The following discussion and analysis of the financial condition as of 31 December 2008, 2009 and 2010 and the results of operations should be read in conjunction with the combined financial information for the financial years ended 31 December 2008, 2009 and 2010 with the accompanying notes included in the Accountants' Report as set out in the Appendix I to this prospectus. The combined financial information has been prepared in accordance with HKFRSs.

This following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk Factors" in this prospectus.

OVERVIEW

The Group is principally engaged in the production and sale of cotton yarn and grey fabric products in the PRC and the geographical coverage spreads across 12 provinces and municipalities in the southern and eastern regions of PRC, including major garment and textile production bases such as Jiangsu, Zhejiang, Fujian, Guangdong and Shaanxi Provinces. Its manufacturing facilities are located in Jing Yang County and Dali County of Shaanxi Province, the PRC. The Group's factory plants occupy a total gross floor area of approximately 153,000 square metres with approximately 156,300 spindles for cotton yarn production and approximately 1,039 units of shuttle loom for grey fabrics production.

In the three years ended 31 December 2010, the Group's revenue was approximately RMB458.9 million, RMB554.3 million and RMB709.9 million, respectively, representing a CAGR of approximately 24.4%. The corresponding gross profit was approximately RMB114.3 million, RMB152.9 million and RMB156.0 million, respectively, representing a CAGR of approximately 16.8%. For the three years ended 31 December 2010, the net profit attributable to equity shareholders was approximately RMB76.0 million, RMB98.9 million and RMB97.4 million, respectively, representing a CAGR of approximately 13.3%.

The improvement of gross profit and net profit attributable to owners of the Company over the Track Record Period was primarily as a result of change in product mix between cotton yarns and grey fabrics in response to market demand and continuous investment in production facilities. In general, the Group's grey fabric products have higher gross profit margin as compared to cotton yarn products. In order to maximize the profitability of the Group, the Directors determine the appropriate production mix between cotton yarns and grey fabrics from time to time after taking into account various factors including (i) the gross margin spread between cotton yarns and grey fabrics; (ii) the level of cotton yarn output as determined by respective production capacity of the Group; and (iii) the Group's capability to fulfill the customers' product quality requirements. For further details of product profitability, please refer to the paragraph headed "Gross profit and gross profit margin" in this section.

FACTORS AFFECTING THE GROUP'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Group's results of operations have been and will continue to be affected by a number of factors, including the following principal factors:

Market demand

Demand for the Group's cotton yarn and grey fabric products depends largely on the consumption patterns of domestic garment and textile manufacturers and the success of the Group depends on its ability to meet such patterns. Fluctuation in demand for cotton textile products due to changes in macroeconomic cycle and manufacturing patterns may affect the Group's financial condition and results of operations.

In order to capture the higher-margin segment, the Group has adjusted the relative significance of its sales in higher priced products such as high-quality combed cotton yarns and grey fabrics.

Production volume and efficiency

The Group's revenue is affected by its sales volume, which is closely related to its production capacity.

To further capture the market demand of cotton yarn and grey fabric beyond its production capacity, the Group has entered into outsourcing arrangement with several mills to produce cotton yarns and grey fabrics since 2006. Further details are set forth in the sub-paragraph headed "Outsourcing arrangement" in the paragraph headed "Procurement" in the section headed "Business" in this prospectus.

The Group has completed a number of expansion plans during the Track Record Period to increase its production capacity and reduce reliance on outsourcing arrangement. In 2008, the Group acquired the production and ancillary facilities from 13th Weaving Mill and Guang Hua Weaving Mill. In January 2010, the Group completed the construction of the first phase of Yongle Production Plant and commenced trial run and Yongle Production Plant was in commercial scale operation in March 2010. Further details are set out in the section headed "History and Corporate Structure" in this prospectus. For the three years ended 31 December 2010, the Group had installed approximately 120,800 spindles, 120,800 spindles and 156,300 spindles respectively for cotton yarn production and approximately 2,590 looms, 2,590 looms and 2,300 looms for grey fabric production, respectively.

Cost of raw materials

Lint cotton is the major raw material for production of cotton yarns and grey fabrics. It accounted for approximately 60.3%, 65.1% and 75.3% respectively of the cost of production of the Group during the Track Record Period. The Group sources lint cotton mainly from Xinjiang and Shaanxi Province in the PRC.

The costs of lint cotton are affected by various factors including fluctuations in commodity prices and agricultural conditions. Hence, lint cotton prices may be volatile and beyond the Group's control. Furthermore, the Group may not be able to pass on the increased costs of lint cotton to its customers. The cost of sales and gross profit margins will be affected by fluctuations in lint cotton costs and the Group's cost control ability.

The Group's ability to design and produce high-quality, innovative and trendy products

The Group believes that the PRC textile industry is highly competitive and will continue to be so for the foreseeable future. Demand for the Group's products will depend on its ability to produce high-quality, innovative and trendy products that meet customers' requirements. The Group will continue to cooperate with its customers/suppliers to introduce different variety of cotton yarns and grey fabrics in order to meet challenges in the market.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The financial statements of the Group have been prepared in accordance with HKFRSs, which collective terms include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements of the Group also include the applicable disclosure requirements of the Listing Rules. All HKFRSs effective for the accounting periods commenced from 1 January 2010, have been consistently adopted by the Group in the preparation of the financial statements of the Group throughout the Track Record Period. The financial statements of the Group have been prepared under the historical cost convention.

It should be noted that accounting estimates and assumptions are used in the preparation of the financial statements of the Group. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates.

The financial statements of the Group are presented in Renminbi.

Set out below is certain critical accounting policies adopted in the preparation of financial statements of the Group and extracted from the Accountant's Report set out in Appendix I to this prospectus which the Directors believe involve most significant estimates and judgements. For full details of the Group's accounting policies and estimates, please refer to notes 5 and 6 to the Accountants' Report set out in Appendix I to this prospectus.

Basis of consolidation

The financial statements of the Group incorporate the financial statements of the Company and its subsidiaries comprising the Group for the Track Record Period. As explained in note 2 to the Accountants' Report set out in Appendix I to this prospectus, the acquisition of the subsidiaries under common control has been accounted for using merger accounting.

The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

No amount is recognised in respect of goodwill or gain on bargain purchase at the time of common control combination, to the extent of the continuation of the controlling party's interest. All differences between the cost of acquisition and the amount at which the assets and liabilities are recorded have been recognised directly in equity as part of reserve.

The financial statements of the Group include the results and financial positions of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities first came under common control, where this is a shorter period, regardless of the date of the common control combination.

All intra-group transactions, balances and unrealised gains on transactions have been eliminated in full on combination. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment, other than construction in progress, to its residual value over its estimated useful life, at the following rates per annum:

Buildings	5%
Plant and machinery	10 to $33\frac{1}{3}$%
Furniture, fixtures and office equipment	20%
Motor vehicles	10 to $33\frac{1}{3}$%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at the end of each reporting period.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Construction in progress which mainly represents property, plant and equipment under construction is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct and indirect costs incurred during the periods of construction, installation and testing. When the assets concerned are completed and ready for use, the costs are reclassified to the appropriate category of property, plant and equipment.

Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Operating lease charges as the lessee

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to the profit or loss on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the profit or loss as an integral part of the aggregate net lease payments made.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Accounting for income tax

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the end of reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of income tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the end of reporting period between the carrying amounts of assets and liabilities in the Financial Information and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary difference, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the end of reporting period.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly to equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

(i) the same taxable entity; or

(ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. This is usually taken as the time when the goods are delivered and the customers has accepted the goods; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Employee benefits

The Group contributes to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC on a monthly basis. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

Share-based payment transaction

In recognition of Mr. Chen's past contributions to the Group and to align his interest with the Group's future success, Mr. Qiu assigned 21 shares in Tong Fa as gift to Mr. Chen.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset 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 being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Related parties

A party is considered to be related to the Group if:

(a) 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;

(b) the Group and the party are subject to common control;

(c) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(d) 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;

(e) the party is a close family member of a party referred to in (a) or is an entity under the control, joint control or significant influence of such individuals; or

(f) 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.

TRADING RECORD

The table below summarises selected financial information of the Group for the Track Record Period. The summary is extracted from and should be read in conjunction with the Accountants' Report as set out in Appendix I to this prospectus.

	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	75,960	16.5	98,857	17.9	97,417	13.8
Profit and total comprehensive income attributable to owners of the Company	75,960	16.5	98,857	17.9	97,417	13.8
Earnings per Share attributable to owners of the Company — basic (RMB cents)	10.08		13.12		12.93	

PRINCIPAL INCOME STATEMENT COMPONENTS

Revenue

The Group's revenue is mainly derived from the sale of cotton yarns and grey fabrics in the PRC. The sales performance of the Group is mainly determined by customers' demands, average selling price and quality of its products.

The following is an analysis of the revenue by major product categories during the Track Record Period:

Revenue	For the year ended31 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
	458,904	100.0	554,340	100.0	709,948	100.0

Cotton yarn products In each of the three years ended 31 December 2010, the Group mainly offered carded cotton yarn products to its customers and the yarn count ranges from 20 to 60. Since Yongle Production Plant commenced trial run in January 2010 and was in commercial operation in March 2010 respectively, the Group began to launch combed cotton yarn to the market.

Set out below are analysis of revenue by major cotton yarn categories offered by the Group during the Track Record Period:

Product category	Count No.	For the year ended 31 December 2008		2009		2010	
		RMB'000	%	RMB'000	%	RMB'000	%
A. Carded yarns							
Medium-count yarns	19 to 28	12,362	7.4	16,582	9.1	34,807	6.9
Fine-count yarns	29 to 58	146,706	88.0	145,583	80.3	291,072	58.0
High-count yarns	60 or above	7,610	4.6	19,227	10.6	104,608	21.0
Subtotal		166,678	100.0	181,392	100.0	430,487	85.9
B. Combed yarns							
Fine-count yarns	29 to 58	—	—	—	—	68,947	13.8
High-count yarns	60 or above	—	—	—	—	1,889	0.3
Sub-total		—	—	—	—	70,836	14.1
Total		166,678	100.0	181,392	100.0	501,323	100.0

Grey fabric products During the Track Record Period, the Group only sold pure cotton grey fabrics to its customers. Set out below are analysis of revenue by major grey fabric categories offered by the Group during the Track Record Period:

		For the year ended 31 December					
Product category	**Tex No.**	**2008**		**2009**		**2010**	
		RMB'000	**%**	**RMB'000**	**%**	**RMB'000**	**%**
Medium-count fabrics	21 to 30	30,155	10.3	31,569	8.5	1,657	0.8
Fine-count fabrics	11 to 20	262,071	89.7	341,379	91.5	206,968	99.2
Total		292,226	100.0	372,948	100.0	208,625	100.0

Remark: (1) Coarse-count fabric 31 tex or above (18 count or below)

(2) Medium-count fabric 21 to 30 tex (19 count to 28 count)

(3) Fine-count fabric 11 to 20 tex (29 count to 55 count)

The relative significance of cotton yarns and grey fabrics may vary from time to time due to the change in production needs of the Group's customers. Since 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.

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. The decline in grey fabric sales was due to competition from higher density grey fabric products from other manufacturers. Please refer to further details of financial performance analysis for 2010 in the paragraph headed "Year ended 31 December 2010 compared to year ended 31 December 2009" below.

Sales volume and average selling price

The following table sets out the sales volume and the average selling prices of the Group's cotton yarns and grey fabrics during the Track Record Period:

	For the year ended 31 December					
	2008		2009		2010	
	Total sales volume	Average selling price *(Note)*	Total sales volume	Average selling price *(Note)*	Total sales volume	Average selling price *(Note)*
	(tonne/ kilometres)	RMB	(tonne/ kilometres)	RMB	(tonne/ kilometres)	RMB
Cotton yarn (tonnes)	9,046	18,425	9,465	19,165	19,474	25,743
Grey fabric (kilometres)	65,611	4.5	93,621	4.0	56,788	3.7

Note: Average selling prices represent the turnover for the year divided by the total sales volume for the year.

The Group's revenue is a direct function of the volume of products sold and their respective selling prices. The volume of products sold has increased substantially during the Track Record Period due to expansion of scale of operation while the unit selling prices have fluctuated as a result of different factors including variation in lint cotton prices, change in product mix and the demand and supply balance for the products.

Cotton yarn products

Set out below are analysis of sales volume and the average selling prices by major cotton yarn categories by the Group during the Track Record Period:

		For the year ended 31 December					
Product category	**Count No.**	2008		2009		2010	
		tonnes	%	tonnes	%	tonnes	%
A. Carded yarns							
Medium-count yarns	19 to 28	740	8.2	971	10.3	1,650	8.4
Fine-count yarns	29 to 58	8,001	88.4	7,719	81.5	11,989	61.6
High-count yarns	60 or above	305	3.4	775	8.2	3,583	18.4
Subtotal		9,046	100.0	9,465	100.0	17,222	88.4
B. Combed yarns							
Fine-count yarns	29 to 58	—	—	—	—	2,200	11.3
High-count yarns	60 or above	—	—	—	—	52	0.3
Sub-total		—	—	—	—	2,252	11.6
Total		9,046	100.0	9,465	100.0	19,474	100.0

Product category	Count No.	For the year ended 31 December 2008	2009	2010
		RMB/tonnes	RMB/tonnes	RMB/tonnes
A. Carded yarns				
Medium-count yarns	19 to 28	16,694	17,069	21,095
Fine-count yarns	29 to 58	18,336	18,862	24,277
High-count yarns	60 or above	24,969	24,816	29,198
Average		18,425	19,165	24,997
B. Combed yarns				
Fine-count yarns	29 to 58	—	—	31,333
High-count yarns	60 or above	—	—	36,500
Average		—	—	31,452
Average		18,425	19,165	25,743

Grey fabric products

Set out below are analysis of sales volume and the average selling prices by major grey fabric categories by the Group during the Track Record Period:

Product category	Tex No.	For the year ended 31 December 2008		2009		2010	
		kilometres	%	kilometres	%	kilometres	%
Medium-count fabrics	21 to 30	6,061	9.2	7,540	8.1	427	0.8
Fine-count fabrics	11 to 20	59,550	90.8	86,081	91.9	56,361	99.2
Total		65,611	100.0	93,621	100.0	56,788	100.0

Product category	Tex No.	For the year ended 31 December 2008	2009	2010
		RMB/m	RMB/m	RMB/m
Medium-count fabrics	21 to 30	4.98	4.19	3.88
Fine-count fabrics	11 to 20	4.40	3.97	3.67
Average		4.45	3.98	3.67

Market profile

The following are geographical analysis of revenue of the Group by provinces during the Track Record Period:

Province	For the year ended 31 December					
	2008		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%
Zhejiang	142,082	31.0	175,576	31.7	145,172	20.5
Shaanxi	142,423	31.1	151,109	27.3	100,417	14.1
Jiangsu	93,184	20.3	122,592	22.1	226,249	31.9
Fujian	29,356	6.4	36,486	6.6	84,802	11.9
Hebei	19,188	4.2	26,347	4.7	16,491	2.3
Sichuan	12,128	2.6	22,098	4.0	42,920	6.0
Chongqing	10,702	2.3	12,985	2.3	31,607	4.5
Guangdong	9,841	2.1	7,147	1.3	43,699	6.2
Other provinces	—	—	—	—	18,591	2.6
Total	458,904	100.0	554,340	100.0	709,948	100.0

During the Track Record Period, the Group sold its products across 12 provinces and municipalities in southern and eastern regions of the PRC.

For cotton yarn products, the Group's primary markets are Jiangsu and Zhejiang Provinces. During the Track Record Period, these two provinces in aggregate accounted for over 50% of total cotton yarn sales.

For grey fabric products, the Group's primary markets are Zhejiang, Shaanxi and Jiangsu Provinces. During the Track Record Period, these three provinces in aggregate accounted for over 80% of total grey fabric sales.

Cost of sales

The cost of sales is mainly represented by lint cotton costs, direct staff costs and production overheads including depreciation and electricity cost. The following table sets out a breakdown of the Group's cost of sales by cost of production during the Track Record Period:

	For the year ended 31 December					
Cost components	**2008**		**2009**		**2010**	
	RMB'000	**% of total**	**RMB'000**	**% of total**	**RMB'000**	**% of total**
Lint cotton	203,237	58.9	260,053	64.8	423,530	76.5
Subcontracting fee	93,595	27.2	12,035	3.0	13,394	2.4
Labour cost	13,741	4.0	34,877	8.7	45,891	8.3
Electricity	18,539	5.4	70,904	17.6	53,113	9.6
Depreciation	3,004	0.9	4,667	1.2	8,757	1.6
Other	5,051	1.4	16,806	4.2	17,581	3.1
Total Production cost	337,167	97.8	399,342	99.5	562,266	101.5
Finished goods movement	7,443	2.2	2,091	0.5	(8,338)	(1.5)
Cost of sales	344,610	100.0	401,433	100.0	553,928	100.0

Lint cotton cost is of primary significance to the Group, accounting for approximately 58.9%, 64.8% and 76.5% of the Group's overall cost of sales for the three years ended 31 December 2010 respectively. Save for Chun Guang disclosed in the paragraph headed "Suppliers" in the section headed "Business" in this prospectus, all lint cotton was purchased from independent suppliers during the Track Record Period.

Some of the cotton yarns produced by the Group are consumed for its production of grey fabrics. For the three years ended 31 December 2010, approximately 49.3%, 57.4% and 26.3% respectively of all cotton yarn produced by the Group were used in its production of grey fabric products.

With increase in sales volume during the Track Record Period, the cost of sales also recorded significant growth due to increase in consumption of lint cotton, direct labour and electricity. Since the completion of the acquisition of production facilities from 13th Weaving Mill and Guang Hua Weaving Mill and termination of the related outsourcing arrangements, the Group's cost structure exhibited substantial change with significant decrease in subcontracting fee offsetting by corresponding increase in electricity and direct labour costs.

The Directors consider the Group controls its production costs in the following manner during the Track Record Period:

The Group primarily controls the lint cotton costs through bulk purchases by entering into medium supply contracts, typically 3 to 6 months, with its major suppliers. These purchases usually require upfront prepayments to suppliers so as to allow the Group to enjoy more favourable purchase prices as compared to the market prices as quoted in the CC Index at the time of delivery. Occasionally, based on the management experience, the Group will purchase more lint cotton than normal production requirements in anticipation of upward trend in lint cotton prices in order to achieve better control of production cost.

In addition, since the Group has expanded its scale of operations primarily through acquisition of production facilities from insolvent state-owned enterprises, the Directors believe that the capital expenditure outlay, including original acquisition costs and subsequent modification costs, will be relatively lower than building new production facilities on its own. Accordingly, the depreciation charge incurred as part of production overhead will also be relatively lower during the Track Record Period.

According to the China Textile Industry Development Report 2009/10, textile labour wages in inland area is generally lower than coastal area in the PRC. Since all of the Group's production facilities are located in Shaanxi Province, the Directors consider that labour supply in local region can allow the Group to achieve lower production costs as compared to manufacturers in eastern region of the PRC.

Gross profit and gross profit margin

Set out below is an analysis of the Group's gross profits and gross profit margins during the Track Record Period:

	For the year ended 31 December					
	2008		2009		2010	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%
Cotton yarn	30,689	18.4	35,640	19.6	107,604	21.5
Grey fabric	83,605	28.6	117,267	31.4	48,416	23.2
	114,294	24.9	152,907	27.6	156,020	22.0

The overall gross profit had improved over the Track Record Period primarily due to increase in scale of operations whereas the overall gross profit margin varied over the Track Record Period due to change in proportion of cotton yarns and grey fabrics in the Group's sales. The grey fabric, as a product of cotton yarn, generally derives a higher unit gross profit. The Group has strategically aligned its actual production volume over the Track Record Period in response to market demand. The increase in the gross profit margins during the Track Record Period is mainly attributable to the change in proportion of cotton yarns and grey fabrics in the Group's sales and improvement in cost control.

Cotton yarn products

Set out below are analysis of gross profit and gross profit margin by major cotton yarn categories offered by the Group during the Track Record Period:

	For the year ended 31 December					
	2008		2009		2010	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%
A. Carded yarns						
Medium count	2,095	17.0	3,222	19.4	7,111	20.4
Fine count	27,257	18.6	28,733	19.7	62,743	21.6
High count	1,337	17.6	3,685	19.2	20,540	19.6
Sub-total	30,689	18.4	35,640	19.6	90,394	21.0
B. Combed yarns						
Medium count	—	—	—	—	16,733	24.3
Fine count	—	—	—	—	477	25.2
Sub-total	—	—	—	—	17,210	24.3
Total	30,689	18.4	35,640	19.6	107,604	21.5

Grey fabric products

Set out below are analysis of gross profit and gross profit margin by major grey fabric categories offered by the Group during the Track Record Period:

	For the year ended 31 December					
	2008		2009		2010	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%
Medium count	8,402	27.9	9,230	29.2	429	25.9
Fine count	75,203	28.7	108,037	31.7	47,987	23.2
Total	83,605	28.6	117,267	31.4	48,416	23.2

During the Track Record Period, the Group's grey fabric gross profit increased from approximately RMB83,605,000 in 2008 to approximately RMB117,267,000 in 2009 and then declined to approximately RMB48,416,000 in 2010 and its gross margin also increased from approximately 28.6% in 2008 to approximately 31.4% in 2009 and then declined to approximately 23.2% in 2010. The decline in grey fabric gross profit and gross margin was due to (1) decrease in sales volume and sales prices as a result of competition from higher density grey fabric products from other manufacturers; and (2) increase in lint cotton prices. Please refer to further details of financial performance analysis for 2010 in paragraph headed "Year ended 31 December 2010 compared to year ended 31 December 2009".

Other income

Other income comprises interest income, sale of scraps and cotton and other sundry incomes.

Other income represented approximately 0.3%, 0.2% and 0.3% respectively of the Group's turnover for the three years ended 31 December 2010.

Distribution costs

Set out below is an analysis of the Group's distribution costs during the Track Record Period:

	For the year ended 31 December					
	2008		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%
Transportation	4,901	97.3	6,545	96.9	9,229	97.0
Staff cost	129	2.6	186	2.8	218	2.3
Miscellaneous	3	0.1	23	0.3	71	0.7
Total	5,033	100.0	6,754	100.0	9,518	100.0

Distribution costs represented freight and loading charges, plus salary and social insurance contributions for sales personnel. They were approximately RMB5.0 million, RMB6.8 million and RMB9.5 million for the three years ended 31 December 2010. They varied directly with the Group's total sales and represented approximately 1.1%, 1.2% and 1.3% respectively of the Group's total turnover during the Track Record Period. Freight and loading charges had been the most significant component and accounted for about 97.3%, 96.9% and 97.0% respectively of the selling and distribution costs of the Group for the Track Record Period.

Administrative expenses

Set out below is an analysis of the Group's administrative expenses during the Track Record Period:

	For the year ended 31 December					
	2008		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%
Salaries and welfare	2,568	40.0	4,939	39.9	6,085	35.4
Share-based compensation	—	—	—	—	335	2.0
Social insurance	492	7.7	971	7.9	1,493	8.7
Depreciation and amortisation	399	6.2	694	5.6	1,274	7.4
Entertainment expenses	482	7.5	1,167	9.4	1,387	8.1
Taxes	511	8.0	750	6.1	1,612	9.3
Office and utilities expenses	868	13.5	1,782	14.4	1,748	10.2
Travelling and transportation	417	6.5	483	3.9	933	5.4
Miscellaneous	690	10.6	1,578	12.8	2,319	13.5
Total	6,427	100.0	12,364	100.0	17,186	100.0

Administrative expenses mainly include salary expenses, social insurance contributions, entertainment expenses, utilities charges and other sundry items. They were approximately RMB6.4 million, RMB12.4 million and RMB17.2 million for the three years ended 31 December 2010, respectively. They represented approximately 1.4%, 2.2% and 2.4% of the Group's turnover for the three years ended 31 December 2010 respectively.

The increase in administrative expenses during the Track Record Period was due to the additional expenses incurred for management of Dali Production Plant and Guang Hua Production Plant acquired in 2008, and Yongle Production Plant constructed by the Group, which commenced operation in 2010. In addition, as a result of transferring 21% interest in the Major Shareholder as gift by Mr. Qiu to Mr. Chen in recognition of his past contribution to the Group and to align his interest with the Group's future success, a share-based compensation of approximately RMB335,000 was incurred for the year ended 31 December 2010.

Finance costs

Finance costs consist of interest on borrowings for purchase of lint cotton. They were approximately RMB3.3 million, RMB3.7 million and RMB0.8 million for the three years ended 31 December 2010 respectively.

Income tax expense

Income tax expense represents amounts of corporate income tax paid by the Group. The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act and is exempted from payment of Bermuda income tax during the Track Record Period.

The Group has subsidiaries incorporated in the BVI, Hong Kong and the PRC. Since the Group did not have any assessable profit arising in Hong Kong during the Track Record Period, the Group did not make any provision for Hong Kong profits tax. The Group's subsidiary in the PRC was subject to the PRC enterprise income tax. The table below sets out the PRC enterprise income tax rates applicable to the Group's subsidiary in the PRC during the Track Record Period:

	For the year ended 31 December		
	2008	2009	2010
Jing Yang Golden Shield	25%	25%	25%

For details regarding taxation applicable to the Group, please refer to note 12 headed "Income tax expense" to the Accountants' Report set out in Appendix I to this prospectus.

The following table reconciles the Group's actual tax expenses and its profits before income tax during the Track Record Period:

	For the year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Profit before income tax	101,069	131,168	130,571
Applicable PRC enterprise income tax rate	25%	25%	25%
Tax at enterprise income tax rate	25,267	32,792	32,643
Others	(158)	(481)	511
Income tax expense	25,109	32,311	33,154

The Directors have confirmed that the Group has made all required tax filings and has settled all outstanding tax liabilities with the relevant tax authorities in the PRC. The Directors have further confirmed that the Group is not subject to any dispute or potential dispute with the tax authorities in the PRC.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 December 2010 compared to year ended 31 December 2009

Revenue

The revenue increased by approximately 28.1% to RMB709.9 million for the year ended 31 December 2010 from RMB554.3 million for the previous year.

Cotton yarn products

The revenue derived from the sale of cotton yarns increased by approximately 176.4% to RMB501.3 million for the year ended 31 December 2010 from RMB181.4 million for the previous year. The increase in revenue was primarily due to the increase in sales volume of cotton yarns by approximately 105.8% for the following reasons. First, the commencement of operations of Yongle Production Plant resulted in the introduction of higher quality combed products to the market for development of higher end customer base. These customers mainly include fabrics weaving mills and textile and apparel manufacturers in the eastern region of the PRC such as Jiangsu and Guangdong Provinces. The products manufactured by these customers include fabrics for apparel and home textile products, pajamas and underwear items. Second, due to the narrowing down of the difference in gross profit margin between cotton yarns and grey fabrics and cotton yarns having a relatively shorter production cycle compared to grey fabrics, the management decided to increase the sales volume of cotton yarns to improve the Group's inventory turnover rate and thus enhanced the overall operating and financial conditions. In general, the production cycle for a single cotton yarn product is approximately 4 days whereas the production cycle for a single grey fabric product is approximately 7 days on top of cotton yarn production. Hence, shifting production mix to more cotton yarn products accelerated the inventory turnover for the year.

The average unit price of cotton yarns increased by approximately 34.3% to RMB25,743 per ton for the year ended 31 December 2010 from RMB19,165 per ton for the previous year. The increase in the average unit sales price was driven by the increase in purchase cost of lint cotton by approximately 32.6% over the previous year and the introduction of higher quality combed cotton yarns during the year.

Grey fabric products

The revenue derived from the sale of grey fabrics decreased by approximately 44.1% to RMB208.6 million for the year ended 31 December 2010 from RMB372.9 million for the previous year. The decrease in revenue was attributable to the drop in (i) the sales volume from approximately 93,621 kilometres to 56,788 kilometres; and (ii) the average unit price of grey fabrics from approximately RMB4.0 per metre for the year ended 31 December 2009 to approximately RMB3.7 per metre for the year ended 31 December 2010 due to change in demand and supply balance for the Group's grey fabric products as the Group experienced decline in demand for its current product models, in particular the fine count class products, that can be offered by the Group since the fourth quarter of 2009.

The Directors considered that the decline in demand for the Group's grey fabric model was caused by the increase in supply of higher density grey fabric products in the market. With automated weaving equipment, other manufacturers are able to introduce more grey fabric products with warp-weft density over 100 yarns per inch in the market. Since the Group is only able to produce grey fabric products with warp-weft density below 100 yarns per inch, the competition from these higher density products resulted in decrease in both demand and prices of the Group's grey fabric models. Hence, as mentioned in the previous paragraph, the Group shifted the production mix to more cotton yarns to accelerate the inventory turnover resulting in lower sales volume of grey fabric products for the year.

Cost of sales

The cost of sales increased by approximately 38.0% to RMB553.9 million for the year ended 31 December 2010 from RMB401.4 million for the previous year. This was due to a growth in consumption of lint cotton as a result of increase in the production volume of cotton yarns both for sales directly and further processing into grey fabrics and increase in lint cotton average purchase price by approximately 32.6% over the previous year.

In addition, direct labour costs for the year ended 31 December 2010 increased by approximately 31.6% as compared to the previous year. The increase was due to increase in number of employees as a result of the commencement of operations of Yongle Production Plant and change of salary calculation basis from monthly basis to quantity basis during the year. Since the production volume of cotton yarn for both sales directly and further processing into grey fabrics in the Group's production plants significantly increased during the year, the use of quantity basis for salary calculation resulted in proportional increase in direct labour costs for cotton yarn products and hence increase in overall direct labour costs for the year. The increase in direct labour costs for cotton yarn production was offset by the decrease in direct labour costs for grey fabric production due to the reduction in production output as a result of the change in production mix as mentioned in the above paragraph. The Directors considered that the use of quantity basis for salary calculation enhances the Group's production efficiency as the workers' rewards are linked to their performance.

Electricity charges for the year ended 31 December 2010 also decreased by approximately 25.1% as compared to the previous year due to lower production volume of grey fabric products in current year.

Gross profit and gross profit margin

The overall gross profit for the year ended 31 December 2010 was approximately RMB156.0 million, representing an increase of approximately 2.0% from the previous year whereas the overall gross profit margin for the year ended 31 December 2010 was approximately 22.0%, representing a decrease of approximately 5.6% from the previous year. The decrease in overall gross profit margin and the slowdown of gross profit growth were caused by decrease in gross profit margin of grey fabric products.

Cotton yarn products

The gross profit for sale of cotton yarns for the year ended 31 December 2010 was approximately RMB107.6 million, representing an increase of approximately 201.9% from approximately RMB35.6 million for the previous year. The increase was due to increase in sales volume of cotton yarns by approximately 105.8% as a result of an adjustment of sales strategy in respect of product mix between cotton yarns and grey fabrics and improvement in gross profit margin of cotton yarns.

The gross profit margin of cotton yarns increased by approximately 1.9% to 21.5% for the year ended 31 December 2010 from 19.6% for the previous year. The improvement in gross profit margin was mainly driven by the introduction of higher priced combed cotton yarns and the greater extent of increase in average unit price of cotton yarns than that in the average purchase price of lint cotton as mentioned above.

Grey fabric products

The gross profit for sale of grey fabrics for the year ended 31 December 2010 was approximately RMB48.4 million, representing a decrease of approximately 58.7% from approximately RMB117.3 million for the previous year.

The gross profit margin for sale of grey fabrics for the year ended 31 December 2010 was approximately 23.2%, representing an decrease of approximately 8.2% from approximately 31.4% for the previous year.

The decrease in gross profit and gross profit margin for the year ended 31 December 2010 was mainly caused by decrease in (i) the sales volume by approximately 39.4% over the previous year; (ii) the average unit sales price to approximately RMB3.7 per metre for the year ended 31 December 2010 from RMB4.0 per metre for the previous year; and (iii) the increase in the average purchase price of lint cotton over the previous year.

The decrease in sales volume and average unit sales prices was mainly due to decline in demand for the Group's current product models, in particular the fine count class products, that can be offered by the Group since the fourth quarter of 2009. Detailed explanation is set out in sub-paragraph headed "Revenue" above. The increase in lint cotton costs was mainly caused by the market upward movement in lint cotton prices during the year. As mentioned in sub-paragraph headed "Cost of Sales" above, the average lint cotton purchase price increased by approximately 32.6% over previous year. The increase was particularly severe in the fourth quarter of 2010 as a result of shortage in supply and speculative force in the market.

Other revenue

Other income increased by approximately 81.8% to approximately RMB2.0 million for the year ended 31 December 2010 from approximately RMB1.1 million for the previous corresponding period. The increase was mainly caused by the increase in bank interest income and sale of scrap materials.

Selling and distribution costs

Distribution costs increased by approximately 39.7% to approximately RMB9.5 million for the year ended 31 December 2010 from approximately RMB6.8 million for the year ended 31 December 2009. The increase was due to the higher transportation costs for the year incurred as a result of increase in sales volume and increase in number of employees.

General and administrative expenses

Administrative expenses increased by approximately 39.0% to RMB17.2 million for the year ended 31 December 2010 from approximately RMB12.4 million for the previous year. This was mainly due to an increase in additional administrative expenses including depreciation, salaries, social insurance, entertainment and utilities as a result of the commencement of operations of Yongle Production Plant in January 2010. In addition, as a result of the transfer of 21% interest in the Major Shareholder as gift by Mr. Qiu to Mr. Chen as a gift in recognition of his past contribution to the Group and to align his interest with the Group's future success, a share-based compensation of approximately RMB335,000 was incurred for the year ended 31 December 2010.

Finance costs

Finance costs decreased by approximately 79.9% to approximately RMB0.8 million for the year ended 31 December 2010 from approximately RMB3.7 million for the previous year. This was due to a decrease in bank interest expense as a result of the repayment of RMB30 million bank loan for procurement of lint cotton during 2010.

Income tax expenses

Income tax expenses slightly increased by 2.6% to RMB33.2 million for the year ended 31 December 2010 from RMB32.3 million for the previous year. The effective tax rate for the respective years are 25.3% and 24.6% and are of similar level with the enacted tax rate of 25% under the PRC new tax laws.

Profit for the year

As a result of the foregoing, the profit for the year ended 31 December 2010 decreased slightly by 1.5% to RMB97.4 million from RMB98.9 million for the previous year. Due to a decline in gross profit margin of grey fabric products as mentioned above, the net profit margin decreased to approximately 13.8% in this year as compared to approximately 17.9% in the pervious year. Accordingly, the net profit growth for the year was also slowed down.

Year ended 31 December 2009 compared to year ended 31 December 2008

Revenue

The revenue increased by approximately 20.8% to approximately RMB554.3 million for the year ended 31 December 2009 from approximately RMB458.9 million for the year in 2008.

Cotton yarn products

The increase in revenue for cotton yarns by approximately 8.8% to approximately RMB181.4 million for the year ended 31 December 2009 from approximately RMB166.7 million for the corresponding period in 2008 was contributed by the increase in sales volume by approximately 4.6% and average unit selling price by approximately 4.0% during the year ended 31 December 2009 as compared to the previous year. The increase in average unit selling price was mainly driven by the increase in average lint cotton procurement prices.

In view of the higher margin yielded from grey fabric sales, the management adjusted the marketing strategy to process more cotton yarns produced in 2008 and 2009 into grey fabrics for sale, resulting in relatively lower sales volumes of cotton yarns in both years.

Grey fabric products

The sales of grey fabric increased by approximately 27.6% to approximately RMB372.9 million for the year ended 31 December 2009 from approximately RMB292.2 million for the previous year. It was mainly driven by the significant growth in sales volume by approximately 42.7%. Although there was an approximately 11.1% drop in average unit selling price from approximately RMB4.5 per metre for the year ended 31 December 2008 to approximately RMB4.0

per metre for the year ended 31 December 2009, in view of approximately 11.8% average higher gross margin of grey fabrics over cotton yarns during the year, after fulfilling the basic demands from recurring customers, the management relocated more of the Group's production resources to grey fabrics to maximize return in 2008 and 2009.

The Directors consider that the decline in average unit selling prices of grey fabrics for the year ended 31 December 2009 was attributable to two factors. For the first three quarters of 2009, the Group followed the decline in general market trend as the PRC grey fabric market remained flat or in even slightly downward trend following the price decline in the aftermath of the global economic slowdown in 2008. In the fourth quarter of 2009, revenue from sale of grey fabrics began to decrease as the Group experienced decline in customers' demand. Thus the average unit selling prices continued to drop although grey fabric market had recovered since then.

Cost of sales

For the year ended 31 December 2009, the cost of sales increased to RMB401.4 million by approximately 16.5% from RMB344.6 million for the year ended 31 December 2008. It was the combined effect of (i) increase in usage of lint cotton in response to increase in the sales volume of cotton yarns and grey fabrics; and (ii) increase in average purchase prices of lint cotton by approximately 1.5% for the year ended 31 December 2009, which was offset by improvement of cost efficiency by reduction in outsourcing arrangements since the commencement of operation of Dali Production Plant and Guang Hua Production Plant by the Group. Although running the production facilities increased direct costs such as salaries and utilities during the year, it eliminated the premium paid to suppliers under the outsourcing arrangements such that cost saving was achieved.

Gross profit and gross profit margin

The Group's gross profit increased by approximately 33.8% to approximately RMB152.9 million for the year ended 31 December 2009 from approximately RMB114.3 million for the previous year. The overall gross profit margin increased from approximately 24.9% to approximately 27.6% over the previous year.

Cotton yarn products

The gross profit for sale of cotton yarns for the year ended 31 December 2009 was approximately RMB35.6 million, representing an increase of approximately 16.0% from approximately RMB30.7 million for the previous year. The increase was due to the increase in sales volume by approximately 4.6% and improvement in gross profit margin in cotton yarns.

The gross profit margin of cotton yarns slightly increased by approximately 1.2% to 19.6% for the year ended 31 December 2009 from 18.4% for the previous year. The improvement in gross profit margin was mainly driven by an increase in the average unit selling price over the previous year by approximately 4.0%, which was slightly offset by an increase in the average unit production cost as mentioned in the paragraph head "Cost of Sales" above.

Grey fabric products

The gross profit for sale of grey fabrics for the year ended 31 December 2009 was approximately RMB117.3 million, representing an increase of approximately 40.3% from approximately RMB83.6 million for the previous year. The increase in gross profit was primarily driven by the increase in sales volume by approximately 42.7%.

The gross profit margin for sale of grey fabrics for year ended 31 December 2009 was approximately 31.4%, representing an increase of approximately 2.8% from approximately 28.6% for the previous year. Although the average unit selling price for grey fabrics decreased from approximately RMB4.5 per metre in 2008 to approximately RMB4.0 per metre in 2009, since the acquisition of production facilities of Dali Production Plant and Guang Hua Production Plant and termination of the respective outsourcing arrangements in 2008, no outsourcing cost for grey fabric production was incurred so that the average unit production cost was further lowered, resulting in an enhancement of gross profit margin for the year ended 31 December 2009.

Other income

Other income decreased by approximately RMB0.4 million to approximately RMB1.1 million for the year ended 31 December 2009 from approximately RMB1.5 million for the previous year. The decrease was mainly due to lower bank interest income and sale of scrap materials, including lint cotton materials unsuitable for the Group's use retained in Guang Hua Production Plant following the purchase of its production facilities in 2008.

Distribution costs

Distribution costs increased by 34.2% to RMB6.8 million for the year ended 31 December 2009 from approximately RMB5.0 million for the previous year. It was mainly due to the increase in transportation cost as a result of the increase in sales volume and number of the employees as a result of upscaling of operations.

Administrative expenses

Administrative expenses significantly increased by 92.4% to approximately RMB12.4 million for the year ended 31 December 2009 from approximately RMB6.4 million for the previous year. Due to the purchase of the production facilities of Dali Production Plant and Guang Hua Production Plant in 2008, the increase reflected the additional expenses incurred for management of the new production facilities including depreciation, salaries and social insurance contribution, entertainment expense and utilities.

Finance costs

Finance costs slightly increased by approximately RMB0.4 million to approximately RMB3.7 million for the year ended 31 December 2009 from approximately RMB3.3 million for the previous year as a result of increase in bank borrowing interest rate for rollover of certain new loans.

Income tax expense

Income tax expense increased by approximately RMB7.2 million to RMB32.3 million for the year ended 31 December 2009 as compared to the previous year due to the increase in profit before tax at similar level. The effective tax rates for the respective periods were 24.6% and 24.8%. It was in line with the PRC statutory enterprise income tax rate of 25% with effect from 1 January 2008.

Profit for the year

As a result of the foregoing, profit increased by 30.1% to approximately RMB98.9 million for the year ended 31 December 2009 from approximately RMB76.0 million for the year ended 31 December 2008.

SELECTED DATA ON COMBINED STATEMENTS OF FINANCIAL POSITION AND FINANCIAL RATIOS

Overview

The Group's data on statement of financial position extracted from the Accountants' Report set out in Appendix I to this prospectus are as follows:

	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
	61,808	105,690	122,291
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
	260,697	317,954	359,606
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
	114,904	117,186	51,128
Net current assets	145,793	200,768	308,478
Total assets less current liabilities/Net assets	207,601	306,458	430,769
EQUITY			
Equity attributable to owners of the Company			
Share capital	—	—	—
Reserves	207,601	306,458	430,769
Total equity	207,601	306,458	430,769

The Group had net current assets of approximately RMB145.8 million, RMB200.8 million and RMB308.5 million respectively as at 31 December 2008, 2009 and 2010.

Net current assets as at 31 December 2010 mainly comprised of inventories of approximately RMB24.9 million, trade receivables of approximately RMB129.2 million, cash and cash equivalents of approximately RMB175.9 million offset by trade and other payables of approximately RMB31.1 million. The increase in net current assets of approximately RMB107.7 million over that as at 31 December 2009 was mainly due to an increase in cash and cash equivalent of approximately RMB15.8 million generated by operating activities, an increase in trade and other receivables of approximately RMB40.9 million and RMB22.9 million, and the net offsetting effect of approximately RMB19.5 million by settlement of an amount due from a related company of approximately RMB42.7 million and net decrease of bank loan of RMB23.2 million.

Net current assets increased from RMB145.8 million as at 31 December 2008 to RMB200.8 million as at 31 December 2009. The increase was mainly attributable to an increase in cash and cash equivalents of approximately RMB51.6 million. In addition, the significant increase in sales volume in 2009 resulted in an increase in trade receivables of approximately RMB25.8 million and a decrease in inventories of approximately RMB13.8 million.

Net current assets increased from RMB86.8 million as at 31 December 2007 to RMB145.8 million as at 31 December 2008. The increase in current assets was mainly attributable to increase in trade receivable of approximately RMB8.9 million as a result of increase in sales volume in 2008 and an advance of approximately RMB42.7 million made to a related company, Shaanxi Golden Shield, for acquisition of the buildings and land use rights from 13th Weaving Mill and Guang Hwa Weaving Mill in 2008. These properties were leased to the Group and details of which are set out in sub-paragraph headed "Lease Properties" of the paragraph headed "Properties" in the section headed "Business" in this prospectus. The current liabilities slightly decreased by approximately RMB5.3 million due to the offsetting effect of a decrease in bank borrowings of approximately RMB25.9 million and an increase in current liabilities of approximately RMB19.9 million as a result of changes in trade payables and accruals and other payables.

Trade receivables analysis

Trade receivables are primarily receivables from cotton yarns and grey fabric customers. The following table sets forth the aging analysis of the Group's trade receivables (net of allowance for doubtful debts) for the Track Record Period:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade receivables (net of allowance for doubtful debts)			
0–30 days	43,374	49,798	79,776
31–60 days	15,212	32,735	48,710
61–90 days	3,905	5,489	719
91–120 days	—	248	—
	62,491	88,270	129,205

The Group's customers are invoiced at the time when such products are delivered by the Group. It generally grants its customers a trade credit term of no more than 90 days. The exact terms will base on their financial strength, credit history, business size and past sales performance.

The Group's management and responsible sales staff conduct regular reviews of customers with overdue payments. It pursues collection of delinquent payments through telephone calls, e-mails and in meetings as required. Payments are generally received in Renminbi and payment methods include cheque and inter-bank transfer.

As at the Latest Practicable Date, approximately 100.0% of the trade receivables as at 31 December 2010 was settled.

The following table sets forth the trade receivables turnover days for the Track Record Period:

	For the year ended 31 December		
	2008	2009	2010
Trade receivables turnover days *(Note)*	46.2	49.6	55.9

Note: Trade receivables turnover days equals to the average of beginning and closing trade receivables of the year divided by the revenue during such period and then multiplied by the number of days during such year.

The Group's average trade receivable turnover days increased from approximately 46.2 days for the year ended 31 December 2008 to 49.6 days for the year ended 31 December 2009 and further to 55.9 days for the year ended 31 December 2010. The trade receivable turnover days during the Track Record Period were significantly below the normal credit period of 90 days. The increase in trade receivable turnover days throughout the Track Record Period was mainly due to the growth in sales volume during the period. Since the Directors considered that most of the customers were able to settle their balances due within the credit period and in view of the increase in purchases by certain recurring customers, the Group allowed some flexibility in account receivable collection in order to foster customers' relationships.

Prepayment and deposits

The following table is a breakdown of the significant balances of prepayment, deposits and other receivables for the Track Record Period:

	As at 31 December		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Prepayment to suppliers	12,760	5,695	16,363
Deposits	950	771	140
Prepaid expenses	163	141	5,408
Other receivables	—	—	7,660
	13,873	6,607	29,571

The balances were mainly represented by deposits paid to suppliers for purchase of lint cotton and other receivables. The decrease in balance as at 31 December 2009 as compared to prior year was mainly due to receipt of lint cotton before year end in 2009 such that some prepayment was recognised as inventory for these purchases. As the lint cotton harvesting period in the PRC is between September and December each year, the amount of deposits paid to suppliers was relatively higher during these periods. In addition, the increase in prepayments to suppliers as at 31 December 2010 was due to the higher volume of purchase of lint cotton in view of the continuous increase in lint cotton prices. Other receivables represented the employee portion of social insurance and housing fund prior year contribution for the three years ended 31 December 2009. The amount will be recovered from future salaries of the relevant staff on a monthly basis and will be settled in full in one year. As at 31 May 2011, approximately 28.6% of the receivable has been recovered. For details, please refer to the paragraph headed "Social insurances and housing fund" in the section headed "Directors, senior management and employees" in this prospectus.

Amount due from a related company

The amount due from a related company was mainly represented by an advance made to Shaanxi Golden Shield, which is owned as to 90% and 10% by Mr. Chen and Mr. Lin respectively, both Directors. The amount related to the purchase cost of the lands and buildings of 13th Weaving Mill and Guang Hua Weaving Mill in June and October 2008 respectively. The acquisition of lands and buildings by Shaanxi Golden Shield was conducted through and with the financial assistance from the Group.

Hence, the Group recognized an amount of approximately RM42.68 million due from Shaanxi Golden Shield, which was unsecured, interest free and had no fixed term of repayment. The amount was fully settled in July 2010.

Impairment of receivables

The provision policy for doubtful debts of the Group is based on an ongoing evaluation of the collectability and aging analysis of the outstanding receivables and on management's judgment. In assessing the ultimate realisation of these receivables, various factors including creditworthiness and the past collection history of the customers or debtors concerned will be taken into account. If the financial conditions of any customers or other debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

During the Track Record Period, the Group had not incurred any impairment of trade receivables.

Trade payables analysis

The Group's trade payables consist primarily of payables to its raw material suppliers. The Group is generally granted by its suppliers with credit terms of approximately 90 days. Set out below is the aging analysis of the Group's trade payables for the Track Record Period:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
0–30 days	6,906	8,039	9,452
31–60 days	1,813	5,198	—
61–90 days	520	1,272	—
91–180 days	586	6	—
181–365 days	182	—	—
Over 365 days	136	7	—
	10,143	14,522	9,452

The following table sets forth the trade payables turnover days for the Track Record Period:

	For the year ended 31 December		
	2008	2009	2010
Trade payables turnover days *(Note)*	22.5	11.2	7.9

Note: Trade payables turnover days equals to the average of beginning and closing trade payables of the year divided by the cost of sales during such year and then multiplied by the number of days during such period.

The average trade payables turnover decreased from 22.5 days for the year ended 31 December 2008 to 11.2 days for the year ended 31 December 2009 and 7.9 days for the year ended 31 December 2010. The trade payables were mainly amount due to suppliers for procurement of lint cotton and outsourcing of production work. The decrease in accounts payable turnover days was mainly attributable to decrease in subcontracting fee incurred since the purchase of the production facilities of Dali Production Plant and Guang Hua Production Plant. As mentioned earlier in this section, the decrease in subcontracting fee was offset by a corresponding increase in other production overheads such as salaries and electricity charges. In addition, as the Group increased its purchase of lint cotton from major suppliers, who generally required prepayment upfront, the accounts payable to lint cotton suppliers also decreased in current year.

Accruals, other payables and provision of long service payment for staff of Jing Yang Spinning Mill

Accruals and other payables were mainly represented by amount payables for purchase of property, plant and equipment, provision of long service payment for staff of Jing Yang Spinning Mill, accrued salary and wages and social insurance payable for the Group's employees, which analysis for the Track Record Period is set out below:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Accrued expenses	5,232	7,065	10,352
Other payables	30,107	13,727	—
Payable for purchase of property, plant and equipment	395	15,779	560
Salary and welfare payable	3,076	3,391	4,054
Social insurance contribution payable	4,647	13,752	1,232
Other taxes payable	3,329	2,817	5,444
Total accruals and other payables	46,786	56,531	21,642
Provision of staff termination benefits for staff of Jing Yang Spinning Mill	6,832	6,582	6,384
	53,618	63,113	28,026

Accrued expenses mainly represented the transportation cost payable to logistic companies for delivery of products and electricity cost payable to local party suppliers.

Other payables mainly represented the payment balance on behalf of Shaanxi Golden Shield for purchase of lands and buildings of 13th Weaving Mill and Guang Hua Weaving Mill in open tender process in 2008. Since the acquisition of lands and buildings by Shaanxi Golden Shield was conducted through and with the financial assistance from the Group, all the receipts and payments regarding the acquisition was made with the Group. All amounts due was settled by the Group in February 2010. For details of these acquisitions, please refer to the section headed "History and Corporate Structure" and the paragraph headed "Amount due from a related company" in the section headed "Financial Information" in this prospectus.

Payable for purchase of property, plant and equipment mainly represented the amount payable for purchase of machinery and equipment and the construction cost of Yongle Production Plant and cotton warehouse.

The increase in social insurance contribution payable was mainly caused by the increase in the number of employees as a result of the increase in number of production plants during the Track Record Period. By confirmation letters dated 20 May 2010 and 9 July 2010 respectively, Jing Yang County Social Securities Bureau confirmed that the Group had complied with the relevant PRC laws and regulations in respect of social insurance contribution and agreed that outstanding contribution up to year 2009 can be settled by the end of year 2010 without penalty and fine. The amount in relation to prior year contribution was settled in full before the end of 2010 and the remaining balance of approximately RMB1,232,000 represented the accrual for the month of December 2010. As such, the Directors consider that the social insurance contribution was sufficiently and adequately provided during the Track Record Period. For further details of social insurance, please refer to sub-paragraph headed "Social Insurance and Housing Fund" of the paragraph headed "Labour Law and Safety Matters" in Appendix V to this prospectus.

The provision for Jing Yang Spinning Mill staff was made in relation of the acquisition of the production facilities of Jing Yang Spinning Mill. Pursuant to the acquisition contract signed with Jing Yang County State-owned Assets Administration Bureau (涇陽縣國有資產管理局) on 14 September 2001, a total amount of RMB12.38 million was specifically provided for settlement of redundancy.

As most of the former employees of Jing Yang Spinning Mill entitled to the redundancy payment have been employed by the Group since its commencement of business in 2001, the Directors consider that the current level of provision will be sufficient to cover the liabilities as provided in the redundancy payment scheme.

Inventory analysis

Overview

During the Track Record Period, inventory was one of the major components of the Group's current assets. Inventories comprised of raw materials, work in progress and finished goods.

	As at 31 December		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Raw materials *(Note)*	24,269	12,416	12,611
Work in progress	2,959	3,065	651
Finished goods	5,429	3,338	11,676
	32,657	18,819	24,938

Note: The lint cotton levels during the Track Record Period were RMB23.3 million, RMB11.1 million and RMB10.7 million, respectively.

Inventory

Raw materials mainly represent lint cotton. Work-in-progress mainly refers to lint cotton, slivers and yarns in the production line. The finished goods comprised of cotton yarn and grey fabric.

The Group usually maintains an inventory level of lint cotton for 5–10 days' production at production plant level and keeps the cotton reserves in a centralized cotton warehouse. The centralized warehouse is capable of storing approximately 2,000 tonnes of lint cotton for 30 days' use.

The Group usually orders lint cotton on a monthly basis in accordance with monthly procurement plan. Occasionally, the Group will purchase larger quantity in anticipation of upward price movement. The average transportation lead time for lint cotton is approximately 14 days.

The following table sets forth the inventory turnover day for the Track Record Period:

	For the year ended 31 December		
	2008	**2009**	**2010**
Inventory turnover day *(Note)*	34.8	23.4	14.4

Note: Inventory turnover days equals to the average of beginning and closing inventory of period divided by cost of sales during such period and then multiplied by the number of days during such period.

The inventory balances were RMB32.7 million, RMB18.8 million and RMB24.9 million as at 31 December 2008, 2009 and 2010 respectively. The Group achieved an inventory turnover rate of approximately 34.8 days, 23.4 days and 14.4 days as at 31 December 2008, 2009 and 2010 respectively. The change in inventory turnover was due to improvement in control of production scheduling since the acquisition of the production facilities of Dali Production Plant and Guang Hua Production Plant and change in product mix with emphasis on cotton yarns in the 2010, resulting in shorter production cycle.

Up to the Latest Practicable Date, approximately 94% of inventories as at 31 December 2010 was sold or consumed.

Provision for obsolete inventories

Management reviews the ageing analysis of the inventories of the Group at the end of each reporting period, and makes provision for obsolete and slow moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and prevailing market conditions. The Group had not made any provision for inventories during the Track Record Period.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's primary uses of cash are for payment for purchases from suppliers, various operating expenses and capital expenditure requirements. Historically, the Group financed its working capital and liquidity needs mainly through cash generated from its operations, bank loans and shareholders' capital contributions. During the Track Record Period, there were no major changes in its fundamental drivers of the sources and uses of cash.

Cash flows

The following is a summary of the combined cash flow statements for Track Record Period:

	For the year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Cash and cash equivalents at beginning of the year	99,792	108,498	160,080
Net cash generated from operating activities	54,362	101,737	55,834
Net cash used in investing activities	(32,168)	(32,318)	(42,680)
Net cash (used in)/generated from financing activities	(13,488)	(17,837)	2,658
Net increase in cash and cash equivalents	8,706	51,582	15,812
Cash and cash equivalents at end of the year	108,498	160,080	175,892

Cash flows from operating activities

The Group derived its operating cash flows primarily from profit generated from sale of cotton yarns and grey fabrics as adjusted for certain non-cash charges and net effect of changes in working capital position.

Net cash generated from operating activities for the year ended 31 December 2010 was approximately RMB55.83 million whereas the profit before taxation was approximately RMB130.91 million. The difference of approximately RMB75.08 million was mainly due to the net effect of:

(i) adjustment of non-cash charges of depreciation and amortization of approximately RMB10.03 million;

(ii) adjustment of major working capital items of approximately RMB52.91 million, including decrease in amount due from a related company of approximately RMB42.68 million, increase in trade receivables, prepayment and other receivables and inventories of approximately RMB40.94 million, RMB23.60 million and approximately RMB6.12 million respectively, decrease in trade payables of approximately RMB5.07 million and accruals and other payables of approximately RMB19.67 million. The increase in trade receivables was mainly due to increase in sales of cotton yarn products despite being partly offset by decline in sales of grey fabric products. Due to the increase in sales volume and continuous increase in lint cotton prices near the year end, accounts receivable level increased significantly and more prepayment was made to major lint cotton supplies to maintain supply to fulfill production orders. The increase in inventory was due to (i) lower inventory level at the beginning of the year as mentioned below and (ii) increase in lint cotton purchase in anticipation of further increase in cotton prices. The decrease in accruals and other payables was mainly due to full settlement of social insurance contribution for prior years during the year; and

(iii) cash payment of income taxes of approximately RMB32.78 million.

Net cash generated from operating activities for the year ended 31 December 2009 was approximately RMB101.74 million whereas the profit before taxation for the year was approximately RMB131.17 million. The difference of approximately RMB29.43 million was mainly due to the net effect of:

(i) adjustment of non-cash charges of depreciation and amortization of approximately RMB5.36 million;

(ii) adjustment of major working capital items of approximately RMB6.4 million, including increase in trade receivables of RMB25.78 million, decrease in prepayments and other receivables and inventory of approximately RMB7.1 million and RMB13.84 million respectively, increase in trade payables of approximately RMB4.38 million and decrease in accruals and other payables of approximately RMB5.64 million. The increase in trade receivables was mainly driven by increase in sales, in particular in the fourth quarter of 2009. The decrease in inventory level was due to a surge in customer orders in the same quarter and the consumption of lint cotton was faster than its replenishment; and

(iii) cash payment of income taxes of approximately RMB32.08 million.

Net cash generated from operating activities for the year ended 31 December 2008 was approximately RMB54.36 million whereas the profit before taxation for the year was approximately RMB101.07 million. The difference of approximately RMB46.71 million was mainly due to the net effect of:

(i) adjustment of non-cash charges of depreciation and amortization of approximately RMB3.40 million;

(ii) adjustment of major working capital items of approximately RMB27.91 million, including increase in trade receivables and amounts due from related companies of approximately RMB8.92 million and RMB42.68 million respectively, decrease in prepayments and other receivables of approximately RMB4.17 million, decrease in trade payables of approximately RMB22.18 million, increase in accruals and other payables of approximately RMB41.66 million. The increase in trade receivables by approximately 17% over the comparative period was due to the increase in revenue over the same period by approximately 13%. Due to the occurrence of straitened economic conditions at the end of 2008, the management maintained similar inventory level as in previous year. Since the acquisition of the production facilities from 13th Weaving Mill and Guang Hua Weaving Mill during the year, the Group no longer incurred subcontracting fee for this two subcontractors and the trade payables decreased accordingly; and

(iii) cash payment of income taxes of approximately RMB24.83 million.

Cash flows from investing activities

The Group primarily invested its cash flows in enhancement of its production and ancillary facilities.

Net cash used in investing activities for the year ended 31 December 2010 was approximately RMB42.68 million, of which approximately RMB28.27 million was used in purchase of machinery and equipment for Yongle Production Plant in the current year and approximately RMB16.46 million was used to settle the accrued construction costs and purchase cost of machinery and equipment for Yongle Production Plant and the cotton warehouse.

Net cash used in investing activities for the year ended 31 December 2009 was approximately RMB32.32 million, of which approximately RMB30.19 million was used in the construction of and purchase of machinery and equipment for Yongle Production Plant.

Net cash used in investing activities for the year ended 31 December 2008 was approximately RMB32.17 million, of which approximately RMB34.86 million was used in the purchase of production and ancillary facilities located at Dali Production Plant and Guang Hua Production Plant and the remaining RMB0.95 million was used in the construction of Yongle Production Plant and purchase of machinery and equipment for the Group's production plants.

Cash flows from financing activities

The Group mainly derived its financing cash flows from bank borrowings for procurement of cotton and capital contribution from shareholder.

Net cash generated in financing activities for the year ended 31 December 2010 was approximately RMB2.66 million as a result of an offsetting effect mainly caused by approximately RMB26.56 million of capital contribution from a shareholder and approximately RMB30.0 million from bank loan used in purchase of lint cotton.

Net cash generated in financing activities for the year ended 31 December 2009 was approximately RMB17.84 million, including approximately RMB30 million of new loan from bank drawn down for procurement of lint cotton after a repayment of approximately RMB44.10 million prior year loan for the same purpose.

Net cash generated in financing activities for the year ended 31 December 2008 was approximately RMB13.49 million, including approximately RMB40 million of new loan from bank drawn down for procurement of lint cotton after a repayment of approximately RMB70 million prior year loan for the same purpose and approximately RMB19.79 million from shareholder's capital injection to Jing Yang Golden Shield.

Net current assets

Information on current assets, current liabilities and net current assets of the Group as of 30 April 2011 is set out as follows:

	RMB'000
Current assets	
Inventories	37,345
Trade receivables	95,107
Prepayments, deposits and other receivables	26,111
Cash and cash equivalents	247,571
	406,134
Current liabilities	
Trade payables	31,339
Accruals and other payables	15,502
Current tax liabilities	2,540
Bank borrowings	6,850
Provisions	6,320
	62,551
Net current assets	343,583

CAPITAL EXPENDITURE

The capital expenditure principally related to expansion, upgrading and modification of production and ancillary facilities. The Group historically funded its capital expenditure through internal cash resources. The following is a breakdown of the Group's capital expenditure during the Track Record Period:

	For the year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Land use rights prepayments	—	676	90
Equipment and machinery	10,307	1,031	2,821
Construction in progress	24,952	45,886	27,272
	35,259	47,593	30,183

During the Track Record Period, the Group's capital expenditure principally included capital expenditure on construction in progress for buildings, plants and machinery, and purchases of property, plant and machinery for the new production facilities in Yongle Production Plant.

CAPITAL COMMITMENT

As at 31 December 2008, 2009 and 2010, the Group had the following capital commitments which were not provided for in the Group's combined financial information:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Purchase of property, plant and equipment	112,666	62,818	37,817

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, the Group had not entered into any off-balance sheet transaction.

STATEMENT OF INDEBTEDNESS

As at 30 April 2011, being the latest practicable date to ascertain the indebtedness of the Group, the Group had outstanding indebtedness of RMB13.35 million, comprising bank loan of RMB6.85 million and the amount due to a shareholder of RMB6.50 million.

As at 30 April 2011, the Group's bank loan as secured by certain prepaid land lease payments of the Group with a total unaudited carrying amount of approximately RMB4.90 million.

Save as aforesaid and apart from intra-group liabilities and normal trade and bills payables in the ordinary course of the business, as at the close of business on 30 April 2011, the Group did not have other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

The Directors confirm that there has been no material change in the indebtedness and contingent liabilities of the Group since 30 April 2011.

Borrowings

The table below sets out an analysis of the Group's borrowings:

	As at 31 December			As at 30 April
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)
Borrowings repayable within 1 year or on demand	44,100	30,000	6,850	6,850
Non-current Borrowings				
Repayable after 1 year but within 2 years	—	—	—	—
Repayable after 2 years but within 5 years	—	—	—	—
Repayable after 5 years	—	—	—	—
Total borrowings	44,100	30,000	6,850	6,850
Representing				
Unsecured bank loans	34,100	—	—	—
Secured bank loans	10,000	30,000	6,850	6,850

The ranges of effective interest rates of the Group's borrowings during the Track Record Period were as follows:

	As at 31 December		
	2008	2009	2010
	%	%	%
Current			
Variable-rate borrowings	4.73–7.80	5.38–7.04	—
Fixed-rate borrowings	10.60	—	5.31
Non-current			
Fixed-rate borrowings	—	—	—

The carrying amounts of all the Group's bank borrowings at the end of each reporting period are denominated in RMB.

All of the above bank loans were drawn down for procurement of lint cotton and most of the bank loans were 1 year short term loans and were secured against pledges of certain assets by the Group and details of which are set out in note 30 to the Accountants' Report set out in Appendix I to this prospectus. Save for the bank loans disclosed above, the Group did not obtain other banking facilities during the Track Record Period.

The bank loans of RMB6.85 million as of 30 April 2011 were secured by the Group's prepaid land lease payment with carrying value of approximately RMB4.90 million.

As of 30 April 2011, the Group's total indebtedness amounted to RMB13.35 million, consisting of bank loan of RMB6.85 million and the amount due to a shareholder of RMB6.50 million. The Group confirms that since 30 April 2011, there has not been any material change in the indebtedness.

Contingent liabilities

At each respective reporting dates, neither the Group nor the Company had any significant contingent liabilities.

Disclaimers

Save as disclosed above, and apart from intra-group liabilities, the Group 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 as at 30 April 2011.

GEARING RATIO

As at 31 December 2008, 2009 and 2010, the gearing ratios equal to the total debts including interest-bearing borrowings divided by total assets were 13.7%, 7.1% and 1.4% respectively.

With the continuous improvement in the cash flow positions of the Group, the total borrowing of the Group decreased gradually.

WORKING CAPITAL

The Directors are of the opinion that, taking into consideration the financial resources presently available to the Group, including bank loans and other internal resources, and the estimated net proceeds of the New Issue, the Group has sufficient working capital for its present requirements at least in the next 12 months commencing from the date of this prospectus.

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.

DISTRIBUTABLE RESERVES

The Company was incorporated on 2 July 2010 and is an investment holding company. There were no reserves available for distribution to the Shareholders as at 31 December 2010.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted combined net tangible assets of the Group have been prepared in accordance with Rule 4.29 of the Listing Rules and is set out here to illustrate the effect of the Share Offer on the combined net tangible assets of the Group as at 31 December 2010 as if it had taken place on 31 December 2010.

The unaudited pro forma adjusted combined net tangible assets has been prepared for illustration purpose only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group attributable to equity holders of the Company as of 31 December 2010 or any future dates following the Share Offer. It is prepared based on the audited combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2010 set out in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below.

	Audited combined net tangible assets attributable to owners of the Company as at 31 December 2010	Estimated net proceeds of the New Issue	Unaudited pro forma adjusted combined net tangible assets	Unaudited pro forma adjusted combined net tangible assets per Share	
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000 (Notes 3)	RMB (Note 4)	(HK$ equivalent) (Note 4)
Based on an Offer Price of HK$0.7 per Offer Share	430,769	97,649	528,418	0.56	0.67

Notes:

(1) The audited combined net tangible assets attributable to owners of the Company as at 31 December 2010 is extracted from the Accountants' Report set out in Appendix I to this prospectus.

(2) The estimated net proceeds of the New Issue are based on the Offer Price of HK$0.7 per Offer Share, after deduction of the underwriting fees and other related expenses payable by the Company. The estimated net proceeds of the New Issue are translated from Hong Kong dollars into Renminbi at an exchange rate of HK$1.00 to RMB0.84.

(3) The prepaid land lease payments and buildings (the "Property Interests") as at 31 May 2011 have been valued by Vigers Appraisal & Consulting Limited, an independent property valuer. By comparing the valuation of the Property Interests of approximately RMB80,540,000 as set out in Appendix III to this prospectus and the unaudited carrying amounts of the Property Interests of approximately RMB71,232,000 as at 31 May 2011, the valuation surplus is approximately RMB9,308,000 which has not been included in the tangible assets set forth above. The revaluation surplus will not be incorporated in the combined financial statements of the Group. If the revaluation surplus is recorded in the combined financial statements of the Group, the annual depreciation and amortization will be increased by approximately RMB427,000.

(4) No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2010.

(5) The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 941,900,000 Shares were in issue, assuming that the Share Offer were completed on 31 December 2010. The unaudited pro forma adjusted combined net tangible assets per Share is translated at an exchange rate of HK$1.00 to RMB0.84.

PROPERTY INTERESTS AND VALUATION OF PROPERTIES

The properties of the Group were revalued at RMB80.54 million as at 31 May 2011 by Vigers Appraisal & Consulting Limited. Details of the valuation are summarized in Appendix III to this Prospectus.

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

	RMB'000
	(unaudited)
Net book value of property interest of the Group as at 31 December 2010	
— Buildings	62,709
— Prepaid land lease payments	9,704
	72,413
Movement for the five months ended 31 May 2011	
Additions	60
Depreciation and amortization	(1,241)
Net book value as at 31 May 2011	71,232
Valuation surplus as at 31 May 2011	9,308
Valuation as at 31 May 2011 as per Appendix III	80,540

NO MATERIAL ADVERSE CHANGE

The Directors have confirmed that, up to the Latest Practicable Date, there had been no material adverse change in the financial or trading position or prospects of the Group since 31 December 2010, and there is no event since 31 December 2010 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus, in each case except as otherwise disclosed herein.