463	168,387	569,679
Finance costs	(63,062)	(40,013)	(32,227)
Profit before taxation	72,401	128,374	537,452
Income tax	(15,677)	(26,978)	(91,493)
Profit and total comprehensive income for the year	56,724	101,396	445,959

FINANCIAL INFORMATION

The table below sets forth our selected combined balance sheets information as of December 31, 2008, 2009 and 2010:

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Non-current assets	2,473,132	2,490,325	2,498,477
Current assets	1,869,712	1,866,806	2,037,526
Current liabilities	(2,351,710)	(2,243,272)	(1,883,674)
Total assets less current liabilities	1,991,134	2,113,859	2,652,329
Non-current liabilities	(116,011)	(132,274)	(296,790)
Net assets	<u>1,875,123</u>	<u>1,981,585</u>	<u>2,355,539</u>

The table below sets forth our selected combined cash flow information for the years ended December 31, 2008, 2009 and 2010:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Net cash (used in)/generated from operating activities	(130,692)	1,016,830	(36,556)
Net cash (used in)/generated from investing activities	(169,353)	(150,821)	88,542
Net cash generated from/(used in) financing activities	373,385	(825,470)	(38,029)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are one of the largest developers and manufacturers of polyester filament yarns in China, including drawn textured yarn, or DTY, and fully drawn yarn, or FDY, the two main polyester filament yarns, which have a variety of end applications in consumer products, including apparel, footwear and home furnishings. We also produce partially oriented yarn, or POY, which may be used as a raw material for DTY or sold separately to our customers. As of December 31, 2010, we had a designed capacity of approximately 450,000 tpa of FDY and POY and a designed capacity of approximately 260,000 tpa of DTY, which add up to a combined designed capacity of approximately 710,000 tpa of DTY, FDY and POY. According to CMAI, in 2010, we were the sixth largest manufacturer in China in terms of combined designed capacity of DTY, FDY and POY, and we were the second largest DTY manufacturer in China in terms of designed capacity. ⁽¹⁾

Our sales are primarily focused in south China. According to CMAI, we were the largest manufacturer in terms of both designed capacity of DTY and designed capacity of FDY and POY in south China in 2010; and south China represented approximately 6.3% of China's total designed capacity for the polyester filament yarn market in 2010. According to Frost & Sullivan, the apparel and footwear industry is expected to experience rapid growth in south China and, in particular, Fujian and Guangdong provinces are expected to grow from representing 33.3% of China's entire production volume in 2009 to representing 45.0% of China's entire production volume by 2015. CMAI expects that the demand for polyester filament yarns in south China will continue to increase and there will continue to be a supply shortage of polyester filament yarns for the coming years in south China.

A majority of our DTY and FDY are "differentiated", which is recognized in the industry as having special physical features and functionalities achieved through diversifying the chemical components of the filament or through changing the shape or linear density of the filament. We are able to produce differentiated DTY and FDY with special features and functionalities, such as ultraviolet resistant, water absorbing and sweat-discharging, flame resistant, anti-abrasion, ultra-soft, ultra-white, ultra-bright and anti-bacterial. These products are widely utilized in the production of premium fabrics and textiles for various consumer products that require such special features or functionalities. We believe that, with increased disposable income, consumers in China will gradually increased their demand for more diversified properties of apparel, footwear and home furnishings. As a result, we expect the demand for differentiated polyester filament yarns to continue to be higher than the demand for regular polyester filament yarns.

Note:

- ⁽¹⁾ The polyester filament yarn industry uses "designed capacity" as a ranking tool as the production volume for polyester filament yarns may vary depending on the thickness, or linear density, of the yarns produced, while "designed capacity" is calculated by using a uniform linear density of 150D, which according to CMAI, is the most common linear density in the industry, thus creating a consistent basis for comparison.

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We market and sell our polyester filament yarns under our brands “百宏” and “Billion”. Our customers are mainly fabric and textile manufacturers based in China who produce and sell knitted fabrics and textiles to manufacturers of apparel, footwear and home furnishings. We also directly export a small portion of our products to North America, Europe, Southeast Asia and South America. In 2010, we sold polyester filament yarns to approximately 2,100 customers in China and elsewhere in the world. Due to our established reputation in the polyester filament yarn industry and our ability to provide a wide variety of high-quality differentiated polyester filament yarns, many well-known leading apparel and footwear manufacturers in China, with whom we have no direct business relationship, have specifically requested their suppliers to supply fabrics and textile made from our polyester filament yarns. These manufacturers include listed companies, such as Anta (安踏), 361 Degrees (361度), Xtep (特步), Peak (匹克), Lilanz (利郎), SeptWolves (七匹狼), and certain well-known apparel companies, such as K-boxing (劲霸). Many leading Chinese fabric and textile manufacturers are our direct customers who provide high-quality fabrics and textiles to domestic and international branded apparel companies, including several Hong Kong listed and China’s A-share listed companies, such as Fynex Textile (鳳竹), some of which have established long-term relationships with us. We have also been appointed by SBS Zipper (SBS 潯興), China’s largest and the world’s second largest manufacturer of zippers, and one of our direct customers, as one of its designated suppliers for polyester filament yarns. In addition, we also have many direct overseas customers, including Bekaert, a multi-national home textile company based in Europe, and Universal Tekstil, a large textile manufacturer in Turkey.

In 2010, with the increasing recognition of our brand name and as we established closer relationships with our customers, we entered into annual strategic framework agreements with 186 of our large customers. These framework agreements, which are legally binding, provide for minimum purchase volume commitments by our customers, collaborative research and development of differentiated polyester filament yarns and the sharing of various market information. Our revenue generated from customers who entered into such framework agreements was RMB2,484.2 million for the year ended December 31, 2010, accounting for 57.6% of our total revenue in 2010. All of these customers renewed their framework agreements with us in 2011, and substantially all of these agreements provide for equal or higher minimum purchase volume commitments.

We commenced commercial production of polyester filament yarns in 2005 in the Fenglin Industrial Zone located in Longhu County, Jinjiang City, Fujian Province. Through organic growth, our designed capacity of FDY and POY increased from approximately 200,000 tpa as of January 1, 2008 to approximately 450,000 tpa as of December 31, 2010. We plan to further increase our designed capacity of FDY and POY at our current production site to approximately 475,000 tpa in June 2011. Our designed capacity of DTY increased from approximately 110,000 tpa as of January 1, 2008 to approximately 260,000 tpa as of December 31, 2010, and we plan to increase our designed capacity of DTY at our current production site to approximately 305,000 tpa by June 2011. In addition, we plan to construct a new production site, which is expected to commence productions progressively starting from November 2011, to increase our designed capacity of FDY and POY by approximately 310,000 tpa to approximately 785,000 tpa and of DTY by approximately 188,000 tpa to approximately 493,000 tpa by the end of 2013 upon its completion.

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Our primary raw materials for the production of polyester filament yarns are PTA and MEG, both of which are crude oil-based downstream commodities. Although there are a large number of PTA and MEG suppliers in China, we purchase substantially all of our PTA and MEG from a limited number of suppliers that have consistently supplied us with qualified raw materials at favorable discounts in large volumes and in a timely manner. We enter into annual supply agreements with some of these suppliers. We have more than four years of business relationships with our two largest suppliers and have on average more than two years of business relationships with our other large suppliers. During the Track Record Period, we did not experience any shortage of supply of PTA or MEG. Purchases from our five largest suppliers of raw materials accounted for 82.6%, 85.6% and 75.6% of our total purchases of raw materials for the years ended December 31, 2008, 2009 and 2010, respectively, and purchases from our largest supplier of raw materials accounted for 41.1%, 53.8% and 44.4% of our total purchases of raw materials during the respective periods.

For the years ended December 31, 2008, 2009 and 2010, our revenue was RMB2,113.6 million, RMB2,963.1 million and RMB4,309.7 million, respectively. Our gross profit for the same periods was RMB124.5 million, RMB249.6 million and RMB630.9 million, respectively, our gross profit margin for the same periods was 5.9%, 8.4% and 14.6%, respectively, and our net profit for the same periods was RMB56.7 million, RMB101.4 million and RMB446.0 million, respectively. The increase in our sales volume contributed to the increase in our revenue, which was primarily due to the continuous expansion of our production capacities and because the demand for our products and their end products, primarily apparel and footwear, recovered after the global financial crisis in 2008. The substantial increase in our gross profit margin for the year ended December 31, 2010 was primarily due to the increase in the average sales prices of our products at a much faster rate than that of our raw material prices, which was driven by the increasing market demand, as the domestic economies recovered from the financial crisis, and was stimulated by the substantial increase in the price of cotton. In particular, cotton prices increased substantially in the fourth quarter of 2010, during which time the market demonstrated a strong demand for polyester filament yarns, which have the ability to serve as a substitute for cotton yarns to some extent. CMAI expects that the market will continue to demonstrate a strong demand for polyester filament yarns, which will continue to be used as partial substitutes for cotton yarns, considering the short supply of cotton in the near future, the continuous wide price difference between cotton yarns and polyester filament yarns, and the continuing development of technologies used to manufacture polyester filament yarns that have more cotton yarn-like features and additional advantages.

Basis of Presentation

Prior to the Corporate Reorganization, Mr. Sze and Mr. Wu owned Billion Fujian. To rationalize the corporate structure in preparation of the Listing, our Company was incorporated in the Cayman Islands on November 25, 2010 and we underwent the Corporate Reorganization. Upon its completion, our Company became the ultimate parent company of Billion Fujian and the holding company of our Group. The companies that took part in the Corporate Reorganization were controlled by the same group of ultimate equity holders, Mr. Sze and Mr. Wu, before and after the Corporate Reorganization. Please see “History and Corporate Structure”. Therefore, there were no changes in the economic substance of the ownership and the business of our Group and the Corporate Reorganization only involved inserting newly formed entities with no substantive operations as new holding companies of Billion Fujian, which was our Group’s sole operating entity during the Track Record Period. Accordingly, the Corporate Reorganization has been accounted for using a principle similar to that for a reverse acquisition as set out

FINANCIAL INFORMATION

in Hong Kong Financing Reporting Standard 3, Business Combinations, with Billion Fujian treated as the acquirer for accounting purposes. Our financial information has been prepared and presented as a continuation of the financial statements of Billion Fujian with the assets and liabilities of Billion Fujian recognized and measured at their historical carrying amounts prior to the Corporate Reorganization.

The Company's functional currency is Hong Kong dollars, and the functional currency of its subsidiary established in the PRC is Renminbi. As we mainly operate in the PRC, Renminbi is used as the presentation currency of our financial statements. All financial information presented is rounded to the nearest thousand or million unless otherwise stated. The measurement basis used in the preparation of the financial information is the historical cost basis except the derivative financial instruments that are stated at their fair value as explained in the accounting policies set out in the accountants' report in Appendix I to this prospectus.

Factors Affecting Our Results of Operations and Financial Condition

Our results of operations and the period-to-period comparability of our financial results are affected by a number of external factors. Our combined financial statements may not be indicative of our future earnings, cash flows or financial position for numerous reasons, including those described below.

General economic conditions and the growth in disposable income of the PRC residents

We derive a substantial portion of our revenue from sales in China. According to Frost & Sullivan, China's general consumer spending steadily increased from RMB5,355.1 billion in 2005 to RMB10,250.4 billion in 2009, representing a CAGR of 17.6%. In particular, China's consumer spending on apparel and footwear nearly doubled from 2005 to 2009, increasing steadily from RMB502.0 billion in 2005 to RMB1,001.0 billion in 2009, representing a CAGR of 18.8%. With this steady growth, a number of apparel, footwear and home furnishing manufacturers have emerged and grown rapidly in the past several years, along with numerous fabric and textile manufacturers. The demand for our products increased during the Track Record Period as these manufacturers expanded their operations.

Our main customers are fabric and textile manufacturers based in China who use our products to produce and sell knitted fabrics and textiles to manufacturers of apparel, footwear and home furnishings. Accordingly, consumer demand in the PRC for those consumer products is one of the key drivers of our revenue. Such demand depends in large part on the general economic conditions in the PRC, the growth in disposable income of the PRC residents and their consumption patterns. We expect the increase in the purchasing power of the PRC residents to drive sentiment towards the purchase of branded consumer products, which we believe should help to positively affect our results of operations.

Pricing of our products and product mix

Our ability to continue to price our products at profitable levels is important to our financial performance. We set the sales prices of our different polyester filament yarn products based on a variety of factors, including the type of products we sell, the market prices of similar products, the market prices of our raw materials, our expectation of market conditions, our inventory level and the specifications of the product ordered by a customer.

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As DTY involves an additional texturing process which gives the product a cotton-like feel, DTY generally commands higher average sales prices than FDY. POY, which is the raw material for the production of DTY, generally has lower average sales prices than DTY and FDY. Depending on the complexity of the manufacturing process, the research and development efforts we devote to developing such product and the technology involved in producing such product, the prices of our differentiated polyester filament yarns may vary. Please refer to “— Description of Components of Results of Operations — Revenue” for further discussions about the fluctuation of our average sales prices during the Track Record Period.

The following table sets forth the revenue, sales volume and the average sales prices by product for the years ended December 31, 2008, 2009 and 2010:

	Year ended December 31,								
	2008			2009			2010		
	RMB'000	Sales volume (tons)	Average sales price (RMB /ton)	RMB'000	Sales volume (tons)	Average sales price (RMB /ton)	RMB'000	Sales volume (tons)	Average sales price (RMB /ton)
DTY	1,148,892	97,051	11,838	2,207,113	236,450	9,334	2,870,583	238,821	12,020
FDY	417,667	39,811	10,491	358,920	42,961	8,355	940,102	80,705	11,649
POY	379,479	37,706	10,064	211,240	27,388	7,713	122,709	11,950	10,269
Others ⁽¹⁾ . .	167,576	24,644	6,800	185,825	28,190	6,592	376,337	47,837	7,867
Total	<u>2,113,614</u>	<u>199,212</u>	10,610	<u>2,963,098</u>	<u>334,989</u>	8,845	<u>4,309,731</u>	<u>379,313</u>	11,362

Note:

(1) Others represents PET chips and wasted filament.

We believe our product positioning has helped us capture growing market demand. We will continue to adjust our product mix and enhance our product positioning in an effort to increase our revenue and gross profit. As we adjust our product mix, our gross profit will be affected both by any change in revenue attributable to, and any change in the gross profit margin of, each product.

Production capacity and sales volume

Our results of operations have been and are expected to continue to be affected by our production capacity expansion. Through organic growth, our designed capacity of FDY and POY was approximately 160,000 tpa and 290,000 tpa, respectively, as of December 31, 2010. Our DTY production primarily utilizes the POY we produce, which had a designed capacity of approximately 260,000 tpa as of December 31, 2010. We plan to further increase our designed capacity of FDY and POY to approximately 475,000 tpa and DTY to approximately 305,000 tpa by June 2011 at our current production site and plan to construct a new production site near our existing production site in Jinjiang City, Fujian Province, which is expected to commence productions progressively starting from November 2011 and is expected to increase our designed capacity of FDY and POY by approximately 310,000 tpa to approximately 785,000 tpa by the end of 2013 and increase our designed capacity of DTY by approximately 188,000 tpa to approximately 493,000 tpa by the end of 2013 upon its completion. Please refer to “Business — Production — Production Facilities and Capacities – Production Facilities under Construction” in this prospectus for more details.

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Our sales volume increased during the Track Record Period from 199,212 tons for the year ended December 31, 2008 to 334,989 tons for the year ended December 31, 2009, and to 379,313 tons for the year ended December 31, 2010. This growth is generally in line with the expansion of our production capacity during the Track Record Period.

We believe our large production capacity and sales volume allow us to benefit from economies of scale in various ways, including discounted purchase prices of raw materials, strong bargaining power in pricing of our products, lower fixed unit costs for our products, and higher market recognition and awareness.

Price of raw materials

Our primary raw materials for the production of polyester filament yarns are purified terephthalic acid, or PTA, and monoethylene glycol, or MEG. On average, we use 0.86 tons of PTA and 0.34 tons of MEG to produce one ton of polyester filament yarns. We also use a small amount of spin finish oil and other additives in our production processes. For the years ended December 31, 2008, 2009 and 2010, the cost of our raw materials accounted for 84.3%, 81.3% and 81.0%, respectively, of our total cost of sales. It is important for us to obtain from our suppliers sufficient quantities of high-quality raw materials in a timely manner and at competitive prices for our production.

The market price of our key raw materials, in particular, PTA and MEG, is affected by several factors. As crude oil-based commodities, PTA's and MEG's prices are indirectly affected by the fluctuations in crude oil prices. Certain other factors may also impact the market prices of PTA and MEG, including the market demand for PTA and MEG, competition and supply of PTA and MEG, global economic and financial conditions and anti-dumping measures by the PRC government. The purchase price paid by us for our raw materials may be slightly lower than the market price as we enjoy certain discounts for volume purchases. The average purchase price of PTA was RMB6,223 per ton, RMB5,913 per ton and RMB6,741 per ton for each of the years ended December 31, 2008, 2009 and 2010, respectively. The average purchase price of MEG was RMB6,330 per ton, RMB4,395 per ton and RMB6,108 per ton for each of the years ended December 31, 2008, 2009 and 2010, respectively.

Most of our suppliers have supplied us with their products for more than three years, but we do not enter into long-term agreements with our raw material suppliers. Fluctuations in the costs of our primary raw materials and our inability to pass on any increases in raw material costs to our customers may materially and adversely affect our cost of sales and our gross profit margins. See "Risk Factors — Risks Relating to Our Business — Our business and profitability may be affected by fluctuations in raw material prices as we may not always be able to pass on the increase in raw material costs to our customers" in this prospectus.

Level of income tax and preferential tax treatment

The EIT Law imposes a uniform enterprise income tax rate of 25% for both domestic enterprises and foreign invested enterprises effective from January 1, 2008. Under the EIT Law, enterprises that enjoyed a preferential tax rate prior to the EIT Law's promulgation shall gradually transit to the new tax rate over five years from the effective date of the EIT Law. Enterprises which enjoyed tax exemption of a

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fixed period and reduction under the then applicable rules and regulations may continue to enjoy such preferential tax treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment has not commenced due to lack of profit, such preferential tax treatment shall commence from the effective date of the EIT Law.

Our PRC subsidiary, Billion Fujian, is a foreign investment enterprise and, pursuant to the Income Tax Law of PRC for Enterprises with Foreign Investment and Foreign Enterprises (effective as of July 1, 1991), is entitled to tax exemption of a fixed period whereby the profit for the first two financial years beginning with the first profit-making year is exempted from income tax in the PRC and the profit for each of the subsequent three years is taxed at 50% of the prevailing tax rate set by the local authorities. The first profit-making year of Billion Fujian was 2006. Accordingly, Billion Fujian was exempted from the PRC enterprise income tax from January 1, 2006 to December 31, 2007 and the applicable rate for the period from January 1, 2008 to December 31, 2010 is 12.5%, 50% of the then applicable tax rate of 25% under the EIT Law. Our applicable tax rate is 15% as we are qualified as High and New Technology Enterprise from 2011 onward, subject to renewal.

Pursuant to CaiShuiZi [1999] No. 290 issued by the Ministry of Finance and the State Administration of Taxation, tax credit is granted for purchases of domestic equipment. The tax credit is calculated as 40% of the purchase amount of qualified domestic equipment for production use. The amount of the tax credit that could be utilized in each year is limited to the increase in enterprise income tax payable of the year compared to the enterprise income tax payable in the preceding year. Any unused tax credit is allowed to be carried forward for seven years. We enjoyed such preferential tax treatment during the Track Record Period and have used up all such tax credits in 2010.

During the period from January 1, 2008 until the completion of the Corporate Reorganization, Billion H.K. had been the immediate holding company of Billion Fujian and therefore was liable to PRC dividend withholding tax under the PRC tax laws and regulations. As Billion H.K. is not a part of our Group after the Corporate Reorganization, its withholding tax liability is excluded from our Group's financial information. Upon the completion of the Corporate Reorganization on February 17, 2011, Billion Fujian became a wholly-owned subsidiary of Billion Development. According to the share transfer agreement, the entitlement to the undistributed earnings of Billion Fujian as of the equity interest transfer date will also be transferred to Billion Development, resulting in a change in tax status of Billion Development which will be taxed on any post-Corporate Reorganization dividend received from Billion Fujian. As of December 31, 2010, the undistributed earnings of Billion Fujian amounted to RMB484.9 million, of which RMB324.6 million was declared and paid to Billion H.K. in January 2011 subsequent to the Track Record Period. Our Directors currently do not intend for Billion Fujian to distribute any of the remaining undistributed earnings in the foreseeable future, therefore no deferred tax liability has been recorded by our Group associated with such unremitted earnings. If our Directors decide to distribute dividends from Billion Fujian to Billion Development in the future such as by forming a dividend policy that specifies the percentage of our dividend over our after-tax earnings, we will be required to record a deferred PRC withholding tax liability in our accounts up to 10% (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 will be negatively impacted.

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Critical Accounting Policies and Practices

The discussion and analysis of our results of operations and financial condition is based on our audited combined financial statements, which have been prepared in accordance with HKFRS. Our results of operations and financial condition are sensitive to accounting methods, assumptions and estimates that underlie the preparation of our combined financial information. Our assumptions and estimates are based on our historical experience and various other assumptions which we currently believe to be reasonable, and form the basis for making judgments on matters that are not readily apparent from other sources. Our management evaluates these estimates on an ongoing basis. Actual results may differ from these estimates as the facts, circumstances and conditions may experience change or as a result of different assumptions.

Our management team considers the following factors in reviewing the respective combined financial information:

- the selection of critical accounting policies; and
- the judgements and other uncertainties affecting the application of those critical accounting policies.

The selection of critical accounting policies, the judgements and other uncertainties affecting the application of those policies, as well as the sensitivity of reported results to changes in conditions and assumptions, are all factors to be considered when reviewing our financial information. We believe the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial information:

Impairments for non-current assets

If circumstances indicate that the carrying value of a non-current asset may not be recoverable, the asset may be considered “impaired”, and an impairment loss may be recognized in profit or loss. The carrying amounts of non-current assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount.

The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling prices because quoted market prices for our assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of sales volume and the amount of operating costs. We use all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volumes and amounts of operating costs.

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Depreciation

Fixed assets are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. We review the estimated useful lives of the fixed assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on our historical experience with similar assets taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Impairment of trade receivables

We evaluate whether there is any objective evidence that trade receivables are impaired, and estimate allowances for doubtful debts as a result of the inability of the debtors to make required payments. We base the estimates on the aging of the trade receivables balance, credit-worthiness of the customer and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. These estimates could change significantly as a result of changes in customer preferences and competitor actions in response to severe industry cycles. Management reassesses these estimates at each balance sheet date.

Description of Components of Results of Operations

Revenue

Revenue represents the sales value of goods supplied to customers (net of sales tax, value-added tax and discounts). During the Track Record Period, we generated substantially all of our revenue from the manufacture and sale of polyester filament yarn products, including differentiated polyester filament yarns and regular polyester filament yarns.

Our revenue is determined by our sales volume and the sales price of products. Our sales volume increased during the Track Record Period from 199,212 tons for the year ended December 31, 2008 to 334,989 tons for the year ended December 31, 2009 to 379,313 tons for the year ended December 31, 2010. This growth is generally in line with the expansion of our production capacity during the Track Record Period. Our designed production capacity increased from 2008 to 2009 as we completed our second polymerizing production line and the polyester filament yarn production facilities connected to it in the fourth quarter of 2008. As our newly added production capacities ramped up in 2009, our production volume and sales volume increased in 2009. Our sales volume further increased in 2010 primarily due to the recovery of the domestic market from the global economic crisis, which resulted in strong demand for our products.

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The average sales prices of our products, however, fluctuated during the Track Record Period, decreasing from RMB10,610 per ton for the year ended December 31, 2008 to RMB8,845 per ton for the year ended December 31, 2009 and then rebounding to RMB11,362 per ton for the year ended December 31, 2010. We believe the decreasing trend of the average sales prices for the years ended December 31, 2008 and 2009 was primarily due to the global financial crisis starting in the second half of 2008, which resulted in the decrease in the demand for our downstream products, textile and fabrics, as well as the end products of polyester filament yarns, such as apparel, footwear and home furnishings. With the recovery of the domestic and global economies and with the substantial increase in the price of cotton in the second half of 2010, the raw material for cotton yarns, which may be partially substituted by polyester filament yarns in making textile and fabrics, the average sales prices of our products increased from 2009 to 2010.

The following table sets forth our revenue breakdown by product for the periods indicated:

	Year ended December 31,					
	2008		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%
DTY	1,148,892	54.4	2,207,113	74.5	2,870,583	66.6
FDY	417,667	19.8	358,920	12.1	940,102	21.8
POY	379,479	17.9	211,240	7.1	122,709	2.9
Others ⁽¹⁾	167,576	7.9	185,825	6.3	376,337	8.7
Total	<u>2,113,614</u>	<u>100.0</u>	<u>2,963,098</u>	<u>100.0</u>	<u>4,309,731</u>	<u>100.0</u>

Note:

(1) Others represents PET chips and wasted filament.

Our revenue derived from DTY increased steadily during the Track Record Period as our sales volume of DTY increased, which was facilitated by the expansion of our DTY production capacity. Our revenue derived from FDY decreased from 2008 to 2009 and increased in 2010, primarily due to the combined effect of the increase of our sales volume of FDY and the fluctuation of the average sales price of FDY. Our revenue derived from POY decreased steadily during the Track Record Period, primarily because we utilized more POY in our production of DTY, which generally commands higher average sales prices. Our revenue from other products increased during the Track Record Period due to an increase in sales volume of both PET chips and wasted filament.

Cost of sales

By type

Our cost of sales primarily consists of raw material costs as well as manufacturing costs incurred in our production. Our cost of sales accounted for 94.1%, 91.6%, and 85.4% of our total revenue for the

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years ended December 31, 2008, 2009 and 2010, respectively. The following table sets forth a breakdown of our cost of sales for our products by type during the Track Record Period:

	Year ended December 31,					
	2008		2009		2010	
	RMB' 000	%	RMB' 000	%	RMB' 000	%
Cost of raw materials						
PTA	1,133,666	57.0	1,640,657	60.5	2,086,346	56.7
MEG	473,213	23.8	472,085	17.4	668,527	18.2
Other raw materials ⁽¹⁾	70,494	3.5	91,845	3.4	225,303	6.1
	1,677,373		2,204,587		2,980,176	
Manufacturing costs	311,599	15.7	508,570	18.7	696,668	18.9
Total production costs	1,988,972		2,713,157		3,676,844	
Other costs ⁽²⁾	178	0.0	297	0.0	1,939	0.1
Total cost of sales	1,989,150	100.0	2,713,454	100.0	3,678,783	100.0

Notes:

(1) Other raw materials primarily include spin finish oil and other additives.

(2) Other costs represents principal business tax and surcharge.

Raw material costs refer to costs of procuring raw materials used in the production, such as PTA and MEG. Manufacturing costs include labor costs, packaging costs, energy costs, other production expenses and tax.

By product

The following table sets forth a breakdown of our cost of sales by product during the Track Record Period:

	Year ended December 31,					
	2008		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%
DTY	1,068,226	53.7	2,035,840	75.0	2,467,931	67.1
FDY	388,716	19.5	311,715	11.5	754,492	20.5
POY	358,090	18.0	189,321	7.0	102,599	2.8
Others ⁽¹⁾	174,118	8.8	176,578	6.5	353,761	9.6
Total	1,989,150	100.0	2,713,454	100.0	3,678,783	100.0

Note:

(1) Others represents PET chips and wasted filament.

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Gross profit and gross profit margin

Our gross profit is our revenue from sales of our products for the relevant period less the cost of sales for our products for the same period. The following table sets forth a breakdown of our gross profit and gross profit margin by product during the Track Record Period:

	Year ended December 31,					
	2008		2009		2010	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%
DTY	80,666	7.0	171,273	7.8	402,652	14.0
FDY	28,951	6.9	47,205	13.2	185,610	19.7
POY	21,389	5.6	21,919	10.4	20,110	16.4
Others ⁽¹⁾	(6,542)	(3.9)	9,247	5.0	22,576	6.0
Total	<u>124,464</u>	5.9	<u>249,644</u>	8.4	<u>630,948</u>	14.6

Note:

(1) Others represents PET chips and wasted filament.

Our gross profit increased during the Track Record Period, primarily due to our increased sales volume and the increased gross profit margin. Our gross profit increased by 100.5% from RMB124.5 million for the year ended December 31, 2008 to RMB249.6 million for the year ended December 31, 2009, primarily due to the increase in our sales volume, although the average sales price of our products decreased from the year ended December 31, 2008 to the year ended December 31, 2009. In addition, the market demand for our products recovered from the global financial crisis, which we believe was driven by an increased demand for apparel and consumer products in the domestic market. Our gross profit increased by 152.8% from RMB249.6 million for the year ended December 31, 2009 to RMB630.9 million for the year ended December 31, 2010 primarily because the average sales prices of our products increased along with the substantial increase in the market prices of polyester filament yarn in 2010 and, in particular, in the fourth quarter of 2010. Such increase in the market prices of polyester filament yarn was primarily driven by the strong demand in the domestic market for polyester filament yarns as the domestic economies recovered from the financial crisis and was stimulated by the substantial increase in the price of cotton, which is a raw material for cotton yarn, a type of natural yarn that may be partially substituted by polyester filament yarns in making textiles and fabrics. In particular, the monthly average price of cotton had nearly doubled from approximately RMB15,300 per ton in January 2010 to approximately RMB29,400 per ton in November 2010 according to the China National Cotton Exchange.

The gross profit margin increased from 5.9% for the year ended December 31, 2008 to 8.4% for the year ended December 31, 2009, primarily as a result of the recovering domestic demand for downstream products after the global financial crisis, particularly in Fujian and Guangdong Provinces, causing the gradual recovery in the selling prices of our products throughout 2009, which increased at a faster rate than the increase in raw material prices during the same year. Our gross profit margin increased from 8.4% for the year ended December 31, 2009 to 14.6% for the year ended December 31, 2010 due to the increase in the average sales prices of our products at a much faster rate than that of our raw material prices, the pattern of which was generally in line with the market prices of polyester filament yarns and

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PTA and MEG. In particular, the prices of polyester filament yarns increased substantially in the fourth quarter of 2010, as a result of the substantially increased price of cotton, the raw material for cotton yarns, which may be partially substituted by polyester filament yarns in making textile and fabrics.

Other revenue

Our other revenue primarily consisted of bank interest income, other interest income, government grants and sales of surplus raw materials including PTA and MEG. Our other revenue accounted for 2.0%, 1.0% and 0.8% of our total revenue for the years ended December 31, 2008 and 2009 and 2010, respectively. Our other interest income primarily represents the net amount of interests charged to our related parties by us for advances made to them and interests charged to us for advances made to us by our related parties, both of which were made to support the short-term cash needs for the operations of the relevant parties. Such advances have been fully settled and the other interest income for the year ended December 31, 2010 was nil. We do not intend to extend or accept any such advances going forward.

Our PRC legal advisers, Tian Yuan Law Firm, advised us that the above-mentioned advances constituted inter-enterprise lending that violates the General Regulation of Loans (貸款通則) promulgated by PBOC. A fine amounting to one to five times of the lender's income resulted from such violation may be imposed by PBOC for such inter-enterprise lending or such lending with the same effect, which was estimated to be between RMB11.0 million and RMB54.9 million as of December 31, 2010. However, we have also been advised by Tian Yuan Law Firm that, since the advances have been fully repaid and there is no such administrative procedures known to have been initiated with respect to such violation, it is very unlikely for fines to be imposed by PBOC for such violation. In addition, Tian Yuan Law Firm advised us that an administrative fine, such as the one that may be imposed by PBOC, may not be imposed if a violation is not discovered by the relevant administrative authority within two years since the end of the violation. Our Controlling Shareholders have provided us with an indemnity for such penalty that may be imposed on us.

Other net gain/(loss)

Our other net (loss)/gain mainly consists of net loss on disposal of fixed assets, donations, net exchange gain/(loss), net loss on financial liabilities at a fair value through profit or loss, and others. We had other net loss of RMB2.6 million for the year ended December 31, 2009. We had other net gain of RMB0.5 million and RMB21.3 million for the year ended December 31, 2008 and 2010, respectively. Our other net (loss)/gain primarily represented a combined effect of the net gains or losses incurred on our foreign exchange denominated assets and liabilities and the net loss recorded on our financial liabilities at fair value.

Distribution costs

Distribution costs consist primarily of transportation expenses which were mainly for export sales and partially for domestic sales, bank transaction charges, salary and traveling expenses for our marketing and sales staff and others. As we gradually increased our export sales and expanded our market coverage to farther areas, our distribution costs increased during the Track Record Period. Our distribution costs accounted for 0.4%, 0.8% and 0.6% of our revenue for the years ended December 31, 2008, 2009 and 2010, respectively.

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Administrative expenses

Administrative expenses consist primarily of staff and welfare expenses, depreciation expenses for our fixed assets, other taxation, expenses associated with land use rights, environmental protection and research and development, and others. Our administrative expenses accounted for 1.1%, 2.8% and 2.1% of our revenue for the years ended December 31, 2008, 2009 and 2010, respectively.

Finance costs

Our finance costs primarily consist of interests on bank advances and other borrowings wholly repayable within five years and other interest expenses. Our finance costs accounted for 3.0%, 1.4% and 0.7% of our revenue for the years ended December 31, 2008, 2009 and 2010, respectively.

Income tax

Income tax represents the difference between the applicable tax expenses calculated at the national tax rate and our deferred tax assets and tax benefits available to us. No provision for Hong Kong profit tax has been made as we did not generate any assessable profits arising in Hong Kong during the Track Record Period. We were also not subject to any tax in the Cayman Islands during the Track Record Period.

RESULTS OF OUR OPERATIONS

The following table sets forth information relating to certain income and expenses items from our audited combined statements of comprehensive income for the periods indicated:

	Year ended December 31,					
	2008		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%
Revenue	2,113,614	100.0	2,963,098	100.0	4,309,731	100.0
Cost of sales	(1,989,150)	(94.1)	(2,713,454)	(91.6)	(3,678,783)	(85.4)
Gross profit	124,464	5.9	249,644	8.4	630,948	14.6
Other revenue	42,705	2.0	28,223	1.0	35,073	0.8
Other net gain/(loss)	452	0.0	(2,574)	(0.1)	21,287	0.5
Distribution costs	(8,384)	(0.4)	(25,055)	(0.8)	(26,580)	(0.6)
Administrative expenses ..	(23,774)	(1.1)	(81,851)	(2.8)	(91,049)	(2.1)
Profit from operations	135,463	6.4	168,387	5.7	569,679	13.2
Finance costs	(63,062)	(3.0)	(40,013)	(1.4)	(32,227)	(0.7)
Profit before taxation	72,401	3.4	128,374	4.3	537,452	12.5
Income tax	(15,677)	(0.7)	(26,978)	(0.9)	(91,493)	(2.1)
Profit and total comprehensive income for the year	56,724	2.7	101,396	3.4	445,959	10.3

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

Revenue

Our revenue increased by 45.4% from RMB2,963.1 million for the year ended December 31, 2009 to RMB4,309.7 million for the year ended December 31, 2010, primarily as a result of an increase in our sales volume and in the average sales price of our products. Our sales volume increased by 13.2%, primarily due to the increased demand for apparel, footwear and home furnishing products in the domestic market as the per capita disposable income increased and as the domestic economy recovered in 2010. In particular, demand for our differentiated polyester filament yarns increased, as the domestic demand for high-end apparel, footwear and home furnishings with special features and functionalities increased. The average sales prices of our products increased by 28.5% from 2009 to 2010 in line with the increased demand for our products and the increase in raw material prices as a result of the recovery of domestic and global economies. In particular, the substantial increase in the price of cotton in the fourth quarter of 2010 contributed to the increase in our average sales price in 2010, as polyester filament yarns can serve as a substitute for cotton yarns to some extent in the making of fabrics and textiles.

Our revenue from sales of DTY and FDY increased by 30.1% and 161.9% from the year ended December 31, 2009 to the year ended December 31, 2010, respectively. Such increases were primarily a result of the increased average sales price and sales volume for DTY and FDY. Our revenue from sales of POY decreased from RMB211.2 million for the year ended December 31, 2009 to RMB122.7 million for the year ended December 31, 2010 as a result of increased internal consumption of POY for the production of our DTY.

Cost of sales

Our cost of sales increased by 35.6% from RMB2,713.5 million for the year ended December 31, 2009 to RMB3,678.8 million for the year ended December 31, 2010, primarily due to increases in raw material costs and manufacturing costs. Our raw material costs, which mainly consist of costs for PTA and MEG, increased by 35.2% from RMB2,204.6 million for the year ended December 31, 2009 to RMB2,980.2 million for the year ended December 31, 2010, primarily due to increased sales volume as well as increased raw material purchase prices. Our manufacturing costs increased by 37.0% from RMB508.6 million for the year ended December 31, 2009 to RMB696.7 million for the ended December 31, 2010, primarily as a result of increases in labor costs, packaging costs, energy costs and other production expenses.

Gross profit and gross profit margin

Our gross profit increased by 152.8% from RMB249.6 million for the year ended December 31, 2009 to RMB630.9 million for the year ended December 31, 2010 because the average sales price of our products increased at a faster rate than that of our raw material prices, particularly in the fourth quarter of 2010 as the price of cotton increased substantially. Our overall gross profit margin increased from 8.4% for the year ended December 31, 2009 to 14.6% for the year ended December 31, 2010 primarily due to the average sales prices of our products increased at a faster rate than that of our raw material prices.

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Other revenue

Other revenue increased by 24.5% from RMB28.2 million for the year ended December 31, 2009 to RMB35.1 million for the year ended December 31, 2010, primarily due to an increase in sales of raw materials from RMB1.0 million for the year ended December 31, 2009 to RMB14.9 million for the year ended December 31, 2010, as we sold surplus raw materials when such sales were profitable to us. The increase in our other revenue was also due to an increase in bank interest income from RMB6.8 million for the year ended December 31, 2009 to RMB16.8 million for the year ended December 31, 2010 as we deposited more cash at the bank to finance our foreign currency denominated bank bills and letters of credit under the NDF arrangements. Please see “Business — Raw Materials and Procurement — Procurement and Suppliers — Procurement Terms” in this prospectus for more details about NDF arrangements.

Other net gain/(loss)

We had other net loss of RMB2.6 million for the year ended December 31, 2009 and other net gain of RMB21.3 million for the year ended December 31, 2010 primarily because we recorded a net exchange gain of RMB22.6 million for the year ended December 31, 2010 as the repayment liability of the foreign currency loans under our NDF arrangements decreased due to the appreciation of Renminbi against foreign currencies.

Distribution costs

Distribution costs increased by 6.0% from RMB25.1 million for the year ended December 31, 2009 to RMB26.6 million for the year ended December 31, 2010, primarily due to an increase in our marketing expenses, salary and traveling expenses for our marketing and sales staff.

Administrative expenses

Administrative expenses increased by 11.1% from RMB81.9 million for the year ended December 31, 2009 to RMB91.0 million for the year ended December 31, 2010 primarily due to the increase in our research and development costs.

Finance costs

Finance costs decreased by 19.5% from RMB40.0 million for the year ended December 31, 2009 to RMB32.2 million for the year ended December 31, 2010, primarily due to a decrease in interest expense on our short-term bank borrowings, which decreased from RMB455.8 million as of December 31, 2009 to RMB383.2 million as of December 31, 2010, and other borrowings from third parties as we reduced such borrowings in 2010.

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Income tax

Income tax expenses increased by 238.9% from RMB27.0 million for the year ended December 31, 2009 to RMB91.5 million for the year ended December 31, 2010, primarily due to the increase in profit before tax. Our applicable statutory income tax rate remained the same at 12.5% for the years ended December 31, 2009 and 2010. Our effective tax rate decreased from 21.0% for the year ended December 31, 2009 to 17.0% for the year ended December 31, 2010 primarily as a result of our increased tax concessions granted by the tax authority due to the increased use of domestically sourced equipment. Our effective tax rate was higher than Billion Fujian's applicable statutory income tax rate as a result of some non-deductible expenses and temporary difference arising from capitalization of interests for construction and technical improvement projects and the temporary difference in the useful life of leasehold land and fixed assets. Please refer to Note 6(b) of the Accountants' Report in Appendix I of this prospectus for details of our effective tax.

Profit and total comprehensive income for the period

As a result of the foregoing, our profit and total comprehensive income increased by 339.8% from RMB101.4 million for the year ended December 31, 2009 to RMB446.0 million for the year ended December 31, 2010. Our net profit margin increased from 3.4% for the year ended December 31, 2009 to 10.3% for the year ended December 31, 2010, primarily as a result of our increased gross profit margin due to the recovery of the domestic market and an increase in other net gains.

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

Revenue

Our revenue increased by 40.2% from RMB2,113.6 million for the year ended December 31, 2008 to RMB2,963.1 million for the year ended December 31, 2009, primarily as a result of a significant increase in the sales volume of DTY products, driven by the recovery of the global economy and the continued growth of China's consumer spending, and facilitated by our increased production capacity in 2008.

Cost of sales

Our cost of sales increased by 36.4% from RMB1,989.2 million for the year ended December 31, 2008 to RMB2,713.5 million for the year ended December 31, 2009, primarily due to an increase in raw material and manufacturing costs. Our raw material costs increased by 31.4% from RMB1,677.4 million for the year ended December 31, 2008 to RMB2,204.6 million for the year ended December 31, 2009, primarily due to an increase in sales volume despite a decrease in raw material prices in 2009. Manufacturing costs increased by 63.2% from RMB311.6 million for the year ended December 31, 2008 to RMB508.6 million for the year ended December 31, 2009, primarily as a result of increases in other costs, such as energy costs, packaging costs and other production expenses.

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Gross profit and gross profit margin

Our gross profit increased by 100.5% from RMB124.5 million for the year ended December 31, 2008 to RMB249.6 million for the year ended December 31, 2009. Overall gross profit margin increased from 5.9% for the year ended December 31, 2008 to 8.4% for the year ended December 31, 2009. The increase was primarily attributable to the recovering domestic demand for downstream products following the global financial crisis, particularly in Fujian and Guangdong Provinces, resulting in the gradual recovery in the selling prices of our products throughout 2009, which increased at a faster rate than the increase in raw material prices.

Other revenue

Other revenue decreased by 34.0% from RMB42.7 million for the year ended December 31, 2008 to RMB28.2 million for the year ended December 31, 2009, primarily due to a decrease in other interest income, resulting from a decrease in interest-bearing advances to certain related parties in 2009.

Other net gain/(loss)

We had other net gain of RMB0.5 million for the year ended December 31, 2008 and other net loss of RMB2.6 million for the year ended December 31, 2009 primarily because we incurred net loss on financial liabilities at a fair value through profit or loss. The financial liabilities primarily represented the interest rate swap related to our foreign exchange loans, and the NDF agreement under the NDF arrangement, the fair value of which may change due to the changes of interest rates and exchange rates. Please refer to “Business — Raw materials and Procurement — Procurement and Supplies — Procurement Terms.”

Distribution costs

Distribution costs increased by 198.8% from RMB8.4 million for the year ended December 31, 2008 to RMB25.1 million for the year ended December 31, 2009, primarily due to a significant increase in transportation expenses from RMB4.3 million for the year ended December 31, 2008 to RMB19.8 million for the year ended December 31, 2009 and an increase in bank transaction charges, both of which resulted from our increased export sales.

Administrative expenses

Administrative expenses increased by 244.1% from RMB23.8 million for the year ended December 31, 2008 to RMB81.9 million for the year ended December 31, 2009, primarily because we incurred expenses to improve the working environment of our existing production plant and expenses on research and development activities in 2009.

Finance costs

Finance costs decreased by 36.6% from RMB63.1 million for the year ended December 31, 2008 to RMB40.0 million for the year ended December 31, 2009, primarily due to a decrease in interest expense on our short-term bank borrowings, which decreased from RMB1,151.5 million as of December 31, 2008 to RMB455.8 million as of December 31, 2009.

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Income tax

Income tax expenses increased 72.0% from RMB15.7 million for the year ended December 31, 2008 to RMB27.0 million for the year ended December 31, 2009, primarily due to increases in our profit before taxation. Our applicable statutory income tax rate remained the same at 12.5% for the years ended December 31, 2008 and 2009 and our effective tax rate remained stable, which was 21.7% for the year ended December 31, 2008 and 21.0% for the year ended December 31, 2009. Our effective tax rate was higher than Billion Fujian's applicable statutory income tax rate as a result of some non-deductible expenses and temporary difference arising from capitalization of interests for construction and technical improvement projects and the temporary difference in the useful life of leasehold land and fixed assets.

Profit and total comprehensive income for the year

As a result of the foregoing, our profit and total comprehensive income increased by 78.8% from RMB56.7 million for the year ended December 31, 2008 to RMB101.4 million for the year ended December 31, 2009. Our net profit margin increased from 2.7% for the year ended December 31, 2008 to 3.4% for the year ended December 31, 2009 primarily as a result of our increased gross profit margin due to the recovery of the domestic economy, which was partially offset by the increased administrative expenses relating to land use rights, improvement of the working environment of our production site and research and development activities.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to satisfy our working capital and capital expenditure needs. We have historically financed our working capital and capital expenditure needs primarily through debt financing in the form of bank loans from local banking institutions, capital injections and loans from our shareholders, loans from third parties and cash flow from operating activities.

Cash Flow

The following table sets forth a summary of our audited combined cash flow statements for the periods indicated:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Net cash (used in)/generated from operating activities	(130,692)	1,016,830	(36,556)
Net cash (used in)/generated from investing activities	(169,353)	(150,821)	88,542
Net cash generated from/(used in) financing activities	373,385	(825,470)	(38,029)
Net increase in cash and cash equivalents .	<u>73,340</u>	<u>40,539</u>	<u>13,957</u>

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Cash flow from operating activities

We derive our cash generated from operating activities principally from the receipt of payments for the sale of our products. Our cash used in operating activities is principally for purchases of raw materials, salary payments, marketing expenses and distribution expenses.

For the year ended December 31, 2010, our net cash used in operating activities amounted to RMB36.6 million. Our profit before taxation was RMB537.5 million. Negative cash-flow adjustments reflected primarily: (i) an increase in trade and other receivables of RMB472.4 million, due to the increase in our prepayments as we made more prepayments in preparation for our future production to secure raw materials at lower prices, and due to an increase in bills receivables, as a result of an increased payments by our customers by bank bills; and (ii) a decrease in trade and other payables of RMB330.8 million, primarily because of the decrease in our bills payables which was primarily a result of our usage of bank bills with shorter terms, which were primarily three months, in order to obtain higher discounts for raw materials. Such negative adjustments were partly offset by a decrease in inventories of RMB123.1 million, primarily due to the decrease in finished goods as we sold them during our overhaul and an depreciation of RMB132.9 million.

For the year ended December 31, 2009, our net cash generated from operating activities amounted to RMB1,016.8 million. Our profit before taxation was RMB128.4 million. Positive cash flow adjustments reflected primarily: (i) an increase in trade and other payables of RMB760.7 million, primarily due to our increased purchase of raw materials; and (ii) a decrease in trade and other receivables of RMB247.3 million, due to expedited repayment by our customers in 2009; and (iii) depreciation of RMB126.8 million. Such positive adjustments were partly offset by: (i) an increase in inventories of RMB274.0 million, primarily because our finished goods increased significantly in 2009; and (ii) interest income of RMB22.6 million.

For the year ended December 31, 2008, our net cash used in operating activities amounted to RMB130.7 million. Our profit before taxation was RMB72.4 million. Negative cash flow adjustments reflected primarily: (i) an increase in inventories of RMB130.9 million, primarily because of the increased purchase of raw materials in late 2008; and (ii) an increase in trade and other receivables of RMB239.2 million, due to our extension of credit terms to our customers in light of the global financial crisis. Such negative adjustments were partly offset by: (i) an increase in trade and other payables of RMB97.7 million, primarily due to our increased purchase of raw materials; (ii) depreciation of RMB80.4 million; and (iii) finance costs of RMB63.1 million.

Cash flow from investing activities

Our cash used in investing activities is principally for the payment for purchase of property, plant and equipment, expenditures on construction in progress, and increases in pledged bank deposits relating to our NDF arrangement.

For the year ended December 31, 2010, we had net cash generated from investing activities of RMB88.5 million, which primarily consisted of: (i) a decrease in advances to third parties of RMB33.5 million; and (ii) a decrease in restricted bank deposits of RMB97.3 million due to decreased requirement of bank deposits for bank bills, and a decrease in amounts due from related parties of RMB60.8 million, which were partly offset by payments for purchases of property, plant and equipment of RMB38.7 million, expenditures on construction in progress of RMB48.7 million relating to our investment in the

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purchase of new machines and equipment for our production expansion and our new production site and a payment for land use rights of RMB37.9 million for our operation center at Quanzhou City.

For the year ended December 31, 2009, we had net cash used in investing activities of RMB150.8 million, which primarily consisted of: (i) payment for purchases of property, plant and equipment of RMB132.6 million and expenditures on construction in progress of RMB104.1 million relating to our investment in the purchase of new machines and equipment for our production expansion and our new production site; and (ii) an increase in restricted bank deposits of RMB524.0 million, primarily representing the cash we deposited to secure our foreign currency borrowings under NDF arrangements, partly offset by a decrease in advances to third parties of RMB139.4 million.

For the year ended December 31, 2008, we had net cash used in investing activities of RMB169.4 million, which primarily consisted of payment for purchases of property, plant and equipment of RMB111.9 million and expenditure on construction in progress of RMB145.1 million relating to the expansion of our production facilities, which were completed in September 2008, partly offset by a decrease in advances to third parties of RMB90.1 million due to the repayment of advances extended to a third party.

Cash flow from financing activities

We derive our cash generated from financing activities principally from proceeds from capital injection and proceeds from new bank loans. Our cash used in financing activities is principally for repayment of bank loans, dividend payments and interest payments.

For the year ended December 31, 2010, we had net cash used in financing activities of RMB38.0 million, which mainly consisted of the repayment of bank loans of RMB1,282.1 million, together with interest paid of RMB29.3 million and dividends paid of RMB180.0 million, partially offset by proceeds from new bank loans of RMB1,347.6 million. We received proceeds from capital injections in cash from Billion H.K. of RMB105.8 million for the year ended December 31, 2010.

For the year ended December 31, 2009, we had net cash used in financing activities of RMB825.5 million, which mainly consisted of repayment of bank loans of RMB3,382.1 million, a decrease in advances from third parties of RMB90.6 million and interest paid of RMB39.3 million, partially offset by the proceeds from new bank loans of RMB2,686.6 million.

For the year ended December 31, 2008, we had net cash generated from financing activities of RMB373.4 million, which mainly consisted of proceeds from new bank loans of RMB2,082.0 million, partially offset by the repayment of bank loans of RMB1,859.7 million and interest paid of RMB76.8 million. We received proceeds from capital injections in cash from Billion H.K. of RMB137.2 million for the year ended December 31, 2008.

Working Capital

Working capital is critical to our financial performance and we must maintain sufficient liquidity and financial flexibility to continue our daily operations. During the Track Record Period, we used cash generated from operating activities and financing activities to finance our working capital requirements and capacity expansion.

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The table below sets forth our current assets and liabilities as of December 31, 2008, 2009, 2010 and March 31, 2011:

	As of December 31,			As of March 31,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets				
Inventories	259,761	527,910	404,834	630,399
Trade and other receivables	1,412,255	576,667	953,897	735,731
Restricted bank deposits	100,693	624,687	527,403	590,609
Cash and cash equivalents	97,003	137,542	151,392	175,726
	<u>1,869,712</u>	<u>1,866,806</u>	<u>2,037,526</u>	<u>2,132,465</u>
Current liabilities				
Trade and other payables	1,198,468	1,779,054	1,472,982	1,398,684
Bank loans	1,151,500	455,833	383,161	614,179
Current taxation	1,742	8,385	27,531	41,542
	<u>2,351,710</u>	<u>2,243,272</u>	<u>1,883,674</u>	<u>2,054,405</u>
Net current (liabilities)/assets ...	<u>(481,998)</u>	<u>(376,466)</u>	<u>153,852</u>	<u>78,060</u>

Our current assets primarily consist of cash and cash equivalents, inventories, trade and other receivables and restricted bank deposits. Our current liabilities primarily consist of trade and other payables, bank loans and current taxation. We manage our working capital by closely monitoring the level of our trade, prepayments and other receivables, trade and other payables, bank loans as well as inventory level.

We were in net current liabilities position as of December 31, 2008 and 2009. This was primarily due to the construction and equipment payables we incurred, our historical use of mainly short-term loans and cash from our operations instead of long-term loans, which has higher interest rates, to finance our production capacity expansion, which became our long-term assets.

Our working capital position improved during the year ended December 31, 2010, whereby our current assets increased and current liabilities decreased, resulting in net current assets of RMB153.9 million as of December 31, 2010. This improvement was primarily due to our improved results of operations, which contributed to a net profit of RMB446.0 million for the year ended December 31, 2010, net repayment of short-term bank loans of RMB72.7 million and our long-term loans amounting to RMB237.1 million as of December 31, 2010, which we utilized to finance our working capital requirements. Our working capital position as of March 31, 2011 was RMB78.1 million. The decrease in our working capital from December 31, 2010 to March 31, 2011 was primarily due to a dividend payment in the amount of RMB324.6 million made in January 2011 by our PRC subsidiary to its then offshore shareholder. Subsequent to the dividend payment, we drew down certain short-term bank loans, as further discussed in the paragraph below, to increase our cash, thus increasing our current bank loans by RMB231.0 million.

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To ensure that we have sufficient working capital to finance our capital commitments and to meet other reasonable foreseeable cash requirements, we obtained a credit line of RMB700.0 million for a term of two years from China Construction Bank, Fujian Branch, in December 2010, which we may utilize for short-term loans, bank bills, letters of credits, import and export financing, discounting bank bills and other credit transactions, subject to the bank's lending procedures and requirements. In addition, we obtained a credit line of RMB300.0 million for a term of one year from Agriculture Bank of China, Jinjiang Branch, in December 2010, which we may utilize for short-term working capital loans, bank bills and international trade financings, subject to the bank's lending procedures and requirements. As of March 31, 2011, we had utilized RMB200.0 million of such bank credit lines, including RMB110.0 million from China Construction Bank and RMB90.0 million from Agriculture Bank of China.

As of March 31, 2011, our bank loans were primarily secured by the restricted bank deposits and partially secured by cash flow to be generated from the sales of products under factoring arrangements relating to our export sales. Most of our bank loans were incurred in connection with our purchase of imported raw materials under the NDF arrangements. Please refer to "Business — Raw Materials and Procurement — Procurement and Suppliers" for more details on the NDF arrangements.

Our Directors are of the opinion that, taking into consideration our cash resources, credit lines, cash flow generation and estimated net proceeds from the Listing with our working capital needs, capital expenditures and debt repayment requirements, our Company has sufficient working capital for its working capital requirements at least in the next 12 months commencing from the date of this prospectus.

Inventories

During the Track Record Period, inventories were one of the principal components of our current assets. Our inventories accounted for 13.9%, 28.3% and 19.9% of our total current assets as of December 31, 2008, 2009 and 2010, respectively. We conduct physical stock counts at the end of each financial year and we record a specific provision if the estimate of the net realizable value of any inventory is below the corresponding cost of such inventory, as a result of, among other things, being obsolete or damaged. As of March 31, 2011, 96.7% of our inventories in stock as of December 31, 2010 were subsequently consumed or sold.

The following table sets forth the breakdowns of our inventories as of the date indicated:

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Raw materials	215,895	270,305	202,052
Work in progress	11,404	34,790	31,279
Finished goods	32,462	222,815	171,503
Total	<u>259,761</u>	<u>527,910</u>	<u>404,834</u>

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Our inventories increased from RMB259.8 million for the year ended December 31, 2008 to RMB527.9 million for the year ended December 31, 2009, primarily due to an increase in our finished goods as we stock up finished goods in expectation of an overhaul in February 2010, during which time we had to stop certain of our production sites for about 15 days. We also increased our purchase of raw materials during this period in expectation of an increased prices in raw materials. Our inventories decreased to RMB404.8 million as of December 31, 2010, primarily reflecting a reduction of our raw materials as our production and sales picked up under the market demand, and a reduction of our finished goods as we sold them while we conducted the overhaul.

Our inventories are recorded at the lower of cost and net realizable value. We recorded inventory provision of RMB5.8 million for our finished goods as of December 31, 2009 as a result of our expected decrease in the sales price of our products in early 2010. Such inventory provision was fully written back in 2010.

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

	As of December 31,		
	2008	2009	2010
Average inventory turnover days ⁽¹⁾	36	53	46

Note:

- (1) Average inventory turnover days is equal to the average of the starting and ending inventory balances of the year divided by costs of sales of the year and multiplied by 365 days.

Our average inventory turnover days increased from 36 days for the year ended December 31, 2008 to 53 days for the year ended December 31, 2009, primarily due to the increased finished goods we stock up in advance of an overhaul in February 2010. Our average inventory turnover days decreased to 46 days for the year ended December 31, 2010 primarily as a result of the rapid sales of our finished goods in 2010 as a result of the market recovery.

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Trade and Other Receivables

Our trade and other receivables mainly represent the credit sales of our products to our customers and the advances to our suppliers. As of March 31, 2011, 94.8% of our trade and bills receivables as of December 31, 2010 were settled or received by us and 93.9% of our deposits, prepayments and other receivables – others as of December 31, 2010 were utilized or settled by us. The following table sets forth a breakdown of our trade and other receivables as of the dates indicated:

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade debtors and bills receivables	640,155	312,014	507,793
Deposits, prepayments and other receivables			
– related companies (non-trade)	512,155	60,834	–
– advance to third parties	174,086	33,531	–
– others	95,579	179,731	458,691
Less: non-current portion of deposits and prepayments	(9,720)	(9,443)	(12,587)
Total	<u>1,412,255</u>	<u>576,667</u>	<u>953,897</u>

Our trade and other receivables primarily represented our trade debtors and bills receivables and our deposits, prepayments and other receivables. Our trade debtors and bills receivables primarily represented trade receivables from a number of our customers who were under the common control of our Controlling Shareholders before December 31, 2008. We had a relatively high level of trade debtors and bills receivables as of December 31, 2008 as we extended the credit terms granted to our customers to a longer period of time in order to help our customers during the global financial crisis starting in the second half of 2008. For the years ended December 31, 2009 and the year ended December 31, 2010, we collected a substantial amount of the over-due portion of receivables from such parties. As of December 31, 2010, the current portion of our trade debtors and bills receivables were RMB494.7 million, or 97.4% of our total trade debtor and bills receivables. Our trade debtors and bills receivables increased from RMB312.0 million as of December 31, 2009 to RMB507.8 million as of December 31, 2010 as a result of an increased use of bank bills by our customers.

Our deposits, prepayments and other receivables primarily represented advances to related parties and third parties for the year ended December 31, 2008. Such amounts have been fully collected by us in the year ended December 31, 2010. The “others” under deposits, prepayments and other receivables primarily represented prepayments made to our suppliers, construction contractors and machinery suppliers and receivables for VAT refund, which increased from RMB95.6 million as of December 31, 2008 to RMB179.7 million as of December 31, 2009 primarily due to the increased prepayments made to raw material suppliers in light of the commencement of operation of the second polymerizing production line and the polyester filament yarn production facilities connected to it in the fourth quarter of 2008. It further increased to RMB458.7 million as of December 31, 2010 primarily as we made prepayments in preparation for our future production to secure lower prices of raw materials.

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In respect of our sales to third parties, there are no specific payment terms stated in the purchase orders and we typically receive payment before we deliver our products. We allow some of our long-term and loyal customers to have credit terms of 30 to 90 days, depending on various factors, including the financial condition and credibility of such customer. Our senior management performs credit evaluation on all customers demanding for credit sales on a regular basis. The advances to third parties are unsecured, payable on demand.

As of December 31, 2008, 2009 and 2010, all of the current trade and other receivables are expected to be recovered or recognized as expenses within one year. The following table sets forth the aging analysis of our trade debtors and bills receivables as of the dates indicated:

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Current	281,215	99,871	494,668
Less than one month past due	17,364	16,824	12,445
More than one month but less than three months past due	65,543	128,654	4
More than three months but less than one year past due	157,994	65,934	659
Over one year past due	118,039	731	17
	<u>640,155</u>	<u>312,014</u>	<u>507,793</u>

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to the trade balance with related party and a number of independent customers that have a good track record with us. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. We do not hold any collateral over these balances.

The following table sets forth our average trade debtors and bills receivable turnover days for the Track Record Period:

	As of December 31,		
	2008	2009	2010
Average trade debtors and bills receivable turnover days ⁽¹⁾	94	59	35

Note:

- (1) Average trade debtors and bills receivable turnover days is equal to the average of the starting and ending trade debtors and bills receivable balances of the year divided by revenue and multiplied by 365 days.

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The decrease in the average trade debtors and bills receivable turnover days from 94 days for the year ended December 31, 2008 to 59 days for the year ended December 31, 2009, was primarily due to expedited repayment by our customers as a result of our efforts to collect over-due portion of receivables incurred during the global financial crisis during which we extended credit terms to our customers in order to help them.

Our average trade debtors and bills receivable turnover days further decreased to 35 days for the year ended December 31, 2010 primarily due to the expedited repayment by our customers in late 2009 and 2010 as a result of the recovery of the domestic economy.

Trade and Other Payables

Our trade and other payables primarily relate to the credit sales of raw materials to us by our raw material suppliers, outstanding equipment and construction payments and receipts in advance. As of March 31, 2011, 89.8% of our trade and bills payables as of December 31, 2010 were settled. Purchases by us from our raw material suppliers are settled by wire transfer, bank bills or cash upon acceptance by us of such raw materials.

The following table sets forth the components of our trade and other payables as of the dates indicated:

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade creditors and bills payable	554,510	1,259,133	872,738
Other payables and accrued charges			
– advance from third parties.....	90,620	–	–
– related companies.....	–	–	2,915
– others	37,947	67,007	96,331
Equipment payables	18,383	17,150	9,812
Construction payables	313,902	224,571	236,273
Receipts in advance			
– related companies	–	152	–
– others	183,106	209,517	250,519
Derivative financial liabilities			
– forward exchange contracts	–	832	1,538
– Interest rate swaps	–	692	2,856
Total	<u>1,198,468</u>	<u>1,779,054</u>	<u>1,472,982</u>

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A substantial portion of our trade and other payables represented our bills payables, which are used to pay our suppliers. We believe the use of bills payables to purchase large volumes of raw materials is in line with the general market practice. The increases of our trade creditors and bills payables as of December 31, 2009 as compared with December 31, 2008 were primarily due to our increased purchases of raw materials, a large proportion of which were paid through bank bills and letter of credits. The decrease in the trade creditors and bills payables as of December 31, 2010 was primarily because we paid our suppliers with bank bills of shorter terms, which were primarily three months, in order to obtain higher discounts for raw materials.

Other payables and accrued charges primarily represent other tax payables, land use right payables and salary payables. The “others” under other payables and accrued charges increased as of each year end primarily due to the increase in other tax payables and certain non-recurring events, such as the payables incurred in the second half of 2010 for the land use right for the headquarters in the coastal headquarters area in East Sea District, Quanzhou City, Fujian Province. The advances from third parties were unsecured, repayable on demand and bear interest at 6.56% per annum as of December 31, 2008 incurred in connection with the construction of our production facilities at our current production site.

Our construction payables as of December 31, 2008 were primarily due to the investment in construction activities to expand our production capacities in 2008. The decrease in the construction payables in 2009 and the increase in 2010 was primarily as a combined result of the settlement of such payables and the incurrence of new construction payables for the expansion of our additional production capacities.

The “others” under receipts in advance primarily represent prepayments made by our customers for purchase of our products as our customers typically pay the full contract price before we deliver our products.

All of the trade and other payables are expected to be settled within one year or repayable on demand.

The following table sets forth the aging analysis of our trade and other payables as of the dates indicated:

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Within three month	464,906	567,756	733,200
More than three months but within six months	72,095	686,685	132,078
More than six months but within one year	15,640	1,310	604
More than one year	1,869	3,382	6,856
Total	<u>554,510</u>	<u>1,259,133</u>	<u>872,738</u>

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Our suppliers generally grant us a credit period from 90 days to 180 days. The following table sets forth our average trade creditors and bills payable turnover days for the Track Record Period:

	As of December 31,		
	2008	2009	2010
Average trade creditors and bills payable turnover days ⁽¹⁾	95	122	106

Note:

- (1) Average trade creditors and bills payable turnover days is equal to the average of the starting and ending trade creditors and bills payable balances of the year divided by cost of sales and multiplied by 365 days.

The increase in the average trade creditors and bills payable turnover days for the year ended December 31, 2009, compared with the year ended December 31, 2008, was due to the increased use of bank bills to purchase raw materials in the domestic market, which was partially because we expected the market prices of raw materials to increase in 2010 and partially because the banks lowered the requirement to provide deposits for the issuance of bank bills.

Our average trade creditors and bill payable turnover days decreased from 122 days for the year ended December 30, 2009 to 106 days for the year ended December 31, 2010. This decrease was primarily because we paid our suppliers with bank bills of shorter terms during this period, which were primarily three months, in order to obtain higher discounts for raw materials.

Capital Expenditures

We have historically funded our capital expenditures from cash generated from operations, bank loans and capital contributions by our Shareholders. Our capital expenditures have principally consisted of expenditures on property, plant and equipment and construction in progress. The following table sets forth a breakdown of our capital expenditures during the Track Record Period:

	For the year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	762,138	133,885	40,785
Construction in progress	208,322	16,773	59,022
Interests in leasehold land held for own use under operating leases	—	864	37,997
Total	970,460	151,522	137,804

Our capital expenditure for the years ended December 31, 2008, 2009 and 2010 was RMB970.5 million, RMB151.5 million and RMB137.8 million, respectively. As part of our future growth strategy, we estimate that our capital expenditures will be approximately RMB3.8 billion between 2011 and 2013, which will be applied primarily for the construction of our new production facilities, installation of new machines and acquisition of land use right for our new production facilities at our existing production site and new production site in Jinjiang City, Fujian Province, as well as to complete the construction of our operation center at Quanzhou City, Fujian Province.

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Bank Borrowings

The following table sets forth the amount and maturity profile of our bank loans as of the dates indicated:

	As of December 31,			As of March 31,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year or on demand	1,151,500	455,833	383,161	614,178
After one year but within two years	—	—	121,059	119,847
Total	<u>1,151,500</u>	<u>455,833</u>	<u>504,220</u>	<u>734,025</u>

The above bank loans are denominated in Renminbi, HKD and USD. Such bank loans bear interest rates ranging from 4.37% to 7.70% per annum for the year ended December 31, 2008, ranging from 0.96% to 2.63% per annum for the year ended December 31, 2009, ranging from 1.69% to 3.79% per annum for the year ended December 31, 2010 and ranging from 1.70% to 5.04% per annum for the three months ended March 31, 2011.

As of March 31, 2011, we had a total of RMB1.0 billion of bank credit line granted by China Construction Bank and Agriculture Bank of China and we had utilized RMB200.0 million of such bank credit line as of March 31, 2011.

As of March 31, 2011, our bank borrowings were primarily secured by our restricted bank deposits pledged for such loans as a result of our NDF arrangements and partially secured by cash flows to be generated from the sales of products under factoring arrangement relating to our export sales. Please refer to “Business — Raw Materials and Procurement — Procurement and Suppliers” for more details about NDF arrangements.

As of December 31, 2008, our certain bank facilities amounting to RMB1,066.5 million were secured by a joint and several personal guarantee given by our Directors and a corporate guarantee given by the related companies. Our Directors confirm that the above guarantees have been discharged and released as of December 31, 2010.

In addition to our bank borrowings, we also have other forms of indebtedness incurred in connection with our operations. Such indebtedness primarily includes certain shareholders’ loans, which were repaid in December 2010, and certain long-term loans from two third party individuals. For our historical shareholders’ loans and long-term loans, see Notes 20 and 21 of the Accountants’ Report in Appendix I of this prospectus.

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Gearing Ratios

Our gearing ratio was 61.4%, 23.0% and 26.3% as of December 31, 2008, 2009 and 2010, respectively. Gearing ratio is derived by dividing the total interest-bearing borrowings by total equity. Our interest-bearing borrowings include our bank borrowings and the long-term loans from third parties.

Our gearing ratio decreased to 23.0% as of December 31, 2009 from 61.4% as of December 31, 2008, primarily due to a significant decrease in bank loans as we incurred a large amount of bank loans for the expansion of our operations and the construction of our production facilities in 2008. Our gearing ratios increased slightly from 23.0% as of December 31, 2009 to 26.3% as of December 31, 2010 as we incurred long-term loans in the amount of RMB237.1 million.

Contingent Liabilities

The following table sets forth our contingent liabilities as of the dates indicated:

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Guarantees given to a bank in connection with banking facilities granted to third parties	—	216,000	—

As of December 31, 2009, we had guarantees given to a bank in connection with banking facilities granted to third parties of RMB216.0 million. The guarantees to the bank were subsequently released in full in October 2010. As of the Latest Practicable Date, we had no material contingent liabilities. We are not involved in any current material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us. If we were involved in such material legal proceedings, it would record any loss contingencies when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

As of the Latest Practicable Date, apart from intra-group liabilities, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding.

Our Directors confirm that there had been no material changes in our indebtedness and contingent liabilities as of the Latest Practicable Date.

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COMMITMENTS

Contractual Obligations

Our MEG tanks are leased under operating lease arrangements. Such operating lease run for 20 years, with an option to renew the lease when all terms are renegotiated. None of such terms include contingent rentals. Our future aggregate minimum operating lease payments under non-cancellable operating leases as of the date indicated are set forth below:

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Less than one year	360	360	360
After one year but within five years	1,440	1,440	1,440
After five year	3,690	3,330	2,970
Total	5,490	5,130	4,770

Capital Commitments

In addition to the operating lease commitments, we had the following commitments as of the dates indicated:

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Authorized and contracted for	868	87	29,155

Our contractual commitments were primarily related to the acquisition of property, plant and equipment.

We intend to pay for our capital commitments of RMB29.2 million as of December 31, 2010 by the proceeds from the Global Offering and cash generated from our operating and financing activities.

Off-balance Sheet Commitments and Arrangements

As of the Latest Practicable Date, we had not entered into any off-balance sheet transaction.

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QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

Credit Risk

Trade and other receivables

Our credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to the credit risks are monitored on an ongoing basis.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 90 days from the date of billing. Normally, we do not obtain collateral from customers.

Our exposure to credit risk is influenced mainly by the individual characteristics of each customer. Further quantitative disclosures in respect of our exposure to credit risk arising from trade and other receivables are set out in note 14 to the accountants' report in Appendix I to this prospectus.

At the balance sheet date, we have a certain concentration of credit risk as 93%, 87% and 38% of the total trade debtors and bills receivable were due from our largest customer, and 93%, 88% and 51% of the total trade debtors and bills receivables were due from our five largest customers as of December 31, 2008, 2009 and 2010, respectively.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the combined balance sheets after deducting any impairment allowance. Except for the financial guarantees given by us as set out in Note 25 to the accountants' report in Appendix I to this prospectus, we do not provide any other guarantees which would expose us to credit risk.

Deposits with banks

We mitigate our exposure to credit risk by placing deposits with financial institutions with established credit ratings. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

Liquidity Risk

Individual operating entities within our Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the management and directors when the borrowing exceeds certain predetermined levels of authority. Our policy is to regularly monitor our liquidity requirements and our compliance with lending covenants, to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet our liquidity requirements in the short and longer term.

As of December 31, 2008, 2009 and 2010, our total financial liabilities, which were based on contractual undiscounted cash flows, were RMB2,316.8 million, RMB2,145.7 million and RMB1,850.6

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million, respectively. Other than a loan from a shareholder with a contractual amount of RMB116.0 million as of December 31, 2008, which had a maturity of more than one years and was repaid in December 2010, and certain long-term loans which amounted to RMB237.1 million as of December 31, 2010, all our financial liabilities had a maturity date of less than one year as of the respective balance sheet date. Please see Note 23(b) of the Accountants' Report in Appendix I of this prospectus for a breakdown of our financial liabilities.

Interest Rate Risk

Our interest rate risk arises primarily from bank loans. Borrowings at variable rates and at fixed rates expose us to cash flow interest rate risk and fair value interest rate risk respectively. In order to achieve an appropriate mix of fixed and floating rate exposure, we entered into a number of interest rate swaps. These derivatives were not entered for speculative purposes and had not been designated as hedges for accounting purposes. Accordingly, the fair value gain/(losses) were recognized in our profit and loss accounts. We did not apply hedge accounting in respect of the interest rate swaps. As of December 31, 2009 and 2010, we had interest rate swaps with a notional contract amount of RMB121.6 million and RMB277.3 million, respectively.

Interest rate profile

The following table details the interest rate profile of our borrowings at the balance sheet date:

As of December 31,						
2008			2009		2010	
	Effective interest rate	RMB'000	Effective interest rate	RMB'000	Effective interest rate	RMB'000
<i>Net fixed rate borrowings/(deposits):</i>						
Bank loans	4.37% to 7.47%	916,500	0.96% to 2.63%	334,278	2.86% to 3.79%	226,880
Pledge bank deposits	1.71% to 3.78%	(100,693)	1.71% to 2.25%	(624,687)	1.98% to 2.79%	(527,403)
		815,807		(290,409)		(300,523)
<i>Variable rate borrowings/(deposits):</i>						
Bank loans	5.04% to 7.70%	235,000	1.76% to 2.37%	121,555	1.69% to 2.99%	277,339
Cash and cash equivalent	0.36%	(96,073)	0.36%	(136,597)	0.36%	(130,468)
		138,927		(15,042)		146,871
Total net borrowings		954,734		(305,451)		(153,652)

Sensitivity analysis

As of December 31, 2008, 2009 and 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased our profit after taxation and retained profits by approximately RMB1.2 million and RMB1.3 million for the years ended December 31, 2008 and 2010, respectively, and increased/decreased our profit after taxation and retained profits by approximately RMB132,000 for the year ended December 31, 2009.

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The sensitivity analysis above indicates the annualized impact on our interest expense that would arise assuming that the change in interest rates had occurred at the respective balance sheet date and had been applied to re-measure those financial instruments held by us which expose us to fair value interest rate risk at the balance sheet dates. In respect of the exposure to cash flow, interest rate risk arising from floating rate non-derivative held by us at the balance sheet dates, the impact on our profit after tax (and retained profits) and other components of combined equity is estimated as an annualized impact on interest expenses or income of such changes in interest rates. This analysis has been performed in the same basis throughout the Track Record Period.

Currency Risk

We are exposed to currency risk primarily through purchases that are denominated in a foreign currency (a currency other than the functional currency of the operations to which the transactions relate). The currencies giving rise to this risk are primarily U.S. dollars (“USD”), Hong Kong dollars (“HKD”), Euro (“EUR”) and Swiss Franc (“CHF”). In addition, certain bank loans are also denominated in USD and HKD. Presently, we have no hedging policy with respect to the foreign exchange exposure.

In connection with our foreign currency loans, we entered into forward exchange rate contracts under the NDF arrangement. Our Directors confirmed that these forward exchange rate contracts were utilized for the purpose of securing additional profit in connection with our secured foreign currency loans and not entered into for speculative purposes. Accordingly, such contracts had not been designated as hedges for accounting purposes. Please see “Business — Raw Materials and Procurement — Procurement and Suppliers — Procurement Terms” in this prospectus for more details about NDF arrangements.

The following table indicates the instantaneous change in our profit after taxation (and retained profits) that would arise if foreign exchange rates to which we have significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant.

As of December 31,						
	2008		2009		2010	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits
		RMB'000		RMB'000		RMB'000
USD	5%	(3,809)	5%	(29,178)	5%	(28,836)
	(5)%	3,809	(5)%	29,178	(5)%	28,836
HKD	5%	—	5%	(4,718)	5%	—
	(5)%	—	(5)%	4,718	(5)%	—
EUR	5%	126	5%	11	5%	(39)
	(5)%	(126)	(5)%	(11)	(5)%	39
CHF	5%	—	5%	—	5%	(25)
	(5)%	—	(5)%	—	(5)%	25

Results of the analysis as presented in the above table represent the instantaneous effects on Billion Fujian’s profit after taxation measured in Renminbi at the exchange rates ruling at the balance sheet date for presentation purposes.

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The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by us which expose us to foreign currency risk at the balance sheet date. The analysis excludes differences that would result from the translation of the financial statements of non-PRC incorporated subsidiaries into our presentation currency. The analysis has been performed on the same basis throughout the Track Record Period.

Fair Values of Financial Instrument

The carrying value of our financial instruments measured at fair value as of December 31, 2008, 2009 and 2010 was nil, RMB1.5 million and RMB4.4 million, respectively. The carrying value as of December 31, 2009 and 2010 represented the fair values of our forward exchange contract as of December 31, 2009 measured by using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data as set forth under the level 2 of the three level of the fair value hierarchy defined in HKFRS 7, *Financial Instruments: Disclosures*, with the fair value of each financial instrument categorized in its entirety based on the lowest level of input that is significant to that fair value measurement.

The details of the three level fair value hierarchy defined in HKFRS 7 are set out in Note 21 to the Accountants' Report in Appendix I to this prospectus.

Estimation of Fair Values

Derivatives

The fair value of interest rate swaps is the estimated amount that we would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts are determined by discounting the contractual forward price and deducting the current spot rate.

Where discounted cash flow techniques are used, estimated future cash flows are based on the management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date.

Interest-bearing loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

Interest rate used for determining fair value

The entity uses the market libor rate as of December 31, 2009 and 2010 to discount the derivatives and loans and borrowings. The interest rates used are 1.63% and 0.30%-2.20% as of December 31, 2009 and December 31, 2010, respectively.

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RELATED PARTY TRANSACTIONS

With respect to the related parties transactions set out in 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 are not less favorable than terms available from Independent Third Parties, which are considered fair, reasonable and in the interest of the shareholders of our Company as a whole. Save for the transactions between our Group and Hengxinglong Polyester, none of the related party transactions set out in the Accountants' Report in Appendix I to this prospectus will continue after the Listing.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purposes only and it may not give a true picture of our net tangible assets following the Global Offering.

The unaudited pro forma statement of adjusted net tangible assets below has been prepared as if the Global Offering had taken place on December 31, 2010, therefore, no adjustment has been made to reflect any trading and other transactions of our Group entered into subsequent to December 31, 2010. In particular, no account has been taken in respect of the dividend of RMB324.6 million declared by Billion Fujian on January 10, 2011, which was paid to Billion H.K., its then shareholder, on January 17, 2011. Had such dividend been declared as of December 31, 2010, our unaudited pro forma adjusted net tangible assets would have been reduced by RMB324.6 million and our unaudited pro forma adjusted net tangible assets per Share would have been reduced by RMB0.14.

	Net tangible assets as of December 31, 2010 ⁽¹⁾⁽²⁾	Estimated net proceeds from the Global Offering ⁽³⁾⁽⁴⁾	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share ⁽⁴⁾⁽⁵⁾	
	RMB million	RMB million	RMB million	RMB	HK\$
Based on an Offer Price of					
HK\$4.53 per Share	2,183.9	2,124.8	4,308.7	1.87	2.20
Based on an Offer Price of					
HK\$6.08 per Share	2,183.9	2,863.9	5,047.8	2.20	2.58

Notes:

- (1) The net tangible assets as of December 31, 2010 are extracted from the Accountants' Report set out in Appendix I to this prospectus.
- (2) Our property interests as of February 28, 2011 have been valued by Jones Lang LaSalle Sallmanns, an independent property valuer, the details of which are set out in Appendix IV to this Prospectus. We will not incorporate the revaluation surplus of RMB163.8 million in our financial statements. It is our accounting policy to state our land and buildings held for own use at cost less accumulated depreciation and any impairment loss in accordance with HKFRS, rather than at revalued amounts. With reference to the valuation of our property interests as set forth in Appendix IV to this Prospectus, if such revaluation surplus was incorporated in our financial statements, an additional depreciation charge of approximately RMB5.4 million per annum would have been incurred.
- (3) The estimated net proceeds from the Global Offering are based on the Offer Prices of HK\$4.53 and HK\$6.08 per Share, after deduction of the underwriting commissions (excluding any discretionary incentive fees) and other related expenses payable by us without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option.

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- (4) For the purpose of estimated net proceeds from the Global Offering and the calculation of the unaudited pro forma adjusted net tangible assets per Share, the translation between Renminbi and HK dollars was made at the rate of HK\$1 = RMB0.8509, the central parity exchange rate for the HK dollars to the Renminbi on December 31, 2010 published by PBOC. Such translations should not be construed as representations that amount in HK dollars were or may have been converted into Renminbi at such rates or any other exchange rates, or vice versa.
- (5) The unaudited pro forma adjusted net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that 2,299,000,000 Shares are in issue but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme.

PROFIT FORECAST

We believe that, in the absence of unforeseen circumstances, our forecast profit after taxation for the year ending December 31, 2011 is unlikely to be less than RMB847.5 million. On a pro forma basis and on the assumption that we had been listed since January 1, 2011 and a total of 2,299,000,000 Shares were issued and outstanding during the entire year, our pro forma forecast earnings per Share for the year ending December 31, 2011 is unlikely to be less than RMB0.369.

The above forecasts have been prepared on the basis of the accounting policies being consistent in all material aspects with those currently adopted by us as summarized in “Appendix I — Accountants’ Report” in this prospectus and have been prepared based on the principal assumptions set out in “Appendix III — Profit Forecast” in this prospectus. In preparing the above forecasts, our management has also considered the minimum volume of products that may be purchased by our large customers under the framework agreements.

SENSITIVITY ANALYSIS

The average sales prices of our products and the average purchase prices of our raw materials fluctuated during the Track Record Period. The average sales prices of our products were RMB10,610 per ton, RMB8,845 per ton and RMB11,362 per ton for the years ended December 31, 2008, 2009 and 2010, respectively. Our average purchase price of PTA was RMB6,223 per ton, RMB5,913 per ton and RMB6,741 per ton and our average purchase price of MEG was RMB6,330 per ton, RMB4,395 per ton and RMB6,108 per ton for the years ended December 31, 2008, 2009 and 2010, respectively. The changes in the average sales price of our products and the average purchase prices of our raw materials have affected our results of operations in the past and may have an impact on our profit in the future. For details of such historical effect, please see “— Factors Affecting Our Results of Operations and Financial Condition” and “— Results of Our Operations” in this prospectus. The following sensitivity analysis

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illustrates the impact of hypothetical changes in the average sales price per ton of our products, the average purchase price per ton of PTA and the average purchase price per ton of MEG on our forecast profit after taxation and the resulting forecast profit after taxation for the year ending December 31, 2011.

% change in average sales price per ton of our products . . .	-15%	-10%	-5%	+5%	+10%	+15%
Impact on our forecast profit after taxation (RMB million).	(676.5)	(451.0)	(225.5)	225.5	451.0	676.5
Resulting forecast profit after taxation (RMB million)	171.1	396.5	622.0	1,073.0	1,298.5	1,524.0
% change in average purchase price per ton of PTA	-15%	-10%	-5%	+5%	+10%	+15%
Impact on our forecast profit after taxation (RMB million).	312.7	208.5	104.2	(104.2)	(208.5)	(312.7)
Resulting forecast profit after taxation (RMB million)	1,160.2	1,056.0	951.8	743.3	639.0	534.8
% change in average purchase price per ton of MEG	-15%	-10%	-5%	+5%	+10%	+15%
Impact on our forecast profit after taxation (RMB million)	100.4	66.9	33.5	(33.5)	(66.9)	(100.4)
Resulting forecast profit after taxation (RMB million)	947.9	914.5	881.0	814.0	780.6	747.1

The table above includes forward-looking information and is for illustrative purposes only. Please see “Forward-looking Statements” in this prospectus. For risks related to the average sales prices of our products and the average purchase prices of our raw materials see “Risk Factors — Risks Relating to Our Business — Our business and profitability may be affected by fluctuations in raw material prices as we may not always 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 profit margins at the levels we recorded during the Track Record Period.”

DISTRIBUTABLE RESERVES

The company was incorporated in the Cayman Islands on November 25, 2010. The Company had no reserves distribution to Shareholders as of December 31, 2010.

DIVIDEND POLICY

Billion Fujian, our sole operating subsidiary in the PRC, declared dividends of RMB66.4 million for the distributable profits generated for the years between 2005 and 2007, which were paid to Billion H.K. on April 21, 2010. Billion Fujian also declared dividends of RMB33.7 million, RMB79.9 million and RMB324.6 million for the distributable profits generated for the years ended December 31, 2008, 2009 and 2010, respectively. These dividends were paid to Billion H.K. in May 2010, June 2010 and January 2011, respectively.

PRC laws require that dividends be paid only out of the net profit calculated according to the PRC accounting principles, which differ from generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require foreign-invested enterprises, such as our subsidiary in the PRC, to set aside part of their net profit as statutory reserves. These statutory reserves may not be distributed as cash dividends. Under the applicable PRC law, our subsidiary in the PRC may only distribute its after-tax

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profits after it has made allocations or allowances for (i) recovery of accumulated losses; (ii) allocations to the statutory reserves; and (iii) allocation to a discretionary common reserve fund as may be approved by its board of directors.

Following completion of the Global Offering, all of our Shareholders will be entitled to receive dividends if we declare any dividend to our Shareholders. The payment and the amount of any dividends will be at the discretion of our Directors and will depend on, among other things, our results of operations and earnings, cash flows and general financial condition, capital requirements and surplus, the amount of distributable profit, the constitution of our Company, the applicable laws and regulations and other factors that our Directors may consider as relevant.

Our Directors currently do not intend for Billion Fujian, our sole PRC subsidiary, to distribute any of its remaining undistributed earnings to Billion Development, our Hong Kong subsidiary and the holding entity of Billion Fujian, in the foreseeable future. In the event our Directors determine to declare and pay dividends by our Company to our Shareholders, our Directors may, at their sole discretion, determine the manner, currency and sources of our dividend, as they deem appropriate, and we may use cash from operating, investing or financing activities of our Company, if any, to finance the payment of dividends to our Shareholders. There is no guarantee, representation or indication that we must or will declare and pay dividends or declare and pay any dividend in any manner or currency.

You should note that historical dividend distributions are not indicative of our future dividend policy.

PROPERTY INTERESTS AND PROPERTY VALUATION

Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued our property interest for the land use right we own for the two parcels of land described under “Business-Real Properties” and the buildings thereon as of February 28, 2011 and is of the opinion that the value of such property interests is estimated to be RMB1,031.3 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.

The statement below shows the reconciliation of the book value of such real property and the valuation for such real property by the property valuer:

	RMB'000
Net book value of property interests as of	
December 31, 2010 (audited)	872,636
Add: Addition for the month ended February 28, 2011	–
Less: Depreciation and amortization for the month ended	
February 28, 2011	5,188
Net book value as of February 28, 2011 (unaudited)	867,448
Add: Valuation surplus as of February 28, 2011	163,825
Valuation as of February 28, 2011 as per Appendix IV	
to this prospectus	1,031,273

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DISCLOSURE REQUIRED UNDER 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 our financial or trading position or prospects since December 31, 2010 and there is no event since December 31, 2010 which would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please see “Business — Our Business Strategies” for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$2,931.5 million from the Global Offering, assuming that the Over-allotment Option is not exercised, after deducting the underwriting commissions (excluding any discretionary incentive fees) and other estimated offering expenses payable by us and assuming the initial public Offer Price of HK\$5.305 per Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this prospectus.

We intend to use the proceeds from the Global Offering for the purposes and in the amounts set out below:

- approximately 74.5% (HK\$2,183.9 million), for the construction and installation of our new production site in Jinjiang City with a designed capacity of FDY and POY of approximately 310,000 tpa and a designed capacity of DTY of approximately 188,000 tpa and an operation center in Quanzhou City, of which (i) approximately 7.9% (HK\$172.5 million) is intended to be used for the payment for land use rights and related fees for the new production site, which we intend to apply for; (ii) approximately 44.1% (HK\$963.1 million) is intended to be used for the payment for imported equipment; (iii) approximately 26.3% (HK\$574.4 million) is intended to be used for the payment for domestic equipment; and (iv) approximately 21.7% (HK\$473.9 million) is intended to be used for the payment for construction of production facilities, the operation center in Quanzhou City and related costs. Please refer to the sections headed “Business — Production — Production Facilities and Capacity” and “Business — Real Properties” for detailed information;
- approximately 6.0% (HK\$175.9 million), for the construction and installation of our additional production facilities at our current production base with a designed capacity of FDY and POY of approximately 25,000 tpa and a designed capacity of DTY of approximately 45,000 tpa, of which (i) approximately 21.7% (HK\$38.2 million) is intended to be used for the payment for land use right fees, construction of production facilities and related costs; (ii) approximately 50.0% (HK\$87.9 million) is intended to be used for the payment for imported equipment; and (iii) approximately 28.3% (HK\$49.8 million) is intended to be used for the payment for domestic equipment. Please refer to the sections headed “Business — Production — Production Facilities and Capacity” and “Business — Real Properties” for detailed information;
- approximately 5.0% (HK\$146.6 million), for the repayment of a portion of our RMB200.0 million short-term bank borrowings we drew down from our credit lines granted by China Construction Bank and Agriculture Bank of China;

FUTURE PLANS AND USE OF PROCEEDS

- approximately 3.0% (HK\$87.9 million), for the further enhancement of our research and development capabilities, including hiring more senior and experienced experts and engineers, buying more advanced research and development equipment and testing equipment, cooperating with third party research and development institutes and establishing a National Standard Laboratory;
- approximately 1.5% (HK\$44.0 million), for the further expansion of our sales networks and promoting our brand awareness, including attending industrial exhibitions in China and abroad, and advertising through various medias, such as Internet, outdoor billboards, newspapers and magazines; and
- approximately 10.0% (HK\$293.2 million), for working capital and general corporate purposes.

In the event that the Offer Price is set at the high-end of the proposed Offer Price range and the Over-allotment Option is not exercised, we will receive net proceeds of approximately HK\$3,365.8 million. We currently intend to apply the additional net proceeds for the purposes set forth above on a pro rata basis.

In the event that the Offer Price is set at the low-end of the proposed Offer Price range, we will receive reduced net proceeds of approximately HK\$2,497.2 million. In such case, the amount of net proceeds assigned for purposes set forth above will be reduced on a pro rata basis. To the extent the net proceeds are not sufficient to fund the uses set forth above, we currently intend to finance the shortfall by cash flows from operating activities and/or financing activities.

If the Over-allotment Option is exercised in full, the net proceeds from the Global Offering will increase to approximately HK\$3,377.4 million, assuming an Offer Price of HK\$5.305 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\$499.4 million, respectively. We intend to apply the additional net proceeds for the purposes set forth above on a pro rata basis or otherwise finance the shortfall by cash flows from operating activities and/or financing activities.

To the extent that the net proceeds from the Global Offering are not immediately applied to the above purposes, we intend to deposit the proceeds into interest-bearing bank accounts, such as short-term savings accounts, with licensed commercial banks and/or authorized financial institutions in Hong Kong or China.

UNDERWRITING

UNDERWRITERS

Hong Kong Underwriters

Joint Lead Managers

UBS AG, Hong Kong Branch
CCB International Capital Limited

Co-Managers

First Shanghai Securities Limited
Guotai Junan Securities (Hong Kong) Limited

HONG KONG PUBLIC OFFERING

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Public Offering, our Company is initially offering 57,475,000 Hong Kong Offer Shares for subscription under the Hong Kong Public Offering on the terms and subject to the conditions set out in this prospectus and the related Application Forms. Subject to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, among other things, the Shares in issue and the Shares to be offered as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally but not jointly to subscribe or procure subscribers for, their respective applicable proportions of the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering, on the terms and subject to the conditions set out in this prospectus, the related Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Placing Agreement having been signed, becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) shall be entitled by notice (orally or in writing) to the Company to terminate the Hong Kong Underwriting Agreement with immediate effect if prior to 8:00 a.m. on the Listing Date:

- (1) there shall develop, occur, exist or come into effect:
 - (a) any local, national, regional or international event or circumstance in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism), in or affecting Hong Kong, the PRC, the United States, the United Kingdom, the European Union (or any member thereof), Japan, the Cayman Islands, the BVI or any other jurisdiction relevant to any member of the Group (the “Relevant Jurisdictions”); or

UNDERWRITING

- (b) any change or any development involving a prospective change, or any event or circumstance likely to result in any change or development involving a prospective change, in any local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets), in or affecting any of the Relevant Jurisdictions; or
- (c) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the American Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Shanghai Stock Exchange or the Tokyo Stock Exchange; or
- (d) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), New York (imposed at Federal or New York State level or other competent authority), London, the PRC, the European Union (or any member thereof) or any of other Relevant Jurisdictions, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any of those places or jurisdictions; or
- (e) any new law, or any change or any development involving a prospective change or any event or circumstance likely to result in a change or a development involving a prospective change in (or in the interpretation or application by any court or other competent authority in or affecting any of the Relevant Jurisdictions); or
- (f) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions; or
- (g) a change or development involving a prospective change in or affecting taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions; or
- (h) any litigation or claim of any third party being threatened or instigated against any member of the Group; or
- (i) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (j) the chairman or president of the Company vacating his or her office; or

UNDERWRITING

- (k) an authority or a political body or organization in any of the Relevant Jurisdictions commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or
- (l) a contravention by any member of the Group of the Listing Rules, the Companies Ordinance, the SFO or other applicable laws; or
- (m) a prohibition on the Company for whatever reason from offering, allotting, issuing or selling any of the Shares (including the Shares under the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (n) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws; or
- (o) the issue or requirement to issue by the Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer and sale of the Shares) pursuant to the Companies Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (p) an order is made or a petition is presented for the winding up of any member of the Group or any members of the Group makes any composition or arrangement with its creditors or enter into a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group,

which, individually or in the aggregate, in the sole opinion of the Joint Global Coordinators (i) has or will have or may have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Group as a whole; or (ii) has or will have or may have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Placing; or (iii) makes or will make or may make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or (iv) has or will have or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

UNDERWRITING

- (2) there has come to the notice of the Joint Global Coordinators:
- (a) that any statement contained in any of this prospectus, the Application Forms, the Web Proof Information Pack and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or misleading in any respect, or that any forecast, estimate, expression of opinion, intention or expectation contained in any of this prospectus, the Application Forms, the Web Proof Information Pack and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions; or
 - (b) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission from any of this prospectus, the Application Forms, the Web Proof Information Pack and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
 - (c) any breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Placing Agreement (other than upon any of the Hong Kong Underwriters or the International Underwriters); or
 - (d) any event, act or omission which gives or is likely to give rise to any liability of any of the Indemnifying Parties (as defined in the Hong Kong Underwriting Agreement) pursuant to the terms of the Hong Kong Underwriting Agreement; or
 - (e) any adverse change or development involving a prospective adverse change in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of any member of the Group or the Group as a whole; or
 - (f) any breach of, or any event or circumstance rendering untrue or incorrect in any respect, any of the warranties under the Hong Kong Underwriting Agreement; or
 - (g) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares to be issued (including any additional Shares that may be issued pursuant to the exercise of the Over-allotment Option) under the Global Offering 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; or
 - (h) the Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering.

UNDERWRITING

Undertakings

We have undertaken to each of the Joint Global Coordinators, the Hong Kong Underwriters and the Joint Sponsors, except for the offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option) and the issue of Shares pursuant to the Capitalization Issue or the exercise of any options which may be granted under the Share Option Scheme, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “First Six-Month Period”), not to, and to procure each other member of the Group not to, without the prior written consent of the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of the Group, as applicable), or deposit any Shares or other securities of the Company or any shares or other securities of such other member of the Group, as applicable, with a depositary in connection with the issue of depositary receipts; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of the Company or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of the Group, as applicable); or
- (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above;
- (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above,

in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or other securities of the Company or shares or other securities of such other member of the Group, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-month Period). In the event that, during the period of six months commencing on the date on which the First Six-month Period expires (the “Second Six-Month Period”), the Company enters into any of the transactions specified in (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, the Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

UNDERWRITING

Each of the Controlling Shareholders has undertaken to each of the Company, the Joint Global Coordinators, the Hong Kong Underwriters and the Joint Sponsors that, except as permitted under the Stock Borrowing Agreement, without the prior written consent of the Joint Global Coordinators (each for itself and, together, on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) it will not, at any time during the First Six-Month Period, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or shares in Kingom Power or Winwett Investments or other securities of the Company, Kingom Power or Winwett Investments or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or shares in Kingom Power or Winwett Investments), or deposit any Shares or shares in Kingom Power or Winwett Investments or other securities of the Company, Kingom Power or Winwett Investments with a depositary in connection with the issue of depositary receipts, or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or shares in Kingom Power or Winwett Investments or other securities of the Company, Kingom Power or Winwett Investments or any interest therein in (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or shares in Kingom Power or Winwett Investments), or (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above, or (iv) offer to or agree to or announce any intention to effect any transaction specified in (i), (ii) or (iii) above, in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or shares in Kingom Power or Winwett Investments or other securities of the Company, Kingom Power or Winwett Investments or in cash or otherwise (whether or not the issue of such Shares or shares in Kingom Power or Winwett Investments or other securities will be completed within the First Six-Month Period);
- (b) it will not, during the Second Six-Month Period, enter into any of the transactions specified in (a)(i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of the Company; and
- (c) until the expiry of the Second Six-Month period, in the event that it enters into any of the transactions specified in (a)(i), (ii) or (iii) above or offer to or agrees to or announce any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

UNDERWRITING

Lock-up

Pursuant to Rule 10.07(1) of the Listing Rules, each of the Controlling Shareholders has undertaken to our Company and the Stock Exchange that it or he shall not and shall procure that the relevant registered shareholder(s) shall not, without the prior consent of the Stock Exchange or unless otherwise in compliance with applicable requirements of the Listing Rules:

- (a) during the period commencing on the date of this prospectus up to the expiry of the First Six-month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities of the Company in respect of which it or he is shown by this prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules); or
- (b) within the Second Six-month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities referred to in the immediately preceding paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company.

Note (2) to Rule 10.07 of the Listing Rules provides that the rule does not prevent a controlling shareholder from using the shares owned by it or him as securities (including a charge or a pledge) in favor of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan.

Further, pursuant to Rule 10.07 of the Listing Rules, each of Controlling Shareholders has undertaken to our Company and the Stock Exchange that it or he will, within the period commencing on the date of this prospectus and ending on the date which is 12 months from the Listing Date, immediately inform us and the Stock Exchange of:

- (a) any pledges or charges of any Shares or securities of our Company beneficially owned by it or him in favor of any authorized institution as permitted under Note (2) to Rule 10.07 of the Listing Rules, and the number of such Shares or securities of our Company so pledged or charged; and
- (b) any indication received by it or him, either verbal or written, from any pledgee or chargee of any Shares or other securities of our Company pledged or charged that any of such Shares or other securities will be disposed of.

We will also inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of the Controlling Shareholders and disclose such matters by way of an announcement.

UNDERWRITING

Commission

The Hong Kong Underwriters will receive an aggregate underwriting commission of 2.5% of the aggregate Offer Price in respect of all the Hong Kong Offer Shares less any unsubscribed Hong Kong Offer Shares reallocated to the International Placing and ignoring for this purpose any Hong Kong Offer Shares reallocated from the International Placing due to over-subscription, out of which the Hong Kong Underwriters will pay any sub-underwriting commission. The underwriting commission for such reallocated Shares in each case will be payable to the International Underwriters in accordance with the International Placing Agreement. In addition, our Company may, at its sole discretion, pay any or all of the Joint Global Coordinators for their respective accounts an additional incentive fee up to 0.5% of the Offer Price for each Offer Share.

INTERNATIONAL PLACING

International Placing Agreement

In connection with the International Placing, it is expected that our Company will enter into the International Placing Agreement with, among others, the International Underwriters. Under the International Placing Agreement, it is expected that the International Underwriters would, subject to certain conditions, severally but not jointly, agree to subscribe for, or to procure subscribers to subscribe for, their respective applicable proportions (set out in the International Placing Agreement) of the International Placing Shares being offered pursuant to the International Placing.

Under the International Placing Agreement, the Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters for up to 30 days from the last day for the lodging of applications under the Hong Kong Public Offering, to require the Company to allot up to 86,212,500 additional Shares, representing 15% of the number of Offer Shares initially available under the Global Offering. These Shares will be sold at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% of the Offer Price) and will be for the purpose of, among other things, covering over-allocations, if any, in the International Placing.

TOTAL COMMISSIONS AND EXPENSES

Assuming an Offer Price of approximately HK\$5.305 per Share (being the midpoint of the indicative Offer Price range of HK\$4.53 to HK\$6.08 per Offer Share), the aggregate commissions and fees, together with the Stock Exchange listing fee, SFC transaction levy and Stock Exchange trading fee, legal and other professional fees, printing and other expenses relating to the Global Offering (excluding any discretionary incentive fees), are estimated to be approximately HK\$117.8 million (assuming that the Over-allotment Option is not exercised) in total and will be borne by our Company.

UNDERWRITING

ACTIVITIES BY SYNDICATE MEMBERS

We describe below a variety of activities that underwriters of the Hong Kong Public Offering and the International Placing, together referred to as “Syndicate Members,” may each individually undertake, and which do not form part of the underwriting or the stabilizing process. When engaging in any of these activities, it should be noted that the Syndicate Members are subject to restrictions, including the following:

- (a) under the agreement among the Syndicate Members, all of them (except for UBS and its affiliates as the stabilizing manager) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) all of them must comply with all applicable laws, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have the Shares as their or part of their underlying assets. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their or part of their underlying assets, whether on the Stock Exchange or on any other stock exchange, the rules of the relevant exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All of these activities may occur both during and after the end of the stabilizing period described under the paragraph headed “Over-allocation and Stabilization” under the section headed “Structure of the Global Offering”. These activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of their share price, and the extent to which this occurs from day to day cannot be estimated.

UNDERWRITING

SPONSORS' INDEPENDENCE

Each of the Joint Sponsors satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

As of March 31, 2011, China Construction Bank Corporation ("CCB") had amounts due from the Company amounting to RMB841.9 million. CCB, being the ultimate holding company of CCBI, is regarded as a member of the sponsor group of CCBI as defined under Rule 3A.01(9) of the Listing Rules. The outstanding balance of the amounts due from the Group to CCB represents 18.6% of the total assets of the Group as of December 31, 2010 and 0.0074% of the total assets of CCB as of March 31, 2011. Such amount falls below the percentage threshold as set out in Rule 3A.07(5) and (6) of the Listing Rules.

HONG KONG UNDERWRITERS' INTERESTS IN OUR COMPANY

Save for their respective obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding interests in our Company or any of our subsidiaries or any right or options (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering which forms part of the Global Offering. The Global Offering comprises (assuming the Over-allotment Option is not exercised):

- (i) the Hong Kong Public Offering of an initial 57,475,000 Shares to be offered by our Company (subject to adjustment as mentioned below) (representing 10% of the total number of Offer Shares initially available under the Global Offering) in Hong Kong as described in the paragraph headed “The Hong Kong Public Offering” below; and
- (ii) the International Placing of an initial 517,275,000 Shares to be offered by our Company (subject to adjustment as mentioned below and the Over-allotment Option) (representing 90% of the total number of Offer Shares initially available under the Global Offering) (a) in the United States to QIBs in reliance on Rule 144A or another available exemption from the registration requirements under the U.S. Securities Act; and (b) outside the United States in offshore transactions in reliance on Regulation S.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Placing, respectively, may be subject to reallocation and, in the case of the International Placing only, the Over-allotment Option as described in the paragraph headed “Over-Allocation and Stabilization” below.

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Joint Global Coordinators (on behalf of the Underwriters) agreeing on the Offer Price. Our Company expects to enter into the International Placing Agreement relating to the International Placing on the Price Determination Date. These underwriting arrangements, and the respective Underwriting Agreements, are summarized in the section headed “Underwriting”.

THE HONG KONG PUBLIC OFFERING

Number of Shares Initially Offered

Under the Hong Kong Public Offering, our Company is initially offering 57,475,000 Shares at the Offer Price for subscription by the public in Hong Kong, representing 10% of the total number of Offer Shares initially available under the Global Offering. Subject to the reallocation of Shares between (i) the International Placing and (ii) the Hong Kong Public Offering, the Hong Kong Offer Shares will represent 2.5% of our Company’s issued share capital immediately following completion of the Global Offering and the Capitalization Issue (assuming the Over-allotment Option is not exercised).

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the paragraph headed “Conditions of the Hong Kong Public Offering” below.

STRUCTURE OF THE GLOBAL OFFERING

Conditions of the Hong Kong Public Offering

Acceptance of all applications for the Offer Shares in the Hong Kong Public Offering will be conditional on, among other things:

- (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the existing issued Shares, the Shares to be issued pursuant to the Global Offering, any Shares which may be issued pursuant to the exercise of the Over-allotment Option, the Shares to be issued pursuant to the Capitalization Issue, and the Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme;
- (ii) the Offer Price having been determined on the Price Determination Date;
- (iii) the execution and delivery of the International Placing Agreement on the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than June 4, 2011, being the 30th day after the date of this prospectus.

If, for any reason, the Offer Price is not agreed among our Company and the Joint Global Coordinators (on behalf of the Underwriters) on or before Friday, May 13 2011, the Global Offering will not proceed.

The consummation of each of the Hong Kong Public Offering and the International Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived before the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by us in the South China Morning Post and the Hong Kong Economic Times on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares”. In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving banks or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

STRUCTURE OF THE GLOBAL OFFERING

Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on Wednesday, May 18, 2011 provided that (i) the Global Offering has become unconditional in all respects and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms.

Allocation

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applications 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.

The total number of Offer Shares available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided equally into two pools for allocation purposes: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in this other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of the Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 50% of the 57,475,000 Hong Kong Offer Shares initially comprised in the Hong Kong Public Offering (that is, 28,737,500 Hong Kong Offer Shares) are liable to be rejected.

Reallocation

The allocation of the Offer Shares between (i) the Hong Kong Public Offering and (ii) the International Placing is subject to adjustment. If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more of the number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 172,425,000 Offer Shares (in the case of (i)), 229,900,000 Offer Shares (in the case of (ii)) and 287,375,000 Offer Shares (in the case of (iii)) representing 30%, 40% and 50% of the Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Placing will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate. In addition, the Joint Global Coordinators at their absolute

STRUCTURE OF THE GLOBAL OFFERING

discretion may allocate Offer Shares from the International Placing to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportions as the Joint Global Coordinators deem appropriate.

Applications

Each applicant under the Hong Kong Public Offering 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 applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing, and such applicant's application is liable to be rejected if such undertaking and/or confirmation is breached and/or untrue (as the case may be) or if he has been or will be placed or allocated Offer Shares under the International Placing.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$6.08 per Offer Share in addition to any brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the paragraph headed "Pricing of the Global Offering" below, is less than the maximum price of HK\$6.08 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL PLACING

Number of Shares Offered

Subject to reallocation as described above, the Company is initially offering 517,275,000 Shares for subscription under the International Placing, representing 90% of the total number of Offer Shares initially available under the Global Offering (assuming that the Over-allotment Option is not exercised). Subject to the reallocation as described above, the International Placing Shares will represent 22.5% of our Company's issued share capital immediately following completion of the Global Offering and the Capitalization Issue (assuming the Over-allotment Option is not exercised).

Allocation

The International Placing will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Placing will be effected in accordance with the "book-building" process described in the paragraph headed "Pricing of

STRUCTURE OF THE GLOBAL OFFERING

the Global Offering” below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares, after the Listing. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and the Shareholders as a whole.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Placing, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow it to identify the relevant application under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under the Hong Kong Public Offering.

Over-allotment Option

In connection with the Global Offering, our Company is expected to grant the Over-allotment Option to the International Underwriters, which is exercisable by the Joint Global Coordinators on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the Joint Global Coordinators have the right, exercisable at any time from the day on which trading of the Shares commences on the Stock Exchange up to 30 days from the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot up to 86,212,500 additional Shares, representing no more than 15% of the initial Offer Shares, at the same price per Offer Share under the International Placing to, among other things, cover over-allocations in the International Placing, if any. If the Over-allotment Option is exercised in full, the additional Shares will represent approximately 3.6% of our enlarged share capital immediately following the completion of the Global Offering. In the event that the Over-allotment Option is exercised, a press announcement will be made.

THE CORNERSTONE PLACING

In May 2011, as part of the International Placing, we and the Joint Global Coordinators have entered into a cornerstone placing agreement (each, a “Cornerstone Placing Agreement”) with each of SD Family Fund L.P. (“SD Family Fund”), Mr. Ding Wuhao (“Mr. Ding”), and Better Prospect Limited (“Better Prospect”) as a cornerstone investor (each, a “Cornerstone Investor”). Pursuant to the Cornerstone Placing Agreements, the Cornerstone Investors have agreed to subscribe at the Offer Price for such number of Offer Shares equal to an aggregate amount of HK\$255.4 million. Assuming an Offer Price of HK\$5.305, being the mid-point of the indicative Offer Price range set out in this prospectus, the total number of Offer Shares subscribed by SD Family Fund, Mr. Ding and Better Prospect would be approximately 14,642,000 Offer Shares, 18,850,000 Offer Shares and 14,642,000 Offer Shares, respectively, representing approximately 0.64 %, 0.82% and 0.64%, respectively, of the Shares issued and outstanding immediately after the completion of the Global Offering and the Capitalization Issue (assuming the Over-allotment Option is not exercised and not taking into account any Shares which may be issued upon the exercise of the options to be granted under the Share Option Scheme).

Immediately following the completion of the Global Offering, the Cornerstone Investors will not have any Board representation in our Company, nor will the Cornerstone Investors become our Substantial Shareholder. The Offer Shares to be subscribed by the Cornerstone Investors will not be

STRUCTURE OF THE GLOBAL OFFERING

affected by any reallocation of the Offer Shares between the International Placing and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the paragraph headed “The Hong Kong Public Offering” above.

THE CORNERSTONE INVESTORS

We set forth below a brief description of each Cornerstone Investor:

SD Family Fund is a Cayman Islands exempted limited partnership established by the family trusts of Mr. Hui Lin Chit and his family members. Mr. Hui Lin Chit is the deputy chairman and chief executive officer of Hengan International Group Company Limited (1044.HK), a company listed on the Main Board.

Mr. Ding is the president and an executive director of 361 Degrees International Limited (1361.HK), a sportswear brand company listed on the Main Board.

Better Prospect is a company incorporated in the BVI and is wholly and beneficially owned by Mr. Chim Wai Kong (“Mr. Chim”). Mr. Chim is the chairman and an executive director of COSTIN New Materials Group (2228.HK), a company listed on the Main Board.

Each of the Cornerstone Investors is an Independent Third Party and independent of each other. The Shares to be held by each of the Cornerstone Investors pursuant to the respective Cornerstone Placing Agreement with us and the Joint Global Coordinators will be counted towards our public float.

SD Family Fund has agreed to subscribe for such number of Offer Shares (rounded down to the nearest board lot of 500 Shares) as may be purchased with US\$10 million at the Offer Price. Assuming an Offer Price of HK\$5.305, being the mid-point of the indicative Offer Price range set forth in this prospectus, SD Family Fund would subscribe for approximately 14,642,000 Shares, representing approximately 0.64% of the Shares issued and outstanding immediately after the completion of the Global Offering and the Capitalization Issue (assuming the Over-allotment Option is not exercised and not taking into account any Shares which may be issued upon the exercise of the options to be granted under the Share Option Scheme).

Mr. Ding has agreed to subscribe for such number of Offer Shares (rounded down to the nearest board lot of 500 Shares) as may be purchased with HK\$100 million at the Offer Price. Assuming an Offer Price of HK\$5.305, being the mid-point of the indicative Offer Price range set forth in this prospectus, Mr. Ding would subscribe for approximately 18,850,000 Shares, representing approximately 0.82% of the Shares issued and outstanding immediately after the completion of the Global Offering and the Capitalization Issue (assuming the Over-allotment Option is not exercised and not taking into account any Shares which may be issued upon the exercise of the options to be granted under the Share Option Scheme).

Better Prospect has agreed to subscribe for such number of Offer Shares (rounded down to the nearest board lot of 500 Shares) as may be purchased with US\$10 million at the Offer Price. Assuming an Offer Price of HK\$5.305, being the mid-point of the indicative Offer Price range set forth in this prospectus, Better Prospect would subscribe for approximately 14,642,000 Shares, representing approximately 0.64% of the Shares issued and outstanding immediately after the completion of the Global Offering and the Capitalization Issue (assuming the Over-allotment Option is not exercised and not taking into account any Shares which may be issued upon the exercise of the options to be granted under the Share Option Scheme).

STRUCTURE OF THE GLOBAL OFFERING

Final number of shares allocated to Cornerstone Investors will be disclosed in the allotment results announcement dated 17 May 2011.

CONDITIONS PRECEDENT

The subscription obligation of the Cornerstone Investors is conditional upon, among others, the Hong Kong Underwriting Agreement and the International Placing Agreement being entered into, having become effective and unconditional and not having been terminated.

RESTRICTIONS ON DISPOSALS BY THE CORNERSTONE INVESTOR

Each of the Cornerstone Investors has agreed that, without the prior written consent of us and the Joint Global Coordinators, it/he will not, at any time during the period of six months following the Listing Date, directly or indirectly, dispose of any Shares it/he has subscribed for pursuant to the Cornerstone Placing Agreements except for transfers to any of the entity wholly-owned by it/him and on the basis that the transferee will be subject to the same restrictions on its/his disposal of such Shares.

The restrictions on disposals by each of the Cornerstone Investors will not be applicable in the circumstances that the Cornerstone Investor may transfer all or part of the relevant Shares to any entity wholly-owned by it/him during the lock-up period of six months; provided that such transferee undertakes to, and the Cornerstone Investor undertakes to procure that such transferee will, be bound by the Cornerstone Investor's obligations under the Cornerstone Placing Agreement and give the same acknowledgements, representations and warranties as provided in the Cornerstone Placing Agreement prior to such transfer.

PRICING OF THE GLOBAL OFFERING

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Placing. Prospective professional and institutional investors will be required to specify the number of Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Shares for the purpose of the offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Thursday, May 12, 2011, and in any event on or before Friday, May 13, 2011, by agreement among the Joint Global Coordinators (on behalf of the Underwriters) and our Company, and the number of Shares to be allocated under the offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$6.08 per Offer Share and is expected to be not less than HK\$4.53 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.**

STRUCTURE OF THE GLOBAL OFFERING

The Joint Global Coordinators (on behalf of the Underwriters), may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or before the morning of the last day for lodging applications under the Hong Kong Public Offering. In such case, our Company will, as soon as practicable following the decision to make any such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post and the Hong Kong Economic Times notices of any such reduction. Such notice will also be available on the website of the Stock Exchange at www.hkexnews.hk and the website of our Company at www.baihong.com. Upon issue of a notice of the reduction of the Offer Price, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators (on behalf of the Underwriters) and our Company, will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of any such reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any notice published in relation to the reduction in the Offer Price, the Offer Price, if agreed upon among our Company and the Joint Global Coordinators, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The net proceeds of the Global Offering accruing to our Company (assuming that no additional Shares will be issued by our Company pursuant to the Over-allotment Option and after deduction of underwriting fees and estimated expenses payable by our Company in relation to the Global Offering) are estimated to be approximately HK\$2,497.2 million, assuming an offer price of HK\$4.53 per Offer Share, or approximately HK\$3,365.8 million, assuming an offer price of HK\$6.08 per Offer Share.

The final Offer Price, the indications of interest in the Global Offering, the results of applications and the basis of allocation of Shares available under the Hong Kong Public Offering, are expected to be announced on Tuesday, May 17, 2011, in the manner set out in the paragraph headed “X. Results of Allocation” under the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

OVER-ALLOCATION AND STABILIZATION

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

In connection with the Global Offering, UBS, as stabilizing manager (the “Stabilizing Manager”), its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate and/or effect transactions with a view to stabilizing or maintaining the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager, its

STRUCTURE OF THE GLOBAL OFFERING

affiliates or any person acting for it to do this. Such stabilization, if commenced, will be conducted at the absolute discretion of the Stabilizing Manager, its affiliates or any person acting for it, and may be discontinued at any time, and must be brought to an end after a limited period. The number of Shares that may be over-allocated will not be greater than the maximum number of Shares which may be allotted and issued upon exercise of the Over-allotment Option, namely 86,212,500 Shares, which represent 15% of the number of Offer Shares initially available under the Global Offering.

The Stabilizing Manager, its affiliates or any person acting for it may take all or any of the following stabilizing actions in Hong Kong during the stabilization period:

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

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

Stabilization cannot be used to support the price of the Shares for longer than the stabilization period, which begins on the day on which trading of the Shares commences on the Stock Exchange and ends on the 30th day after the last day for lodging of applications under the Hong Kong Public Offering. The stabilization period is expected to expire on June 10, 2011, after which an announcement will be made pursuant to section 9 of, and schedule 3 to, the Securities and Futures (Price Stabilization) Rules. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore then market price, could fall.

STRUCTURE OF THE GLOBAL OFFERING

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

STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocations in connection with the Global Offering, UBS or its authorized agents may enter into an agreement with Kingom Power to borrow, whether on its own or through its affiliates, up to 86,212,500 Shares, representing 15% of the number of Offer Shares initially available under the Global Offering, from Kingom Power to cover over-allocations (being the maximum number of additional Shares which may be allotted and issued upon exercise of the Over-allotment Option), or acquire Shares from other sources, including the exercising the Over-allotment Option.

If such stock borrowing arrangement with Kingom Power is entered into, it will only be effected by UBS or its authorized agents or its agent for settlement of over-allocations in the International Placing and such arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set out in Rule 10.07(3) of the Listing Rules are complied with. The same number of Shares so borrowed must be returned to Kingom Power or its nominees on or before the third Business Day following the earlier of (a) the last day on which the Over-allotment Option may be exercised, or (b) the day on which the Over-allotment Option is exercised in full and the relevant Offer Shares subject to the Over-allotment Option have been issued and sold. The stock borrowing arrangement will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to Kingom Power by UBS or its authorized agents in relation to such stock borrowing arrangement.

DEALINGS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, May 18, 2011, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, May 18, 2011.

HOW TO APPLY FOR HONG KONG OFFER SHARES

I. CHANNELS OF APPLICATION

There are three channels to make an application for the Hong Kong Offer Shares. You may apply for the Hong Kong Offer Shares by either (i) using a **WHITE** or **YELLOW** Application Form; (ii) applying online through the designated website of the White Form eIPO Service Provider, referred herein as the “**White Form eIPO service**,” or (iii) giving **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf. Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or applying online through **White Form eIPO** service or by giving **electronic application instructions** to HKSCC.

II. WHO CAN APPLY FOR HONG KONG OFFER SHARES

You can apply for the Hong Kong Offer Shares available for subscription by the public on a **WHITE** or **YELLOW** Application Form if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are not a U.S. person (as defined in Regulation S);
- are outside the United States and will be acquiring the Hong Kong Offer Shares in an offshore transaction (as defined in Regulation S); and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you wish to apply for Hong Kong Offer Shares online through the **White Form eIPO** service, in addition to the above you must also:

- have a valid Hong Kong identity card number, and
- be willing to provide a valid email address and a contact telephone number.

You may only apply by means of the **White Form eIPO** service if you are an individual applicant. Corporations or joint applicants may not apply by means of **White Form eIPO**.

If the applicant is a firm, the application must be in the names of the individual members, not the firm’s name. If the applicant is a body corporate, the Application Form must be signed by a duly authorized officer, who must state his or her representative capacity.

If an application is made by a person duly authorized under a valid power of attorney, the Joint Global Coordinators (or its agents or nominees) may accept the application at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of the attorney.

HOW TO APPLY FOR HONG KONG OFFER SHARES

The number of joint applicants may not exceed four.

We, the Joint Global Coordinators or the designated **White Form eIPO** Service Provider (where applicable) or our or their respective agents have full discretion to reject or accept any application, in full or in part, without assigning any reason.

The Hong Kong Offer Shares are not available to existing beneficial owners of Shares, or Directors or chief executives of our Company or any of its subsidiaries, or their respective associates (as defined in the Listing Rules) or any other connected persons (as defined in the Listing Rules) of our Company or its subsidiaries.

You may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest for International Placing Shares under the International Placing, but may not do both.

III. APPLYING BY USING AN APPLICATION FORM

Which Application Form to Use

Use a **WHITE** Application Form if you want the Hong Kong Offer Shares to be issued in your own name.

Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares issued 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

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, May 5, 2011 until 12:00 noon on Wednesday, May 11, 2011 from:

UBS AG, Hong Kong Branch
52/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

CCB International Capital Limited
34/F, Two Pacific Place
88 Queensway
Admiralty
Hong Kong

First Shanghai Securities Limited
19th Floor, Wing On House
71 Des Voeux Road, Central
Hong Kong

Guotai Junan Securities (Hong Kong) Limited
27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

or any of the following branches of **The Hongkong and Shanghai Banking Corporation Limited**:

Branch name	Branch address
Hong Kong Office	Level 3, 1 Queen's Road Central, HK
Central Branch	Basement, 29 Queen's Road Central, Central, HK
Des Voeux Road West Branch	Western Centre, 40-50 Des Voeux Road West, HK
Causeway Bay Branch	1/F, Causeway Bay Plaza 2, 463-483 Lockhart Road, HK
Kwun Tong Branch	No. 1, Yue Man Square, Kwun Tong, KLN
Mei Foo Sun Chuen Branch	79, Broadway Stage 4, Mei Foo Sun Chuen, KLN
Mong Kok Branch	Basement & U/G, 673 Nathan Road, Mong Kok, KLN
Whampoa Garden Branch	Shop No. G6 & 6A, G/F, Site 4, Whampoa Garden, KLN
Citywalk Branch	Shops G21-22, Citywalk, 1 Yeung Uk Road, Tsuen Wan, NT
Sheung Shui Centre Branch	Shop 1024-1028 & 1030-1031, Level 1, Sheung Shui Centre, Sheung Shui, NT

or any of the following branches of **The Bank of East Asia, Limited**:

Branch name	Branch address
Main Branch	10 Des Voeux Road Central, HK
Queen's Road Central Branch	Shop A – C, G/F, Wah Ying Cheong Central Building, 158 -164 Queen's Road Central
North Point Branch	326-328 King's Road
Queen's Road East Branch	Ground Floor Shop B & C, 228 Queen's Road East, Wanchai
Admiralty Branch	Shop 1007-1008, 1/F, United Centre, 95 Queensway
Prince Edward Branch	G/F, Hanley House, 776-778 Nathan Road
Yaumatei Branch	G/F, 526 Nathan Road
Millennium City 5 Branch	Shop 1, G/F, Millennium City 5, 418 Kwun Tong Road, Kwun Tong, Kowloon
East Tsim Sha Tsui Branch	Shop G3 – G5, G/F, East Ocean Centre, 98 Granville Road, Tsim Sha Tsui
East Point City Branch	Shop 217B, Level 2, East Point City, 8 Chung Wa Road, Tseung Kwan O
Yuen Long Branch	77 Castle Peak Road
Ha Kwai Chung Branch	202 Hing Fong Road

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, May 5, 2011 until 12:00 noon on Wednesday, May 11, 2011 from:

- (i) The Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong; or
- (ii) Your stockbroker, who may have such Application Forms and this prospectus available.

HOW TO APPLY FOR HONG KONG OFFER SHARES

How to Complete the Application Form

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions your application may 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 at the address stated in the Application Form.

You should note that by completing and submitting the Application Form, among other things, you:

- (i) **agree** with our Company and each shareholder of our Company, and our Company agrees with each of its shareholders, to observe and comply with the Companies Law, the Companies Ordinance, the Memorandum of Association and the Articles of Association;
- (ii) **agree** with our Company and each shareholder of our Company that the Shares in our Company are freely transferable by the holders thereof;
- (iii) **authorize** our Company to enter into a contract on your behalf with each Director and officer of our Company whereby each such Director and officer undertakes to observe and comply with his obligations to shareholders as stipulated in the Articles of Association;
- (iv) **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;
- (v) **agree** that our Company, the Directors, the Joint Global Coordinators, the Underwriters, their respective directors, and any other parties involved in Global Offering are liable only for the information and representations contained in this prospectus and any supplement thereto;
- (vi) **undertake and confirm** that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for, take up or indicate an interest for, any Offer Shares under the International Placing;
- (vii) **agree** to disclose to our Company and/or the Hong Kong Share Registrar, receiving banks, the Joint Global Coordinators and their respective advisers and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application.

In order for the **YELLOW** Application Forms to be valid:

You, as the applicant(s), must complete the form as indicated below and sign on the first page of the application form. Only written signatures will be accepted.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(i) If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):

- (a) the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box.

(ii) If the application is made by an individual CCASS Investor Participant:

- (a) the Application Form must contain the CCASS Investor Participant's name and Hong Kong identity card number; and
- (b) the CCASS Investor Participant must insert its participant I.D. in the appropriate box in the Application Form.

(iii) If the application is made by a joint individual CCASS Investor Participant:

- (a) the Application Form must contain all joint CCASS Investor Participants' names and the Hong Kong identity card numbers; and
- (b) the participant I.D. must be inserted in the appropriate box in the Application Form.

(iv) If the application is made by a corporate CCASS Investor Participant:

- (a) the Application Form must contain the CCASS Investor Participant's company name and Hong Kong business registration number; and
- (b) the participant I.D. and company chop (bearing its company name) must be inserted in the appropriate box in the Application Form.

Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of participant I.D. or other similar matters may render the application invalid.

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" account numbers or other identification codes for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner.

If your application is made through a duly authorized attorney, our Company and the Joint Global Coordinators (as agent for our Company) may accept it at their discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney. Our Company and the Joint Global Coordinators, in its capacity as our Company's agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

HOW TO APPLY FOR HONG KONG OFFER SHARES

IV. APPLYING THROUGH WHITE FORM eIPO

General

- (i) You may apply through **White Form eIPO** by submitting an application through the designated website at www.eipo.com.hk if you satisfy the relevant eligibility criteria for this as set out in “II. Who can apply for Hong Kong Offer Shares” above and on the same website. If you apply through **White Form eIPO**, the Shares will be issued in your own name.
- (ii) Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at www.eipo.com.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated **White Form eIPO** Service Provider and may not be submitted to our Company.
- (iii) If you give **electronic application instructions** through the designated website at www.eipo.com.hk, you will have authorized the designated **White Form eIPO** Service Provider to apply on the terms and conditions set out in this prospectus, as supplemented and amended by the terms and conditions applicable to the **White Form eIPO** service.
- (iv) 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 before making any application.
- (v) By submitting an application to the designated **White Form eIPO** Service Provider through the **White Form eIPO** service, you are deemed to have authorized the designated **White Form eIPO** Service Provider to transfer the details of your application to our Company and the Hong Kong Share Registrar.
- (vi) You may submit an application through the **White Form eIPO** service in respect of a minimum of 500 Hong Kong Offer Shares. Each electronic application instruction in respect of more than 500 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.
- (vii) You should give **electronic application instructions** through **White Form eIPO** at the times set out in the paragraph headed “VI. When May Applications be Made” below.
- (viii) You should make payment for your application made by **White Form eIPO** service in accordance with the methods and instructions set out in the designated website at www.eipo.com.hk. **If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Wednesday, May 11, 2011, or such later time as described under the paragraph headed “Effect of Bad Weather on the Opening of the Application Lists” below, the designated White Form eIPO Service**

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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.

- (ix) Once you have completed 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 application reference number will not constitute an actual application.
- (x) **Warning:** The application for Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the designated **White Form eIPO** Service Provider to public investors. **Our Company, our Directors, the Joint Global Coordinators and the Underwriters take no responsibility for such applications, and provide no assurance that applications through the White Form eIPO service will be submitted to our Company or that you will be allotted any 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 “Billion Industrial Holdings Limited” White Form eIPO application submitted via www.eipo.com.hk to support the funding of “Source of DongJiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

Please note that internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the White Form eIPO service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offering to submit your electronic application instructions. In the event that you have problems connecting to the designated website for the **White Form eIPO** service, you should submit a **WHITE** Application Form. However, once you have submitted **electronic application instructions** and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** or **YELLOW** Application Form.

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** designated website at www.eipo.com.hk subject to the Articles of Association;
- **undertakes** and agrees to accept the Hong Kong Offer Shares applied for, or any lesser number allotted to the applicant on such application;

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- **declares** that this 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 and the person for whose benefit the applicant are applying have 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 Offer Shares under the International Placing, nor otherwise participate in the International Placing;
- **understands** that this declaration and representation will be relied upon by our Company in deciding whether or not to make any allocation of Hong Kong Offer Shares in response to such application;
- **authorizes** our Company to place the applicant's name on the register of members of our Company 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) to send any share certificates and/or any refund cheque(s) 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** designated website at www.eipo.com.hk and this prospectus;
- **request** that e-Refund payment instructions (if any) will be despatched to the application payment account, if the applicant paid the application monies from a single bank account;
- **request** that refund cheque (if any) will be despatched to the address specified in application instructions to the designated **White Form eIPO** Service Provider by ordinary post and at applicant's own risk, if the applicant used multi-bank accounts to pay the application monies;
- **have read** the terms and conditions and application procedures set out on in the **White Form eIPO** designated website at www.eipo.com.hk and this prospectus and agree to be bound by them;
- **represents, warrants and undertakes** that the applicant, and any persons for whose benefit the applicant are applying are non-U.S. person(s) outside the United States (as defined in Regulation S), when completing and submitting this Application Form or is a person described in paragraph (h)(3) of Rule 902 of Regulation S or the allocation of or application for the Hong Kong Offer Shares to or by whom or for whose benefit this application is made would not require our Company 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.

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Supplemental Information

If any supplement to this prospectus is issued, applicant(s) who have already submitted **electronic application instructions** 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 and on behalf of any person for whom you act as agent or nominee shall be deemed to:

- **instruct and authorize** our Company and/or the Joint Global Coordinators as agent for our Company (or their respective agents or nominees) 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 of Association and otherwise to give effect to the arrangements described in this prospectus and the **White Form eIPO** designated website at www.eipo.com.hk;
- **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 our Company and the 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 this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider via the **White Form eIPO** service;
- (if you are an agent for another person) **warrant** reasonable enquiries have been made of that other person that this 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 authorized to submit the application as that other person's agent;
- **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 Offer Shares under the International Placing;

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- **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 our Company, and/or the Hong Kong Share Registrar, receiving banks, the Joint Global Coordinators and their respective advisers 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 our Company and each Shareholder, and our Company agrees with each of its Shareholder, to observe and comply with the Companies Law, the Companies Ordinance, the Memorandum of Association and the Articles of Association;
- **agree** with our Company and each Shareholder that the Shares in our Company are freely transferable by the holders thereof;
- **authorize** our Company to enter into a contract on your behalf with each Director and officer of our Company whereby each such Director and officer undertakes to observe and comply with his or her obligations to shareholders as stipulated in the Memorandum of Association and Articles of Association;
- **represent, warrant and undertake** that you are not, and none of the other person(s) for whose benefit you are applying is, a U.S. person (as defined in Regulation S) when completing the Application Form;
- **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** designated website at www.eipo.com.hk and the **White Form eIPO** website 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 Joint Global Coordinators and the Hong Kong Underwriters nor any of their respective officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus, the **White Form eIPO** Application Form and the **White Form eIPO** designated website at www.eipo.com.hk.

Our Company, the Joint Global Coordinators, the Underwriters and their respective directors, officers, employees, partners, agents, advisers, 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.

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Power of attorney

If your application is made by a duly authorized attorney, our Company or the Joint Global Coordinators, as its agent, may accept it at their discretion and subject to any conditions as any of them may think fit, including evidence of the authority of your attorney.

Additional Information

For the purposes of allocating Hong Kong Offer Shares, each applicant giving **electronic application instructions** through **White Form eIPO** service to the **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk will be treated as an applicant.

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.

Otherwise, any monies payable to you due to a refund for any of the reasons set out in the paragraph headed “X. Results of Allocation — Dispatch/collection of share certificates/e-Refund payment instructions/refund cheques” below.

V. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies 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 in effect from time to time.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

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.

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If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company and the Hong Kong Share Registrar.

Giving Electronic application instructions to HKSCC to Apply for Hong Kong Offer Shares by HKSCC Nominees on Your Behalf

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 a 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;
- (ii) HKSCC Nominees does the following things on behalf of each such person:
 - **agrees** that the Hong Kong Offer Shares to be allocated shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **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 applied for or taken up any Offer Shares under the International Placing nor otherwise participated in the International Placing;
 - (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 that person is duly authorized to give those instructions as that other person's agent;
 - **understands** that the above declaration will be relied upon by our Company, the Directors and the Joint Global Coordinators in deciding whether or not to make any allocation of Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;

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- **authorizes** our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Offer Shares allocated 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 our Company 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;
- **agrees** that our Company, the Directors, the Joint Global Coordinators, the Underwriters, their respective directors, and any other parties involved in Global Offering are liable only for the information and representations contained in this prospectus;
- **agrees** to disclose that person's personal data to our Company, the Joint Global Coordinators and/or their respective agents 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 the **electronic application instructions** given by that person is irrevocable before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day), such agreement to take effect as a collateral contract with our Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day), if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that 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 Offering published by our Company;

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- **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 our Company, for itself and for the benefit of each of its shareholders (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for our Company and on behalf of each of its shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Memorandum of Association and the Articles of Association;
- **agrees** with our Company (for itself and for the benefit of each of its shareholders) that Shares in our Company are freely transferable by the holders thereof;
- **authorizes** our Company to enter into a contract on your behalf with each Directors and officers of our Company whereby each such Director and officer undertakes to observe and comply with their obligations to shareholders stipulated in the Articles of Association; 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.

Effect of Giving Electronic application instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- **instructed and authorized** HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for Hong Kong Offer Shares on your behalf;
- **instructed and authorized** HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy, and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the Offer Price per Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy, and Stock Exchange trading fee by crediting your designated bank account; and
- **instructed and authorized** HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

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Multiple Applications

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 application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made.

Minimum Subscription Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 500 Hong Kong Offer Shares. Such instructions in respect of more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

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.

Section 40 of the Companies Ordinance

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.

Personal Data

The section of the Application Form entitled “Personal Data” applies to any personal data held by our Company and the Hong Kong Share Registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

The subscription for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Our Company, the Directors, the Joint Global Coordinators and the Underwriters 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 the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input of their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone

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System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (i) submit a **WHITE** or **YELLOW** Application Form; or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, May 11, 2011.

VI. WHEN MAY APPLICATIONS BE MADE

Applications on WHITE or YELLOW Application Forms

Completed **WHITE** or **YELLOW** Application Forms, together with payment attached, must be lodged by 12:00 noon on Wednesday, May 11, 2011, or, if the application lists are not open on that day, by the time and date stated in the paragraph headed "Effect of Bad Weather on the Opening of the Application Lists" below. Cheque(s) or banker's cashier order(s) should be crossed "Account Payee Only" and made payable to "HSBC Nominees (Hong Kong) Limited — Billion Public Offer".

Your completed Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of The Hong Kong and Shanghai Banking Corporation Limited or The Bank of East Asia, Limited, listed under the sub-paragraph headed "Where to collect the Application Forms" under the paragraph headed "III. Applying by using an Application Form" above at the following times:

Thursday, May 5, 2011	— 9:00 a.m. to 4:30 p.m.
Friday, May 6, 2011	— 9:00 a.m. to 4:30 p.m.
Saturday, May 7, 2011	— 9:00 a.m. to 1:00 p.m.
Monday, May 9, 2011	— 9:00 a.m. to 4:30 p.m.
Wednesday, May 11, 2011	— 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, May 11, 2011.

No proceedings will be taken on applications for the Shares and no allotment of any such Shares will be made until after the closing of the application lists. No allotment of any of the Shares will be made later than June 4, 2011.

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 Thursday, May 5, 2011 until 11:30 a.m. on Wednesday, May 11, 2011 or such later time as described under the paragraph headed "Effect of Bad Weather on the Opening of the Application Lists" below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, May 11, 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 "Effect of Bad Weather on the Opening of the Application Lists" below.

You will not be permitted to submit your application to the designated White Form eIPO Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website before 11:30 a.m., you will be permitted to continue

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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.

Electronic application instructions to HKSCC via CCASS

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Thursday, May 5, 2011	— 9:00 a.m. to 8:30 p.m.¹
Friday, May 6, 2011	— 8:00 a.m. to 8:30 p.m.¹
Saturday, May 7, 2011	— 8:00 a.m. to 1:00 p.m.¹
Monday, May 9, 2011	— 8:00 a.m. to 8:30 p.m.¹
Wednesday, May 11, 2011	— 8:00 a.m.¹ to 12:00 noon

Note 1: These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, May 5, 2011 until 12:00 noon on Wednesday, May 11, 2011 (24 hours daily, except the last application day).

The latest time for inputting **electronic application instructions** via CCASS will be 12:00 noon on Wednesday, May 11, 2011, the last application day, or if the application lists are not open on that day, by the time and date stated in the paragraph headed “Effect of Bad Weather on the Opening of the Application Lists” below.

Effect of Bad Weather on the Opening of the Application Lists

The application lists will not open 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 Wednesday, May 11, 2011. Instead, they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warning signals in force in Hong Kong at anytime between 9:00 a.m. and 12:00 noon.

If the application lists of the Hong Kong Offer shares do not open and close on Wednesday, May 11, 2011 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong on the other dates mentioned in the section headed “Expected Timetable” in this prospectus, such dates mentioned in the section headed “Expected Timetable” in this prospectus may be affected. A press announcement will be made in such event.

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VII. HOW MANY APPLICATIONS YOU MAY MAKE

Multiple applications or suspected multiple applications are liable to be rejected.

You may make more than one application for Hong Kong Offer Shares if and only if:

You are a nominee, in which case you may both give **electronic application instructions** to HKSCC (if you are a CCASS Participant) and lodge more than one Application Form in your own name if each application is made on behalf of different beneficial owners. In the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code

for each beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

Otherwise, multiple applications are not allowed.

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.

If you have made an application by giving **electronic application instructions** to HKSCC and 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 application instructions** to make an application for the 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. No application for any other number of Hong Kong Offer Shares will be considered any such application is liable to be rejected.

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It will be a term and condition of all applications that by completing and delivering an Application Form or submitting an **electronic application instruction**, you:

- (if the application is made for your own benefit) **warrant** that this 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 designated **White Form eIPO** Service Provider through **White Form eIPO** service; or
- (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 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 through **White Form eIPO** service and that you are duly authorized to sign the Application Form or give **electronic application instructions** as that other person's agent.

Save as referred to above, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service;
- both apply (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic applications instructions** to HKSCC or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service;
- apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly) or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service for more than 28,737,500 Shares, being 50% of the number of Shares initially being offered for public subscription under the Hong Kong Public Offering, as more particularly described in the paragraph headed "The Hong Kong Public Offering" under the section headed "Structure of the Global Offering"; or
- have applied for or taken up, or indicated an interest for, or have been or will be placed (including conditionally and/or provisionally) Offer Shares under the International Placing.

All of your applications will also 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 your **electronic application instructions**). If an application is made by an unlisted company and

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control means you:

- control the composition of the board of directors of the company; or
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

VIII. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allotted the Hong Kong Offer Shares are set out in the notes attached to the Application Forms, and you should read them carefully. You should note in particular the following situations in which Hong Kong Offer Shares will not be allotted to you:

- **If your application is revoked**

By completing and submitting an Application Form or submitting **electronic application instructions** to HKSCC or the designated **White Form eIPO** Service Provider through **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees or the **White Form eIPO** Service Provider on your behalf cannot be revoked before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day). This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form or submit your **electronic application instructions** to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. 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 the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees or the White Form eIPO Service Provider on your behalf may be revoked before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 or the White Form eIPO Service Provider on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the announcement 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.

- **Full discretion of our Company, the Joint Global Coordinators or the designated White Form eIPO Service Provider (where applicable) or its or their respective agent and nominees to reject or accept your application:**

Our Company, and the Joint Global Coordinators (as agent for our Company) or the designated **White Form eIPO** Service Provider (where applicable), or their respective agents and nominees, have full discretion to reject or accept any application, or to accept only part of any application.

Our Company, the Joint Global Coordinators (as agent for our Company) and their agents and nominees do not have to give any reason for any rejection or acceptance.

- **If the allocation of Hong Kong Offer Shares is void:**

The allocation of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** to HKSCC or apply using a **YELLOW** Application Form) will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies Our Company of that longer period within three weeks of the closing date of the application lists.

- **You will not receive any allocation if:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefits you apply for have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Offer Shares in the International Placing. By

HOW TO APPLY FOR HONG KONG OFFER SHARES

filling in any of the Application Forms or apply by giving **electronic application instructions**, you agree not to apply for Hong Kong Offer Shares as well as Offer Shares in the International Placing. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offering;

- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions set out in the designated website at www.eipo.com.hk;
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonored upon its first presentation;
- your Application Form is not completed in accordance with the instructions stated in the Application Form (if you apply by an Application Form);
- the Underwriting Agreements do not become unconditional; or
- the Underwriting Agreements are terminated in accordance with their respective terms.

You should also note that you may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest for Offer Shares under the International Placing, but may not do both.

IX. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer Price is HK\$6.08 per Offer Share. You must also pay a brokerage fee of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% in full. This means that for one board lot of 500 Shares you will pay HK\$3,070.64. The Application Forms have tables showing the exact amount payable for certain numbers of Shares up to 28,737,500 Shares.

You must pay the amount payable upon application for the Shares by one cheque or one banker's cashier order in accordance with the terms set out in the Application Form (if you apply by an Application Form).

If your application is successful, brokerage is paid to participants of the Stock Exchange or the Stock Exchange (as the case may be), the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected on behalf of the SFC).

HOW TO APPLY FOR HONG KONG OFFER SHARES

X. RESULTS OF ALLOCATION

Announcement of the results of allocations in the Hong Kong Public Offering, including the Offer Price, the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Placing, the basis of allocation of Hong Kong Offer Shares and the number of Hong Kong Offer Shares successfully applied for under **WHITE** and **YELLOW** Application Forms, or by giving **electronic application instructions** to HKSCC via CCASS or the designated **White Form eIPO** Service Provider through the designated **White Form eIPO** website, will be made available in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Tuesday, May 17, 2011 and on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.baihong.com.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- Results of allocations for the Hong Kong Public Offering will be available from the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.baihong.com;
- Results of allocation for the Hong Kong Public Offering will be available from our Hong Kong Public Offering results of allocation website at www.iporesults.com.hk on a 24-hour basis from 8:00 a.m. on Tuesday, May 17, 2011 to 12:00 midnight on Monday, May 23, 2011. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its Application Form to search for his/her/its own allocation result. Our Company's website (www.baihong.com) will also publish a hyper-link to the aforesaid website during the same period;
- Results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling **2862 8669** between 9:00 a.m. and 10:00 p.m. from Tuesday, May 17, 2011 to Friday, May 20, 2011; and
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual locations from Tuesday, May 17, 2011 to Thursday, May 19, 2011 at all the receiving banks locations at the addresses set out in the sub-paragraph headed "Where to Collect the Application Forms" under the paragraph headed "III. Applying by Using an Application Form".

Despatch/Collection of Share Certificates/e-Refund payment instructions/Refund Cheques

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the Offer Price of HK\$6.08 per Offer Share (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee thereon) initially paid on application, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the paragraph headed "The Hong Kong Public Offering — Conditions of the Hong Kong Public Offering" under the

HOW TO APPLY FOR HONG KONG OFFER SHARES

section headed “Structure of the Global Offering” or if any application is revoked or any allocation pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage fee, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

No temporary documents of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. Share certificates will only become valid certificates of title at 8:00 a.m. on Wednesday, May 18, 2011 provided that the Hong Kong Public Offering has become unconditional in all respects and the right of termination described in the paragraph headed “Grounds for Termination” in the section headed “Underwriting” has not been exercised.

If you apply by **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** through **White Form eIPO** service, subject 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 your Application Form:

- (i) (a) share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or (b) 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 applicants on **YELLOW** Application Forms: Share certificates for their Shares successfully applied for will be deposited into CCASS as described below); and/or
- (ii) refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (a) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (b) all the application monies, if the application is wholly unsuccessful; and/or (c) 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 the brokerage fee of 1%, SFC transaction levy of 0.003% and 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 purposes. 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.

Subject as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications under white or yellow application forms and share certificates for successful applicants under **WHITE** Application Forms and **White Form eIPO** are expected to be posted on or before Tuesday, May 17, 2011. The right is reserved to retain any share certificates and any surplus application monies pending clearance of cheque(s).

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you apply by giving electronic application instructions to HKSCC, and your application is wholly or partially successful:

- (i) 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 Tuesday, May 17, 2011 or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees; and
- (ii) 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 Offer Share initially paid on application, in each case including the related brokerage fee of 1 %, SFC transaction levy of 0.003%, and 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 Tuesday, May 17, 2011. No interest will be paid thereon.

If you apply using a WHITE Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more on a **WHITE** Application Form and have indicated your intention in your Application Form to collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable), to which they are entitled, in person from the Hong Kong Share Registrar and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) and share certificate(s) from the Hong Kong Share Registrar 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 Tuesday, May 17, 2011 or such other date as notified by our Company in the newspapers as the date of collection/despatch of e-Refund payment instructions/refund cheques/share certificates. If you are an individual who opt for personal collection, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant which opt for personal collection, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar. 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 if 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 Tuesday, May 17, 2011, by ordinary post and at your own risk.

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 cheques (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

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If you have applied for 1,000,000 Hong Kong Offer Shares or more and have not indicated on the Application Form that you will collect your refund cheque(s) (if any) in person, or if you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) (if any) will be dispatched promptly to you by ordinary post to the address as specified in the Application Form at your own risk.

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 Tuesday, May 17, 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:

- our Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in accordance with the details set out in this paragraph headed "X. Results of Allocation". You should check the results published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, May 17, 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.

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) (where applicable) in person from the Hong Kong Share Registrar 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 Tuesday, May 17, 2011, or such other date as notified by our Company in the newspapers as the date of despatch/collection of share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider promptly thereafter, by ordinary post and at your own risk.

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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 Tuesday, May 17, 2011 by ordinary post and at your own risk.

If you apply through the White Form eIPO service (www.eipo.com.hk) by paying the application monies through a single bank account and your application is wholly or partially unsuccessful and/or the final Offer Price being different from the offer price initially paid on your application, e-refund payment instructions (if any) will be dispatched to the application payment account on Tuesday, May 17, 2011.

If you apply through the White Form eIPO service (www.eipo.com.hk) by paying the application monies through multiple bank accounts and your application is wholly or partially unsuccessful and/or the final Offer Price being different from the offer price initially paid on your application, refund cheque(s) will be sent to the address specified in your application instructions to the designated White Form eIPO Service Provider on Tuesday, May 17, 2011, by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated **White Form eIPO** Service Provider set out in the paragraph headed “IV. Applying Through **White Form eIPO** — Additional information” above.

If you apply by giving electronic application instructions to HKSCC via CCASS

The Company will publish the **application results of CCASS Participants** (and where the CCASS Participant is a broker or custodian, the Company shall include information relating to the beneficial owner, if supplied), your Hong Kong Identity Card/passport number or other identification code (Hong Kong Business Registration number for corporations) and the basis of allotment of the public offer, in accordance with the details set out in this paragraph head “X. Results of Allocation” on Tuesday, May 17, 2011. You should check the results published by us and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, May 17, 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 Tuesday, May 17, 2011. Immediately following the credit of the public offer shares to your stock account and the credit of the refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong 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

XI. REFUND OF APPLICATION MONIES

If you do not receive any Hong Kong Offer Shares for any reason, our Company will refund your application monies, including a brokerage fee of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%. No interest will be paid thereon. All interest accrued on such monies before the date of despatch of refund cheques will be retained for the benefit of our Company.

If your application is accepted only in part, our Company will refund the appropriate portion of your application monies, including the related a brokerage fee of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, without interest.

If the Offer Price as finally determined is less than the offer price per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon) initially paid on application, our Company will refund the surplus application monies, together with the related a brokerage fee of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, without interest.

In a contingency situation involving a substantial over-subscription, at the discretion of our Company and the Joint Global Coordinators, cheques for applications for certain small denominations of Hong Kong Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) will be made on Tuesday, May 17, 2011 in accordance with the various arrangements as described above.

XII. DEALINGS AND SETTLEMENT

Commencement of Dealings in the Shares

Dealings in the Shares on the Stock Exchange are expected to commence on Wednesday, May 18, 2011.

The Shares will be traded in board lots of 500 each. The stock code of the Shares is 2299.

Shares will be Eligible for Admission into CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies 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 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.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from our Company's reporting accountants KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

May 5, 2011

The Directors
Billion Industrial Holdings Limited

Merrill Lynch Far East Limited
CCB International Capital Limited

Dear Sirs

INTRODUCTION

We set out below our report on the financial information relating to Billion Industrial Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) including the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group, for each of the years ended December 31, 2008, 2009 and 2010 (the “Relevant Period”), and the combined balance sheets of the Group as of December 31, 2008, 2009 and 2010, together with the notes thereto (the “Financial Information”) for inclusion in the prospectus of the Company dated May 5, 2011 (the “Prospectus”).

The Company was incorporated in the Cayman Islands on November 25, 2010 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganization completed on February 17, 2011 (the “Reorganization”) as detailed in the section headed “History and Corporate Structure” in the Prospectus, the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganization.

As of the date of this report, no audited financial statements have been prepared for the Company, as it is an investment holding company and not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

All companies now comprising the Group have adopted December 31, as their financial year end date. Details of the Company's subsidiary that is subject to audit during the Relevant Period and the name of the auditor is set out in note 28 of section C. The statutory financial statements of such subsidiary were prepared in accordance with the accounting rules and regulations applicable to entities in the People's Republic of China (the "PRC") in which it was established.

The directors of the Company have prepared the combined financial statements of the Group for the Relevant Period in accordance with the basis of preparation set out in section A below and the accounting policies set out in section C below (the "Underlying Financial Statements"). The Underlying Financial Statements for each of the years ended December 31, 2008, 2009 and 2010 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements, with no adjustments thereto, and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

Basis of opinion

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA.

We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to year ended December 31, 2010.

Opinion

In our opinion, for the purpose of this report, the Financial Information, on the basis of preparation set out in Section A below, gives a true and fair view of the Group's combined results and cash flows for the Relevant Period and the state of affairs of the Group as of December 31, 2008, 2009 and 2010.

A BASIS OF PREPARATION

Prior to the Reorganization, Mr. Sze Tin Yau and Mr. Wu Jinbiao owned Fujian Billion Polymerization Fiber Technology Industrial Co. Ltd. (“Billion Fujian”) in the PRC which are principally engaged in the manufacturing and sales of polyester filament fiber products. To rationalize the corporate structure in preparation of the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited, the Company was incorporated in the Cayman Islands on November 25, 2010 and the Group underwent the Reorganization, as detailed in the section headed “History and Corporate Structure” in the Prospectus. Upon completion of the Reorganization, the Company became the ultimate parent company of Billion Fujian and the holding company of the Group.

The companies that took part in the Reorganization were controlled by the same group of ultimate equity holders, Mr. Sze Tin Yau and Mr. Wu Jinbiao (referred to as “the Controlling Shareholders”) before and after the Reorganization and therefore there were no changes in the economic substance of the ownership and the business of the Group. The Reorganization only involved inserting newly formed entities with no substantive operations as new holding companies of Billion Fujian, which was the Group’s sole operating entity during the Relevant Period. Accordingly, the Reorganization has been accounted for using a principle similar to that for a reverse acquisition as set out in Hong Kong Financing Reporting Standard 3, Business combinations, with Billion Fujian treated as the acquirer for accounting purposes. The Financial Information has been prepared and presented as a continuation of the financial statements of Billion Fujian with the assets and liabilities of Billion Fujian recognized and measured at their historical carrying amounts prior to the Reorganization.

Intra-group balances and transactions are eliminated in full in preparing the Financial Information.

As of the date of this report, the Company has direct and indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid up	Attributable equity interest held by the Company		Principal activities
			Direct	Indirect	
Billion Industrial Investment Limited	British Virgin Island (the “BVI”)/ December 7, 2010	HK\$1	100%	–	Investment holding
Billion Development (Hong Kong) Limited (“Billion Development”)	Hong Kong Special Administrative Region of the PRC (“Hong Kong”)/ December 15, 2010	HK\$1	–	100%	Investment holding
Fujian Billion Polymerization Fiber Technology Industrial Co., Ltd. (“Billion Fujian”) (福建百宏聚纖科技實業有限公 司) (Note (i) and (ii))	PRC/ November 20, 2003	US\$239,990,000	–	100%	Manufacturing and sales of polyester filament fiber products

Notes:

- (i) The entity is a wholly foreign owned enterprise established in the PRC.
- (ii) The English translation of the name is for reference only. The official name of Billion Fujian is in Chinese.

B COMBINED FINANCIAL INFORMATION**1 Combined statements of comprehensive income***(Expressed in Renminbi)*

	Section C Note	Years ended December 31,		
		2008	2009	2010
		RMB'000	RMB'000	RMB'000
Revenue	2	2,113,614	2,963,098	4,309,731
Cost of sales		(1,989,150)	(2,713,454)	(3,678,783)
Gross profit		124,464	249,644	630,948
Other revenue	3	42,705	28,223	35,073
Other net gain/(loss)	4	452	(2,574)	21,287
Distribution costs		(8,384)	(25,055)	(26,580)
Administrative expenses		(23,774)	(81,851)	(91,049)
Profit from operations		135,463	168,387	569,679
Finance costs	5(a)	(63,062)	(40,013)	(32,227)
Profit before taxation	5	72,401	128,374	537,452
Income tax	6(a)	(15,677)	(26,978)	(91,493)
Profit and total comprehensive income for the year		56,724	101,396	445,959

The accompanying notes form part of the Financial Information.

2 Combined balance sheets
(Expressed in Renminbi)

	Section C	As of December 31,		
	Note	2008	2009	2010
		RMB'000	RMB'000	RMB'000
Non-current assets				
Fixed assets	12			
– Property, plant and equipment		2,296,068	2,308,019	2,286,023
– Construction in progress		24,307	36,094	28,235
– Interests in leasehold land held for own use under operating leases . . .		138,965	136,769	171,632
		2,459,340	2,480,882	2,485,890
Deposits and prepayments	14	9,720	9,443	12,587
Deferred tax assets	19(b)	4,072	–	–
		2,473,132	2,490,325	2,498,477
Current assets				
Inventories	13	259,761	527,910	404,834
Trade and other receivables	14	1,412,255	576,667	953,897
Restricted bank deposits	15	100,693	624,687	527,403
Cash and cash equivalents	16	97,003	137,542	151,392
		1,869,712	1,866,806	2,037,526
Current liabilities				
Trade and other payables	17	1,198,468	1,779,054	1,472,982
Bank loans	18	1,151,500	455,833	383,161
Current taxation	19(a)	1,742	8,385	27,531
		2,351,710	2,243,272	1,883,674
Net current (liabilities)/assets		(481,998)	(376,466)	153,852
Total assets less current liabilities . . .		1,991,134	2,113,859	2,652,329
Non-current liabilities				
Bank loans	18	–	–	121,059
Shareholders' loans	20	116,011	116,011	–
Long term loans	21	–	–	116,011
Deferred tax liabilities	19(b)	–	16,263	59,720
		116,011	132,274	296,790
NET ASSETS		1,875,123	1,981,585	2,355,539
CAPITAL AND RESERVES				
Capital	22	1,678,088	1,681,672	1,787,457
Reserves		197,035	299,913	568,082
TOTAL EQUITY		1,875,123	1,981,585	2,355,539

The accompanying notes form part of the Financial Information.

3 Combined statements of changes in equity
(Expressed in Renminbi)

	Paid-in capital	Capital reserve	Statutory reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 22(a))	(Note 22(b)(ii))	(Note 22(b)(i))		
Balance at January 1, 2008	954,951	6,048	12,584	113,259	1,086,842
Changes in equity for 2008:					
Capital injection	723,137	8,420	—	—	731,557
Total comprehensive income for the year	—	—	—	56,724	56,724
Appropriation to statutory reserve	—	—	5,672	(5,672)	—
Balance at December 31, 2008 and at January 1, 2009	1,678,088	14,468	18,256	164,311	1,875,123
Changes in equity for 2009:					
Capital injection	3,584	1,482	—	—	5,066
Total comprehensive income for the year	—	—	—	101,396	101,396
Appropriation to statutory reserve	—	—	10,140	(10,140)	—
Balance at December 31, 2009 and January 1, 2010	1,681,672	15,950	28,396	255,567	1,981,585
Changes in equity for 2010:					
Capital injection	105,785	2,224	—	—	108,009
Dividend declared and paid	—	—	—	(180,014)	(180,014)
Total comprehensive income for the year	—	—	—	445,959	445,959
Appropriation to statutory reserve	—	—	44,596	(44,596)	—
Balance at December 31, 2010	<u>1,787,457</u>	<u>18,174</u>	<u>72,992</u>	<u>476,916</u>	<u>2,355,539</u>

The accompanying notes form part of the Financial Information.

4 Combined cash flow statements
(Expressed in Renminbi)

	Section C Note	Years ended December 31,		
		2008	2009	2010
		RMB'000	RMB'000	RMB'000
Operating activities				
Profit before taxation		72,401	128,374	537,452
Adjustments for:				
– Interest income	3	(37,161)	(22,609)	(16,802)
– Net loss/(gain) on disposal of property, plant and equipment	4	–	94	(386)
–Net loss on financial liabilities at fair value through profit or losses	4	–	1,524	2,870
– Finance costs	5(a)	63,062	40,013	32,227
– Amortization of interests in leasehold land held for own use under operating lease	5(c)	2,983	3,060	3,134
– Depreciation	5(c)	80,443	126,826	132,882
– Write-down of inventories		–	5,825	–
– Foreign exchange gain		(1,094)	(338)	(18,693)
		180,634	282,769	672,684
(Increase)/decrease in inventories		(130,898)	(273,974)	123,076
(Increase)/decrease in trade and other receivables		(239,205)	247,313	(472,428)
Decrease in amounts due to related parties – trade		(38,903)	–	(152)
Increase/(decrease) in trade and other payables		97,680	760,722	(330,846)
Cash (used in)/generated from operating activities		(130,692)	1,016,830	(7,666)
PRC income tax paid		–	–	(28,890)
Net cash (used in)/generated from operating activities		(130,692)	1,016,830	(36,556)
Investing activities				
Payment for purchase of property, plant and equipment		(111,910)	(132,640)	(38,655)
Expenditure on construction in progress		(145,078)	(104,100)	(48,681)
Payment for interests in leasehold land held for own use under operating lease		–	(1,200)	(32,697)
Proceeds from disposal of property, plant and equipment		394	–	2,816
Interest received		3,335	3,463	14,110
Decrease in advances to third parties . .		90,071	139,393	33,531
(Increase)/decrease in pledged bank deposits		(6,165)	(523,994)	97,284
Decrease in amounts due from related parties – non-trade		–	468,257	60,834
Net cash (used in)/generated from investing activities		(169,353)	(150,821)	88,542

	Section C Note	Years ended December 31,		
		2008	2009	2010
		RMB'000	RMB'000	RMB'000
Financing activities				
Proceeds from capital injection		137,216	–	105,785
Proceeds from new bank loans		2,082,000	2,686,557	1,347,601
Repayment of bank loans		(1,859,683)	(3,382,100)	(1,282,148)
Interest paid		(76,768)	(39,307)	(29,253)
Increase/(decrease) in advances from third parties		90,620	(90,620)	–
Dividend paid		–	–	(180,014)
Net cash generated from/(used in) financing activities		<u>373,385</u>	<u>(825,470)</u>	<u>(38,029)</u>
Net increase in cash and cash equivalents		73,340	40,539	13,957
Cash and cash equivalents at January 1, ...		23,750	97,003	137,542
Effect of foreign exchange rate changes		<u>(87)</u>	<u>–</u>	<u>(107)</u>
Cash and cash equivalents at December 31, ...		<u>97,003</u>	<u>137,542</u>	<u>151,392</u>

Non-cash transactions:

Newly purchased property, plant and equipment amounted to RMB594,341,000, RMB5,066,000 and RMB2,224,000 were injected by shareholders based on the original purchase cost to the Group as paid-in capital and capital reserve during the three years ended December 31, 2008, 2009 and 2010 respectively.

The accompanying notes form part of the Financial Information.

C NOTES TO THE FINANCIAL INFORMATION

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES***(a) Statement of compliance***

The Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes Hong Kong Accounting Standards and related interpretations, promulgated by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Further details of the significant accounting policies adopted are set out in the remainder of this Section C.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised HKFRSs to the Relevant Period, except for any new standards or interpretations that are not yet effective for the accounting period beginning January 1, 2010. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year ended December 31, 2010 are set out in note 30.

This Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The Corresponding Financial Information for the year ended December 31, 2010 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

(b) Basis of preparation

The Financial Information comprises the Company and its subsidiaries and has been prepared on the basis as explained in Section A.

The functional currency of the Company, Billion Industrial Investment Limited and Billion Development is Hong Kong dollars and the functional currency of its subsidiary established in the PRC is Renminbi ("RMB"). As the Group mainly operates in the PRC, RMB is used as the presentation currency of the Group's financial statements. All financial information presented is rounded to the nearest thousand unless otherwise stated. The directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the Financial Information has been prepared on a going concern basis.

The measurement basis used in the preparation of the Financial Information is the historical cost basis except the derivative financial instruments that are stated at their fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are 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.

Judgements made by management in the application of HKFRSs that have significant effect on the Financial Information and major sources of uncertainty are discussed in note 27.

(c) *Subsidiary*

The subsidiary is an entity controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

The financial statements of an acquired subsidiary are included in the Group's combined financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(h)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(d) *Derivative financial instruments*

Derivative financial instruments are recognized initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognized immediately in profit or loss.

(e) *Property, plant and equipment*

Items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(h)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the cost of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(s)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 30 years after the date of completion.	
– Plant and machinery	18 years
– Office and other equipment	3 – 18 years
– Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(f) *Construction in progress*

Construction in progress represents property, plant and equipment under construction and machinery and equipment under installation and testing. Construction in progress is stated in the balance sheet at cost less impairment losses (see note 1(h)). The cost includes cost of construction, plant and equipment and other direct costs plus borrowing costs which include interest charges and exchange differences arising from foreign currency borrowings used to finance these projects during the construction period, to the extent that these are regarded as an adjustment to borrowing costs (see note 1(s)).

Construction in progress is not depreciated until such time as the assets are completed and substantially ready for their intended use.

(g) *Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortized on a straight-line basis over the period of the lease term.

(h) Impairment of assets

(i) Impairment of receivables

Current and non-current receivables that are stated at cost or amortized cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognized as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

- property, plant and equipment;
- pre-paid interests in leasehold land classified as being held under an operating lease; and
- construction in progress.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

(i) Inventories

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(j) Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost less allowance for impairment of doubtful debts (see note 1(h)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognized and redemption value being recognized in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(l) Trade and other payables

Trade and other payables are initially recognized at fair value. Except for financial guarantee liabilities measured in accordance with note 1(p), trade and other payables are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(n) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to business combination, or items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax assets can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- (i) in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- (ii) in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(p) Financial guarantees issued, provisions and contingent liabilities**(i) Financial guarantees issued**

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognized as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognized in accordance with the Group’s policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognized in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognized as deferred income is amortized in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognized in accordance with note 1(p)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of

that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognized, less accumulated amortization.

(ii) Other provisions and contingent liabilities

Provisions are recognized for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

(i) Sale of goods

Revenue is recognized when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognized as it accrues using the effective interest method.

(iii) Government grants

Government grants are recognized in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations outside the PRC are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation with a functional currency other than Renminbi, the cumulative amount of the exchange differences relating to that operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognized.

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 REVENUE

The principal activities of the Group are the manufacturing and sales of polyester filament fiber products.

Revenue represents the sales value of goods supplied to customers (net of sales tax, value-added tax and discounts). The amount of each significant category of revenue recognized in revenue during the Relevant Period is as follows:

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Domestic sales	1,969,557	2,649,791	3,893,166
Export sales	144,057	313,307	416,565
	<u>2,113,614</u>	<u>2,963,098</u>	<u>4,309,731</u>

The Group's customer base is diversified, no individual customer had transactions which exceeded 10% of the Group's revenue during the years ended December 31, 2008, 2009 and 2010.

3 OTHER REVENUE

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Bank interest income	3,435	6,835	16,802
Other interest income	33,726	15,774	–
Government grants	2,213	4,577	3,355
Sales of raw materials	3,331	1,037	14,916
	<u>42,705</u>	<u>28,223</u>	<u>35,073</u>

Government grants of RMB2,213,000, RMB4,577,000 and RMB3,355,000 for the year ended December 31, 2008, 2009 and 2010 respectively were received from several local government authorities for the Group's contribution to local economies, of which the entitlement was unconditional and at the discretion of the relevant authorities.

4 OTHER NET GAIN/(LOSS)

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Net loss on disposal of property, plant and equipment	–	(94)	386
Donation	(1,000)	(200)	(175)
Net exchange gain / (loss)	1,823	(654)	22,560
Net loss on financial liabilities at a fair value through profit or losses	–	(1,524)	(2,870)
Others	(371)	(102)	1,386
	<u>452</u>	<u>(2,574)</u>	<u>21,287</u>

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
(a) Finance costs:			
Interest on bank advances and other borrowings wholly repayable within five years	72,416	34,185	17,940
Other interest expense	4,330	5,828	14,287
Total borrowing costs	76,746	40,013	32,227
Less: borrowing costs capitalized into construction in progress *	(13,684)	–	–
	<u>63,062</u>	<u>40,013</u>	<u>32,227</u>

* The borrowing costs have been capitalized at an effective rate of 7.34% per annum during the year ended December 31, 2008.

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
(b) Staff costs:			
Contributions to defined contribution retirement plans .	429	507	555
Salaries, wages and other benefits	49,175	67,713	83,335
	<u>49,604</u>	<u>68,220</u>	<u>83,890</u>

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement schemes ("the Schemes") organized by the relevant local authorities whereby the Group had accrued RMB746,000, RMB1,253,000 and RMBNil for the schemes as of December 31, 2008, 2009 and 2010 respectively. The relevant local government authorities are responsible for the entire pension obligations payable to retired employees.

Save for the above schemes, the Group has no other material obligation for the payment of pension benefits associated with those schemes beyond the annual contributions described above.

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
(c) Other items:			
Amortization of interests in leasehold land held for own use under operating lease	2,983	3,060	3,134
Depreciation**	80,443	126,826	132,882
Auditors' remuneration	13	46	2,859
Operating lease charges: minimum lease payments – property rentals	360	360	360
Research and development costs*	2,014	46,094	51,755
Cost of inventories**	<u>1,989,150</u>	<u>2,713,454</u>	<u>3,678,783</u>

* Research and development costs include RMB877,000, RMB25,635,000 and RMB33,388,000 for the year ended December 31, 2008, 2009 and 2010 respectively relating to staff costs of employees in the research and development department and depreciation, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) and 5(c) for each of these types of expenses.

** Cost of inventories include RMB118,423,000, RMB160,542,000 and RMB169,822,000 for the year ended December 31, 2008, 2009 and 2010 respectively relating to staff costs and depreciation, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 INCOME TAX IN THE COMBINED STATEMENTS OF COMPREHENSIVE INCOME

(a) *Income tax in the combined statements of comprehensive income represents:*

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Current tax – PRC Income Tax			
Provision for the year	1,742	6,643	48,036
Deferred tax			
Origination and reversal of temporary differences	13,935	20,335	43,457
	<u>15,677</u>	<u>26,978</u>	<u>91,493</u>

(b) *Reconciliation between income tax and profit before taxation at applicable tax rates:*

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Profit before taxation	72,401	128,374	537,452
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned (note (i)) . . .	18,100	32,093	134,363
Non-deductible expenses	3,691	7,762	24,923
Tax concessions (note (ii))	(6,114)	(12,877)	(67,793)
Actual tax expenses	<u>15,677</u>	<u>26,978</u>	<u>91,493</u>

Notes:

- (i) The PRC's statutory income tax rate is 25% effective from January 1, 2008, respectively.
- (ii) Prior to January 1, 2008, Billion Fujian, being a production-oriented foreign investment enterprise established in Fujian, was entitled to a reduced income tax rate of 27% and a tax holiday of a 2-year full exemption followed by a 3-year 50% reduction in income tax rate commencing from its first profit-making year from PRC tax perspective ("2+3 tax holiday"). Billion Fujian commenced its tax holiday in 2006.

On March 16, 2007, the 5th Plenary Session of the 10th National People's Congress passed the Corporate Income Tax Law of the PRC ("the New Tax Law"), which takes effect on January 1, 2008. The New Tax Law and its relevant regulations grandfather the 2+3 tax holiday.

Further, Billion Fujian was granted the Advanced and New Technology Enterprise ("ANTE") status in 2009 for a valid period of 3-year from 2009 to 2011 which entitles Billion Fujian to a reduced income tax rate at 15% during the valid period under the New Tax Law and its relevant regulations. Nevertheless, this reduced tax rate cannot be applied in conjunction with the grandfathered tax holiday.

Accordingly, Billion Fujian is subject to PRC income tax at 12.5% from 2008 to 2010, at 15% for 2011 and at 25% from 2012 onwards.

7 DIRECTORS' REMUNERATION

Details of directors' remuneration are set out below:

Year ended December 31, 2008					
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr. Sze Tin Yau	—	—	—	—	—
Mr. Wu Jinbiao	—	—	—	—	—
Mr. Wu Jianshe	—	97	—	3	100
Mr. He Wenyao	—	97	—	—	97
Independent non-executive directors					
Mr. Yeung Chi Tat	—	—	—	—	—
Ms. Zhu Meifang	—	—	—	—	—
Mr. Ma Yuliang	—	—	—	—	—
Total	—	194	—	3	197
Year ended December 31, 2009					
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr. Sze Tin Yau	—	—	—	—	—
Mr. Wu Jinbiao	—	—	—	—	—
Mr. Wu Jianshe	—	103	—	3	106
Mr. He Wenyao	—	99	—	—	99
Independent non-executive directors					
Mr. Yeung Chi Tat	—	—	—	—	—
Mr. Zhu Meifang	—	—	—	—	—
Mr. Ma Yuliang	—	—	—	—	—
Total	—	202	—	3	205
Year ended December 31, 2010					
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr. Sze Tin Yau	—	631	—	—	631
Mr. Wu Jinbiao	—	545	—	—	545
Mr. Wu Jianshe	—	313	—	2	315
Mr. He Wenyao	—	271	—	—	271
Independent non-executive directors					
Mr. Yeung Chi Tat	—	—	—	—	—
Ms. Zhu Meifang	—	—	—	—	—
Mr. Ma Yuliang	—	—	—	—	—
Total	—	1,760	—	2	1,762

During the Relevant Period, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 8 below as an inducement to join or upon joining the Group or as compensation for loss of office.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group during the Relevant Period include 2, 2 and 4 directors for the years ended December 31, 2008, 2009 and 2010 respectively, whose emoluments are disclosed in note 7. The emoluments in respect of the remaining individuals are as follows:

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Salaries and other emoluments	251	284	317
Retirement scheme contributions	6	9	–
	<u>257</u>	<u>293</u>	<u>317</u>
Number of senior management	<u>3</u>	<u>3</u>	<u>1</u>

The above individuals' emoluments are within the following bands:

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
HK\$ Nil to HK\$1,000,000	<u>3</u>	<u>3</u>	<u>1</u>

9 DIVIDENDS

During the year ended December 31, 2010, Billion Fujian declared and paid a dividend of RMB180,014,000 to Billion Wise Industrial Limited ("Billion H.K."), the holding company of Billion Fujian prior to the completion of the Reorganization.

10 EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the preparation of the results for the Relevant Periods on a combined basis.

11 SEGMENT REPORTING

The chief operating decision maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance of manufacturing and sales of polyester filament fiber products. Therefore, management considers there is only one operating segment, the manufacturing and sales of polyester filament fiber products, under the requirements of HKFRS 8, Operating Segments. In this regard, no segment information is presented.

12 FIXED ASSETS

	Buildings held for own use	Plant and machinery	Office and other equipment	Motor Vehicles	Sub-total	Construction in progress ("CIP")	Interests in leasehold land held for own use under operating leases	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:								
At January 1, 2008	323,657	804,143	167,828	9,200	1,304,828	251,034	149,157	1,705,019
Additions	–	723,935	35,371	2,832	762,138	208,322	–	970,460
Transfer	380,272	10,450	44,327	–	435,049	(435,049)	–	–
Disposals	–	–	(421)	–	(421)	–	–	(421)
At December 31, 2008	703,929	1,538,528	247,105	12,032	2,501,594	24,307	149,157	2,675,058
Accumulated depreciation and amortization:								
At January 1, 2008	(22,305)	(83,461)	(17,397)	(1,947)	(125,110)	–	(7,209)	(132,319)
Charge for the year	(16,570)	(50,815)	(11,195)	(1,863)	(80,443)	–	(2,983)	(83,426)
Written back on disposals	–	–	27	–	27	–	–	27
At December 31, 2008	(38,875)	(134,276)	(28,565)	(3,810)	(205,526)	–	(10,192)	(215,718)
Net book value:								
At December 31, 2008	665,054	1,404,252	218,540	8,222	2,296,068	24,307	138,965	2,459,340

	Buildings held for own use	Plant and machinery	Office and other equipment	Motor Vehicles	Sub-total	Construction in progress ("CIP")	Interests in leasehold land held for own use under operating leases	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:								
At January 1, 2009	703,929	1,538,528	247,105	12,032	2,501,594	24,307	149,157	2,675,058
Additions	–	113,054	10,557	10,274	133,885	16,773	864	151,522
Transfers	1,671	3,315	–	–	4,986	(4,986)	–	–
Disposals	–	–	–	(155)	(155)	–	–	(155)
At December 31, 2009	705,600	1,654,897	257,662	22,151	2,640,310	36,094	150,021	2,826,425
Accumulated depreciation and amortization:								
At January 1, 2009	(38,875)	(134,276)	(28,565)	(3,810)	(205,526)	–	(10,192)	(215,718)
Charge for the year	(23,673)	(85,386)	(15,340)	(2,427)	(126,826)	–	(3,060)	(129,886)
Written back on disposals	–	–	–	61	61	–	–	61
At December 31, 2009	(62,548)	(219,662)	(43,905)	(6,176)	(332,291)	–	(13,252)	(345,543)
Net book value:								
At December 31, 2009	643,052	1,435,235	213,757	15,975	2,308,019	36,094	136,769	2,480,882

	Buildings held for own use	Plant and machinery	Office equipment	Motor Vehicles	Sub-total	Construction in progress ("CIP")	Interests in leasehold land held for own use under operating leases	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:								
At January 1, 2010	705,600	1,654,897	257,662	22,151	2,640,310	36,094	150,021	2,826,425
Additions	–	27,711	6,811	6,263	40,785	64,673	37,997	143,455
Transfers	61,761	6,217	1,109	3,445	72,532	(72,532)	–	–
Disposals	–	–	–	(2,931)	(2,931)	–	–	(2,931)
At December 31, 2010	767,361	1,688,825	265,582	28,928	2,750,696	28,235	188,018	2,966,949
Accumulated depreciation and amortization:								
At January 1, 2010	(62,548)	(219,662)	(43,905)	(6,177)	(332,292)	–	(13,252)	(345,544)
Charge for the year	(32,044)	(82,453)	(10,312)	(8,073)	(132,882)	–	(3,134)	(136,016)
Written back on disposals	–	–	–	501	501	–	–	501
At December 31, 2010	(94,592)	(302,115)	(54,217)	(13,749)	(464,673)	–	(16,386)	(481,059)
Net book value:								
At December 31, 2010	672,769	1,386,710	211,365	15,179	2,286,023	28,235	171,632	2,485,890

- (a) Interests in leasehold land held for own use under operating leases represent land use rights in the PRC. As of December 31, 2010, the remaining periods of the land use rights ranged from 46 to 50 years.
- (b) As of December 31, 2008, 2009 and 2010, certain bank loans of the Group were secured by the Group's fixed assets amounting to a total of RMB625,991,000, RMBNil and RMBNil respectively.
- (c) As of December 31, 2010, the Group was applying for interests in leasehold land held for own use under operating leases, with net book value of RMB37,937,000, from the relevant PRC government authorities.

13 INVENTORIES

- (a) *Inventories in the combined balance sheets comprise:*

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Raw materials	215,895	270,305	202,052
Work in progress	11,404	34,790	31,279
Finished goods	32,462	222,815	171,503
	259,761	527,910	404,834

- (b) *The analysis of the amount of inventories recognized as an expense and included in profit or loss is as follows:*

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Carrying amount of inventories sold	1,989,150	2,707,629	3,678,783
Write down of inventories	–	5,825	–
	1,989,150	2,713,454	3,678,783

14 TRADE AND OTHER RECEIVABLES

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade debtors and bills receivable	640,155	312,014	507,793
Deposits, prepayments and other receivables			
– related companies (non-trade)	512,155	60,834	–
– advance to third parties	174,086	33,531	–
– others	95,579	179,731	458,691
	1,421,975	586,110	966,484
Less: non-current portion of deposits and prepayments	(9,720)	(9,443)	(12,587)
	1,412,255	576,667	953,897

As of December 31, 2008, 2009 and 2010, all of the current trade and other receivables are expected to be recovered or recognized as expenses within one year.

Non-current portion of deposits and prepayments represents deposits for purchase of property, plant and equipment and prepayment for construction and construction materials.

The amounts due from related companies (non-trade) are unsecured, payable on demand and bear interest of 6.56% and 4.37% per annum as of December 31, 2008 and 2009.

The advance to third parties are unsecured, payable on demand and bear interest of 6.56% and 4.37% per annum as of December 31, 2008 and 2009.

Trade debtors are due within 30 to 90 days from the date of billing, except for those due from related parties which were repayable on demand. Further details on the Group's credit policy are set out in note 23(a).

Included in trade and other receivables are trade debtors and bills receivable with the following aging analysis, based on the date of billing, as of the balance sheet date:

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Current	281,215	99,871	494,668
Less than 1 month past due	17,364	16,824	12,445
More than 1 month but less than 3 months past due	65,543	128,654	4
More than 3 months but less than 1 year past due	157,994	65,934	659
Over 1 year past due	118,039	731	17
	358,940	212,143	13,125
	640,155	312,014	507,793

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

The trade and bills receivables as of each period end were not impaired. Receivables that were past due but not impaired relate to the trade balance with related parties which were repayable on demand and a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

15 RESTRICTED BANK DEPOSITS

The restricted bank deposits of RMB100,693,000, RMB624,687,000 and RMB527,403,000 were pledged to the banks to secure certain bank loans and bills payable as of December 31, 2008, 2009 and 2010 (see notes 17 and 18).

16 CASH AND CASH EQUIVALENTS

As of December 31, 2008, 2009 and 2010, cash and bank balance placed with banks in the PRC amounted to RMB96,073,000, RMB136,597,000 and RMB130,468,000 respectively. Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

17 TRADE AND OTHER PAYABLES

As of December 31,			
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade creditors and bills payable	554,510	1,259,133	872,738
Other payables and accrued charges			
– advances from third parties	90,620	–	–
– related companies	–	–	2,915
– others	37,947	67,007	96,331
Equipment payables	18,383	17,150	9,812
Construction payables	313,902	224,571	236,273
Receipts in advance			
– related companies	–	152	–
– others	183,106	209,517	250,519
	<u>1,198,468</u>	<u>1,777,530</u>	<u>1,468,588</u>
Derivative financial liabilities			
– forward exchange contracts	–	832	1,538
– Interest rate swaps	–	692	2,856
	<u>–</u>	<u>1,524</u>	<u>4,394</u>
	<u><u>1,198,468</u></u>	<u><u>1,779,054</u></u>	<u><u>1,472,982</u></u>

All of the trade and other payables are expected to be settled within one year or repayable on demand.

Bills payable as of December 31, 2008, 2009 and 2010 was secured by restricted bank deposits as disclosed in note 15.

The advances from third parties were unsecured, repayable on demand and bear interest at 6.56% per annum as of December 31, 2008.

Included in trade and other payables are trade creditors and bills payable with the following aging analysis, based on the date of invoice, as of the balance sheet date:

As of December 31,			
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Within 3 months	464,906	567,756	733,200
More than 3 months but within 6 months	72,095	686,685	132,078
More than 6 months but within 1 year	15,640	1,310	604
More than 1 year	1,869	3,382	6,856
	<u>554,510</u>	<u>1,259,133</u>	<u>872,738</u>

18 BANK LOANS

As of December 31, 2008, 2009 and 2010, the bank loans were repayable as follows:

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Within 1 year or on demand	1,151,500	455,833	383,161
After 1 year but within 2 years	–	–	121,059
	<u>1,151,500</u>	<u>455,833</u>	<u>504,220</u>

As of December 31, 2008, 2009 and 2010, the bank loans were secured as follows:

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Bank loans			
– secured	304,000	455,833	504,220
– unsecured	847,500	–	–
	<u>1,151,500</u>	<u>455,833</u>	<u>504,220</u>

Certain bank loans were secured by assets of the Group as set out below:

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Fixed assets	625,991	–	–
Pledged accounts receivable	–	–	6,769
Restricted bank deposits	–	460,224	523,900
	<u>625,991</u>	<u>460,224</u>	<u>530,669</u>

At December 31, 2008, certain bank facilities of the Group amounting to RMB1,066,500,000 was secured by a joint and several personal guarantee given by the directors of the Group and a corporate guarantee given by the related companies as disclosed in note 26(d).

Details of the Group's interest rate risk are set out in note 23(c).

19 INCOME TAX IN THE COMBINED BALANCE SHEETS

(a) *Current taxation in the combined balance sheets represents:*

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Provision for the year	1,742	6,643	48,036
Tax paid	–	–	(28,890)
	<u>1,742</u>	<u>6,643</u>	<u>19,146</u>
Balance of tax provision relating to prior years	–	1,742	8,385
	<u>1,742</u>	<u>8,385</u>	<u>27,531</u>

(b) Deferred tax (assets)/liabilities recognized

The components of deferred tax (assets)/liabilities recognized in the combined balance sheets and the movements during the Relevant Period are as follows:

	Depreciation and amortization of fixed assets	Tax credit of purchase of domestic equipment	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax arising from:				
At January 1, 2008	13,679	(30,363)	(1,323)	(18,007)
Charged/(credited) to profit or loss	11,431	4,372	(1,868)	13,935
At December 31, 2008	25,110	(25,991)	(3,191)	(4,072)
At January 1, 2009	25,110	(25,991)	(3,191)	(4,072)
Charged/(credited) to profit or loss	17,125	6,234	(3,024)	20,335
At December 31, 2009	42,235	(19,757)	(6,215)	16,263
At January 1, 2010	42,235	(19,757)	(6,215)	16,263
Charged/(credited) to profit or loss	24,274	19,757	(574)	43,457
At December 31, 2010	66,509	–	(6,789)	59,720

20 SHAREHOLDERS' LOANS

The Controlling Shareholders had paid an aggregate amount of RMB116,011,000 on behalf of the Group for the premium of leasehold land and the loan were unsecured, interest free and repayable at December 31, 2011. The shareholder's loan were settled by the long-term loans in December 2010 (See note 21).

21 LONG TERM LOANS

In December 2010, the Company borrowed loans from two third party individuals. The loans are unsecured, bear interest at 5.56% per annum and repayable at February 20, 2012.

22 CAPITAL AND RESERVES**(a) Capital**

The Company was incorporated on November 25, 2010 with authorized share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. Upon completion of the Reorganization, the Company became the holding company of the Group. The balance of paid-in capital presented in the combined statements of changes in equity represents the combined amount of paid-in capital of the entities now comprising the Group.

(b) Nature and purpose of reserves**(i) Statutory reserve**

Pursuant to applicable PRC regulations, Billion Fujian is required to appropriate 10% of their profit-after-tax (after offsetting prior year losses) to the statutory reserve until such reserve reaches 50% of the registered capital of each relevant PRC subsidiary. The transfer to the statutory reserve must be made before distribution of dividends to shareholders. The statutory reserve fund can be utilized, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the subsidiary.

(ii) Capital reserve

The capital reserve mainly represents premium received from capital injection which are required to be included in their reserve by the PRC regulations.

(c) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors capital with reference to its debt position. The Group's strategy was to maintain the equity and debt in a balanced position and ensure there was adequate working capital to service its debt obligations. The Group's debt to capital ratio, being the Group's total liabilities over its total assets, at December 31, 2008, 2009 and 2010 was 56.8%, 54.5% and 48.1% respectively.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

(i) Trade and other receivables

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to the credit risks are monitored on an ongoing basis.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 14.

At the balance sheet date, the Group has a certain concentration of credit risk as 93%, 87% and 38% of the total trade debtors and bills receivable were due from the Group's largest customer, and 93%, 88% and 51% of the total trade debtors and bills receivable were due from the Group's five largest customers as of December 31, 2008, 2009 and 2010 respectively.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the combined balance sheets after deducting any impairment allowance. Except for the financial guarantees given by the Group as set out in note 25, the Group does not provide any other guarantees which would expose the Group to credit risk.

(ii) Deposits with banks

The Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit ratings. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the management and directors when the borrowing exceeds certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the respective balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

As of December 31, 2008					
Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount in the combined balance sheet
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans	1,185,419	–	–	1,185,419	1,151,500
Shareholders' loan	–	–	116,011	116,011	116,011
Trade creditors and bills payable	554,510	–	–	554,510	554,510
Other payables and accrued charges	37,947	–	–	37,947	37,947
Equipment payables	18,383	–	–	18,383	18,383
Construction payables	313,902	–	–	313,902	313,902
Advances from third parties	90,620	–	–	90,620	90,620
	<u>2,200,781</u>	<u>–</u>	<u>116,011</u>	<u>2,316,792</u>	<u>2,282,873</u>
Financial guarantees issued:					
Maximum amount guaranteed (note 25)	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
As of December 31, 2009					
Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount in the combined Balance Sheet
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans	461,211	–	–	461,211	455,833
Shareholders' loan	–	116,011	–	116,011	116,011
Trade creditors and bills payable	1,259,133	–	–	1,259,133	1,259,133
Other payables and accrued charges	67,007	–	–	67,007	67,007
Equipment payable	17,150	–	–	17,150	17,150
Construction payable	224,571	–	–	224,571	224,571
Interest rate swaps (net settled)	615	–	–	615	692
	<u>2,029,687</u>	<u>116,011</u>	<u>–</u>	<u>2,145,698</u>	<u>2,140,397</u>
Financial guarantees issued:					
Maximum amount guaranteed (note 25)	<u>216,000</u>	<u>–</u>	<u>–</u>	<u>216,000</u>	<u>–</u>
Derivatives settled gross					
– outflow	(157,098)	–	–	(157,098)	
– inflow	<u>156,513</u>	<u>–</u>	<u>–</u>	<u>156,513</u>	

As of December 31, 2010
Contractual undiscounted cash outflow

	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount in the combined balance sheet
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans	391,239	123,231	–	514,470	504,220
Long term loan	–	116,069	–	116,069	116,011
Trade creditors and bills payable	872,738	–	–	872,738	872,738
Other payables and accrued charges	99,246	–	–	99,246	99,246
Equipment payables	9,812	–	–	9,812	9,812
Construction payables	236,273	–	–	236,273	236,273
Interest rate swaps (net settled)	1,468	577	–	2,045	2,856
	<u>1,610,776</u>	<u>239,877</u>	<u>–</u>	<u>1,850,653</u>	<u>1,841,156</u>
Financial guarantees issued:					
Maximum amount guaranteed (note 25)	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Derivatives settled gross					
– outflow	(64,840)	–	–	(64,840)	
– inflow	<u>63,978</u>	<u>–</u>	<u>–</u>	<u>63,978</u>	

(c) **Interest rate risk**

The Group's interest rate risk arises primarily from bank loans. Borrowings at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. In order to achieve an appropriate mix of fixed and floating rate exposure, the Group entered into certain interest rate swaps. These derivatives had not been designated as hedges for accounting purposes. Accordingly, the fair value gain/(losses) were recognized in the Group's profit and loss accounts. The Group did not apply hedge accounting in respect of the interest rate swaps. At December 31, 2009 and 2010, the Group had interest rate swaps with a notional contract amount of US\$17,802,000 (equivalent to RMB121,555,000) and US\$41,877,000 (equivalent to RMB277,339,000) respectively.

(i) **Interest rate profile**

The following table details the interest rate profile of the Group's borrowings at the balance sheet date:

As of December 31,						
	2008		2009		2010	
	Effective interest rate		Effective interest rate		Effective interest rate	
		RMB'000		RMB'000		RMB'000
Net fixed rate borrowings/(deposits):						
Bank loans	4.37% to 7.47%	916,500	0.96% to 2.63%	334,278	2.86% to 3.79%	226,880
Pledge bank deposits	1.71% to 3.78%	(100,693)	1.71% to 2.25%	(624,687)	1.98% to 2.79%	(527,403)
		<u>815,807</u>		<u>(290,409)</u>		<u>(300,523)</u>
Variable rate borrowings/(deposits):						
Bank loans	5.04% to 7.70%	235,000	1.76% to 2.37%	121,555	1.69% to 2.99%	277,339
Cash and cash equivalent	0.36%	(96,073)	0.36%	(136,597)	0.36%	(130,468)
		<u>138,927</u>		<u>(15,042)</u>		<u>146,871</u>
Total net borrowings/(deposits)		<u>954,734</u>		<u>(305,451)</u>		<u>(153,652)</u>

(ii) Sensitivity analysis

At December 31, 2008, 2009 and 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after taxation and retained profits by approximately RMB1,216,000 and RMB1,285,000 for the years ended December 31, 2008 and 2010 respectively and increased/decreased the Group's profit after taxation and retained profits by approximately RMB132,000 for the year ended December 31, 2009.

The sensitivity analysis above indicates the annualized impact on the Group's interest expense that would arise assuming that the change in interest rates had occurred at the respective balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet dates. In respect of the exposure to cash flow, interest rate risk arising from floating rate non-derivative held by the Group at the balance sheet dates, the impact on the Group's profit after tax (and retained profits) and other components of combined equity is estimated as an annualized impact on interest expenses or income of such changes in interest rates. This analysis has been performed in the same basis throughout the Relevant Period.

(d) Currency risk

The Group is exposed to currency risk primarily through purchases that are denominated in a foreign currency i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars ("USD"), Hong Kong dollars ("HKD"), Euro ("EUR") and Swiss Franc ("CHF"). In addition, certain bank loans are also denominated in USD and HKD. Presently, the Group has no hedging policy with respect to the foreign exchange exposure.

(i) Exposure to currency risk

The following table details the Group's major exposure at the balance sheet date to currency risk arising from recognized assets or liabilities denominated in a currency other than Renminbi which is the functional currency of Billion Fujian. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year end date.

Exposure to foreign currencies										
As of December 31,										
	2008			2009			2010			
	USD	HKD	EUR	USD	HKD	EUR	USD	HKD	EUR	CHF
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other receivables . . .	54,817	–	2,877	56,343	–	8,506	117,524	–	1,000	–
Restricted bank deposits	–	–	–	1	–	–	–	–	–	–
Cash at bank and in hand	4,432	3	1	26,172	3	–	4,382	3	–	–
Trade and other payables	(146,322)	–	(8)	(244,360)	–	(8,253)	(211,961)	–	(1,880)	(580)
Bank loans	–	–	–	(402,390)	(53,442)	–	(504,220)	–	–	–
Gross exposure arising from recognized assets and liabilities	(87,073)	3	2,870	(564,234)	(53,439)	253	(594,275)	3	(880)	(580)
Notional principal amounts of forward contracts	–	–	–	(102,688)	(54,410)	–	(64,840)	–	–	–
Net exposure arising from recognized assets and liabilities	(87,073)	3	2,870	(666,922)	(107,849)	253	(659,115)	3	(880)	(580)

In response to the foreign currency risk of loans denominated in US dollars, the Group has entered into forward exchange rate contracts which are accounted for as financial derivative instruments. These derivatives had not been designated as hedges for accounting purposes. Accordingly, the fair value gains/(losses) were recognized in the Group's profit and loss accounts. The settlement dates of the forward exchange contracts held by the Group as of December 31, 2009 and 2010 are from April 12, 2010 to August 19, 2010 and May 9, 2011 to December 2, 2011 respectively.

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after taxation (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant.

		As of December 31,					
		2008		2009		2010	
		Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits
			RMB'000		RMB'000		RMB'000
USD	5%	(5)%	(3,809)	5%	(29,178)	5%	(28,836)
				(5)%	29,178	(5)%	28,836
HKD	5%	(5)%	–	5%	(4,718)	5%	–
				(5)%	4,718	(5)%	–
EUR	5%	(5)%	126	5%	11	5%	(39)
			(126)	(5)%	(11)	(5)%	39
CHF	5%	(5)%	–	5%	–	5%	(25)
			–	(5)%	–	(5)%	25

Results of the analysis as presented in the above table represent the instantaneous effects on Billion Fujian's profit after taxation measured in Renminbi at the exchange rates ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date. The analysis excludes differences that would result from the translation of the financial statements of non-PRC incorporated subsidiaries into the Group's presentation currency. The analysis has been performed on the same basis throughout the Relevant Period.

(e) Fair values

(i) Financial instruments carried at fair value

The following table presents the carrying value of the Group's financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in HKFRS 7, *Financial Instruments: Disclosures*, with the fair value of each financial instrument categorized in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which significant input is not based on observable market data

December 31, 2009	Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000
Liabilities			
Derivative financial instruments			
– Forward exchange contracts	–	832	–
– Interest rate swaps	–	692	–
	–	1,524	–

December 31, 2010	Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000
Liabilities			
Derivative financial instruments			
– Forward exchange contracts	–	1,538	–
– Interest rate swaps	–	2,856	–
	–	4,394	–

There is no financial instrument carried at fair value as of December 31, 2008. During the Relevant Period, there were no transfers between instruments in Level 1 and Level 2.

(f) *Estimation of fair values*

(i) **Derivatives**

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts are determined by discounting the contractual forward price and deducting the current spot rate.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date.

(ii) **Interest-bearing loans and borrowings**

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(iii) **Interest rate used for determining fair value**

The entity uses the market LIBOR rate as of December 31, 2009 and December 31, 2010 to discount the derivatives and loans and borrowings. The interest rates used are 1.63% and 0.30% – 2.20% as of December 31, 2009 and December 31, 2010 respectively.

24 COMMITMENTS

- (a) Capital commitments outstanding at December 31, 2008, 2009 and 2010 not provided for in the Financial Information were as follows:

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Authorized and contracted for	868	87	29,155

- (b) At December 31, 2008, 2009 and 2010, the total future minimum lease payments under a non-cancellable operating lease are payable as follows:

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Within 1 year	360	360	360
After 1 year but within 5 years	1,440	1,440	1,440
Over 5 years	3,690	3,330	2,970
	5,490	5,130	4,770

The Group is the lessee in respect of oil storage area held under an operating lease. The lease runs for an initial period of twenty years. It does not include contingent rentals.

25 CONTINGENT LIABILITIES

Financial guarantees issued

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Guarantees given to a bank in connection with banking facilities granted to third parties	—	216,000	—

26 MATERIAL RELATED PARTY TRANSACTIONS

During the Relevant Period, transactions with the following parties are considered to be related party transactions:

Name of related party	Relationship with the Group
Billion Wise Industrial Limited (“Billion H.K.”)	Billion H.K. was the controlling shareholder of Billion Fujian during the Relevant Period Billion H.K. was wholly-owned by Mr. Sze Tin Yau and Mr. Wu Jinbiao
Fujian Baikai Wrap Knitting Industry Co., Ltd. (“Baikai Wrap Knitting”) (note (i), (ii) and (iii)) 福建省百凱經編實業有限公司 (previously known as Jinjiang Baihong Knitting Industrial Co., Ltd. 晉江市百宏經編實業有限公司)	Prior to July 11, 2008, Billion H.K. was the controlling shareholder of Baikai Wrap Knitting
Fujian Baikai Zipper Dress Co., Ltd. (“Baikai Zipper”) (note (i), (ii) and (iii)) 福建省百凱拉鍊服飾有限公司 (previously known as Jinjiang Baihong Zipper and Garment Co., Ltd. 晉江百宏拉鍊服飾有限公司)	Prior to July 11, 2008, Billion H.K. was the controlling shareholder of Baikai Zipper
Fujian Baikai Elastic Weaving Co., Ltd. (“Baikai Elastic Weaving”) (note (i), (ii) and (iii)) 福建省百凱彈性織造有限公司 (previously known as Jinjiang Baihong Elastic Knitting Co., Ltd. 晉江市百宏彈性織造有限公司)	Prior to July 11, 2008, Billion H.K. was the controlling shareholder of Baikai Elastic Weaving
Fujian Baikai Paper Co., Ltd. (“Baikai Paper”) (note (i), (ii) and (iii)) 福建百凱紙品有限公司 (previously known as Jinjiang Baihong Paper Co., Ltd. 晉江百宏紙品有限公司)	Prior to July 11, 2008, Billion H.K. was the controlling shareholder of Baikai Paper
Fujian Baikai Textile Chemical Fiber Industry Co., Ltd. (“Baikai Textile”) (note (i), (ii) and (iii)) 福建百凱紡織化纖實業有限公司 (previously known as Fujian Baihong Textile Polyester Fiber Industrial Co., Ltd. 福建百宏紡織化纖實業有限公司)	Prior to July 11, 2008, Billion H.K. was the controlling shareholder of Baikai Textile
Fujian Baikai Jinlun Co., Ltd. (“Baikai Jinlun”) (note (i), (ii) and (iii)) 福建省百凱錦綸有限公司 (previously known as Jinjiang Baihong Textile Development Co., Ltd. (“晉江百宏紡織發展有限公司”)	Prior to July 11, 2008, Billion H.K. was the controlling shareholder of Baikai Jinlun
Fujian Jinjiang City Hengxinglong Polyester Co., Ltd. (“Hengxinglong Polyester”) (note (i)) 福建省晉江市恒興隆化纖條綸有限公司	Mr. Wu Qingshun, the son of Mr. Wu Jianshe, is the controlling shareholder of Hengxinglong Polyester

Name of related party	Relationship with the Group
Jinjiang Chuangli Chemical Fiber Trading Ltd. ("Jinjiang Chuangli") (note (i)) 晉江創利紡織化纖貿易有限公司	Mr. Wang Jinyu was the controlling shareholder of Jinjiang Chuangli
Mr. Sze Tin Yau	Controlling Shareholder of the Company
Mr. Wu Jinbiao	Controlling Shareholder of the Company
Mr. Wu Jianshe	Director of Billion Fujian
Mr. Lin Jinjing ("Mr. Lin")	Prior to June 30, 2008, Mr. Lin was the director of the Billion Fujian.
Mr. Chen Hongxu ("Mr. Chen")	Prior to June 30, 2008, Mr. Chen was the director of the Billion Fujian.
Mr. Wang Jinyu	Senior Management of the Company

Notes:

- (i) The English translation of the names is for reference only. The official names of these entities are in Chinese.
- (ii) Billion H.K. disposed the equity interests of the entities to Baikai (HK) Industrial Limited ("Baikai H.K.") at July 11, 2008. Baikai H.K. is wholly-owned by Mr. Lin, who is the brother-in-law of Mr. Sze Tin Yau and Mr. Wu Jinbiao.
- (iii) The transactions and balances disclosed in notes 26(a) to (c) covers the transactions between the Group and parties ("Baikai Group companies") from January 1, 2008 to July 11, 2008 only during which those parties are the related parties of the Group. Subsequent to July 11, 2008, the Group continue to have transactions and balances with such former related parties during the Relevant Period.

(a) Transactions with related parties

The Group entered into the following material related party transactions during the Relevant Period:

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Sales of goods			
Baikai Textile (note (i))	70,645	—	—
Baikai Wrap Knitting (note (i))	8,547	—	—
Baikai Elastic Weaving (note (i))	14,487	—	—
Baikai Zipper (note (i))	1,278	—	—
Hengxinglong Polyester	2,563	4,019	2,001
	<u>97,520</u>	<u>4,019</u>	<u>2,001</u>
Purchase of goods			
Baikai Paper (note (i))	<u>14,565</u>	<u>—</u>	<u>—</u>
Interest income/(expense)			
Baikai Textile (note (i))	1,427	—	—
Baikai Wrap Knitting (note (i))	(1,133)	—	—
Baikai Elastic Weaving (note (i))	146	—	—
Baikai Jinlun (note (i))	703	—	—
Jinjiang Chuangli	31,678	18,679	—
	<u>32,821</u>	<u>18,679</u>	<u>—</u>

Notes:

- (i) The above transactions cover the transactions between the Group and parties from January 1, 2008 to July 11, 2008 during which those parties are the related parties of the Group only.

(ii) The directors have confirmed that the terms of the above transactions are no less favorable to the Group than terms available to or from independent third parties.

(iii) All these non-trade related party transactions will be discontinued before listing.

(b) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Short-term employee benefits	528	691	2,991
Post-employment benefits	17	17	200
	<u>545</u>	<u>708</u>	<u>3,191</u>

Total remuneration is disclosed in "staff costs" (see note 5(b)).

(c) Balances with related parties

At December 31, 2008, 2009 and 2010, the Group had the following balances with related parties:

(i) Amounts due from related parties

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Non-trade related			
Jinjiang Chuangli	<u>512,155</u>	<u>60,834</u>	<u>—</u>

(ii) Amounts due to related parties

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade related			
Hengxinglong Polyester	—	152	—
Non-trade related			
Billion H.K.(note (i))	<u>—</u>	<u>—</u>	<u>2,915</u>
	<u>—</u>	<u>152</u>	<u>2,915</u>

Note:

(i) The non-trade related balance with Billion H.K. was settled on May 3, 2011.

(iii) Loan from Controlling Shareholders

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Non-trade related			
Mr. Sze Tin Yau	58,006	58,006	–
Mr. Wu Jinbiao	58,005	58,005	–
	<u>116,011</u>	<u>116,011</u>	<u>–</u>

(d) Personal guarantee provided to the Group in respect of the banking facilities

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Mr. Sze Tin Yau, Mr. Wu Jinbiao and Mr. Wu Jianshe	1,066,500	–	–
	<u>1,066,500</u>	<u>–</u>	<u>–</u>

27 ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the Financial Information. The principal accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the Financial Information.

(a) Impairment for non-current assets

If circumstances indicate that the carrying value of a non-current asset may not be recoverable, the asset may be considered “impaired”, and an impairment loss may be recognized in profit or loss. The carrying amounts of non-current assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount.

The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume and amount of operating costs.

(b) Depreciation

Fixed assets are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the fixed assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(c) Impairment of trade receivables

The Group evaluates whether there is any objective evidence that trade receivables are impaired, and estimates allowances for doubtful debts as a result of the inability of the debtors to make required payments. The Group bases the estimates on the aging of the trade receivables balance, credit-worthiness of the customer and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

(d) Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. These estimates could change significantly as a result of changes in customer preferences and competitor actions in response to severe industry cycles. Management reassesses these estimates at each balance sheet date.

28 LIST OF AUDITOR OF THE SUBSIDIARY

The auditor of the statutory financial statements of Billion Fujian during the Relevant Period was as follows:

Name of company	Financial period	Statutory auditor (Note)
Billion Fujian	For the years ended December 31, 2008, 2009	Fujian Mincai Certified Public Accountants Co., Ltd. (福建閩才會計師事務所有限公司)
	For the year ended December 31, 2010	Jinjiang Chengxin Certified Public accounts Ltd (晉江誠信有限責任會計師事務所)

Note: The English translation of entity name is for reference only. The official names of these entities are in Chinese.

29 FINANCIAL INFORMATION OF THE COMPANY

The Company was incorporated on November 25, 2010 with authorized share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 par value.

The Company has not carried on any business since its date of incorporation. As of December 31, 2010, the Company only has nominal amounts of net assets.

30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIOD

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and Interpretations and one new standard which are not yet effective for the year ended December 31, 2010 and which have not been adopted in these financial statements. These include the following which may be relevant to the company.

	Effective for accounting periods beginning on or after
Revised HKAS 24, Related party disclosures	January 1, 2011
HKFRS 9, Financial Instruments	January 1, 2013
Improvements to HKFRSs 2010	July 1, 2010 or January 1, 2011
Amendments to HKAS 12, Income taxes	January 1, 2012

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

D SUBSEQUENT EVENTS

The following significant transactions took place subsequent to December 31, 2010:

(a) Dividend declared after December 31, 2010

On January 10, 2011, Billion Fujian declared a dividend of RMB324,569,000 to Billion H.K. The amount declared was fully paid on January 17, 2011. No withholding tax provision has been recorded by the Group in relation to such dividend distribution since Billion H.K, which was the holding company of Billion Fujian prior to the completion of the Reorganization and was the obligor of any related PRC withholding tax liability, does not form part of the current Group structure.

(b) Group reorganization

Upon the completion of the Reorganization on February 17, 2011, Billion Fujian became a wholly-owned subsidiary of Billion Development. According to the share transfer agreement, the entitlement to the undistributed earnings of Billion Fujian as of the equity interest transfer date will also transfer to Billion Development, resulting in a change in tax status of Billion Development which will be taxed on any post-Reorganization dividend received from Billion Fujian. As of December 31, 2010, the undistributed earnings of Billion Fujian amounted to RMB484,876,000, of which RMB324,569,000 was declared and paid to Billion H.K. subsequent to the Relevant Period. In the opinion of the directors of the Company, it is not probable that Billion Fujian will distribute any of the remaining undistributed earnings in the foreseeable future, therefore no deferred tax liability has been recorded by the Group associated with such unremitted earnings.

(c) Capitalization issue

On March 17, 2011, the Company issued 198 ordinary shares at par for cash to broaden the capital base of the Company. Pursuant to the resolutions in writing of the shareholders of the Company passed on March 31, 2011, the authorized share capital of the Company was increased to HK\$100,000,000 by the creation of an additional 9,962,000,000 ordinary shares of HK\$0.01 each. In addition, conditional on the share premium account of the Company being credited as a result of the issue of the offer shares by the Company pursuant to the initial public offering of shares of the Company ("IPO") and subject to the IPO price, the Company will capitalize up to an amount of HK\$17,242,498 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par up to 1,724,249,800 shares, each of which will be allotted and issued to the shareholders of the Company.

E SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies comprising the Group in respect of any period subsequent to December 31, 2010.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

The information set forth in this appendix does not form part of the accountants' report prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this Prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this Prospectus and the accountants' report set forth in Appendix I to this Prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on the net tangible assets our Company as of December 31, 2010 as if the Global Offering had taken place on December 31, 2010.

The unaudited pro forma statement of adjusted net tangible assets 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 had the Global Offering been completed as of December 31, 2010 or at any future date.

The unaudited pro forma statement of adjusted net tangible assets below has been prepared as if the Global Offering had taken place on December 31, 2010, therefore, no adjustment has been made to reflect any trading and other transactions of the Group entered into subsequent to December 31, 2010. In particular, no account has been taken in respect of the dividend of RMB324.6 million declared by Billion Fujian on January 10, 2011, which was paid to Billion H.K., its then shareholder, on January 17, 2011. Had such dividend been declared as of December 31, 2010, our unaudited pro forma adjusted net tangible assets would have been reduced by RMB324.6 million and our unaudited pro forma adjusted net tangible assets per Share would have been reduced by RMB0.14.

	Net tangible assets as of December 31, 2010 ⁽¹⁾⁽²⁾	Estimated net proceeds from the Global Offering ⁽³⁾⁽⁴⁾	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share ⁽⁴⁾⁽⁵⁾	
	RMB million	RMB million	RMB million	RMB	HK\$
Based on an Offer Price of HK\$4.53 per Share	2,183.9	2,124.8	4,308.7	1.87	2.20
Based on an Offer Price of HK\$6.08 per Share	2,183.9	2,863.9	5,047.8	2.20	2.58

Notes:

- (1) The net tangible assets as of December 31, 2010 are extracted from the Accountants' Report set out in Appendix I to this prospectus.
- (2) Our property interests as of February 28, 2011 have been valued by Jones Lang LaSalle Sallmanns, an independent property valuer the details of which are set out in Appendix IV to this Prospectus. We will not incorporate the revaluation surplus of RMB163.8 million in our financial statements. It is our accounting policy to state our land and buildings held for own use at cost less accumulated depreciation and any impairment loss in accordance with HKFRS, rather than at revalued amounts. With reference to the valuation of our property interests as set forth in

Appendix IV to this Prospectus, if such revaluation surplus was incorporated in our financial statements, an additional depreciation charge of approximately RMB5.4 million per annum would have been incurred.

- (3) The estimated net proceeds from the Global Offering are based on the Offer Prices of HK\$4.53 and HK\$6.08 per Share, after deduction of the underwriting commissions (excluding any discretionary incentive fees) and other related expenses payable by us without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option.
- (4) For the purpose of estimated net proceeds from the Global Offering and the calculation of the unaudited pro forma adjusted net tangible assets per Share, the translation between Renminbi and HK dollars was made at the rate of HK\$1 = RMB0.8509, the central parity exchange rate for the HK dollars to the Renminbi on December 31, 2010 published by PBOC.
- (5) The unaudited pro forma adjusted net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that 2,299,000,000 Shares are in issue but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme.

B. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following forecast profit after taxation and the unaudited pro forma forecast earnings per share for the year ending December 31, 2011 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 taken place on January 1, 2011. This forecast profit after taxation and the unaudited pro forma forecast earnings per share had been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial results of the Group for the year ending December 31, 2011 or for any future period.

Forecast profit after taxation^{(1), (3)} unlikely to be less than RMB847.5 million
(approximately HK\$1,012.8 million)

Unaudited pro forma forecast earnings per share^{(2), (3)} unlikely to be less than RMB0.369
(approximately HK\$0.441)

Notes:

- (1) The bases and assumptions on which the above profit forecast has been prepared are summarized in Appendix III to this Prospectus. The Directors have prepared the forecast profit after taxation of the Company for the year ending December 31, 2011 based on the unaudited results for the one month ended January 31, 2011 and a forecast of the results for the remaining eleven months ending December 31, 2011.
- (2) The calculation of the unaudited pro forma forecast earnings per share is based on the forecast profit after taxation of the Company for the year ending December 31, 2011, assuming that a total of 2,299,000,000 shares had been in issued during the entire year without taking into account any shares which may be issued upon the exercise of the Over-allotment Option or options that may be granted under the Share Option Scheme.
- (3) The forecast profit after taxation and unaudited pro forma forecast earnings per share in Renminbi are converted to HK dollars at the rate of RMB1.00 to HK\$1.1950. Such translations should not be construed as representations that amounts in HK dollars were or may have been converted into Renminbi at such rates or any other exchange rates, or vice versa.

C. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the purpose of incorporation in this Prospectus, received from the Company's reporting accountants KPMG, Certified Public Accountants, Hong Kong:



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

May 5, 2011

The Directors
Billion Industrial Holdings Limited

Dear Sirs

We report on the unaudited pro forma financial information (the "Pro forma Financial Information") of Billion Industrial Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), set out in Parts A and B of Appendix II to the prospectus dated May 5, 2011 (the "Prospectus"), which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the Global Offering might have affected the financial information presented. The basis of preparation of the unaudited Pro Forma Financial Information is set out in Part (A) and (B) of Appendix II of the Prospectus.

RESPONSIBILITIES

It is the responsibility solely of the directors of the Company to prepare the unaudited Pro Forma Financial Information in accordance with paragraph 4.29 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 ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) 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 work 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 HKICPA. 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. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Our procedures on the unaudited Pro Forma Financial Information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

The unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as of December 31, 2010 or any future date; or
- the earnings per share of the Group for the year ending December 31, 2011 or any future periods.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company’s shares, the application of those net proceeds, or whether such use will actually take place as described under “Future Plans and Use of Proceeds — Use of Proceeds” in the Prospectus.

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 4.29(1) of the Listing Rules.

Yours faithfully

KPMG

Certified Public Accountants

Hong Kong

The forecast of the consolidated profit attributable to our equity holders but before extraordinary items of our Group for the year ending December 31, 2011 is set out in the paragraph headed “Profit Forecast” in the section headed “Financial Information” in this prospectus.

A. BASIS AND ASSUMPTIONS

The forecast of the consolidated profit attributable to our equity holders but before extraordinary items of our Group for the year ending December 31, 2011 is prepared by the Directors based on the unaudited consolidated results for the one month ended January 31, 2011 and a forecast of the consolidated results of our Group for the remaining eleven months ending December 31, 2011. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending December 31, 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 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 the PRC, Hong Kong or any other place 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 the PRC, in Hong Kong, or any other place in which our Group operates or in which any member of our Group is incorporated, except as otherwise disclosed in this Prospectus; and
- (c) there will be no material adverse changes in the inflation rates, foreign currency exchange rates and interest rates from those currently prevailing.

SENSITIVITY ANALYSIS

The average sales prices of our products and the average purchase prices of our raw materials fluctuated during the Track Record Period. The average sales prices of our products were RMB10,610 per ton, RMB8,845 per ton and RMB11,362 per ton for the years ended December 31, 2008, 2009 and 2010, respectively. Our average purchase price of PTA was RMB6,223 per ton, RMB5,913 per ton and RMB6,741 per ton and our average purchase price of MEG was RMB6,330 per ton, RMB4,395 per ton and RMB6,108 per ton for the years ended December 31, 2008, 2009 and 2010, respectively. The changes in the average sales prices of our products and the average purchase prices of our raw materials have affected our results of operations in the past and may have an impact on our profit in the future. For details of such historical effect, please see “Financial Information — Factors Affecting Our Results of Operations and Financial Condition” and “Financial Information — Results of Our Operations” in this Prospectus. The following sensitivity analysis illustrates the impact of hypothetical changes in the average sales price per ton of our products, the average purchase price per ton of PTA and the average purchase price per ton of MEG on our forecast profit after taxation and the resulting forecast profit after taxation for the year ending December 31, 2011.

% change in average sales price per ton of our products . . .	-15%	-10%	-5%	+5%	+10%	+15%
Impact on our forecast profit after taxation (RMB million)	(676.5)	(451.0)	(225.5)	225.5	451.0	676.5
Resulting forecast profit after taxation (RMB million)	171.1	396.5	622.0	1,073.0	1,298.5	1,524.0
% change in average purchase price per ton of PTA	-15%	-10%	-5%	+5%	+10%	+15%
Impact on our forecast profit after taxation (RMB million)	312.7	208.5	104.2	(104.2)	(208.5)	(312.7)
Resulting forecast profit after taxation (RMB million)	1,160.2	1,056.0	951.8	743.3	639.0	534.8
% change in average purchase price per ton of MEG	-15%	-10%	-5%	+5%	+10%	+15%
Impact on our forecast profit after taxation (RMB million)	100.4	66.9	33.5	(33.5)	(66.9)	(100.4)
Resulting forecast profit after taxation (RMB million)	947.9	914.5	881.0	814.0	780.6	747.1

The table above includes forward-looking information and is for illustrative purposes only. Please see “Forward-looking Statements” in this prospectus. For risks related to the average sales prices of our products and the average purchase prices of our raw materials see “Risk Factors — Risks Relating to Our Business — Our business and profitability may be affected by fluctuations in raw material prices as we may not always 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 profit margins at the levels we recorded during the Track Record Period.”

B. LETTERS

Set out below are texts of letters received from (i) the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, and (ii) the Joint Sponsors prepared for the purpose of incorporation in this Prospectus and in connection with the profit forecast of our Group for the year ending December 31, 2011.

(i) Letter from the reporting accountants



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

May 5, 2011

The Directors
Billion Industrial Holdings Limited

Merrill Lynch Far East Limited
CCB International Capital Limited

Dear Sirs

We have reviewed, in accordance with the Auditing Guideline 3.341 "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants, the accounting policies adopted and calculations made in arriving at the forecast of the consolidated profit attributable to equity shareholders of Billion Industrial Holdings Limited (the "Company") for the year ending December 31, 2011 (the "Profit Forecast"), for which the directors of the Company are solely responsible, as set forth in the section headed "Financial Information" in the prospectus of the Company dated May 5, 2011 (the "Prospectus").

The Profit Forecast has been prepared by the directors of the Company based on the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the one month ended January 31, 2011 and a forecast of the consolidated results of the Group for the remaining 11 months ending December 31, 2011.

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Forecast has been properly compiled in accordance with the assumptions made by the directors 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 dated May 5, 2011, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully

KPMG

Certified Public Accountants

Hong Kong

(ii) Letter from the Sponsors

May 5, 2011

The Board of Directors
Billion Industrial Holdings Limited
Fenglin Industrial Zone,
Longhu Town, Jinjiang,
Fujian, China

Dear Sir

We refer to the forecast of the consolidated profit attributable to equity holders, of Billion Industrial Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) for the year ending December 31, 2011 (the “**Profit Forecast**”) as set out in the prospectus issued by the Company dated May 5, 2011 (the “**Prospectus**”).

We understand that the Profit Forecast has been prepared by the directors of the Company based on the unaudited consolidated results of the Group for the one month ended January 31, 2011 and a forecast of the consolidated results of the Group for the remaining eleven months ending December 31, 2011.

We have discussed with you the basis made by the directors of the Company as set out in Appendix III to the Prospectus upon which the Profit Forecast has been made. We have also considered the letter dated May 5, 2011 addressed to yourselves and ourselves from KPMG 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 KPMG, we are of the opinion that the Profit Forecast, for which you as directors of our company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of
Merrill Lynch Far East Limited
John Lee
Managing Director

For and on behalf of
CCB International Capital Limited
Lai Voon Wai
Managing Director, Corporate Finance

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as of February 28, 2011 of the property interests 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

May 5, 2011

The Board of Directors
Billion Industrial Holdings Limited

Dear Sirs,

In accordance with your instructions to value the properties in which Billion Industrial 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") and Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as of February 28, 2011 (the "date of valuation").

Our valuation of the property interests represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

Due to the nature of the buildings and structures of Part A of property no. 1 and the particular location in which it is situated, there are unlikely to be relevant market comparable 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 optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

In valuing the interest of the building of Part B of property no. 1 which is currently under construction, we have assumed that it will be developed and completed in accordance with the latest development proposal provided to us by the Group. In arriving at our opinion of value, we have taken into account the construction cost and professional fees relevant to the stage of construction as of the date of valuation and the remainder of the cost and fees to be expended to complete the development.

We have attributed no commercial value to the interest of property no. 2, which has not been assigned to the Group as of the date of valuation, thus the title of the property is not vested in the Group.

We have attributed no commercial value to the property interest in Group III, which is leased by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards 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 Certificate, Building Ownership Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers – Tian Yuan Law Firm, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive at an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Sallmanns Limited

Paul L. Brown
B.Sc. FRICS FHKIS
Chief Valuation Adviser

Eddie T.W. Yiu
MRICS MHKIS RPS (GP)
Associate Director

Note: Paul L. Brown is a Chartered Surveyor who has 28 years' experience in the valuation of properties in the PRC and 31 years of property valuation experience in Hong Kong and the United Kingdom as well as relevant experience in the Asia-Pacific region.

Eddie T. W. Yiu is a Chartered Surveyor who has 17 year's experience in the valuation of properties in Hong Kong and the PRC.

SUMMARY OF VALUES

Group I – Property interest held and occupied by the Group in the PRC

No.	Property	Capital value in existing state as of February 28, 2011	Interest attributable to the Group	Capital value attributable to the Group as of February 28, 2011
		RMB		RMB
1.	Two parcels of land, various buildings and structures No. 1 Fenglin Industrial Zone Longhu Town Jinjiang City Fujian Province The PRC	992,637,000	100%	992,637,000
Sub-total:		992,637,000		992,637,000

Group II – Property interest contracted to be acquired by the Group in the PRC

No.	Property	Capital value in existing state as of February 28, 2011	Interest attributable to the Group	Capital value attributable to the Group as of February 28, 2011
		RMB		RMB
2.	A parcel of land located at the northeast of Jingguan East Road and the southeast of Weiwu Road Donghai Town Fengze District Quanzhou City Fujian Province The PRC	No commercial value	100%	No commercial value
Sub-total:		Nil		Nil

Group III – Property interest leased and occupied by the Group in Hong Kong

No.	Property	Capital value in existing state as of February 28, 2011	Interest attributable to the Group	Capital value attributable to the Group as of February 28, 2011
		RMB		RMB
3.	Unit 01 on Level 15 Office Tower of Convention Plaza No. 1 Harbour Road Wanchai Hong Kong	No commercial value	100%	No commercial value
	Sub-total:	Nil		Nil
	Grand total:	992,637,000		992,637,000

VALUATION CERTIFICATE

Group I – Property interest held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as of February 28, 2011																					
				RMB																					
1.	Two parcels of land, various buildings and structures No. 1 Fenglin Industrial Zone Longhu Town Jinjiang City Fujian Province The PRC	The property comprises a parcel of land with a site area of approximately 268,519 sq.m. and 63 buildings and various ancillary structures erected thereon which were completed in various stages between 2005 and 2010. (“Part A”) The buildings of Part A have a total gross floor area of approximately 384,289.08 sq.m. and the details of uses and their respective gross floor areas are set out as follows: <table><tr><th>Use</th><th>No. of Item</th><th>Gross Floor Area (sq.m.)</th></tr><tr><td>Production</td><td>26</td><td>285,948.24</td></tr><tr><td>Storage</td><td>6</td><td>22,302.39</td></tr><tr><td>Office</td><td>1</td><td>7,429.75</td></tr><tr><td>Staff quarter & canteen</td><td>6</td><td>60,512.91</td></tr><tr><td>Ancillary</td><td>24</td><td>8,095.79</td></tr><tr><td>Total</td><td>63</td><td>384,289.08</td></tr></table> The structures of Part A mainly include road, swimming pool and boundary fences. The land use rights of Part A of the property have been granted for a term of 50 years expiring on July 30, 2055 for industrial use. In addition to Part A, the property also comprises another parcel of land with a site area of approximately 6,878.50 sq.m. and a 4-storey industrial building being constructed thereon (referring to the additional 25,000 tpa capacity production facilities) (“Part B”) which is adjacent to Part A of the property. As advised by the Group, the development of Part B is scheduled to be completed in August 2011. Upon completion, the building of Part B will have a gross floor area of approximately 28,450.57 sq.m. As advised by the Group, the total construction cost of the development of Part B is estimated to be approximately RMB54,540,000, of which approximately RMB17,911,000 has been paid up to the date of valuation. The land use rights of Part B of the property have been granted for a term expiring on January 26, 2056 for industrial use.	Use	No. of Item	Gross Floor Area (sq.m.)	Production	26	285,948.24	Storage	6	22,302.39	Office	1	7,429.75	Staff quarter & canteen	6	60,512.91	Ancillary	24	8,095.79	Total	63	384,289.08	Part A of the property is currently occupied by the Group for production, storage, office, staff quarter, canteen and ancillary purposes whilst the building of Part B of the property is currently under construction.	992,637,000 100% interest attributable to the Group: RMB992,637,000
Use	No. of Item	Gross Floor Area (sq.m.)																							
Production	26	285,948.24																							
Storage	6	22,302.39																							
Office	1	7,429.75																							
Staff quarter & canteen	6	60,512.91																							
Ancillary	24	8,095.79																							
Total	63	384,289.08																							

Notes:

For Part A:

1. Pursuant to a State-owned Land Use Rights Grant Contract – Jin Di He (2005) Xie Zi Di No. 299 dated November 10, 2005 entered into between Jinjiang Municipal State-owned Land Resources Bureau and Fujian Billion Polymerization Fiber Industrial Co., Ltd., the land use rights of a parcel of land with a site area of approximately 268,519 sq.m. were contracted to be granted to Fujian Billion Polymerization Fiber Industrial Co., Ltd. for industrial use. The total land premium was RMB7,483,625.
2. As advised by the Company, Fujian Billion Polymerization Fiber Industrial Co., Ltd. is the former name of Fujian Billion Polymerization Fiber Technology Industrial Co., Ltd. (“Billion Fujian”, an indirect wholly-owned subsidiary of the Company).
3. Pursuant to a State-owned Land Use Rights Certificate – Jin Guo Yong (2008) Di No. 00856, the land use rights of a parcel of land with a site area of approximately 268,519 sq.m. have been granted to Billion Fujian for a term of 50 years expiring on July 30, 2055 for industrial use.
4. Pursuant to 11 Building Ownership Certificates – Jin Fang Quan Zheng Long Hu Zi Di Nos. 002264, 002390 to 002399, 61 buildings of Part A of the property with a total gross floor area of approximately 383,960.76 sq.m. are owned by Billion Fujian.
5. For the remaining 2 buildings of Part A of the property with a total gross floor area of approximately 328.32 sq.m., we have not been provided with any Building Ownership Certificates. Portion of these 2 buildings are located outside the land boundary of Part A.
6. In the valuation of Part A of the property, we have attributed no commercial value to the 2 buildings (as referred to in note 5) with a total gross floor area of approximately 328.32 sq.m. which have not obtained any Building Ownership Certificates. However, for reference purpose, we are of the opinion that the aggregate depreciated replacement cost of the buildings (excluding the land) as of the date of valuation would be RMB462,000 assuming the Building Ownership Certificates have been fully obtained and the buildings could be freely transferred.
7. We have been provided with a legal opinion regarding the property interest of Part A by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. The Group has obtained the State-owned Land Use Rights Certificate of the land use rights of Part A of the property and is the sole legal user of the land parcel of Part A of the property;
 - b. The Group has obtained the Building Ownership Certificates of the buildings as referred to in note 4 and is the sole legal owner of such buildings;
 - c. The existing use of the land parcel of Part A of the property is in compliance with the stipulated use as stated in the State-owned Land Use Rights Certificate. During the term of the land use rights, the Group is wholly, legally and validly in possession of the land use rights of Part A of the property and has the rights to use, transfer, lease, mortgage or by other legal means dispose of the land use rights of Part A of the property. The Group has obtained all the requisite approvals/permits/consents and legally fulfilled the formality of the relevant registration for obtaining the land use rights of Part A of the property;
 - d. There are no additional costs or land premium required to be paid for obtaining the land use rights of Part A of the property. Besides, there are no litigation, dispute and substantial adverse causes which may result in the land use rights to be resumed compulsorily. The land parcel is not subject to mortgage or other encumbrances;
 - e. The Group is wholly, legally and validly in possession of the ownership of the buildings as referred to in note 4 and has the rights to use, mortgage, lease or sell such buildings. The Group has obtained all the requisite approvals/permits/consents and legally fulfilled the formality of the relevant registration for obtaining the ownership of such buildings; and
 - f. As portion of the buildings as referred to in note 5 are located outside the land boundary as stipulated in the State-owned Land Use Rights Certificate as referred to in note 3, the Group may be claimed for returning the occupied excessive land or being subject to confiscation of such buildings or any penalty or other administrative punishment by the local land administrative authority. However, the construction scale of such buildings is small and such buildings are only for ancillary use. If such buildings are confiscated, it would not have substantial adverse impact on the production and operation of Billion Fujian.

For Part B:

8. Pursuant to a State-owned Land Use Rights Transfer Contract dated October 10, 2010 entered into between Fujian Mingtai Ecological Textile Technology Co., Ltd. (福建明泰生態紡織科技有限公司) and Billion Fujian, the land use rights of a parcel of land with a site area of approximately 6,878.50 sq.m. were contracted to be transferred to Billion Fujian for industrial use at a consideration of RMB2,063,550.
9. Pursuant to a State-owned Land Use Rights Certificate – Jin Guo Yong (2011) Di No. 00244, the land use rights of a parcel of land with a site area of approximately 6,878.50 sq.m. have been granted to Billion Fujian for a term expiring on January 26, 2056 for industrial use.
10. Pursuant to a Construction Land Planning Permit – Jin Jian Gui Zi Di No. 2094755 in favor of Billion Fujian, permission towards the planning of the subject land with a site area of approximately 6,878.5 sq.m. has been granted to Billion Fujian.
11. Pursuant to a Construction Work Planning Permit – Jian Zi Di Jin Jian Gui Zi Di No. 3091074 in favor of Billion Fujian, a building with a gross floor area of approximately 28,450.57 sq.m. has been approved for construction.
12. Pursuant to a Construction Work Commencement Permit – No. 350582201102250101 in favor of Billion Fujian, permission by the relevant local authority has been given to commence the construction works.
13. We have been provided with a legal opinion regarding the property interest of Part B by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. The Group has obtained the State-owned Land Use Rights Certificate of the land use rights of Part B of the property and is the sole legal user of the land parcel of Part B of the property;
 - b. During the term of the land use rights, the Group is wholly, legally and validly in possession of the land use rights of Part B of the property and has the rights to use, transfer, lease, mortgage or by other legal means dispose of the land use rights of Part B of the property. The Group has obtained all the requisite approvals/permits/consents and legally fulfilled the formality of the relevant registration for obtaining the land use rights of Part B of the property;
 - c. There are no additional costs or land premium required to be paid for obtaining the land use rights of Part B of the property. Besides, there are no litigation, dispute and substantial adverse causes which may result in the land use rights to be resumed compulsorily. The land parcel is not subject to mortgage or other encumbrances; and
 - d. According to the confirmation by Jinjiang Municipal Construction Planning and Building Administration Bureau (晉江市規劃建設與房產管理局), the Group has obtained all the requisite construction permits mentioned in notes 10, 11 and 12 for the building under construction of Part B and is permitted to continue its construction. Upon acceptance of the building completion, there are no legal impediments for the Group to obtain the building ownership rights of the building of Part B and the Group will not be subject to any punishment from the relevant authorities for the dateback situation when the construction works commenced but without the requisite construction permits and there is no significant adverse impact to the Group's production and operation for such issue.

VALUATION CERTIFICATE

Group II – Property interest contracted to be acquired by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as of February 28, 2011 RMB
2.	A parcel of land located at the northeast of Jingguan East Road and the southeast of Weiwu Road Donghai Town Fengze District Quanzhou City Fujian Province The PRC	The property comprises a parcel of land with a site area of approximately 11,227.5 sq.m. According to the latest development proposal provided by the Group, the property is proposed to be developed into an operation center with a total planned gross floor area of approximately 76,347 sq.m. As advised by the Group, the whole development is scheduled to be completed in 2013.	The property is currently vacant.	No commercial value

Notes:

- Pursuant to a State-owned Land Use Rights Grant Contract – Quan Di (2010) He No. 38 dated September 20, 2010 entered into between Quanzhou Municipal State-owned Land Resources Bureau and Fujian Billion Polymerization Fiber Technology Industrial Co., Ltd. (“Billion Fujian”, an indirect wholly-owned subsidiary of the Company), the land use rights of a parcel of land with a site area of approximately 11,227.5 sq.m. were contracted to be granted to Billion Fujian for composite office, commercial and residential uses. The total land premium was RMB36,700,000.
- As of the date of valuation, the property has not been assigned to the Group and thus the title of the property has not been vested in the Group. Therefore, we have attributed no commercial value to the property.
- In the valuation of this property, we have attributed no commercial value to the property which has not obtained any State-owned Land Use Rights Certificate. However, for reference purpose, we are of the opinion that the capital value of the property as of the date of valuation would be RMB38,174,000 assuming the State-owned Land Use Rights Certificate has been obtained and the property could be freely transferred.
- We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers that Billion Fujian has fully paid the land premium and has the rights to apply for the State-owned Land Use Rights Certificate of the property in accordance with the State-owned Land Use Rights Grant Contract and the relevant laws, therefore there is no material legal impediment for Billion Fujian to obtain the State-owned Land Use Rights Certificate of the property.

VALUATION CERTIFICATE

Group III – Property interest leased and occupied by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as of February 28, 2011 RMB
3.	Unit 01 on Level 15 Office Tower of Convention Plaza No. 1 Harbour Road Wanchai Hong Kong	The property comprises an office unit on Level 15 of a 49-storey office building which was completed in 1990. The property has a gross floor area of approximately 272.76 sq.m. The property is leased to Billion Development (Hong Kong) Limited (“Billion Development”, an indirect wholly-owned subsidiary of the Company), from two independent third parties for a term commencing from January 1, 2011 and expiring on December 5, 2012 at a monthly rent of HK\$102,760 exclusive of management fees, Government rent, rates and all outgoings.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

- Pursuant to a Tenancy Agreement dated December 20, 2010, the property with a gross floor area of approximately 272.76 sq.m. was leased to Billion Wise Industrial Limited (“Billion H.K.”, a connected party of the Company), from Hadilukito Prajogo and Yenny Prajogo, two independent third parties (“Landlords”), for a term of 2 years commencing from December 6, 2010 and expiring on December 5, 2012 at a monthly rent of HK\$102,760, exclusive of management fees, Government rent, rates and all outgoings.
- Pursuant to a Novation Agreement dated February 7, 2011, it had been agreed between Billion H.K. (“Tenant”) and Billion Development (“Substitute Tenant”) that the Substitute Tenant shall assume the obligations of the Tenant under the Tenancy Agreement. Besides, the Landlords had consent to the substitution of the Substitute Tenant for the Tenant under the Tenancy Agreement with effect from January 1, 2011. Accordingly, the property was leased to Billion Development, for a term commencing from January 1, 2011 and expiring on December 5, 2012 at a monthly rent of HK\$102,760, exclusive of management fees, Government rent, rates and all outgoings.
- The registered owners of the property are Hadilukito Prajogo and Yenny Prajogo vide Memorial No. UB8631916 dated February 25, 2002.

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 Islands Companies Law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on November 25, 2010 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 March 31, 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

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANIES LAW

restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or

- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office 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.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so canceled.

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 authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and

not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized 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 authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize 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 authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorized by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognize 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, realized or unrealized, 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 authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in

proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman Islands Companies Law, although this does not purport to contain all applicable qualifications and exceptions or

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANIES LAW

to be a complete review of all matters of Cayman Islands Companies 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 authorized 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 cancelation 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.

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 authorized 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 authorized 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 authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize 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 authorized 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.

Shares purchased by a company shall be treated as canceled 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.

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 authorizing civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from December 14, 2010.

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.

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 authorized 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 authorized 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, our Company's special legal counsel on Cayman Islands law, have sent to our Company a letter of advice summarizing 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 Delivered to the Registrar of Companies and 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.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. *Incorporation***

Our Company was incorporated as an exempted company under the laws of the Cayman Islands with limited liability on November 25, 2010. Our Company is registered as a non-Hong Kong company under Part XI of the Companies Ordinance on March 14, 2011 and our Company's principal place of business in Hong Kong is at Unit 1501, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong. Ms. Ng Weng Sin of 5/F, 267 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong, a Hong Kong resident, has been appointed as the authorized representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the relevant law of the Cayman Islands and its constitution which comprises a Memorandum of Association and Articles of Association. A summary of the relevant aspects of the Companies Law and certain provisions of the Articles of Association is set out in Appendix V of this prospectus.

2. *Changes in share capital of our Company*

As of the date of the incorporation of our Company, its authorized share capital was HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. The following sets out the change in the share capital of our Company since the date of its incorporation:

- (a) On November 25, 2010, one fully paid Share was allotted and issued to Codan Trust Company (Cayman) Limited as the initial subscriber, which was subsequently transferred to Kingom Power on the same day.
- (b) On November 25, 2010, one Share was allotted and issued, credited as fully paid, to Winwett Investments.
- (c) On March 17, 2011, 99 and 99 Shares were allotted and issued, credited as fully paid, to Kingom Power and Winwett Investments, respectively, pursuant to an equity transfer agreement dated January 24, 2011 entered into among Mr. Sze Tin Yau, Mr. Wu Jinbiao Billion Development and Billion H.K. for Billion H.K. to transfer its entire equity interests in Billion Fujian to Billion Development.

Immediately following completion of the Global Offering and the Capitalization Issue and assuming that the Over-allotment Option is not exercised, the authorized share capital of our Company will be HK\$100,000,000 divided into 10,000,000,000 Shares, of which 2,299,000,000 Shares will be issued fully paid or credited as fully paid, and 7,701,000,000 Shares will remain unissued. Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed "4. Written resolutions of our Shareholders passed on March 31, 2011" under this section in this appendix, our Directors do not have any present intention to issue any of the authorized but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this prospectus, there has been no alteration in the share capital of our Company since its incorporation.

3. *Changes in share capital of our subsidiaries*

The following alterations in the share capital or registered capital of our subsidiaries took place within the two years immediately preceding the date of this prospectus:

(1) Billion Industrial Investment

On November 25, 2010, Billion Industrial Investment was incorporated under the laws of the BVI as an intermediate holding company of our Group. As of the date of its incorporation, the authorized share capital was US\$50,000 divided into 50,000 shares of US\$1.0 each. On December 7, 2010, our Company subscribed for one share in Billion Industrial Investment. Billion Industrial Investment is the directly wholly-owned subsidiary of our Company.

(2) Billion Development

On December 15, 2010, Billion Development was incorporated in Hong Kong with an authorized share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. On the same day, one share in Billion Development was allotted and issued, credited as fully paid, to Billion Industrial Investment. Billion Development is an indirect wholly-owned subsidiary of our Company.

On January 24, 2011, Mr. Sze Tin Yau, Mr. Wu Jinbiao, Billion Development and Billion H.K. entered into an equity transfer agreement pursuant to which (i) Billion H.K. transferred its entire equity interests in Billion Fujian to Billion Development; and (ii) as a consideration for such transfer, our Company allotted and issued 99 Shares, credited as fully paid, to each of Kingom Power and Winwett Investments on March 17, 2011.

Save as set out above and in the paragraph headed “B. Corporate Reorganization” in this appendix, there has been no alteration in the share capital of any of our subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

4. *Written resolutions of our Shareholders passed on March 31, 2011*

Pursuant to the written resolutions of the Shareholders entitled to vote at general meetings of our Company, which were passed on March 31, 2011:

- (a) the authorized share capital of our Company be increased from HK\$380,000 to HK\$100,000,000 by the creation of 9,962,000,000 Shares of HK\$0.01 each which shall rank *pari passu* in all respects with the Shares in issue as of the date of passing of the written resolutions;
- (b) subject to the share premium account of our Company being credited as a result of the Global Offering, our Directors are authorized to allot and issue a total of 1,724,249,800 Shares and apply it towards paying up in full at par to the Shareholders whose names appear on the register of members of our Company at the close of business on March 31, 2011 (or as they may direct) in proportion (as nearly as possible without involving fractions) to their

respective existing shareholdings by way of capitalization of the sum of HK\$17,242,498 standing to the credit of the share premium account of our Company and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares;

- (c) conditional upon (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, our Shares in issue and to be issued (pursuant to the Global Offering, the Capitalization Issue, the Over-allotment Option and the Share Option Scheme) as mentioned in this prospectus; and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Joint Global Coordinator (on behalf of the Underwriters)) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise
- (i) the Global Offering and the Over-allotment Option were approved and our Directors were authorized to allot and issue the Offer Shares and the Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option on and subject to the terms and conditions stated in this prospectus and in the relevant Application Forms;
- (ii) the rules of the Share Option Scheme were approved and adopted, and our Directors or any committee thereof established by the Board were authorized, at their sole discretion, to: (i) administer the Share Option Scheme; (ii) modify/amend the Share Option Scheme from time to time as requested by the Stock Exchange; (iii) grant options to subscribe for Shares under the Share Option Scheme up to the limits referred to in the Share Option Scheme; (iv) allot, issue and deal with Shares pursuant to the exercise of any option which may be granted under the Share Option Scheme; (v) make application at the appropriate time or times to the Stock Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may hereafter from time to time be issued and allotted pursuant to the exercise of the options granted under the Share Option Scheme; and (vi) take all such actions as they consider necessary, desirable or expedient to implement or give effect to the Share Option Scheme (vii) sign the Share Option Scheme offer letters;
- (d) a general unconditional mandate were given to our Directors to exercise all the powers of our Company 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 by way of 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 issue of Shares upon the exercise of any subscription rights attached to any warrants of our Company or pursuant to the exercise of options which may be granted under the Share Option Scheme or any other option scheme(s) or similar arrangement for the time being adopted for the grant or issue to directors and/or officers and/or employees of our Group or rights to acquire Shares or pursuant to a specific authority granted by the Shareholders in general meeting, the Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalization Issue before any exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme;

For the purpose of this paragraph, “Rights Issue” means an offer of shares in our Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by our Directors to holders of shares in our Company on the register on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as our Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to our Company, or any recognized regulatory body or any stock exchange applicable to our Company);

- (e) a general unconditional mandate were given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares 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 Capitalization Issue but before the exercise of the Over-allotment Option;
- (f) the extension of the general mandate to allot, issue and deal with Shares as mentioned in paragraph (d) above 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 paragraph (e) above, provided that such extended amount shall not exceed 10% of the aggregate of the total nominal value of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalization Issue but before the exercise of the Over-allotment Option be and is approved; and
- (g) the adoption of the Articles of Association.

Each of the general mandates referred to in paragraphs (d), (e) and (f) above will remain in effect until whichever is the earliest of:

- (1) the conclusion of our next annual general meeting;
- (2) the expiration of the period within which our Company is required by law or the Articles of Association to hold its next annual general meeting; or
- (3) when varied or revoked by an ordinary resolution of our Company’s Shareholders in a general meeting.

5. *Repurchase of our Shares*

This section includes information relating to the repurchases of securities, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

(a) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important restrictions are summarized below:

(i) Shareholders' approval

All proposed repurchases of Shares must be approved in advance by an ordinary resolution of our Shareholders in a general meeting, either by way of general mandate or by specific approval in relation to a particular transaction.

Pursuant to the written resolutions passed on March 31, 2011 by all our Shareholders, a general unconditional mandate (the "Repurchase Mandate") was given to our Directors to exercise all powers of our Company to repurchase Shares (Shares which may be listed on the Stock Exchange) with a total nominal value of not more than 10% of the aggregate nominal value of our share capital in issue or to be issued immediately following completion of the Global Offering, further details of which have been described above in the paragraph headed "4. Written resolutions of our shareholders passed on March 31, 2011" under this section in this appendix.

(ii) Source of funds

Any repurchases of Shares by us must be paid out of funds legally available for the purpose in accordance with our Articles of Association, the Listing Rules and the Companies Law. We are not permitted to repurchase our Shares 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.

(iii) Shares to be repurchased

The Listing Rules provide that the Shares which are proposed to be repurchased by us must be fully-paid up.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have general authority from the Shareholders to enable them to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where the Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) Funding of repurchases

In repurchasing Shares, we may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of our Company's current financial position as disclosed in this prospectus and taking into account its current working capital position, our Directors consider that, if the Repurchase Mandate is exercised in full, it might have a material adverse effect on our working capital and/or gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(d) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules) currently intends to sell any Shares to us.

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 and regulations of the Cayman Islands. If, as a result of any repurchase of Shares, a shareholder's proportionate interest in the voting rights is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

We have not made any repurchases of our own securities in the past six months.

No connected person has notified us that he/she has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. CORPORATE REORGANIZATION

The Corporate Reorganization which was effected in preparation for the Listing, whereby our Company became the holding company of our Group, included the following major steps:

1. On November 11, 2010, Mr. Sze Tin Yau subscribed for one share in Kingom Power to hold his interests in our Company. On November 11, 2010, Mr. Wu Jinbiao also subscribed for one share in Winwett Investments to hold his interests in our Company.
2. On November 25, 2010, our Company was incorporated under the laws of the Cayman Islands as an exempted company with the authorized share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. On November 25, 2010, one fully paid Share was allotted and issued to Codan Trust Company (Cayman) Limited as the initial subscriber, which was subsequently transferred to Kingom Power on the same day. On November 25, 2010, one Share was allotted and issued, credited as fully paid, to Winwett Investments.
3. On November 25, 2010, Billion Industrial Investment was incorporated under the laws of the BVI as an intermediate holding company of our Group. As of the date of its incorporation, the authorized share capital was US\$50,000 divided into 50,000 shares of US\$1.0 each. On December 7, 2010, our Company subscribed for one share in Billion Industrial Investment. Billion Industrial Investment is the directly wholly-owned subsidiary of our Company.
4. On January 24, 2011, Mr. Sze Tin Yau, Mr. Wu Jinbiao, Billion Development and Billion H.K. entered into an equity transfer agreement pursuant to which (i) Billion H.K. transferred its entire equity interests in Billion Fujian to Billion Development; and (ii) as a consideration for such transfer, our Company allotted and issued 99 Shares, credited as fully paid, to each of Kingom Power and Winwett Investments. Upon completion of the equity transfer on February 17, 2011 and the allotment and issue of Shares on March 17, 2011, each of Kingom Power and Winwett Investments owned 100 Shares in our Company.

C. FURTHER INFORMATION ABOUT OUR BUSINESS**1. Summary of the material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Group within the two years preceding the date of this prospectus and are or may be material:

- (1) an equity transfer agreement in Chinese dated January 24, 2011 entered into among Mr. Sze Tin Yau, Mr. Wu Jinbiao, Billion Development and Billion H.K., pursuant to which as a consideration for the transfer of the entire equity interest in Billion Fujian by Billion H.K., Mr. Sze Tin Yau and Mr. Wu Jinbiao agreed to procure our Company to allot and issue 99 Shares to each of Kingom Power and Winwett Investments;
- (2) a trademark transfer agreement in Chinese dated May 1, 2011 entered into among Billion Fujian, Baikai Wrap Knitting, Baikai Elastic Weaving, Baikai Textile and Baikai Zipper, pursuant to which Baikai Wrap Knitting, Baikai Elastic Weaving, Baikai Textile and Baikai Zipper agreed to transfer 10 trademarks which they jointly owned together with Billion Fujian, to Billion Fujian at nil consideration;
- (3) a placing agreement dated May 3, 2011 entered into among our Company, SD Family Fund L.P. and the Joint Global Coordinators, pursuant to which SD Family Fund L.P. agreed to subscribe for such number of Shares as may be subscribed for with an amount of US\$10 million at the Offer Price (exclusive of brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) (rounded down to the nearest board lot of 500 Shares) in the International Placing;
- (4) a placing agreement dated May 3, 2011 entered into among our Company, Mr. Ding Wuhao and the Joint Global Coordinators, pursuant to which Mr. Ding Wuhao agreed to subscribe for such number of Shares as may be subscribed for with an amount of HK\$100 million at the Offer Price (exclusive of brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) (rounded down to the nearest board lot of 500 Shares) in the International Placing;
- (5) a placing agreement dated May 3, 2011 entered into among our Company, Better Prospect Limited and the Joint Global Coordinators, pursuant to which Better Prospect Limited agreed to subscribe for such number of Shares as may be subscribed for with an amount of US\$10 million at the Offer Price (exclusive of brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) (rounded down to the nearest board lot of 500 Shares) in the International Placing;
- (6) the Deed of Non-competition;
- (7) the Deed of Indemnity; and
- (8) the Hong Kong Underwriting Agreement.

2. Intellectual property rights of our Group

Trademarks

As of the Latest Practicable Date, we had the right to use the following trademarks:

Trademark	Registered Owner	Place of registration	Class	Registration number	Expiry date
	Billion Fujian	PRC	23	3172753	July 27, 2013
	Billion Fujian	PRC	23	3273556	January 6, 2014
	Billion Fujian	PRC	23	5174122	June 6, 2019
	Billion Fujian	Hong Kong	23	301532826	January 27, 2020
	Billion Fujian	PRC	35	6973390	October 13, 2020
	Billion Fujian	PRC	24	6973392	September 13, 2020
	Billion Fujian	PRC	23	6973393	September 13, 2020
	Billion Fujian	PRC	25	6973391	November 6, 2020
	Billion Fujian	PRC	23	6973394	August 27, 2020

On May 1, 2011, we have entered into a trademark transfer agreement to acquire the following registered trademarks at nil consideration:

Trademark ^{Note}	Place of registration	Class	Registration number	Expiry date
	PRC	24	5174121	September 13, 2019
BILLION	PRC	26	4719546	February 6, 2019
	PRC	5	4812629	February 13, 2019
	PRC	26	5160885	August 6, 2019
	PRC	35	5174130	May 27, 2019
	PRC	2	5174131	June 13, 2019
	PRC	33	5174132	March 20, 2019
	PRC	30	5174133	March 20, 2019
	PRC	18	5174134	July 20, 2019
	PRC	25	5174135	December 6, 2019

Note:

Application will be made to the Trademark Office of the State Administration for Industry and Commerce for a change of registered owner. We have engaged trademark agents to handle the registration of the trademark transfer. As advised by our PRC legal advisers, Tian Yuan Law Firm, registration will generally be completed within 12 months upon filing with the Trademark Office of the State Administration for Industry and Commerce in accordance with the relevant regulations and legal procedures.

Domain Names

As of the Latest Practicable Date, we had registered the following domain names:

Registrant	Domain Name	Date of Registration	Expiration Date
Billion Fujian	baihong.com	May 31, 2000	May 31, 2016
Billion Fujian	ballion.com	June 25, 2000	June 25, 2015
Billion Fujian	ballion.com.cn	May 10, 2006	May 10, 2011
Billion Fujian	ballion.cn	May 10, 2006	May 10, 2011
Billion Fujian	ballion.cc	May 7, 2006	May 6, 2011
Billion Fujian	百宏.com	November 9, 2010	November 9, 2011
Billion Fujian	百宏.cc	May 26, 2006	May 25, 2011

Patents

As of the Latest Practicable Date, we were the registered owner of the following registered patents:

Patent Name	Patent Number	Place of Registration	Expiration Date
A new type of weaving heads with no shuttle* (一種新型無梭機織頭)	ZL 2006 2 0156663.3	PRC	January 8, 2018
Baiku yarn* (百酷絲)	ZL 2009 2 0107313.1	PRC	April 13, 2019
Bainuan yarn* (百暖絲)	ZL 2009 2 0107314.6	PRC	April 13, 2019
Baiwei ultra-soft fiber* (一種百微超柔纖維) . . .	ZL 2009 2 0107315.0	PRC	April 13, 2019
A profile fiber* (一種異形纖維)	ZL 2009 2 0107316.5	PRC	April 13, 2019
A golden yarn* (一種金絲綫)	ZL 2009 2 0107317.X	PRC	April 13, 2019
A florescent extra-white fiber* (一種熒光增白纖維)	ZL 2009 2 0151633.7	PRC	April 19, 2019
A black flame resistant fiber* (一種黑色阻燃纖維)	ZL 2009 2 0151634.1	PRC	April 19, 2019
Ultraviolet resistant low elasticity yarn* (抗紫外綫滌綸低彈絲)	ZL 2009 2 0151636.0	PRC	April 19, 2019
Three-dimensional ultra-bright yarn* (三維超亮光絲)	ZL 2009 2 0107458.1	PRC	April 21, 2019
Full bright dyed yarn* (大有光有色 光絲)	ZL 2009 2 0107461.3	PRC	April 21, 2019
Black crystal bamboo charcoal fiber yarn* (黑晶竹炭纖維絲)	ZL 2009 2 0107462.8	PRC	April 21, 2019
Anti-distortion and — pilling low shrinkage FDY fiber* (抗變形的低縮率抗起球功能FDY纖維 絲)	ZL 2010 2 0174700.X	PRC	April 28, 2020
Fine denier hollow and ultra-bright reflex FDY profile fiber* (特粗旦超亮反光異形FDY纖維)	ZL 2010 2 0174710.3	PRC	April 28, 2020
Anti-bacterial flame resistant and moisture absorbing synthetic fiber * (抗菌阻燃排汗 合成纖維)	ZL 2010 2 0174715.6	PRC	April 28, 2020
High polymer material profile fiber* (高分子材料異形纖維)	ZL 2010 2 0174722.6	PRC	April 28, 2020
Whiting anti-bacterial moisture absorbing synthetic fiber* (增白抗菌排汗合成纖維) . . .	ZL 2010 2 0174731.5	PRC	April 28, 2020
Imitation sherpa fleece thermal synthetic chelating fiber* (仿羊羔絨保暖合成功能 纖維絲)	ZL 2010 2 0174734.9	PRC	April 28, 2020
A shaped plate* (一種成形板)	ZL 2010 2 0274598.0	PRC	July 27, 2020

As of the Latest Practicable Date, we had the exclusive right to use the following registered patents that were granted by Donghua University:

Patent Name	Patent Number	Place of Registration	Expiration Date
Down-like material* (仿羽絨材料)	ZL 2005 2 0042730.4	PRC	June 21, 2015
A new profile fiber spinneret* (一種 新型異性纖維噴絲板)	ZL 2005 2 0046832.3	PRC	November 23, 2015
A “U” shape fiber* (一種 “U” 型纖維)	ZL 2005 2 0046833.8	PRC	November 23, 2015
An air and moisture permissible PTT fiber and related spinneret* (一種 透氣導濕PTT纖維及其所用的 噴絲板)	ZL 2006 2 0040697.6	PRC	March 30, 2016
A thin denier hollow anti-bacteria PTT fiber* (一種細旦中空抗菌PTT纖維)	ZL 2006 2 0047981.6	PRC	November 20, 2016
A three dimensional curly hollow synthetic fiber* (一種三維捲曲中空合成纖維)	ZL 2007 2 0066521.2	PRC	January 18, 2017

Note: We entered into a license agreement with Donghua University on May 10, 2008, pursuant to which we have been granted an exclusive right to manufacture, use and sell products with the above six patents. The agreement will expire on November 9, 2013.

As of the Latest Practicable Date, we had made applications to register the following patents:

Patent Name	Application Number	Place of Registration	Date of Application
An esterification waste heat recovery device* (酯化蒸氣餘熱回收方法裝置)	200910077047.7	PRC	January 19, 2009
A yarn type of carpet silk* (一種滌綸地毯絲) . .	200920151635.6	PRC	April 20, 2009

Patent Name	Application Number	Place of Registration	Date of Application
A new type of high polymer material profile fiber*(新型高分子材料異形纖維)	201020174724.5	PRC	April 29, 2010
A melt direct spinning cooling humidification device* (一種熔體 直紡冷卻加濕裝置)	201020274567.5	PRC	July 28, 2010

3. *Further information about our PRC establishment*

Billion Fujian

(i)	nature of the company:	wholly foreign-owned enterprise
(ii)	term of business operation:	from November 20, 2003 to November 19, 2053
(iii)	total investment:	US\$251,100,000
(iv)	registered capital:	US\$239,990,000 (fully paid)
(v)	attributable interest of our Company:	100%
(vi)	scope of business:	Manufacturing differentiated polyester filament yarns

D. FURTHER INFORMATION ABOUT THE DIRECTORS

1. *Directors' service contracts*

Each of our Directors has entered into a service contract with us for an initial fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Each of our Directors is entitled to the respective basic salary set out below. Each of the executive Directors is also entitled to a discretionary bonus, provided that the aggregate amount of the bonuses payable to all our executive Directors in respect of any financial year of our Company may not exceed 5% of audited consolidated or combined net profit of (after taxation and minority interests and payment of such bonuses but excluding extraordinary and exceptional items) in respect of that financial year. An executive Director may not vote on any resolution of our Directors regarding the increment of annual salary and the amount of the discretionary bonus payable to him.

The current basic annual salaries of our executive Directors are as follows:

Mr. Sze Tin Yau	RMB1.8 million
Mr. Wu Jinbiao	RMB1.56 million
Mr. Wu Jianshe	RMB1.08 million
Mr. He Wen Yao	RMB0.96 million

Save as aforesaid, none of our Directors has or is proposed to have a service contract with us or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

2. *Directors' remuneration during the Track Record Period*

For the three years ended December 31, 2008, 2009 and 2010, the aggregate of the remuneration paid and benefits in kind granted to our Directors by us and our subsidiaries was RMB197,000, RMB205,000 and RMB1,762,000, respectively.

Save as disclosed in this prospectus, no other emoluments have been paid or are payable, in respect of the three years ended December 31, 2008, 2009 and 2010 by us to our Directors.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary bonus) for the year ending December 31, 2011 will be approximately RMB4,708,000.

E. DISCLOSURE OF INTERESTS

1. *Disclosure of interests*

(a) **Interests and short positions of our Directors in our share capital and our associated corporations following the Global Offering and Capitalization Issue**

Immediately following completion of the Global Offering and Capitalization Issue and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option, the interests or short positions of the Directors and the chief executive in our Shares, underlying Shares and debentures of our associated corporations, within the meaning of Part XV 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 (including interests and short positions which he is 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 recorded in the register referred to therein or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

Interests and short positions in the shares, underlying shares and debentures and associated corporations:

<u>Name of Director</u>	<u>Number of Shares</u>	<u>Approximate percentage of interest in our Company</u>
Mr. Sze Tin Yau	862,125,000	37.5%
Mr. Wu Jinbiao	862,125,000	37.5%

(b) Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO

Immediately following completion of the Global Offering and the Capitalization Issue and without taking into account any shares which may be allotted and issued pursuant to the exercise of any options to be granted under the Share Option Scheme or pursuant to the exercise of the Over-allotment Option, in addition to the interests disclosed under paragraph (a) above, so far as the Directors are aware, the following persons are expected to have interests or short positions in our shares or underlying shares which are required to be disclosed to the provisions of Divisions 2 and 3 of Part XV of the SFO or, are expected to 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 member of our Group.

Interests and short positions in our shares and underlying shares:

Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding ⁽¹⁾
Mr. Sze Tin Yau	Interested in the controlled incorporation	862,125,000	37.5%
Kingom Power ⁽²⁾	Beneficial owner	862,125,000	37.5%
Mr. Wu Jinbiao	Interested in the controlled incorporation	862,125,000	37.5%
Winwett Investments ⁽³⁾	Beneficial owner	862,125,000	37.5%

Notes:

- (1) Assuming the Over-allotment Option is not exercised.
- (2) Kingom Power is wholly-owned by Mr. Sze Tin Yau, our executive Director.
- (3) Winwett Investments is wholly-owned by Mr. Wu Jinbiao, our executive Director.

2. Disclaimers

Save as disclosed in this prospectus:

- (a) our Directors are not aware of any person (not being our Director or chief executive) who will, immediately following completion of the Global Offering (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options to be granted under the Share Option Scheme and the Capitalization Issue), have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at our general meetings;

- (b) none of our Directors has any interest or short position in any of the Shares, underlying Shares or debentures or any shares, underlying shares or debentures of any associated corporation within the meaning of Part XV of the SFO, which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is 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 to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, in each case once the Shares are listed;
- (c) none of our Directors nor any of the parties listed in the section headed “F. Other Information — 10. Consents of experts” in this appendix is interested in the promotion of our Company, 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 our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries;
- (d) none of our Directors nor any of the parties listed in the section headed “F. Other Information — 10. Consents of experts” in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business;
- (e) save in connection with the Underwriting Agreements, none of the parties listed in the section headed “F. Other Information — 10. Consents of experts” in this appendix:
 - (i) is interested legally or beneficially in any securities of our Company or any of our subsidiaries; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of our Company or any of our subsidiaries;
- (f) none of our Directors or their associates (as defined in the Listing Rules) or the existing Shareholders (who, to the knowledge of our Directors, owns more than 5% of our issued share capital) has any interest in any of the five largest customers or the five largest suppliers of our Group.

F. OTHER INFORMATION**1. Estate duty, tax and other indemnity**

Each of our Controlling Shareholders has entered into the Deed of Indemnity with and in favor of our Company (for itself and as trustee for each of its present subsidiaries) to provide indemnities on a joint and several basis, in respect of, among other things:

- (a) any taxation which might be payable by any member of our Group in respect of (i) any transaction, event, matter, business, activity or omission; (ii) any income, profits or gains earned, accrued or received or alleged to have, or which are deemed to be earned or accrued or received on or before the Listing Date;
- (b) any taxation claim which might be payable by any member of our Group under or by reason of any transfer of any property to any member of our Group or to any other person, entity or company made or deemed to have been made on or before the Listing Date; and
- (c) all damages, losses and liabilities arising from or in connection with any property claim and/or any other liability claim, including but not limited to any breach or non-compliance with any applicable laws and regulations (including without limitation, any inter-enterprise lending that violates the General Regulation of Loans (貸款通則) promulgated by PBOC) to the extent that the events leading to such damages, losses and liabilities occurred prior to the Listing Date and any such damages, losses and liabilities are not paid by the insurer under any relevant insurance policy (if any).

Each of our Controlling Shareholders will however not be liable under the Deed of Indemnity for taxation claim or liability to the extent that:

- (a) provision, reserve or allowance has been made for such taxation in the audited accounts of any member of our Group for the three years ended December, 31 2010;
- (b) such taxation or liability would not have arisen but for any act or omission by any member of our Group voluntarily effected without the prior written consent or agreement of the Controlling Shareholder, otherwise than in the ordinary course of business before the Listing Date or carried out, made or entered into pursuant to a legally binding commitment created on or before the Listing Date;
- (c) such taxation or liability is discharged by another person and that no member of our Group is required to reimburse such person in respect of the discharge of the taxation or liability;
- (d) our Company is primarily liable for such taxation or liability as a result of transactions entered into or pursuant to a legally binding commitment created in the ordinary course of business of any member of our Group after the Listing Date; or
- (e) such claim arises or is incurred as a consequence of any retrospective changes in the law or regulation or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the tax authorities of the PRC, Cayman Islands, BVI or any other authority in

any part of the world coming into effect after the Listing Date or to the extent such claim arises or is increased by an increase in rates of taxation after the Listing Date with retrospective effect.

2. *Litigation*

As of the Latest Practicable Date, neither we nor any of our subsidiaries were/was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on its results of operations or financial condition.

3. *Preliminary expenses*

Our estimated preliminary expenses are approximately HK\$41,000 and have been paid by us.

4. *Promoter*

There are no promoters of our Company.

5. *Sponsors*

The Joint Sponsors made an application on our behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue as mentioned herein, the Shares to be issued pursuant to the Capitalization Issue and any Shares falling to be issued pursuant to the exercise of the Over-allotment Option, and the Shares that may be issued upon the exercise of option that may be granted under the Share Option Scheme. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

6. *No material adverse change*

Our Directors confirm that there has been no material adverse change in their financial or trading position or prospects since December 31, 2010 (being the date to which our latest audited combined financial statements were made up).

7. *Binding effect*

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

8. *Miscellaneous*

Save as disclosed in this prospectus:

- (a) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

- (b) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (c) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
- (d) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;
- (e) within the two years preceding the date of this prospectus, no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company;
- (f) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought; and
- (g) we have no outstanding convertible debt securities.

9. *Qualifications of experts*

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
Merrill Lynch (Joint Sponsor)	Licensed under the SFO for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
CCBI (Joint Sponsor).....	Licensed under the SFO for Type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
KPMG	Certified Public Accountants
Jones Lang LaSalle Sallmanns	Independent professional property valuer
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Tian Yuan Law Firm	the PRC legal advisers to our Company

10. *Consents of experts*

Each of Merrill Lynch, CCBI, KPMG, Jones Lang LaSalle Sallmanns, Conyers Dill & Pearman and Tian Yuan Law Firm has given and has not withdrawn their respective consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

11. Bilingual prospectus

The English language and the Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

G. SHARE OPTION SCHEME

The following is a summary of principal terms of the Share Option Scheme conditionally approved by a resolution of the Shareholders passed on March 31, 2011 and adopted by a resolution of the Board on March 31, 2011. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

1. Purpose

The purpose of the Share Option Scheme is to attract and retain skilled and experienced personnel who will contribute to the long-term growth and future success of our Company and our subsidiaries. The Share Option Scheme will provide them with the opportunity to acquire equity interests in our Company.

2. Who may join

The Board may, at its absolute discretion, offer options (“Options”) to subscribe for such number of Shares in accordance with the terms set out in the Share Option Scheme to:-

- (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group, any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group;
- (b) a director or proposed director (including an independent non-executive director) of any member of our Group;
- (c) a direct or indirect Shareholder of any member of our Group;
- (d) a supplier of goods or services to any member of our Group;
- (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group;
- (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and
- (g) an associate of any of the persons referred to in paragraphs (a) to (e) above.

3. *Maximum number of Shares*

- (a) The maximum number of Shares in respect of which Options may be granted under the Share Option Scheme when aggregated with the maximum number of Shares in respect of which options may be granted under any other scheme involving the issue or grant of options over Shares or other securities by our Company or any of our subsidiaries (the “Maximum Number of Shares”) shall not exceed 10% of our Company’s issued share capital on the Listing Date (such 10% limit representing 229,900,000 Shares). Options lapsed in accordance with the terms of the Share Option Scheme shall not be counted for the purpose of calculating the 10% limit.
- (b) The Maximum Number of Shares may, with the approval of the Shareholders, be “refreshed” from time to time as required up to a maximum of 10% of our Company’s issued share capital as of the date of the Shareholders’ approval. Options previously granted under the Share Option Scheme or any other scheme, including options outstanding, canceled or lapsed in accordance with the relevant scheme or exercised options, shall not be counted for the purpose of calculating the limit to be refreshed.
- (c) Our Company may obtain a separate approval from the shareholders to grant Options which will result in the number of Shares in respect of all the Options granted under the Share Option Scheme and all the options granted under any other Scheme exceeding 10% of its issued share capital, provided that such Options are granted only to employees specifically identified by our Company before the separate approval of its Shareholders is sought.
- (d) The maximum number of 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 options granted and yet to be exercised under any other scheme shall not exceed 30% of our Company’s issued share capital from time to time.

4. *Maximum entitlement of each participant*

No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of our Company’s issued share capital from time to time.

5. *Grant of Options*

The period within which the Options must be exercised will be specified at the time of grant and is to be determined by the Board at its absolute discretion, subject to the requirement that such period shall not be longer than 10 years from the adoption date in accordance with the terms of the Share Option Scheme, unless our Company obtains separate shareholder approval in relation to such grant.

6. *Granting Options to connected persons*

- (a) Any Options to be granted 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) shall be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of the Options).
- (b) Without prejudice to the generality of the sub-paragraph (a) above, if any Options to be granted to a substantial shareholder or independent non-executive Director of our Company, or any of their respective associates, would result in the total number of Shares issued and to be issued upon exercise of all the Options granted and to be granted (including Options exercised, canceled and outstanding) to such person in the period of 12 months up to and including the date of the grant:
 - (i) representing in aggregate over 0.1% of the Shares in issue; and
 - (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5,000,000,

the further grant of Options must be approved by the shareholders in general meeting and subject to the issue of a circular by our Company to its shareholders containing such information as required under sub-paragraph (c) below. All connected persons shall abstain from voting in favor at such general meeting, and any vote taken at such meeting must be taken on a poll.

Approval from the Shareholders of our Company is required for any change in the terms of Options granted to a participant who is a substantial shareholder or an independent non-executive Director of our Company, or any of their respective associates.

7. *Restriction on the time of grant of Options*

The Board shall not grant any Option under the Share Option Scheme 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 announced pursuant to the requirements of the Listing Rules. In particular, no Option shall be granted during the period commencing one month immediately preceding the earlier of the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period and the deadline for our Company to publish an announcement of its results for any year, half-year, quarterly or any other interim period, and ending on the date of the results announcements.

8. *Minimum holding period, vesting and performance target*

Subject to the provisions of the Listing Rules, the Board may in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the letter containing the offer of the grant of the Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by our Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the Option in respect of all or any of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an Option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the Option can be exercised.

9. *Amount payable for Options*

The amount payable on acceptance of an Option is HK\$1.0.

10. *Exercise price*

The amount payable for each Share to be subscribed for under an Option upon exercise shall be determined by the Board and notified to a proposed beneficiary at the time of offer of the Option and shall be not less than the higher of:

- (a) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date, which must be a Business Day, of the date of grant;
- (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheet for the five Business Days immediately preceding the date of grant; and
- (c) the nominal value of the Shares.

11. *Voting and other rights***(a) *Voting and dividend rights***

No voting rights shall be exercisable and no dividends shall be payable in respect of Options that have not been exercised.

(b) Rights on death

If an Option Holder dies, the legal personal representative(s) of the Option Holder shall be entitled within a period of 12 months from the date of death (or such longer period as the Board may determine) to exercise the Option up to his entitlement (to the extent not already exercised).

(c) Rights on ceasing to be an employee

If the Option Holder ceases to be an employee on the grounds of misconduct, conviction of any criminal offense involving his integrity or honesty, or being terminated pursuant to any provisions of the Option Holder's contract of employment with our Company, the Option Holder may exercise the Option up to his entitlement at the date of cessation of his employment (to the extent not already exercised) within the period of one month following 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.

(d) Rights on ceasing to be a third party service provider

- (i) If the Option Holder ceases to be a third party service provider under a fixed term contract by reason of termination or expiry of the term of the relevant fixed term contract without any extension or renewal by our Company or the relevant subsidiary for reasons other than on one or more of the following grounds:

- (1) breach of contract on the part of the third party service provider;
- (2) the third party service provider appears either unable to pay or have no reasonable prospect to be able to pay debts, or had become insolvent, or has made any arrangement (including a voluntary arrangement) or composition with his creditors generally, or ceases or threatens to cease to carry on his business, or is bankrupted, or has been convicted of any criminal offense involving integrity or honesty; or
- (3) the death of the third party service provider,

the Option Holder may exercise the Option up to his entitlement at the date of cessation (to the extent not already exercised) following the date of such cessation, which date shall be the date of expiry of the relevant fixed term contract.

- (ii) If the Option Holder ceases to be a third party service provider not under any fixed term contract, by reason of the Grantee ceasing to provide any further advisory or consultancy or other kind of services, support, assistance or contribution to our Company or its relevant subsidiary as may be determined by the Board and notified to such third party service provider in writing within three months after the provision of its last services, support, assistance or contribution to our Company or its relevant subsidiary for reasons other than on one or more of the grounds specified in sub-paragraph (d)(i) above, the Option Holder may exercise the Option up to his entitlement at the date of cessation (to the extent not already exercised) within the period of nine months (or such other period as the Board may determine) following

the date of such cessation, which date shall be the date of the written notification to the third party service provider.

(e) Rights on general offer

If a general offer (whether by way of take-over offer, share repurchase offer or scheme of arrangement or otherwise in like manner) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or in concert with the offeror) our Company shall use its best endeavors to procure that such offer is extended to all the Option Holders (on the same terms mutatis mutandis, and assuming that they will become, by the exercise in full of the Options granted to them, its shareholders). If such offer, having been approved in accordance with applicable laws and regulatory requirements becomes, or is declared unconditional, the Option Holder (or his legal personal representative(s)) 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 such general offer becomes or is declared unconditional.

(f) Rights on a voluntary winding-up

In the event of an effective resolution being passed for the voluntary winding-up of our Company or an order of the court is made for the winding-up of our Company, our Company shall give notice thereof (“winding-up notice”) to all Option Holders on the same day as such resolution is passed or order is made. The Option Holders (or his legal personal representative(s)) may by notice in writing to our Company within 21 days after the date of the winding-up notice elect to be treated as if the Option (to the extent not already exercised) had been exercised immediately before the passing of such resolution either to its full extent or to the extent specified in the Option Holder’s notice, such notice to be 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 the Option Holder will be entitled to receive out of the assets available in the liquidation *pari passu* with the holders of Shares such sum as would have been received in respect of the Shares the subject of such election.

(g) Rights on schemes of compromise or arrangement

If, pursuant to the Hong Kong Companies Ordinance, a compromise or arrangement between our Company and its shareholders or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies, our Company shall give notice thereof to all Option Holders (together with a notice of the existence of the provisions of this sub-paragraph (g)) on the same date as it dispatches to each member or creditor of our Company a notice summoning the meeting to consider such a compromise or arrangement, and thereupon each Option Holder (or where permitted under paragraph (b) his legal personal representative(s)) shall be entitled to exercise all or any of his Options in whole or in part at any time prior to 12:00 noon on the day immediately preceding the date of the meeting directed to be convened by the Court for the purposes of considering such compromise or arrangement. With effect from the date of such meeting, the rights of all Option Holders 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. The Directors shall endeavor to procure that the Shares issued as a result of the exercise of Options under this sub-paragraph (g) shall for the purposes of such compromise or arrangement form part of our Company’s issued share capital 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 Court (whether upon the terms presented to the Court or upon any other terms as may be approved by such Court) the rights of Option Holders to exercise their respective Options shall with effect from the date of the making of the order by the Court be restored in full and shall thereupon become exercisable (but subject to the other terms of the scheme) as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of the officers for any loss or damage sustained by any Option Holder as a result of the aforesaid suspension.

12. Life of Share Option Scheme

Unless otherwise terminated by the Board or the shareholders in general meeting in accordance with the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting Options granted prior to the expiry of the 10-years period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

13. Lapse of Share Option Scheme

An Option shall lapse automatically and not be exercisable, to the extent not already exercised, on the earliest of:

- (a) the expiry of the period for exercise of the Option;
- (b) 12 months after (or such longer period as the Board may determine) of the death of the Option Holder;
- (c) an Option Holder ceasing to be an employee of our Company or any of our subsidiaries on the ground of:
 - (i) the Option Holder's misconduct;
 - (ii) Option Holder being convicted of any criminal offense involving his integrity or honesty; or
 - (iii) his employer would be entitled to summarily terminate his employment at common law or pursuant to his contract of employment;
- (d) three months after the Option Holder ceases to be an employee of our Company or any of our subsidiaries by reason of:
 - (i) retirement;
 - (ii) redundancy;
 - (iii) ill health or disability; or

- (iv) a transfer of business and the employee is transferred to a company outside our Group of companies;
- (e) one month after the termination of the Option Holder's employment with our Company or any of our subsidiaries for reasons other than the reasons specified in the sub-paragraphs (d) above;
- (f) the date on which:
 - (i) the contract between the third party service provider and our Company or its relevant subsidiary is terminated, where such contract is terminated by reason of breach of contract on the part of the third party service provider; or
 - (ii) the third party service provider appears either unable to pay or have no reasonable prospect to be able to pay debts, or had become insolvent, or has made any arrangement (including a voluntary arrangement) or composition with his creditors generally, or ceases or threatens to cease to carry on his business, or is bankrupted, or has been convicted of any criminal offense involving integrity or honesty,

provided that whether any one or more of the events specified above occur in relation to a third party service provider shall, in its reasonable opinion, be solely and conclusively determined by the Board;

- (g) in the case of any takeover, scheme of compromise or arrangement or voluntary winding-up, the expiry of the periods of notice as specified in the Share Option Scheme, provided that in the case of a scheme of compromise or arrangement, the proposed compromise or arrangement becomes effective;
- (h) save as otherwise provided in the terms of the Share Option Scheme, the date of commencement of the winding-up of our Company; or
- (i) any breach of the provision on transferability of the Options specified in the terms of the Share Option Scheme.

14. Adjustment

In the event of a Capitalization Issue, rights issue, sub-division or consolidation of Shares or reduction of our Company's share capital while any Option remains exercisable, but excluding, for the avoidance of doubt, any alteration in our Company's capital structure as a result of an issue of Shares as consideration in a transaction to which our Company is a party, the auditors or the financial adviser engaged by our Company for such purpose shall determine what adjustment is required to be made to the subscription price, the number of Shares to be issued on exercise of the Options (or any combination of the foregoing), provided that any such adjustments give the Option Holder the same proportion of our Company's equity capital and no adjustment may be made to the extent that Shares would be issued at less than their nominal value.

15. Cancellation of Options not exercised

Any Options granted but not exercised may be canceled if the Option Holder so agrees and new Options may be granted to the same Option Holder provided such Options fall within the limits, specified in paragraph (C)(a) above and are otherwise granted in accordance with the terms of the Share Option Scheme.

16. Ranking of Shares

The Shares to be allotted and issued to an Option Holder upon the exercise of an Option shall be subject to all the provisions of the Articles of Association for the time being in force and will rank *pari passu* with the fully paid Shares in issue on the date the name of the Option Holder is registered on our Company's register of members. Prior to the Option Holder being registered on our Company's register of members, the Option Holder shall not have any voting rights, or rights to participate in any dividends or distributions (including those arising on a liquidation of our Company), in respect of the Shares to be issued upon the exercise of the Option.

17. Termination

Our Company, by ordinary resolution of its shareholders, or the Board, may at any time terminate the operation of the Share Option Scheme and in such event no further Options will be offered or granted, but in all other respects the Share Option Scheme shall remain in full force and effect. Any granted but unexercised and unexpired Options shall continue to be exercisable in accordance with their terms of issue after the termination of the Share Option Scheme.

18. Transferability

The Options are personal to the Option Holders and are not transferable, except for the transmission of an Option on the death of an Option Holder to his personal representative(s) on the terms of the Share Option Scheme.

19. Amendment

Subject to the terms set out in the paragraph below, the Board may amend any of the provisions of the Share Option Scheme (including without limitation amendments in order to comply with changes in legal or regulatory requirements and amendments in order to waive any restrictions, imposed by the provisions of the Share Option Scheme, which are not found in Chapter 17 of the Listing Rules) at any time (but not so as to affect adversely any rights which have accrued to any Option Holder at that date).

Those specific provisions of the Share Option Scheme which relate to the matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of Option Holders, and no changes to the authority of the Directors or administrator of the Share Option Scheme in relation to any alteration of the terms herein shall be made, without the prior approval of the shareholders in general meeting. Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature, or any change to the terms of Options granted, must be approved by the shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme. The

Share Option Scheme so altered must comply with Chapter 17 of the Listing Rules and the supplemental guidance on Rule 17.03(13) as set out in the letter issued by the Stock Exchange dated September 5, 2005.

20. Conditions of the Share Option Scheme

The Share Option Scheme is conditional on:

- (a) the Listing Committee granting approval of the listing of, and permission to deal in, the Shares which may be issued pursuant to the exercise of Options under the Share Option Scheme; and
- (b) the commencement of dealings in the Shares on the Stock Exchange.

If any of the above conditions are not satisfied on or before the date which is 30 days after the date of this prospectus (or such later date as the Board may decide), the Share Option Scheme shall forthwith terminate and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme. Application has been made to the Stock Exchange for the Listing of 229,900,000 Shares which may be issued pursuant to the exercise of Options under the Share Option Scheme.

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 copies of the **WHITE, YELLOW** and **GREEN** Application Forms, the written consents referred to in the paragraph headed “F. Other Information – 10. Consents of experts” in Appendix VI and copies of the material contracts referred to in the paragraph headed “C. Further Information about our business – 1. Summary of the material contracts” in Appendix VI to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Orrick, Herrington & Sutcliffe at 43rd Floor, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

- (1) our Memorandum and the Articles of Association;
- (2) the Accountants’ Report prepared by KPMG, the text of which is set out in Appendix I to this prospectus;
- (3) the audited financial statements as have been prepared for the companies now comprising our Group for each of the three years ended December 31, 2010, except for those companies for which there are no statutory audit requirements in their respective jurisdictions of incorporation;
- (4) the letter received from KPMG on unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (5) the letters relating to the profit forecast, the texts of which are set out in Appendix III to this prospectus;
- (6) the letter, summary of values and valuation certificates relating to the property interests of our Group prepared by Jones Long LaSalle Sallmanns, the texts of which are set out in Appendix IV to this prospectus;
- (7) the material contracts referred to in the paragraph headed “C. Further Information about our business – 1. Summary of the material contracts” in Appendix VI to this prospectus;
- (8) the service contracts and appointment letters (as the case may be) with our Directors, referred to in the paragraph headed “D. Further Information about the Directors – 1. Directors’ service contracts” in Appendix VI to this prospectus;
- (9) the written consents referred to in the paragraph headed “F. Other Information – 10. Consents of experts” in Appendix VI to this prospectus;
- (10) the PRC legal opinions prepared by Tian Yuan Law Firm, our legal advisers as to the PRC law, in respect of certain aspects of our Group and our property interests;

- (11) the letter of advice prepared by Conyers Dill & Pearman summarizing certain aspects of Companies Law referred to in Appendix V to this prospectus;
- (12) the Companies Law; and
- (13) the rules of the Share Option Scheme.



百宏實業控股有限公司
BILLION INDUSTRIAL HOLDINGS LIMITED