

SUMMARY

This summary aims to give you an overview of the information contained in this prospectus and should be read in conjunction with the full text of this prospectus. As it is only 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 relating to investment in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read that section carefully before making any decision to invest in the Offer Shares.

BUSINESS OVERVIEW

Based in Shaanxi Province of the PRC, the Group is principally engaged in the production and sale of cotton yarn and grey fabric in the PRC. With production facilities located at Jing Yang County (涇陽縣) and Dali County (大荔縣) in Shaanxi Province, the Group presently has installed approximately 156,300 spindles for cotton yarn production and approximately 1,039 units of shuttle loom for grey fabrics production.

Product

Currently the Group offers 11 types of cotton yarns and 19 types of grey fabrics to its customers. The Group's products have different applications in textile and garment products such as beddings and clothings. The existing customer group includes fabric weaving mills, dyeing factories, textile and garment manufacturers and the customer base of the Group has spread across 12 provinces and municipalities in the southern and eastern regions of the PRC including major garment and textile production bases such as Jiangsu, Zhejiang, Fujian, Guangdong and Shaanxi provinces.

Financial highlight

Set out below is a summary of the key financial highlight of the Group during the Track Record Period:

	Year ended 31 December			CAGR
	2008	2009	2010	2008-2010
	RMB'000	RMB'000	RMB'000	%
Revenue	<u>458,904</u>	<u>554,340</u>	<u>709,948</u>	<u>24.4</u>
Gross profit	<u>114,294</u>	<u>152,907</u>	<u>156,020</u>	<u>16.8</u>
Profit for the year	<u>75,960</u>	<u>98,857</u>	<u>97,417</u>	<u>13.3</u>

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As illustrated in the above table, the Group achieved a CAGR growth of approximately 24.4% in revenue for each of the three financial years ended 31 December 2010. The Directors consider that the growth is attributed to the Group's competitive strengths and its ability to capture the customers' demand by expanding its scale of operations through acquisition of certain production facilities from insolvent state-owned enterprises and construction of new production plant.

In order to enhance its business performance and profitability, the Group has strategically aligned its actual production volume of cotton yarns and grey fabrics over the Track Record Period in response to market demand. The Directors believe that cotton yarns are relatively more adaptable to changes in market environment resulting from variations in customers' preferences and the availability of higher quality and greater diversity of yarn products enables the Group to produce a greater variety of fabric products. The Group will primarily focus on expanding its product spectrum in cotton yarn products by construction and/or upgrading and modification of production facilities.

Revenue, sales volume and selling price

	Year ended 31 December					
	2008		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%
Cotton yarn	166,678	36.3	181,392	32.7	501,323	70.6
Grey fabric	292,226	63.7	372,948	67.3	208,625	29.4
Total	458,904	100.0	554,340	100.0	709,948	100.0

The Group's sales in cotton yarn increased from approximately RMB166,678,000 in 2008 to approximately RMB181,392,000 in 2009 and further increased to approximately RMB501,323,000 in 2010. During the Track Record Period, the Group's grey fabric sales increased from approximately RMB292,226,000 in 2008 to approximately RMB372,948,000 in 2009 and then declined to approximately RMB208,625,000 in 2010. Since the fourth quarter of 2009, the Group has experienced a decline in demand for its current grey fabric product models, leading to change in demand and supply for the products of the Group. The decline in grey fabric sales was due to competition from higher density grey fabric products from other manufacturers. Details of an analysis of the revenue of the Group during the Track Record Period are set out in the section headed "Financial Information" in this prospectus.

The average sales volume and selling price of cotton yarn for the five-month ended 31 May 2011 increased by approximately 14% and 29% respectively compared with the average monthly sales volume and selling price in 2010. The average sales volume of grey fabrics for the five-month ended 31 May 2011 decreased by approximately 1.2% when compared with the average monthly sales volume in the last quarter of 2010 while the selling price of grey fabrics for the five-month ended 31 May 2011 increased by approximately 15% when compared with the average selling price in the last quarter of 2010. With the continuous focus on sales of cotton yarn products of the Group, a higher portion of cotton yarn production output was allocated for sales instead of further processing into grey fabric products. The increase in selling prices of cotton yarn and grey fabric was due to the continuous increase in the cotton prices in early 2011.

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Gross profit

The gross profit of the Group increased from approximately RMB114.3 million in 2008 to approximately RMB152.9 million in 2009 and further to approximately RMB156.0 million in 2010 during the Track Record Period and the growth in gross profit was in line with the increase in scale of operations of the Group. During the Track Record Period, the gross profit margin increased from 24.9% in 2008 to 27.6% in 2009 and then declined to 22.0% in 2010 due to the change in proportion of cotton yarns and grey fabrics in the Group's sales. The portion of revenue generated from cotton yarn decreased slightly from approximately 36.3% in 2008 to approximately 32.7% in 2009 and significantly increased to approximately 70.6% in 2010. Hence, the corresponding portion of revenue generated from grey fabric increased slightly from approximately 63.7% in 2008 to approximately 67.3% in 2009 and decreased significantly in 2010 to approximately 29.4%. The grey fabric, as a product of cotton yarn, generally derives a higher unit gross profit. Details of an analysis of the gross profit of the Group during the Track Record Period are set out in the section headed "Financial Information" in this prospectus.

Net profit

The net profit increased from approximately RMB76.0 million in 2008 to approximately RMB98.9 million in 2009 and slightly dropped to approximately RMB97.4 million in 2010 while the net profit margin increased from approximately 16.5% in 2008 to 17.9% in 2009 and decreased to 13.8% in 2010. This was in line with the change in gross profit during the Track Record Period. Details of an analysis of the net profit of the Group during the Track Record Period are set out in the section headed "Financial Information" in this prospectus.

Acquisition of production facilities from state-owned enterprises

In order to capture the market demand and enjoy the benefit derived from economies of scale, with the management's extensive experience in the textile industry, the Group has acquired production facilities and factory premises of insolvent state-owned enterprises from local governments in the PRC in open tenders, which are enhanced to meet the Group's production needs. Since the commencement of business in 2001, the Group has successfully acquired and enhanced production facilities of three insolvent state-owned cotton textile factories. The Directors consider that this expansion approach allows the acquired production facilities to start operation within a shorter time frame when compared to building a new production plant. Three of the Group's production plants have been set up by acquisition and subsequent enhancement and the Group may continue to pursue the strategy of acquiring complementary businesses and assets. This strategy may or may not be successful. For details, please refer to the paragraph headed "The strategy of acquiring complementary businesses and assets may not be successful" in the section headed "Risk Factors".

Product introduction and production technology development

To maintain the competitiveness of the Group, the Directors have put significant emphasis on product introduction and production technology development. A new production plant in Jing Yang County, Yongle Production Plant, commenced trial run in January 2010 and was in commercial-scale operation in March 2010. Yongle Production Plant is equipped with automated facilities and is capable of producing a variety of combed cotton yarn products to cater for different needs of the customers. For

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the year ended 31 December 2010, Yongle Production Plant generated revenue by sales of combed cotton yarn products of approximately RMB70.84 million, representing approximately 10.0% of the Group's revenue for the year.

Raw materials

With quality lint cotton supply from Xinjiang, the Group is able to deliver its products in good quality and at competitive pricing and develop itself as one of the key cotton textile product suppliers in the north-west region of the PRC.

COMPETITIVE STRENGTHS

The Directors consider that the success of the Group and its potential for future growth are attributable to the following strengths:

Quality lint cotton supply network

A stable supply of lint cotton is of primary importance to the Group's business. According to the National Bureau of Statistics of China, Xinjiang is the largest cotton farming region in the PRC. Due to favourable climate conditions in the region, Xinjiang produces higher quality cotton in terms of colour and fibre length compared with the eastern region of the PRC, and is the only long-staple cotton production base in the PRC.

As the Group's operations are located in the north-west region of the PRC, the Group has established a good supplier network in Xinjiang to ensure its lint cotton supply. The Directors consider that Xinjiang's lint cotton not only provides quality assurance to the Group's products but also the availability of long staple cotton enables the Group to develop higher count combed cotton yarn products so as to enhance the Group's product offering spectrum and profitability.

During the Track Record Period, the lint cotton purchase from suppliers in Xinjiang accounted for approximately 70.7%, 65.7% and 61.0% of the total cotton purchases respectively. The Group has maintained stable trading relationships with a number of its major lint cotton suppliers. Currently, the Group has 17 lint cotton suppliers and 9 of whom have trading history of more than 5 years with the Group.

Emphasis on production technology development

In view of the ever changing development in the textile industry, the Directors recognize the importance of keeping up with the production technology development.

To further enhance the Group's production capability and product mix, it has invested in the construction of a new spinning plant equipped with automated facilities in Yongle Town. In January 2010, the Yongle Production Plant commenced trial run and is capable of producing a variety of higher count combed cotton yarn products.

Currently, with quality long staple cotton supply from Xinjiang, the Group has set out a development plan for manufacturing certain higher count cotton yarn products such as 80 counts and 120 counts combed cotton yarn in order to broaden its product offering spectrum. The

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Directors believe that the Group's competitiveness and profitability will be significantly enhanced if these products can be successfully launched to the market. For further details, please refer to the paragraph headed "Product Introduction" in the section headed "Business" in this prospectus.

Experienced management team

The Group's management team is made up of personnel with extensive operational experience in the PRC cotton textile industry. Mr. Chen, the managing director of the Company, has more than 10 years of experience and has played an important role in the formulation of the Group's business strategy and overall supervision of daily operations. The details of their working experience are set out in the section headed "Directors, Senior Management and Employees" in this prospectus.

High product quality

Currently the Group offers 11 types of cotton yarns and 19 types of grey fabrics to its customers. For cotton yarn products, the Group derived over 90% of its sales from fine-count cotton yarn products (i.e. yarn count between 29 and 58) and high-count cotton yarn products (i.e. yarn count of 60 or above) during the Track Record Period. Due to their versatility, the Group's fine-count and high-count cotton yarn products can be further processed into different pure cotton and blended fabrics that are commonly used in the manufacture of quality cotton textile products.

In addition, the Group's grey fabric products have different applications in apparels and home textile products such as bedding products and clothing fabrics.

The Directors believe that the Group's products are well received by its customers and it did not experience any return of goods during the Track Record Period.

Stable relationships with customers

The target customers of the Group are mainly fabric weaving mills, dyeing factories, procurement agents, and textile and garment manufacturers. All of them are domestic customers.

The Group has maintained stable business relationships with its customers. Currently, the Group has 93 customers and 61 of whom have more than 3 years of trading history with the Group.

The Directors believe that these trading relationships are built up on, inter alia, its ability to deliver quality products and intensive customer relationship management, and the Group values these relationships as an invaluable assets for its sustainable business development.

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FINANCIAL INFORMATION

The tables below summarize the Group's combined statements of comprehensive income for each of the three years ended 31 December 2010 and the combined statements of financial position as at 31 December 2008, 2009 and 2010 respectively, which were extracted from the Accountants' Report, the text of which is set out in Appendix I to this prospectus. The combined financial information has been prepared in accordance with HKFRSs.

Combined Statements of Comprehensive Income

	For the year ended 31 December					
	2008		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%
Revenue	458,904	100.0	554,340	100.0	709,948	100.0
Cost of sales	(344,610)	(75.1)	(401,433)	(72.4)	(553,928)	(78.0)
Gross profit	114,294	24.9	152,907	27.6	156,020	22.0
Other income	1,514	0.3	1,116	0.2	2,006	0.3
Distribution costs	(5,033)	(1.1)	(6,754)	(1.2)	(9,518)	(1.4)
Administrative expenses	(6,427)	(1.4)	(12,364)	(2.2)	(17,186)	(2.4)
Finance costs	(3,279)	(0.7)	(3,737)	(0.7)	(751)	(0.1)
Profit before income tax	101,069	22.0	131,168	23.7	130,571	18.4
Income tax expense	(25,109)	(5.5)	(32,311)	(5.8)	(33,154)	(4.6)
Profit for the year	75,960	16.5	98,857	17.9	97,417	13.8
Other comprehensive income	—	—	—	—	—	—
Total comprehensive income for the year	<u>75,960</u>	<u>16.5</u>	<u>98,857</u>	<u>17.9</u>	<u>97,417</u>	<u>13.8</u>
Profit and total comprehensive income attributable to owners of the Company	<u>75,960</u>	<u>16.5</u>	<u>98,857</u>	<u>17.9</u>	<u>97,417</u>	<u>13.8</u>
Earnings per Share attributable to owners of the Company — basic (RMB cents)	<u>10.08</u>		<u>13.12</u>		<u>12.93</u>	

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Combined Statements of Financial Position

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	51,201	92,378	112,279
Prepaid land lease payments	9,445	9,874	9,704
Deferred tax asset	1,162	3,438	308
	<u>61,808</u>	<u>105,690</u>	<u>122,291</u>
Current Assets			
Inventories	32,657	18,819	24,938
Trade receivables	62,491	88,270	129,205
Prepayments, deposits and other receivables	13,873	6,607	29,571
Amount due from a related company	42,678	42,678	—
Pledged bank deposits	500	1,500	—
Cash and cash equivalents	108,498	160,080	175,892
	<u>260,697</u>	<u>317,954</u>	<u>359,606</u>
Current Liabilities			
Trade payables	10,143	14,522	9,452
Accruals and other payables	46,786	56,531	21,642
Current tax liabilities	7,043	9,551	6,800
Bank borrowings	44,100	30,000	6,850
Provisions	6,832	6,582	6,384
	<u>114,904</u>	<u>117,186</u>	<u>51,128</u>
Net current assets	<u>145,793</u>	<u>200,768</u>	<u>308,478</u>
Total assets less current liabilities/Net assets	<u>207,601</u>	<u>306,458</u>	<u>430,769</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital	—	—	—
Reserves	207,601	306,458	430,769
	<u>207,601</u>	<u>306,458</u>	<u>430,769</u>
Total equity	<u>207,601</u>	<u>306,458</u>	<u>430,769</u>

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APPLICATION FOR THE OFFER SHARES

The application for the Offer Shares will commence on Tuesday, 28 June 2011 up to Wednesday, 6 July 2011 for six days, being slightly longer than normal market practice of four days. The application monies (including the brokerages, SFC transaction levies and Stock Exchange trading fees) will be held by the receiving bank on behalf of the Company and the refund monies, if any, will be returned to the applicants without interest on Tuesday, 12 July 2011. Investors should be aware that the dealings in the Shares on the Stock Exchange are expected to commence on Thursday, 14 July 2011.

SHARE OFFER STATISTICS

Market capitalisation ^(Note 1)	HK\$659.3 million
Unaudited pro forma adjusted combined net tangible asset value per Share ^(Note 2)	HK\$0.67
Historical price/earnings multiple ^(Note 3)	4.5 times

Notes:

1. The calculation of market capitalisation is based on the Offer Price and 941,900,000 Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue.
2. The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after making the adjustments set forth in the section headed "Financial Information" in this prospectus and on the basis of a total of 941,900,000 Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue. The section headed "Unaudited Pro Forma Financial Information" in Appendix II to this prospectus sets forth the calculation of the unaudited pro forma adjusted combined net tangible assets per Share.
3. The calculation of the historical price/earnings multiple is based on the earnings per Share for the year ended 31 December 2010 of approximately RMB12.93 cents as extracted from the Accountants' Report set out in Appendix I, at the Offer Price. The earnings per Share for the year ended 31 December 2010 is translated at the exchange rate of HK\$1.00 to RMB0.84.

USE OF PROCEEDS

It is estimated that the net proceeds to the Group from the New Issue, after deducting underwriting fees and estimated expenses payable by the Group in connection thereto, will be approximately HK\$119.2 million. To implement the Group's future plans (details of which are set out in the sub-section headed "Future Plans" under the section headed "Future Plans and Use of Proceeds" to this prospectus), the Group currently intends to apply such net proceeds as follows:

- Approximately HK\$66.6 million (equivalent to approximately RMB56.0 million and representing 56% of the net proceeds) for expansion of cotton yarn production facilities;
- Approximately HK\$28.6 million (equivalent to approximately RMB24.0 million and representing 24% of the net proceeds) for improvement of production efficiency and product quality by upgrading existing cotton yarn production facilities;
- Approximately HK\$19.7 million (equivalent to approximately RMB16.5 million and representing 17% of the net proceeds) for maintaining a reasonable level of lint cotton reserve to ensure a stable supply of quality lint cotton; and

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- Approximately HK\$4.3 million (equivalent to approximately RMB3.6 million and representing 3% of the net proceeds) for expansion and diversification of product offering.

To the extent that the net proceeds from the New Issue are not immediately required for the above purposes, they will be placed on short term deposits with authorised financial institutions and/or licensed banks in Hong Kong and/or China.

The net proceeds from the sale of the Sale Shares payable to the Selling Shareholders are estimated at approximately HK\$34.9 million, after deducting the underwriting fees and commissions and estimated expenses payable by the Selling Shareholders in relation to the Share Offer. The Group will not receive any of the net proceeds from the sale of the Sales Shares by the Selling Shareholders.

DIVIDENDS

After completion of the Share Offer, the Shareholders will be entitled to receive dividends the Company declares from time to time. The amount of dividends will be determined at the discretion of the Directors depending on the future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors which the Directors consider relevant.

DIVIDEND POLICY

The dividend policy of the Company will be reviewed from time to time by the Board, which will take into consideration the Group's operations, earnings, capital requirements, general financial conditions and other relevant factors.

Currently, the Company does not maintain any fixed dividend payout ratio. Subject to the aforesaid factors, it is the Company's present intention to declare dividends to the Shareholders in such amount based on its profitability, financial conditions, cash requirements and level of distributable reserves in each financial year. The dividends of the Company will be paid by way of interim and/or final dividends. Any payment of final dividend for any financial year is subject to the Shareholders' approval.

During the period from the date of its incorporation on 2 July 2010 to the Latest Practicable Date, the Company had not declared and paid any dividend to its shareholders.

RISK FACTORS

Risks Relating to the Group and its Business

- The cotton yarn and fabric manufacturing industry is highly competitive and the Group may lose market share if it does not compete successfully
- The Group's success relies on its ability to respond to the fast changing market demands for yarn and fabric products
- Adverse changes in the market demand for the products offered by the Group may affect its revenue and profit

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- The demand for cotton textile products could be adversely affected by the availability of non-cotton substitutes
- The Group does not have long-term sale contracts with its customers, which may result in significant uncertainty and volatility of its turnover
- The Group relies on its core experienced management team in its operations
- The Group's success depends on key suppliers for raw materials, any failure in obtaining raw materials may adversely affect its business
- The Group's operations heavily depend on lint cotton suppliers from Xinjiang
- The operating results may be adversely affected by fluctuations in prices and supplies of raw cotton
- The Group may face risks and uncertainties associated with its future expansion plans and may fail to manage its growth effectively
- The strategy of acquiring complementary businesses and assets may not be successful
- The Group may face risks and uncertainties if further tightening of industry policies in the Guiding Catalog for Adjustment in the Structure of Industries (產業結構調整指導目錄)
- Restrictions on foreign exchange and payments of dividends may limit its PRC operating subsidiaries' ability to remit payments to the Company
- Certain production facilities are situated in leasehold properties
- Certain buildings are not granted with building ownership certificates
- Changes in government regulations such as environmental laws and regulations could affect the results of operations
- Non-compliance with the social insurances and housing fund contribution regulations in the PRC could lead to imposition of penalties or other liabilities
- The insurance coverage may not be sufficient to cover the risks related to the Group's operations and losses
- Maintaining the Group's reputation is a key to the success of its business and operating results
- The Group may be unable to secure enough capital to implement the expansion plans in full and to finance the increased need for working capital
- Registration of the Group's logos as trademarks is pending approval

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Risks Relating to the PRC

- Increases in labour costs in the PRC could materially and adversely affect the Group's profitability
- Any change in tax treatment, including an unfavourable change in preferential enterprise income tax rates in the PRC, may have a material adverse impact on financial condition and results of operations
- Changes in political and economic policies may have a negative impact on the Group's operations
- Shareholders who are PRC residents may be subject to personal liability in relation to the PRC regulations relating to the establishment of offshore special purpose vehicles by PRC residents and the ability to inject capital into PRC subsidiaries and to distribute profits by PRC subsidiaries may be limited

Risks Relating to the Share Offer

- There has been no prior public market for the Shares and an active trading market may not develop
- The Shares may experience fluctuations in its price and/or trading volume
- The Group will continue to be controlled by the Controlling Shareholders whose interests may not align with those of the other Shareholders
- Future issue or sale of substantial amounts of Shares in the public market could adversely affect the prevailing market price of Shares
- The issue of new Shares will have a dilutive effect and may affect the Group's profitability
- Difficulties in protecting Shareholders' interests may be encountered because the Company is incorporated under Bermuda law and Bermuda law may provide different protection to minority shareholders than the laws of Hong Kong and other jurisdictions
- Risks relating to statistics