You should read this section in conjunction with our audited consolidated financial statements, including the notes thereto, as set forth in the Accountants' Report in Appendix I to this prospectus. We have prepared the audited consolidated financial information on the basis set out in Section B of Appendix I and in accordance with HKFRSs.

This section contains certain forward-looking statements relating to our plans, objectives, expectations and intentions, which involve risks and uncertainties. For such risks and uncertainties, please refer to the section headed "Risk factors" of this prospectus.

OVERVIEW

We are a functional fabric and innerwear manufacturer established in the PRC, offering various types of functional fabrics and innerwear for infants, toddlers as well as adults. We manufacture functional and customised fabrics for major lingerie and apparel brands including *Triumph*, *Wacoal*, *Embry Form*, *Maniform* (曼妮芬), *Aimer* (愛慕), *Miiow* (猫人) (previously known as *Maoren*), *Sunlaura* (桑扶蘭) and *VANCL* (凡客誠品), and innerwear products on an OEM basis for major apparel brands including *Outdoor*, *Ito-Yokado* (伊藤洋華堂), *Pigeon*, *Lee*, *Puma*, *DKNY*, *Carter's* and *Orsay*. Our products are mainly sold to (i) the sourcing agents, who then resell to the renowned apparel brands; (ii) the wholesaler, who then resell to retail shops and department stores; and (iii) brand owners directly. To the best of the knowledge of our Directors, we are not aware of any relationship (apart from the normal business relationship) between the brand owners and their respective sourcing agents as well as between the wholesaler and its end customers.

We have established a business model integrated fabric weaving and knitting; dyeing and finishing; printing; and innerwear cutting and sewing in one stop, and therefore are able to offer our customers with greater flexibility in the textile supply chain.

Our fabrics feature a variety of colours and patterns, and by combining different cotton counts, fibre mixture and knitting methods, they meet different specifications and functional requirements set by our customers. We make use of functional and chemical fibres, i.e. yarns having special functions such as temperature regulation or moisture absorption available in the market to produce fabrics with such functions. In addition, we also use our own fabrics in the manufacture of innerwear products, with a growing focus on utilising our functional fabrics for innerwear.

Based on the confirmations given by the sourcing agents, our fabrics and innerwear products sold to them are used by relevant brand owners they represent. For our innerwear products, they were labelled or packed with the packaging materials bearing the names and/or logos of the relevant brand owners provided by the respective sourcing agents or brand owners.

Our production facilities are based in Zhucheng, Shandong, PRC with an aggregate gross floor area of more than 52,000 sq.m. as at the Latest Practicable Date. Equipped with the modern production facilities, as at the Latest Practicable Date, our annual production capacity of innerwear was approximately 18.6 million pieces and our annual fabric weaving and knitting, dyeing and finishing, and printing capacity were approximately 1,200 tons, 4,000 tons and 650 tons respectively.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

In preparation of the Listing, we underwent the Reorganisation, as detailed in the section headed "History, reorganisation and group structure" of this prospectus and the paragraph headed "Reorganisation" in Appendix V to this prospectus.

The consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows of our Group for the Track Record Period as set out in Appendix I to this prospectus are prepared as if the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation/establishment or acquisition, where this is a shorter period. The consolidated statements of financial position of our Group as at 31 December 2008, 2009 and 2010 and 30 June 2011 have been prepared to present the assets and liabilities of the companies now comprising our Group as if our current group structure had been in existence at those dates.

The Reorganisation completed on 22 February 2011.

As Mr. Wong and Madam Hung Kin remained our Directors and ultimately controlled our Group's business before and after the Reorganisation and, consequently there was a continuation of the risks and benefits to the ultimate shareholders, the financial information of our Group has been prepared by applying the principles of the merger accounting as if our Company had always been the holding company of our Group throughout the Track Record Period. The net assets of the companies now comprising our Group are combined using the existing book values from the ultimate shareholder perspective.

The financial information of our Group as set out in Appendix I to this prospectus has been prepared in accordance with HKFRSs. Throughout the Track Record Period, our Group has applied all of the new or revised Hong Kong Accounting Standards, HKFRSs, amendments and interpretations issued by the HKICPA that are relevant to our operations and effective for annual reporting periods commencing on or after 1 January 2010, except for those new or revised standards, amendments and interpretations that have been issued but not yet effective as at the date of this prospectus, details of which is set out in note 2 to the financial information in Section B of Appendix I to this prospectus.

In addition, the financial information of our Group also includes applicable disclosures required by the Listing Rules and the Companies Ordinance.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our financial condition and results of operations have been and are expected to be continuously affected by a number of principal factors as described below:

Our ability to maintain/establish our relationships with existing/new customers for our products

Our ongoing growth and profitability are significantly dependent on our ability to maintain close and mutual beneficial relationships with our existing customers and expand to new customers. Currently, sales of our innerwear products are primarily made to the sourcing agents of certain renowned apparel brands. Since only one of the major customers entered into a long term agreement with our Group, it is very important for us to maintain good relationships with our customers. We emphasise on our "customer-oriented" principle in our operation and believe that by visiting our customers regularly and inviting our customers to visit our production plants, our customers will better understand our products, development capability, production process and quality control measurements, and we will also understand the markets in which our customers operates, their specific requirements and collect their feedbacks on our products. Besides, it is also very important for us to expand our business to new customers, especially those looking for either high performance functional fabrics or innerwear made with such fabrics. These customers are normally willing to pay higher premium for products with high performance and better quality. We will continue to secure new customers through referrals from our existing customers. Our Directors believe that many of them have made their referrals as a result of their positive views on our product quality, efficient services and competitive pricing. Since our fabrics segment is still in a relatively early stage of development comparing to our innerwear segment, in order to heighten customer recognition, we plan to officially launch our brand "UTEX" to market our self-designed functional fabrics in the future.

In 2010, we have successfully entered into a strategic cooperation agreement and/or certain exclusive sale agreements with some of our fabrics customers, which we believe, is a result of our commitment to offer them with high standard and quality products and customers' past positive experience in doing business with us. We expect this mode of cooperation will form part of our marketing strategy in the future to maintain customer loyalty and secure their orders. Therefore, we are now also in discussion with another fabrics customer on entering into strategic cooperation agreement and/or exclusive sale agreement with us.

Demands for our products

A key driver of our revenue is customer demand for our fabrics and innerwear products. As we manufacture our innerwear products on an OEM basis, key factors, including consumer preferences and consumption patterns on the apparels of our OEM customers, affect demand for our OEM innerwear products, which also affect demand for the fabrics we manufactured for our innerwear products and supply to other lingerie and apparel manufacturers. General economic conditions, particularly that of Japan, where majority of our innerwear products were exported to, the PRC, where majority of our fabrics were sold in, and the US and Europe, which are our new developing markets, also affect the demand of our products.

Since Japan is our major export country, the recent catastrophe in Japan may affect the demand of our Japanese customers for our products. For details of such impact, please refer to the section headed "Business — Earthquake in Japan" of this prospectus.

Product mix

The selling prices of our products and the mixture of product types also affect our revenue. Our product pricing heavily depends on the complexity and function of innerwear and fabrics we produce. For innerwear products, selling prices of items with complex embroidery or sewing or made with functional fabrics are generally higher than items made with general fabrics or items which require less cutting and sewing steps and techniques. However, the product mix of our innerwear products highly depends on orders from our OEM customers. Average selling prices of fabrics are affected by the mix of general and functional fabrics we sell as each type of fabrics, depending on its function and complexity, commands a different selling price. The profit margins of our functional fabrics and innerwear produced with such fabrics are generally higher than those of our innerwear produced with general fabrics. Therefore, starting from April 2009, we have adjusted our product mix and focus on manufacturing functional fabrics and innerwear. We are also expanding our fabric development capability and production capacity to cope with the change in product mix mentioned above.

In addition to the above, our Directors are also of the view that the potential of infants' innerwear market is huge given that the parents nowadays are willing to spend more on their children. Therefore, starting from 2010, we commenced selling primarily infants' and toddlers' innerwear to the US market.

Production volume

Our revenue is affected by the volume of our sales, which is linked to the volume of innerwear and fabrics we produce. We have experienced growth in production volume during the Track Record Period. During the Track Record Period, we have produced innerwear of approximately 12.8 million pieces, 14.6 million pieces, 18.7 million pieces and 8.0 million pieces and fabrics of approximately 996 tons, 2,055 tons, 3,280 tons and 1,233 tons respectively which represented approximately 98.1%, 97.2%, 104.0% and 86.4% of our innerwear production capacity and approximately 66.4%, 85.6%, 91.1% and 61.6% of our fabric production capacity during the Track Record Period. In view of the high utilisation rates of our production capacity, we have invested in some environmentally-friendly and technically-advanced machinery in 2010 and 2011 and will continue to upgrade and expand our production facilities to cater for the increasing demand from our customers. Our Directors believe that these upgrades and expansions will lead to greater economies of scale for the operation of our Group and therefore improve our efficiency, competitiveness and profitability. For details of our expansion plan, please refer to the section headed "Business — Production — Production facilities and capacity — Expansion" of this prospectus.

Prices of certain raw materials

The cost of manufacturing fabrics mainly includes the costs of cotton yarns, synthetic yarns and dyes while the cost of innerwear products includes principally the cost of greige fabrics. During the Track Record Period, the cost of raw materials accounted for approximately 51.7%, 57.7%, 68.9% and 60.2% of our total cost of sales respectively. The price of the raw materials may be volatile and beyond our control as they are subject to a number of key factors, including fluctuations in commodity prices (mainly for cotton and crude oil, price trend of which during the Track Record Period is set out in the section headed "Industry Overview — Key raw materials consumed by our Group" of this prospectus), quality of raw materials and availability of alternative raw materials. We have to obtain sufficient high-quality raw materials in a timely manner and at competitive prices from our suppliers for production. We do not normally enter into long-term supply contract with our suppliers of raw materials. Hence, our cost of sales and gross profit margins may be subject to the fluctuations in the cost of raw materials. However, our Directors are of the view that in case the cotton and crude oil prices increase in the future, we shall be able to partially shift the increase in cost to our customers.

Cost of labour

Although our production of innerwear is labour intensive, labour costs represent a relatively small proportion of our total cost of sales, representing 14.6%, 14.0%, 11.4% and 15.5% of our total of cost of sales respectively during the Track Record Period, as compared to that of our cost of raw materials. Our relatively low cost of labour provides us with a competitive advantage compared to manufacturers operating in higher-wage locations. Notwithstanding that the cost of labour has been on an upward trend in the recent years, our Directors believe that northern China continues to offer an adequate supply of labour at an attractive cost. In anticipation that the labour costs will continue to be subject to upward pressure, we seek to mitigate increases in labour cost by enhancing our production process and technology through introducing more automated machinery in order to increase worker's productivity.

Our ability to design and produce high-quality innovative and trendy products in line with consumers' expectations

We have an optimistic view on the future of the fabrics industry and believe that we could enhance our competitiveness by developing our own brand. In 2010, we registered the "UTEX" trademark and intend to use it as our own brand for fabrics. We had not commenced producing or marketing our products under this brand name up to the Latest Practicable Date. To solidify our vertically integrated operations, we intend to produce and market our self-designed fabric products under our own brand name "UTEX" in the future. Our vision is to position the "UTEX" brand for relatively high-end fabrics that are produced with peculiar functions to be developed by us, stringent quality control and standard, with a view to obtaining a comparatively higher margin than our other products. To achieve this, we will make use of our experience in the incubating ODM production for the domestic and international brand owners to develop and strengthen our research capability, with which we will then develop new types of fabrics which are distinguishable from those of our competitors and could meet market demand. We intend to launch our "UTEX" branded fabrics only after our research capability enables us to operate the branded products in a sustainable manner. Our Directors believe that our "UTEX" branded fabrics will in long run gradually become one of the major components of our product mix.

Seasonality

Our results of operations are affected by seasonality. Approximately 82.6%, 86.7%, 68.1% and 67.2% of our revenue were generated from sales of innerwear products during the Track Record Period. Our Directors confirmed that our innerwear products record higher sales during the second half of the year. Sales generated in the second half of the year accounted for approximately 54.8%, 61.2% and 73.2% of the total revenue during the three years ended 31 December 2010. Our Directors attributed that to the nature of major products we sell. Average unit price of innerwear for winter is normally higher than that for summer as customers normally order more functional innerwear for winter, including smart thermal and insulation innerwear.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified below the accounting policies that have been applied consistently throughout the Track Record Period which, we believe, are the most critical factors to our consolidated financial statements.

In the application of these accounting policies, our Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Estimates, judgments and associated assumptions are continually evaluated and are based on historical experience and other factors that may have a significant effect on the carrying amounts of assets and liabilities of our Group, are discussed below.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that period, or in the year of the revision and future periods if the revision affects both the current and future periods.

Basis of consolidation

The financial information of our Group incorporates the financial statements of our Company and entities controlled by our Company (our subsidiaries). Control is achieved where our Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the Track Record Period are included in the consolidated statements of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of our Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Merger accounting for business combinations involving entities under common control

The financial information incorporates 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 or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

All intra-group transactions, balances, income and expenses are eliminated.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sales of goods is recognised when the goods are delivered and title has passed.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial information of our Group, the assets and liabilities of our Group's foreign operations are translated into the presentation currency of our Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the exchange reserve.

On the disposal of a foreign operation (i.e. a disposal of our Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of our Company are reclassified to profit or loss.

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of our Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of our Company are reclassified to profit or loss. In addition, in relation to a partial disposal that does not result in our Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

Leasehold land for own use

When a lease includes both land and building elements, our Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to our Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statements of financial position and is amortised over the lease term on a straight-line basis.

Property, plant and equipment

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

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

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period in which the item is derecognised.

Useful lives and residual values of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values. The determination of the useful lives and residual values involve our management's estimation. Our Group assesses annually the residual value and the useful life of the property, plant and equipment, and if the expectation differs from the original estimate, such a difference may impact the depreciation charged in the year and the estimate will be changed in the future period.

Impairment of property, plant and equipment and prepaid lease payments

Our Group assesses annually whether property, plant and equipment and prepaid lease payments have any indication of impairment in accordance with the accounting policy. The recoverable amounts of property, plant and equipment and prepaid lease payments have been determined based on value-in-use calculations. Their calculations require the use of judgement and estimates.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are determined on a weighted average basis.

Impairment of inventories

We review an aging analysis at the end of each reporting period, and make impairment for obsolete and slow-moving inventory items. Our management estimates the net realisable value for such inventories based primarily on the latest invoice prices.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Our Group's financial assets comprise loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, restricted bank deposits, cash and bank balances, amount due from Shareholders/a related party) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

— significant financial difficulty of the issuer or counterparty; or

— breach of contract, such as default or delinquency in interest or principal payments; or

— it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

— the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include our Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, other receivables and amount due from a related party, where the carrying amount is reduced through the use of an allowance account. When trade receivables, other receivables and amount due from a related party are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Our Group's financial liabilities are generally classified into other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities, including trade and bill payables, accruals and other payables, amounts due to a shareholder/related parties and interest-bearing borrowings, are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by our Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and our Group has transferred substantially all the risks and rewards of ownership of the financial assets. If our Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, our Group recognises the retained interest in the asset and an associated liability for amounts we may have to pay. If our Group retains substantially all the risks and rewards of ownership of a transferred financial asset, our Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment loss on tangible assets

At the end of the reporting period, our Group reviews the carrying amounts of our tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, our Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Impairment of trade receivables and other receivables

Our Group makes impairment based on assessment of the recoverability of trade and other receivables. We make estimates based on the aging of the trade and other receivable balances, debtors' creditworthiness, and historical write-off experience. If the financial condition of our debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss may be required.

Share-based payments

Shares transferred to employees

The fair value of services received are determined by reference to the fair value of our Company's shares received by the employees of our Company and net with the net present value of the consideration paid by the employees, and is recognised as an expense when the shares transferred immediately, with a corresponding increase in equity (other reserve).

RESULTS OF OUR GROUP'S OPERATIONS

Selected information of consolidated comprehensive income statements

The table below sets forth the selected information of our Group's audited consolidated comprehensive income statements for each of the financial years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, which are also set forth in the Accountants' Report in Appendix I to this prospectus.

	For the year ended 31 December			For the six months ended 30 June	
	2008	**2009**	**2010**	**2010**	**2011**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
	(audited)	*(audited)*	*(audited)*	*(unaudited)*	*(audited)*
Revenue	136,188	194,912	378,289	101,357	140,158
Cost of sales	(102,519)	(127,496)	(272,644)	(72,784)	(93,516)
Gross profit	33,669	67,416	105,645	28,573	46,642
Other income and gains	372	533	3,896	367	110
Selling and distribution expenses	(4,443)	(5,846)	(10,391)	(2,388)	(3,973)
Share-based payment	—	—	—	—	(5,800)
Administrative expenses	(15,777)	(17,720)	(27,984)	(12,174)	(23,536)
Finance costs	(4,371)	(3,646)	(4,761)	(2,099)	(2,777)
Profit before tax	9,450	40,737	66,405	12,279	10,666
Income tax expense	(2,002)	(9,125)	(12,934)	(2,786)	(6,549)
Profit for the year/period	7,448	31,612	53,471	9,493	4,117

Principal comprehensive income statement components

Revenue

Our revenue mainly consists of sales of fabrics and innerwear products. Our sales volume is mainly driven by customer demands, our average selling prices, and our ability to maintain a product mix that satisfies customers' preference. For overseas customers, sales revenue is recognised when goods are either delivered to the designated local ports, mainly Qingdao port, loaded on board or placed at customers' warehouses at the ports (normally known as "Free on board" or "FOB") or shipped to the designated overseas ports (by ways of "cost, insurance and freight" or "CIF" and "free carrier" or "FCA") based on our contracts with overseas customers. For domestic customers, sales revenue is recognised when we deliver the goods to their premises directly. Our sales are mainly denominated and settled in USD and RMB.

Revenue by products

The following table sets out the breakdown of our revenue by fabrics and innerwear products during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
Revenue	**2008**		**2009**		**2010**		**2010**		**2011**	
	(RMB'000)	*(%)*	*(RMB'000)*	*(%)*	*(RMB'000)*	*(%)*	*(RMB'000)*	*(%)*	*(RMB'000)*	*(%)*
General fabrics	23,640	17.4	13,773	7.1	19,911	5.3	8,084	8.0	13,141	9.4
Functional fabrics	—	—	12,065	6.2	100,692	26.6	27,585	27.2	32,804	23.4
Sub-total	23,640	17.4	25,838	13.3	120,603	31.9	35,669	35.2	45,945	32.8
General innerwear	112,548	82.6	95,218	48.8	121,005	32.0	41,518	41.0	38,181	27.2
Functional innerwear	—	—	73,856	37.9	136,681	36.1	24,170	23.8	56,032	40.0
Sub-total	112,548	82.6	169,074	86.7	257,686	68.1	65,688	64.8	94,213	67.2
Total	136,188	100.0	194,912	100.0	378,289	100.0	101,357	100.0	140,158	100.0

Revenue generated from sales of fabrics included sales of our general and functional fabrics to third parties during the Track Record Period. General fabrics mainly represented fabrics made with cotton yarns, while functional fabrics included smart thermal insulation fabrics, water resistant fabrics, moisture control, anti-microbial and/or anti-odour made with synthetic yarns.

Revenue generated from sales of innerwear products mainly consisted of sales of men's and women's innerwear, including t-shirts, vests, long-sleeves pullovers, men's briefs and boxer briefs, women's panties, long johns; and also toddlers' and infants' bodysuits and bibs, on an OEM basis. According to our management, these innerwear products can be further classified into two categories, namely general innerwear comprising mainly innerwear made with cotton fabrics, and functional innerwear comprising mainly made with functional fabrics that incorporate features such as moisture control, anti-microbial and/or anti-odour respectively.

Revenue by geographical locations

The table below shows our revenue by geographical locations which are determined by the final destination to which our innerwear products and fabrics are delivered:

	For the year ended 31 December						For the six months ended 30 June			
Revenue	**2008**		**2009**		**2010**		**2010**		**2011**	
	(RMB'000) *(audited)*	*(%)*	*(RMB'000)* *(audited)*	*(%)*	*(RMB'000)* *(audited)*	*(%)*	*(RMB'000)* *(unaudited)*	*(%)*	*(RMB'000)* *(audited)*	*(%)*
Japan	114,974	84.4	160,595	82.4	196,443	51.9	56,869	56.1	78,428	56.0
PRC (including Hong Kong)	20,040	14.7	32,289	16.6	148,896	39.4	44,488	43.9	45,159	32.2
US	—	—	—	—	30,249	8.0	—	—	14,552	10.4
Others *(Note)*	1,174	0.9	2,028	1.0	2,701	0.7	—	—	2,019	1.4
Total	136,188	100.0	194,912	100.0	378,289	100.0	101,357	100.0	140,158	100.0

Note: Others represented sales made to Canada, Spain, Israel and Korea during the Track Record Period.

Majority of our sales were made to Japan during the Track Record Period with sales within the PRC gradually increased in 2009 and substantially increased in 2010. Started from 2010, we started to expand our business in the US. As a result, sales of approximately RMB30,249,000 and RMB14,552,000 to the US was recorded in 2010 and in the first half of 2011 respectively. It is estimated by our Directors that Japan and the PRC will continue to be our major sales markets in the near future and our Group will continue to develop our presence in other overseas markets, including the US and Europe.

Total units sold and average selling prices

The following table sets out the total units sold and average selling prices of our innerwear products and fabrics during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2008		**2009**		**2010**		**2010**		**2011**	
	Total units sold	**Average selling prices** *(RMB)*	**Total units sold**	**Average selling prices** *(RMB)*	**Total units sold**	**Average selling prices** *(RMB)*	**Total units sold**	**Average selling prices** *(RMB)*	**Total units sold**	**Average selling prices** *(RMB)*
General fabrics (tons)	584	40,480	340	40,520	401	49,710	174	46,540	195	67,290
Functional fabrics (tons)	—	—	226	53,280	1,317	76,430	410	67,240	399	82,170
Total	584		566		1,718		584		594	
General innerwear (pieces)	12,028,000	9.36	10,788,000	8.83	12,699,000	9.53	4,506,000	9.21	3,369,000	11.33
Functional innerwear (pieces)	—	—	3,909,000	18.89	7,095,000	19.26	1,827,000	13.23	3,430,000	16.33
Total	12,028,000		14,697,000		19,794,000		6,333,000		6,799,000	

Fabrics — total units sold

There was a slight decrease of about 18 tons, or 3.1% in our Group's aggregate sales volume of general and functional fabrics in 2009 as compared to that in 2008, which was a result of our change of product mix by focusing on the functional products starting from April 2009. During the year 2009, we were able to secure orders on functional fabrics from new customers who were looking for high performance functional fabrics and willing to pay higher premium. In view of the high utilisation rates of our weaving and knitting production capacity, we reserved our production capacity for such new orders and reduced our production of general fabrics in 2009. As a result, the total sales volume of our general fabrics decreased by approximately 41.8% from 584 tons for the year ended 31 December 2008 to 340 tons for the year ended 31 December 2009, while the total sales volume of our functional fabrics increased from nil to approximately 226 tons for the same period.

Our Group's aggregate sales volume of general and functional fabrics in 2010 increased significantly from around 566 tons in 2009 to 1,718 tons in 2010. Both sales volume of general and functional fabrics increased. The total sales volume of our general fabrics in 2010 increased by approximately 17.9% to 401 tons, while the total sales volume of our functional fabrics in 2010 increased by approximately 4.8 times to 1,317 tons. In addition to the customers we solicited in 2009, who continued to place and increase their orders to us in 2010, we were able to obtain orders from new customers. To cater for the increasing demands from our customers, we doubled our weaving and knitting production capacity in 2010.

For the six months ended 30 June 2011, our Group's aggregate sales volume of general and functional fabrics were 594 tons, representing a slight increase of 10 tons as compared to the corresponding period in 2010. The sales volume of general fabrics increased from 174 tons in the first half of 2010 to 195 tons in the same period of 2011, represented an increase of approximately 12.1% only. It was mainly due to the expansion of our operations in terms of production capacity and sales activity.

The sales volume of functional fabrics was comparable for both the six months ended 30 June 2010 and 2011 and amounted to approximately 410 tons and 399 tons respectively. The sales for the first half of both 2010 and 2011 were relatively low since our Group's functional fabrics mainly focus on functions of thermal insulation, which normally recorded higher sales in the second half of the year.

Innerwear — total units sold

There was an increase of about 2,669,000 pieces, or 22.2% in our Group's aggregate sales volume of general and functional innerwear in 2009 as compared to that in 2008, which was a result of our change of product mix by focusing on the functional products starting from April 2009. We were able to secure orders on functional innerwear from new customers during 2009. In view of the high utilisation rates of our production capacity, we reserved our cutting and sewing production capacity for such new orders and reduced our production of general innerwear in 2009. As a result, the total sales volume of our general innerwear decreased by approximately 10.3% from 12,028,000 pieces for the year ended 31 December 2008 to 10,788,000 pieces for the year ended 31 December 2009, and the total sales volume of our functional innerwear increased from nil for the year ended 31 December 2008 to approximately 3,909,000 pieces for the year ended 31 December 2009.

Our Group's aggregate sales volume of general and functional innerwear in 2010 increased from approximately 14,697,000 pieces in 2009 to approximately 19,794,000 pieces in 2010. Both sales volume of general and functional innerwear increased. The total sales volume of our general innerwear in 2010 increased by approximately 17.7% to 12,699,000 pieces, while the total sales volume of our functional innerwear in 2010 increased by approximately 81.5% to 7,095,000 pieces. In addition to the customers we solicited in 2009, who continued to place and increase their orders to us in 2010, we were able to obtain orders from new customers. To cater for the increasing demands from our customers, we increased our cutting and sewing production capacity in 2010.

For the six months ended 30 June 2011, our Group's aggregate sales volume of general and functional innerwear amounted to approximately 6,799,000 pieces, representing a slight increase of about 7.4% as compared to approximately 6,333,000 pieces in the same period of 2010. The sales volume of general innerwear decreased by approximately 25.2% from approximately 4,506,000 pieces for the first half of 2010 to approximately 3,369,000 pieces for the same period in 2011 while our sales volume of functional innerwear increased from approximately 1,827,000 pieces to approximately 3,430,000 pieces, representing an increase of about 87.7%. Such changes were mainly due to the result of our Group's continuous efforts on manufacturing functional products since such strategy was firstly adopted in April 2009. In particular, those customers we solicited in 2009 and 2010 increased their orders in 2011 and hence increased our sales volume of functional innerwear.

Fabrics — average selling prices

The average selling price of our general fabrics was maintained at a similar level of RMB40,480 per ton for the year ended 31 December 2008 and RMB40,520 per ton for the year ended 31 December 2009, then increased by 22.7% to RMB49,710 per ton for the year ended 31 December 2010, and further increased by 35.4% to RMB67,290 per ton for the six months ended 30 June 2011. The increase in the average selling price of our general fabrics in 2010 and 2011 was primarily because of partial increment in our cost of raw materials, in particular cotton yarns, were transferred to our customers.

The average selling price of our functional fabrics also increased by approximately 43.4% from RMB53,280 per ton for the year ended 31 December 2009 to RMB76,430 per ton for the year ended 31 December 2010, and further increased by 7.5% to RMB82,170 per ton for the six months ended 30 June 2011. This increase was primarily attributed to the expansion of our range of product offerings and improvement in the quality of our fabrics, which allowed us to increase overall prices of our functional fabrics. Besides, part of the increase in cost of raw materials, including synthetic yarns and dyes, were transferred to our customers.

Innerwear — average selling prices

The average selling price of our general innerwear products decreased by approximately 5.7% from RMB9.36 per piece for the year ended 31 December 2008 to RMB8.83 per piece for the year ended 31 December 2009, then increased by approximately 7.9% to RMB9.53 per piece for the year ended 31 December 2010 and further increased by 18.9% to RMB11.33 per piece for the six months ended 30 June 2011. Despite the fluctuation on our cost of raw materials, only slight fluctuation was noted for the average unit price of our general innerwear products during the three years ended 31 December 2010. Unlike our fabric segment, most of the customers of these products have long-established relationships with us, therefore, only part of the increase in cost of raw materials were transferred to them in 2010. Since our cost of cotton yarns increased continuously in first quarter of 2011, we therefore further transferred the increase in costs to our customers.

Despite there was an increase in cost of raw materials of our functional innerwear in 2010, we only partially shifted such increment to our customers in order to maintain the long-term relationships with them. Therefore, no material fluctuation was noted for the average selling prices of our functional innerwear products for the two years ended 31 December 2009 and 2010, which were RMB18.89 per piece and RMB19.26 per piece respectively. However, the average selling price for our functional innerwear decreased from RMB19.26 per piece for the year ended 31 December 2010 to RMB16.33 per piece for the six months ended 30 June 2011, representing a decrease of approximately 15.2%. Such decrease was mainly attributable to the different product mix for the whole year of 2010 and first half of 2011. As the average selling price for autumn/winter functional innerwear is normally higher than that for spring/summer functional innerwear, higher average selling price for the whole year of 2010 was noted as it was calculated based on the selling price of both autumn/winter and spring/summer functional innerwear while the average selling price for the first half 2011 was calculated based on the selling price of spring/summer functional innerwear only.

Cost of sales

The key components of our cost of sales are cost of raw materials, direct labour costs, subcontracting charges and production overheads, including spare parts and consumables of machinery and depreciation.

	For the year ended 31 December						For the six months ended 30 June			
	2008		2009		2010		2010		2011	
	(RMB'000) *(audited)*	*(%)*	*(RMB'000)* *(audited)*	*(%)*	*(RMB'000)* *(audited)*	*(%)*	*(RMB'000)* *(unaudited)*	*(%)*	*(RMB'000)* *(audited)*	*(%)*
Raw materials	52,949	51.7	73,503	57.7	187,828	68.9	41,837	57.5	56,255	60.2
Direct labour costs	14,997	14.6	17,857	14.0	31,205	11.4	11,414	15.7	14,510	15.5
Subcontracting charges	8,301	8.1	11,932	9.4	22,016	8.1	5,569	7.7	8,096	8.7
Fuel charges	8,952	8.7	9,353	7.3	13,384	4.9	6,850	9.4	5,717	6.1
Depreciation	4,730	4.6	5,693	4.4	7,580	2.8	3,357	4.6	3,879	4.1
Spare parts and consumables	1,085	1.1	1,378	1.1	3,031	1.1	773	1.1	1,208	1.3
Input VAT	5,722	5.6	2,115	1.7	2,288	0.8	631	0.9	920	1.0
Others	5,783	5.6	5,665	4.4	5,312	2.0	2,353	3.1	2,931	3.1
Total	102,519	100.0	127,496	100.0	272,644	100.0	72,784	100.0	93,516	100.0

Our Group's cost of sales primarily consisted of (i) cost of raw materials, including cotton yarns, synthetic yarns, greige fabrics, dyes and also accessories, e.g. thread, trimmings, buttons and zippers, etc.; (ii) direct labour costs incurred for our own manufacturing operations; (iii) subcontracting charges for outsourcing part of the production processes, mainly knitting, sewing and embroidery, to subcontractors; (iv) fuel charges; (v) depreciation; (vi) spare parts and consumables of machinery; (vii) input VAT and (viii) miscellaneous production overheads.

Cost of sales for the financial years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 represented approximately 75.3%, 65.4%, 72.1% and 66.7% of our revenue for the corresponding periods.

Set out below is the breakdown of raw materials purchased by our Group during the Track Record Period.

	For the year ended 31 December			For the six months ended 30 June	
	2008	**2009**	**2010**	**2010**	**2011**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Cotton yarns	26,289	18,792	21,946	8,143	10,044
Synthetic yarns	10,510	30,010	105,728	23,519	26,644
Greige fabrics	281	5,627	40,809	4,163	8,106
Others	15,869	19,074	19,345	6,012	11,461
Total	52,949	73,503	187,828	41,837	56,255

Cotton yarn is the major raw material for manufacturing general fabrics, and hence general innerwear. As our Group has changed the product mix since April 2009 as detailed in the paragraph headed "Factors affecting our results of operations — Product mix" in this section, the amounts of purchases of cotton yarns decreased in the years 2009 and 2010 when compared to that of year 2008 as we shifted our focus on manufacturing functional fabrics and innerwear instead of general ones. On the other hand, the amounts of our Group's purchases of synthetic yarns, which are the major material for manufacturing functional fabrics, increased by approximately 1.9 times from RMB10,510,000 for the year ended 31 December 2008 to RMB30,010,000 for the year ended 31 December 2009, and further increased by approximately 2.5 times to RMB105,728,000 for the year ended 31 December 2010. For the six months ended 30 June 2011, the purchases of synthetic yarns amounted to approximately RMB26,644,000, representing an increase of approximately 13.3% from approximately RMB23,519,000 for the corresponding period in 2010 and the purchases of cotton yarns increased by approximately 23.3% to approximately RMB10,044,000 for the six month ended 30 June 2011 from approximately RMB8,143,000 for the same period in 2010. Such increases were primarily due to the increases in crude oil price and cotton price in the first quarter of 2011. Besides, the increase in sales volume of general fabrics in the first half of 2011 also led to the increase in purchase amounts of cotton yarns. Details of the increase in sales volume was set out in the paragraph headed "Total units sold and average selling prices — Fabrics — total units sold" above.

Fabrics are the key raw material for manufacturing innerwear. We used both self-manufactured fabrics and external-sourced fabrics for the production of our innerwear. Fabrics purchased by us from external suppliers are mainly general fabrics without special function. The amounts of fabrics purchased by us from external suppliers increased during the Track Record Period which was a result of shifting our focus on manufacturing functional fabrics and innerwear since April 2009. In order to develop our fabrics segment, we solicited new fabric customers and hence increased our external sales of functional fabrics to these customers instead of occupying limited fabric production capacity to supply general fabrics for our Group's self consumption. In addition, the increase in the price of yarns also increased our cost of fabrics purchased. As such, the amounts of our purchases of fabrics increased by approximately 19.0 times from RMB281,000 for the year ended 31 December 2008 to RMB5,627,000 for the year ended 31 December 2009, and further increased by approximately 6.3 times to RMB40,809,000 for the year ended 31 December 2010. For the six months ended 30 June 2011, the purchases of greige fabrics amounted to RMB8,106,000, representing an increase of approximately 94.7%, as compared to approximately RMB4,163,000 for the same period of 2010.

Other raw materials include dyes and apparel sewing-related materials such as thread, trimmings, buttons and zippers.

Gross profit and gross profit margins

	For the year ended 31 December						For the six months ended 30 June			
	2008		2009		2010		2010		2011	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(RMB'000)	*(%)*	*(RMB'000)*	*(%)*	*(RMB'000)*	*(%)*	*(RMB'000)*	*(%)*	*(RMB'000)*	*(%)*
General fabrics	2,998	12.7	4,172	30.3	2,904	14.6	1,174	14.5	2,155	16.4
Functional fabrics	—	—	4,539	37.6	27,329	27.1	6,815	24.7	10,755	32.8
Sub-total	2,998		8,711		30,233		7,989		12,910	
General innerwear	30,671	27.3	29,459	30.9	24,043	19.9	9,294	22.4	7,787	20.4
Functional innerwear	—	—	29,246	39.6	51,369	37.6	11,290	46.7	25,945	46.3
Sub-total	30,671		58,705		75,412		20,584		33,732	
	33,669	24.7	67,416	34.6	105,645	27.9	28,573	28.2	46,642	33.3

Three years ended 31 December 2010

The gross profit margin for our general fabrics increased from approximately 12.7% for the year ended 31 December 2008 to approximately 30.3% for the year ended 31 December 2009 primarily because the cost of dyes decreased during the year 2009 which was affected by the decrease in average crude oil price from US$95.62 per barrel in 2008 to US$60.07 per barrel in 2009.

The gross profit margin for our general fabrics decreased from approximately 30.3% for the year ended 31 December 2009 to approximately 14.6% for the year ended 31 December 2010, whilst the gross profit margin for our functional fabrics also decreased from approximately 37.6% for the year ended 31 December 2009 to approximately 27.1% for the year ended 31 December 2010. It was largely due to the significant increase in the costs of raw materials, particularly for cotton yarns, synthetic yarns, greige fabrics and dyes during the year 2010. Average cotton price increased from RMB12,804 per ton in 2009 to RMB19,373 per ton in 2010, whilst average crude oil price also increased from US$60.07 per barrel in 2009 to US$77.68 per barrel in 2010.

The gross profit margin for our general innerwear increased from approximately 27.3% for the year ended 31 December 2008 to approximately 30.9% for the year ended 31 December 2009, which was mainly due to the decrease in cost of dyes mentioned above.

The gross profit margin for our general innerwear decreased from approximately 30.9% for the year ended 31 December 2009 to approximately 19.9% for the year ended 31 December 2010 whilst our functional innerwear decreased from approximately 39.6% for the year ended 31 December 2009 to approximately 37.6% for the year ended 31 December 2010. It was largely due to the increase in the costs of raw materials in 2010.

Despite the increase in cost of raw materials in 2010 led to the decrease in gross profit margins of both our innerwear and fabrics, the decrease in gross profit margins of our innerwear was less than that of our fabrics. Most of the increase in prices of raw materials was absorbed by our fabrics products as cotton yarns and synthetic yarns are the key raw materials for the manufacturing of general and functional fabrics respectively. Accordingly, the increase in prices of cotton yarns and synthetic yarns in 2010 had a greater and direct impact on the gross profit margin of our fabrics products. Our innerwear products, however, are mainly made of fabrics and only need certain accessories such as zippers, tags and labels, and thus are not directly affected by the increase in prices of cotton yarns and synthetic yarns as much as that on our fabrics products. Besides, we normally add extra margin on innerwear on top of the margin on fabrics for additional production process, therefore, the decrease in gross profit margins of innerwear was less than that of our fabrics.

Six months ended 30 June 2011

The gross profit margins of our general and functional fabrics increased from approximately 14.5% and 24.7% for the six months ended 30 June 2010 to 16.4% and 32.8% for the six months ended 30 June 2011 respectively. The increase was primarily due to the expansion of our range of product offerings and improvement in our fabric quality. Prices of our functional fabrics generally increased, as certain customers were willing to pay more for that.

The gross profit margins of our general and functional innerwear slightly decreased from approximately 22.4% and 46.7% for the six months ended 30 June 2010 to approximately 20.4% and 46.3% for the corresponding period ended 30 June 2011 as a result of increases in raw material cost and labour cost.

Other income and gains

For the three years ended 31 December 2010, other income and gains comprised interest income from bank deposits, rental income generated from an investment property held by our Group in Hong Kong before the property was sold in 2010 and gain on disposal of the same investment property in 2010. For the six months ended 30 June 2011, other income and gains mainly represent interest income from bank deposits.

Selling and distribution expenses

Selling and distribution expenses consisted principally of transportation costs, salaries and commission paid, inspection fee, cargo insurance and port expenses, e.g. declaration and customs charges, storage and transportation fee incurred in ports. Selling and distribution expenses amounted to approximately RMB4,443,000, RMB5,846,000, RMB10,391,000 and RMB3,973,000 for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 respectively and approximately 3.3%, 3.0%, 2.7% and 2.8% of our revenue for the corresponding periods.

Share-based payment

For the six months ended 30 June 2011, a one-off share-based payment of RMB5,800,000 in relation to the Share Compensation (details of which is set out in the paragraph headed "History, reorganisation and group structure — Pre-listing Share compensation to our management" of this prospectus) was incurred.

Administrative expenses

Administrative expenses consisted mainly of salaries, staff benefits and social insurance, travelling expenses, depreciation of office equipment, amortisation of prepaid lease payments of leasehold lands and ERP system, motor vehicles expenses, bank charges, exchange difference, office expenses, and other taxes, including stamp duties, house tax, land use tax and individual income tax withheld during the Track Record Period. In addition, for the six months ended 30 June 2011, certain one-off professional fees in relation to the Listing were incurred and accounted as part of the administrative expenses. Administrative expenses were approximately RMB15,777,000, RMB17,720,000, RMB27,984,000 and RMB23,536,000 for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 respectively and represented approximately 11.6%, 9.1%, 7.4% and 16.8% of our revenue for the corresponding periods.

Finance costs

Finance costs consisted of interest expenses from bank loans and other loans.

Income tax expense

Income tax expense represented the corporate income tax paid and deferred tax provided by us during the Track Record Period.

(i) Corporate income tax

Pursuant to the rules and regulations of the BVI, our Group is not subject to any income tax in the BVI.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, the applicable tax rate for the subsidiaries incorporated in Hong Kong is 16.5% for the year ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011.

No provision for Hong Kong Profits Tax has been made as our Hong Kong subsidiary has unused tax loss available to offset against assessable profits for the years ended 31 December 2008 and 2009.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year ended 31 December 2010.

No provision for Hong Kong Profits Tax has been made as there was no estimated assessable profit derived from Hong Kong subsidiaries for the six months ended 30 June 2010 and 30 June 2011.

Pursuant to the EIT Law and other relevant tax rules and regulations of the PRC, our PRC companies comprising our Group are subject to EIT in the PRC as follows:

	For the year ended 31 December			For the six months ended 30 June
	2008	**2009**	**2010**	**2011**
Zhucheng Eternal Knitting *(notes 1, 2, 3 & 4)*	12.5%	25%	25%	25%
Zhucheng Yumin Knitting *(notes 1, 2, 3 & 5)*	12.5%	12.5%	12.5%	25%
Shandong Grand Concord *(notes 1, 2 & 6)*	25%	25%	25%	25%

Notes:

1. Prior to 1 January 2008, EIT payable by foreign investment enterprises in the PRC was governed by the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises (promulgated on 9 April 1991 and became effective on 1 July 1991). Pursuant to this tax law, EIT on foreign investment enterprises of a production nature established in coastal economic open zones or in the old urban districts of cities where the special economic zones or the economic and technological development zones are located, was levied at the reduced rate of 24%. Any foreign investment enterprises of a production nature scheduled to operate for a period of not less than 10 years was exempted from EIT for the first 2 financial years commencing from the first profit-making year and allowed a 50% reduction in the subsequent 3 financial years.

2. On 16 March 2007, the new EIT Law was promulgated by Order No.63 of the President of the PRC. In order to clarify certain provisions in the new EIT Law, the State Council of the PRC issued the Implementation Rules on 6 December 2007. Both of the new EIT Law and the Implementation Rules became effective on 1 January 2008. A single EIT rate of 25% would be imposed on both domestic enterprises and foreign investment enterprises starting from 1 January 2008. Nevertheless, certain relief was provided during the transitional periods for enterprises established before 16 March 2007. Pursuant to《國務院關於實施企業所得稅過渡優惠政策的通知》(Notice of the State Council on the implementation of transitional preferential policies in respect of the EIT*) promulgated on 26 December 2007 and also took effect on 1 January 2008, foreign investment enterprises which were established before 16 March 2007 and were enjoying preferential tax treatment at the time when the new EIT Law promulgated would continue to enjoy the tax exemption or tax benefit up to the expiry of its preferential treatment term or till the financial year ended 31 December 2012, whichever is earlier.

3. Zhucheng Eternal Knitting and Zhucheng Yumin Knitting were established as foreign investment enterprises on 24 October 2000 and 22 November 2004 respectively, each of them continued to enjoy the tax exemption for the first 2 financial years commencing from the first profit-making year and tax reduction of 50% in the subsequent 3 financial years up to its expiry.

4. The first profit-making year of Zhucheng Eternal Knitting was 2004. The applicable tax rate of Zhucheng Eternal Knitting was 12.5% for the year 2008 and 25% for the remaining Track Record Period.

5. The first profit-making year of Zhucheng Yumin Knitting was 2006. The applicable tax rate of Zhucheng Yumin Knitting was 12.5% for the years 2008, 2009 and 2010 and 25% for the remaining Track Record Period.

6. Shandong Grand Concord was established as foreign investment enterprise on 9 July 2007, therefore, no preferential treatment of tax exemption and tax benefit was granted to Shandong Grand Concord and the applicable tax rate of Shandong Grand Concord was 25% during the Track Record Period. However, no provision of EIT has been made for Shandong Grand Concord as it did not has any assessable profits subject to EIT for the Track Record Period.

(ii) Withholding tax

According to joint circular of the Ministry of Finance and State Administration of Taxation — Cai Shui 2008 No. 1, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred tax liabilities of approximately RMB191,000, associated with the undistributed earnings of PRC subsidiaries have been charged to the consolidated statements of comprehensive income for the year ended 31 December 2008. Deferred taxation has not been provided for the years ended 31 December 2009 and 2010 and the six months ended 30 June 2011 in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB25,637,000, RMB81,083,000 and RMB95,012,000 as at 31 December 2009 and 2010 and 30 June 2011 as our Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such temporary differences will not reverse in the foreseeable future.

The taxation for the Track Record Period can be reconciled to the profit before tax per the consolidated statements of comprehensive income as follows:

	For the year ended 31 December			For the six months ended 30 June	
	2008	**2009**	**2010**	**2010**	**2011**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Profit before tax	9,450	40,737	66,405	12,279	10,666
Tax at the domestic tax rate of 25%	2,363	10,184	16,601	3,070	2,666
Tax effect of non-taxable income	—	—	(823)	—	(4)
Tax effect of non-deductible expenses	439	158	307	851	2,947
Deferred tax liabilities associated with undistributed profit of PRC subsidiaries	191	—	—	—	—
Effect of different tax rates of subsidiaries' operations in other jurisdictions and tax on concessionary tax rate	(1,555)	(1,908)	(5,791)	(1,230)	(220)
Withholding tax on distributed profit	—	—	—	—	358
Tax effect of tax losses not recognised	564	691	2,640	95	802
Tax charge for the year/period	2,002	9,125	12,934	2,786	6,549

PERIOD TO PERIOD/YEAR TO YEAR COMPARISON OF RESULTS OF OUR GROUP'S OPERATIONS

Six months ended 30 June 2011 compared with six months ended 30 June 2010

Revenue

For the six months ended 30 June 2011, our Group recorded a revenue of approximately RMB140,158,000, representing an increase of approximately RMB38,801,000, or 38.3%, from approximately RMB101,357,000 for the six months ended 30 June 2010 as our Group continued the business strategy of focusing on manufacturing functional innerwear and fabrics, which was firstly adopted in April 2009. In addition, our Group was able to maintain stable relationships with those customers who were newly-solicited in 2009 and 2010 and continued doing business with and even, increased our sales to them in the first half of 2011. The sales volume of general fabrics, functional fabrics, general innerwear and functional innerwear for the six months ended 30 June 2011 were 195 tons, 399 tons, 3,369,000 pieces and 3,430,000 pieces respectively, while the sales volume of these products for the six months ended 30 June 2010 were 174 tons, 410 tons, 4,506,000 pieces and 1,827,000 pieces respectively.

Our sales of fabrics amounted to approximately RMB45,945,000 for the six months ended 30 June 2011, representing an increase of approximately RMB10,276,000, or 28.8%, when compared to the corresponding period in 2010, which was mainly due to the increase in the average selling prices of both general and functional fabrics for the six months ended 30 June 2011 despite the aggregate sale volume of general and function fabrics only increased by 10 tons during the period of 2011. Details of the average selling price for fabrics are set out in the paragraph headed "Results of our Group's operations — Principal comprehensive income statement components — Total units and average selling price — Fabrics — average selling prices" in this section. Sales of fabrics for the six months ended 30 June 2011 accounted for approximately 32.8% of our total revenue during the same period.

Sales of innerwear products amounted to RMB94,213,000, representing approximately 67.2% of our revenue for the six months ended 30 June 2011, while sales of innerwear products for the six months ended 30 June 2010 amounted to RMB65,688,000, representing approximately 64.8% of our revenue during the same period. The increase in sales of innerwear products in the amount of approximately RMB28,525,000 or approximately 43.4% for the six months ended 30 June 2011 was mainly due to the increase in the average selling price of both general and functional innerwear for the six months ended 30 June 2011 as compared to the same period in 2010 despite the aggregate sale volume of general and function innerwear only increased by 7.4% during the comparison period of 2011. Details of the average selling price for innerwear are set out in the paragraph headed "Results of our Group's operations — Principal comprehensive income statement components — Total units and average selling price — Innerwear — average selling prices" in this section.

Cost of sales

For the six months ended 30 June 2011, our cost of sales amounted to approximately RMB93,516,000, representing an increase of approximately RMB20,732,000 or 28.5%, from approximately RMB72,784,000 for the six months ended 30 June 2010. It was mainly due to the increase in sales volume in the first half of 2011, and hence costs of raw materials (which was also affected by the increases in crude oil price and cotton price in the first quarter of 2011), direct labour cost and subcontracting charges increased in this period.

Gross profit and gross profit margin

Our gross profit amounted to approximately RMB46,642,000 for the six months ended 30 June 2011, representing an increase of approximately RMB18,069,000 from the gross profit of approximately RMB28,573,000 for the six months ended 30 June 2010 as a result of the increase in average selling prices of our products in the first half of 2011. Our overall gross profit margin increased from approximately 28.2% for the six months ended 30 June 2010 to 33.3% for the six months ended 30 June 2011 due to (i) the expansion of our range of product offerings and improvement in our product quality; (ii) increase in the percentage of sales of functional products, which had a higher gross profit margin; and (iii) both existing and new customers (through referral) were willing to pay a higher price for our quality.

Other income and gains

Our other income and gains for the six months ended 30 June 2011 amounted to approximately RMB110,000 which mainly represented interest income from bank deposits while other income and gains for the six months ended 30 June 2010 in an amount of approximately RMB367,000 also included rental income generated from an investment property held by our Group in Hong Kong before the same was sold in second half of 2010.

Selling and distribution expenses

For the six months ended 30 June 2011, our selling and distribution expenses amounted to approximately RMB3,973,000, representing an increase of approximately RMB1,585,000 or 66.4%, from approximately RMB2,388,000 for the six months ended 30 June 2010, as a result of the increase in sales for the six months ended 30 June 2011 as compared to the same period in 2010. The selling and distribution expenses accounted for 2.4% and 2.8% of the revenue for the six months ended 30 June 2010 and 2011 respectively.

Share-based payment

For the six months ended 30 June 2011, a one-off share-based payment of RMB5,800,000 in relation to the Share Compensation (details of which is set out in the paragraph headed "History, reorganisation and group structure — Pre-listing Share compensation to our management" of this prospectus) was incurred.

Administrative expenses

For the six months ended 30 June 2011, our administrative expenses amounted to approximately RMB23,536,000, representing an increase of approximately RMB11,362,000, or 93.3%, from approximately RMB12,174,000 for the six months ended 30 June 2010. Such increase was primarily due to certain one-off professional fees of approximately RMB5,610,000 in relation to the Listing was incurred and accounted as part of the administrative expenses. Furthermore, salaries for the administrative staff have increased by approximately RMB2,252,000 for the six months ended 30 June 2011 as compared to that of the same period in 2010. The relevant staff benefits and social insurance, which were calculated based on their salaries, also increased for the six months ended 30 June 2011. Besides, there was an increase in the amount of new year bonus paid to our senior management in the six months ended 30 June 2011 for their performance in the year of 2010.

Finance costs

Our finance costs amounted to approximately RMB2,777,000 for the six months ended 30 June 2011, representing an increase of approximately RMB678,000 or 32.3%, from approximately RMB2,099,000 for the six months ended 30 June 2010. Such increase was mainly due to the increase in our outstanding balance of short-term and long-term interest-bearing loans, which amounted to approximately RMB131,046,000 as at 30 June 2011 as compared to approximately RMB115,639,000 as at 30 June 2010.

Profit before tax

Despite our sales (in terms of both volume and amounts) increased for the six months ended 30 June 2011 as compared to the corresponding period in 2010, our profit before tax decreased from approximately RMB12,279,000 for the six months ended 30 June 2010 to approximately RMB10,666,000 for the six months ended 30 June 2011, representing a decrease of approximately 13.1%, as a result of the increase in administrative expenses and the incurrence of share-based payment as detailed in the sub-paragraphs headed "Administrative expenses" and "Share-based payment" above.

Income tax expense

Our income tax expense amounted to approximately RMB6,549,000 for the six months ended 30 June 2011, representing an effective tax rate of approximately 61.4%. As compared to our income tax expense of approximately RMB2,786,000, representing an effective tax rate of approximately 22.7% for the six months ended 30 June 2010, our income tax expense increased by approximately 135.1%, which was primarily due to (i) the term of 50% tax reduction expired for Zhucheng Yumin Knitting and Zhucheng Yumin Knitting was since then subject to the standard EIT rate of 25% for the six months ended 30 June 2011 as compared to the EIT rate of 12.5% for the corresponding period in 2010; and (ii) the tax effect of RMB2,947,000 on non-deductible expenses including professional fees for Listing and the share-based payment mentioned in the sub-paragraphs headed "Administrative expenses" and "Share-based payment" above. As a result, our overall effective tax rate increased in the first half of 2011.

Profit for the period and profit margin

We recorded a net profit of approximately RMB4,117,000 for the six months ended 30 June 2011, representing a decrease of approximately RMB5,376,000 or 56.6%, from approximately RMB9,493,000 for the six months ended 30 June 2010 as a result of the increase in administrative expenses and the incurrence of share-based payment as detailed in the sub-paragraphs headed "Administrative expenses" and "Share-based payment" above. Accordingly, our profit margin for the six months ended 30 June 2011 was approximately 2.9%, as compared to approximately 9.4% for the corresponding period in 2010.

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

Revenue

For the year ended 31 December 2010, our Group recorded a revenue of approximately RMB378,289,000, representing an increase of approximately RMB183,377,000, or approximately 94.1%, from approximately RMB194,912,000 for the year ended 31 December 2009. The sale volume of general fabrics, functional fabrics, general innerwear and functional innerwear for the year ended 31 December 2010 were approximately 401 tons, and 1,317 tons, 12,699,000 pieces and 7,095,000 pieces respectively, whilst the sale volume of these products for the year ended 31 December 2009 were approximately 340 tons, 226 tons, 10,788,000 pieces and 3,909,000 pieces respectively.

The growth in revenue was mainly due to the adjustment on our product development strategy. Starting from April 2009, we changed our focus from general fabrics and innerwear to functional fabrics and innerwear. During the year 2010, we continued to adopt this strategy and further expanded our fabrics segment. In 2010, we not only increased our sales of functional innerwear to our OEM customers, but also increased our sale of functional fabrics to domestic manufacturers, who are our new customers. Our sales of functional fabrics also increased by approximately RMB88,627,000, or approximately 7.3 times, from RMB12,065,000 for the year ended 31 December 2009 to RMB100,692,000 for the year ended 31 December 2010.

Sales of innerwear products remained the major revenue stream of our Group although its proportion to our total revenue dropped from about 86.7% in 2009 to 68.1% in 2010. The sales of innerwear products amounted to approximately RMB257,686,000 for the year ended 31 December 2010, significantly increased by approximately RMB88,612,000, or approximately 52.4%, from approximately RMB169,074,000 for the year ended 31 December 2009. It was mainly attributed to the full-year implementation of the strategy mentioned above in 2010, as compared to only 8-months implementation in 2009. The proportion of general and functional innerwear sold to total revenue was changed from approximately 48.8% and 37.9% in 2009 to approximately 32.0% and 36.1% in 2010. New customers we solicited in 2009 who were interested in our functional innerwear continued to place and increase their orders to us. As a result, the sales of functional innerwear increased by approximately 85.1% from approximately RMB73,856,000 for the year ended 31 December 2009 to approximately RMB136,681,000 for the corresponding period of 2010 while the sales of general innerwear only increased by approximately 27.1% from approximately RMB95,218,000 for the year ended 31 December 2009 to approximately RMB121,005,000 for the corresponding period of 2010. The increase in sales of general innerwear in 2010 mainly represented our sales of infants' and toddlers' innerwear amounted to approximately RMB26,895,000 to a new customer in the US through a sourcing agent.

Cost of sales

For the year ended 31 December 2010, cost of sales was approximately RMB272,644,000, representing an increase of approximately RMB145,148,000 or approximately 1.1 times, from approximately RMB127,496,000 for the year ended 31 December 2009. Cost of raw materials, direct labour costs and subcontracting charges increased significantly during the year ended 31 December 2010 as a result of the increase in sales volume in 2010 and also the increases in unit prices of certain raw materials, particularly for cotton yarns and fabrics, synthetic yarns and dyes which were affected directly by the commodity prices of cotton and crude oil. Average price of cotton per ton increased from RMB12,804 in 2009 to RMB19,373 in 2010, while the average price of crude oil per barrel increased from US$60.07 in 2009 to US$77.68 in 2010. Cost of direct labour incurred for our own manufacturing operations also increased due to the general inflation in the PRC during the year 2010. Subcontracting charges increased as we needed to subcontract more knitting, sewing and embroidery processes to subcontractors to meet delivery schedules during our peak season when our production capacity was temporarily fully loaded.

Gross profit and gross profit margin

Our gross profit of approximately RMB105,645,000 for the year ended 31 December 2010 increased by approximately 56.7% from approximately RMB67,416,000 for the year ended 31 December 2009 as a result of increase in sales volume in 2010. Our overall gross profit margin decreased from approximately 34.6% for the year ended 31 December 2009 to approximately 27.9% for the corresponding period in 2010. The decrease in gross profit margin was mainly due to the increase in cost of sales mentioned above and the change our product mix in 2010. Although both of our sales of functional fabrics and functional innerwear increased in 2010, our sales of functional fabrics increased at a rate greater than that of sales of functional innerwear. The percentage of sales of functional fabrics increased from approximately 6.2% in 2009 to approximately 26.6% in 2010 while the percentage of sales of functional innerwear decreased from approximately 37.9% in 2009 to approximately 36.1% in 2010. Since we normally add extra margin for our additional process to produce the functional fabrics into innerwear, the gross profit margin of functional innerwear, which was approximately 37.6% in 2010, was generally higher than that of functional fabrics, which was approximately 27.1% in 2010. Besides, as mentioned in the sub-paragraph headed "Revenue" above, we also increased our sales of innerwear for infants. In order to capture new customers and expand our sales, we offered our customers a lower price for these products. Nevertheless, the production cost for these products was higher than our other general innerwear as this segment was still at a early stage of development and we have not achieved the economies of scale in the production of these products. As a result of the above, there was a decrease of our overall gross profit margin in 2010 as compared to that of 2009.

Other income and gains

For the year ended 31 December 2010, our other income and gains were approximately RMB3,896,000, representing an increase of approximately RMB3,363,000, or approximately 6.3 times, from approximately RMB533,000 for the year ended 31 December 2009. Such increase principally reflects the gain of approximately RMB3,293,000 on disposal of an investment property held by our Group in Hong Kong in August 2010 to Sea Union International Limited, a related party to our Group.

Selling and distribution expenses

For the year ended 31 December 2010, our Group recorded a selling and distribution expenses of approximately RMB10,391,000, representing an increase of approximately RMB4,545,000, or approximately 77.7%, from approximately RMB5,846,000 for the year ended 31 December 2009. Such increase was principally due to the increase of approximately RMB3,379,000 in transportation costs incurred for (i) local delivery as a result of increase in our sale of functional fabrics to our new local customers and (ii) overseas delivery as a result of increase in our sales of infants' innerwear during the year ended 31 December 2010 mentioned in the sub-paragraph headed "Revenue" above.

Administrative expenses

For the year ended 31 December 2010, the administrative expenses were approximately RMB27,984,000, representing an increase of approximately RMB10,264,000, or approximately 57.9%, from approximately RMB17,720,000 for the year ended 31 December 2009. Such increase was mainly attributed to the increase in staff salaries and welfare as a result of group expansion, average number of staff increased from 152 to 171 with average salary increased by approximately 14.8% during the year 2010. It was also attributed to the increases in depreciation of office equipment and amortisation of prepaid lease payments of leasehold lands and ERP system, exchange difference, motor vehicle expenses, office expenses and other taxes due to our business expansion.

Finance costs

For the year ended 31 December 2010, our finance cost was approximately RMB4,761,000, representing an increase of approximately RMB1,115,000, or approximately 30.6%, from approximately RMB3,646,000 for the year ended 31 December 2009. Such increase was mainly due to the increase in our outstanding balance of interest-bearing loans from approximately RMB62,156,000 as at 31 December 2009 to approximately RMB85,813,000 as at 31 December 2010.

Profit before tax

As a result of the increase in our sales (both in terms of volume and amounts) in year 2010 as discussed in the sub-paragraph headed "Revenue" above, our profit before tax recorded an increase of around RMB25,668,000 from approximately RMB40,737,000 for the year ended 31 December 2009 to approximately RMB66,405,000 for the year ended 31 December 2010, representing a growth of approximately 63.0%.

Income tax expense

We recorded an income tax expense for the year ended 31 December 2010 amounted to approximately RMB12,934,000, representing an effective tax rate of approximately 19.5%. As compared with the income tax expense of approximately RMB9,125,000 for the year ended 31 December 2009, which represented an effective tax rate of about approximately 22.4%, our income tax expense increased by approximately 41.7%. The drop in effective tax rate was principally attributed to the increase in profit contributed by Zhucheng Yumin Knitting. Zhucheng Yumin Knitting is engaged in manufacture and sales of fabrics and still enjoys the tax reduction of 50% in 2010. As a result of increase in sales of fabrics, its profit for the year ended 31 December 2010 increased and increased at a faster rate as compared to that of Zhucheng Eternal Knitting, which is engaged in the manufacture and sales of innerwear and is subject to the standard EIT rate of 25%. As a result, our overall effective tax rate decreased in 2010.

Profit for the year and profit margin

For the year ended 31 December 2010, profit for the year was approximately RMB53,471,000, representing an increase of approximately RMB21,859,000, or approximately 69.1%, from approximately RMB31,612,000 for the year ended 31 December 2009. Profit margin was approximately 16.2% and 14.1% for the years ended 31 December 2009 and 2010 respectively. The slight decrease of the profit margin for the year ended 31 December 2010 was mainly due to the reasons described under the sub-paragraph headed "Gross profit and gross profit margin" above.

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

Revenue

For the year ended 31 December 2009, our Group recorded a revenue of approximately RMB194,912,000, representing an increase of approximately RMB58,724,000, or approximately 43.1%, from approximately RMB136,188,000 for the year ended 31 December 2008. The sales volume of general fabrics, functional fabrics, general innerwear and functional innerwear for the year ended 31 December 2009 were approximately 340 tons, 226 tons, 10,788,000 pieces and 3,909,000 pieces respectively, whilst the sale volume of these products for the year ended 31 December 2008 were approximately 584 tons, nil, 12,028,000 pieces and nil respectively.

The growth in revenue was mainly due to the adjustment on our development and production strategy. Starting from April 2009, we changed our focus from manufacturing of general and fabrics innerwear to functional fabrics and innerwear. Our sales of functional fabrics was approximately RMB12,065,000 for the year ended 31 December 2009 as compared to no sales of functional fabrics noted for the year ended 31 December 2008.

Sales of innerwear products remained the major revenue stream of our Group in 2009. The sales of innerwear products amounted to approximately RMB169,074,000 for the year ended 31 December 2009, significantly increased by approximately RMB56,526,000, or approximately 50.2%, from approximately RMB112,548,000 for the year ended 31 December 2008. It was mainly attributed to the change of strategy mentioned above which led to a change in the product mix of our Group. The proportion of general and functional innerwear sold was changed from approximately 82.6% and 0% in 2008 to approximately 48.8% and 37.9% in 2009. In addition, we were able to solicit new customers in 2009 who were interested in our functional innerwear and willing to pay at a higher premium for high performance and better quality products. The selling prices of innerwear made with functional fabrics were normally higher than those made with general fabrics. As a result, the sales of functional innerwear amounted to approximately RMB73,856,000 for the year ended 31 December 2009 as compared to no sales of functional innerwear for the corresponding period of 2008 while the sales of general innerwear decreased by approximately 15.4% from approximately RMB112,548,000 for the year ended 31 December 2008 to approximately RMB95,218,000 for the corresponding period of 2009.

Cost of sales

For the year ended 31 December 2009, cost of sales amounted to approximately RMB127,496,000, representing an increase of approximately RMB24,977,000, or approximately 24.4%, from approximately RMB102,519,000 for the year ended 31 December 2008. It was principally due to the increase in sales volume in 2009. Consequently, cost of raw materials, direct labour costs and subcontracting charges increased for the same period. Cost of direct labour incurred for our own manufacturing operations also increased due to the general inflation in the PRC during the year 2009. Subcontracting charges increased as we needed to subcontract more knitting, sewing and embroidery processes to subcontractors to meet delivery schedules during our peak season when our production capacity was temporarily full.

Gross profit and gross profit margin

Our gross profit was approximately RMB67,416,000 for the year ended 31 December 2009, representing an increase of approximately 100.2% from approximately RMB33,669,000 for the year ended 31 December 2008. Our overall gross profit margin also increased from approximately 24.7% for the year ended 31 December 2008 to approximately 34.6% for the corresponding period in 2009. The increase in gross profit and gross profit margin resulted from the change of product mix described under the sub-paragraph headed “Revenue” above. Rate of our revenue growth was faster than the rate of increase in our cost of sales since we were able to sell functional fabrics and innerwear in 2009 for which we charged for higher premiums. Based on our Directors’ experience, extra value was added to various types of functional fabrics and innerwear we produce with our know-how on the formulas of yarns mixing and fabrics dyeing during the production processes, which are, according to our Directors, the most important factors determining the quality and comfortability of the fabrics.

Other income and gains

For the year ended 31 December 2009, our other income and gains amounted to RMB533,000, representing an increase of RMB161,000, or approximately 43.3%, from RMB372,000 for the year ended 31 December 2008. Such increase principally reflected the increase in rental income of RMB148,000 from an investment property held by us in Hong Kong. This property was rented to third party since June 2008 and sold in August 2010.

Selling and distribution expenses

For the year ended 31 December 2009, our Group recorded a selling and distribution expenses of approximately RMB5,846,000, representing an increase of approximately RMB1,403,000, or approximately approximately 31.6%, from approximately RMB4,443,000 for the year ended 31 December 2008. Such increase was principally due to the increases in commission, inspection fee and port expenses paid which were commensurated with the increase in our revenue.

Administrative expenses

For the year ended 31 December 2009, the administrative expenses were approximately RMB17,720,000, increased by approximately RMB1,943,000, or approximately 12.3%, from approximately RMB15,777,000 for the year ended 31 December 2008. Such increase was mainly attributed to the increase in salaries and staff benefit as a result of group expansion, average number of staff increased from 128 to 152 with average salary increased by 5.0% during the year 2009.

Finance costs

For the year ended 31 December 2009, our finance costs was approximately RMB3,646,000, representing a decrease of approximately RMB725,000, or approximately 16.6%, from approximately RMB4,371,000 for the year ended 31 December 2008. Such decrease resulted from the decrease in our average loan interest rates from approximately 8.2% in 2008 to approximately 6.0% in 2009.

Profit before tax

Due to the increase in functional innerwear sold and improvement in the gross profit margin as a result of the change in product mix described in the sub-paragraphs headed "Revenue" and "Gross profit and gross profit margin" above, our profit before tax recorded an increase of approximately RMB31,287,000 or approximately 3.3 times from RMB9,450,000 for the year ended 31 December 2008 to RMB40,737,000 for the corresponding period of 2009.

Income tax expense

We recorded an income tax expense for the year ended 31 December 2009 amounted to approximately RMB9,125,000, representing an effective tax rate of approximately 22.4%. No material fluctuation was noted in effective tax rate as compared with the effective tax rate of about 21.2% for the year ended 31 December 2008, but represented an increased by approximately 3.6 times as compared to that of approximately RMB2,002,000 for the year ended 31 December 2008. Such increase was in line with the increase in profit before tax.

Profit for the year and profit margin

For the year ended 31 December 2009, profit for the year was approximately RMB31,612,000, increased by approximately RMB24,164,000, or around 3.2 times, from approximately RMB7,448,000 for the year ended 31 December 2008. Profit margin was about 5.5% and 16.2% for the years ended 31 December 2008 and 2009 respectively. The increase in profit for the year and the profit margin for the year ended 31 December 2009 was due to the increased percentage of sales of higher profit margin fabrics and innerwear mentioned above.

Selected information of consolidated statements of financial position

The table below sets forth the selected information of our Group's audited consolidated statements of financial position as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively, which are also set forth in the Accountants' Report in Appendix I to this prospectus.

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
	(audited)	*(audited)*	*(audited)*	*(audited)*
Total non-current assets	93,713	99,990	129,772	142,467
Total current assets	49,751	90,299	143,659	186,126
Total current liabilities	(107,828)	(125,398)	(140,874)	(186,049)
Net current assets (liabilities)	(58,077)	(35,099)	2,785	77
Total assets less current liabilities	35,636	64,891	132,557	142,544
Total non-current liabilities	(6,191)	(4,000)	(18,000)	(18,000)
Net assets/Total equity	29,445	60,891	114,557	124,544

NET CURRENT ASSETS

Details of our current assets and current liabilities as at 31 December 2008, 2009 and 2010, 30 June 2011 and as at 31 October 2011, being the latest practicable date for the preparation of the indebtedness statement in this prospectus, are set out below respectively:

	As at 31 December			As at 30 June	As at 31 Ocotber
	2008	**2009**	**2010**	**2011**	**2011**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
	(audited)	*(audited)*	*(audited)*	*(audited)*	*(unaudited)*
Current assets					
Inventories	20,831	24,690	51,400	100,473	55,849
Trade receivables	7,959	13,348	54,854	31,661	30,113
Prepayments and other receivables	5,944	6,336	17,097	22,135	16,582
Amount due from shareholders	—	—	—	3,731	—
Amount due from a related party	—	—	957	2,954	—
Prepaid lease payments	242	242	297	297	297
Restricted bank deposits	10,905	25,922	9,600	8,210	14,180
Cash and bank balances	3,870	19,761	9,454	16,665	36,448
	49,751	90,299	143,659	186,126	153,469
Current liabilities					
Trade and bills payables	38,312	51,615	55,038	53,764	42,319
Accruals and other payables	5,771	4,679	10,712	12,247	11,694
Advance from customers	257	1,109	408	671	—
Amount due to a shareholder	8,015	4,281	1,559	—	—
Amounts due to related parties	178	1,683	728	753	—
Interest-bearing borrowings	54,167	58,156	67,813	113,046	79,278
Income tax payable	1,128	3,875	4,616	5,568	6,477
	107,828	125,398	140,874	186,049	139,768
Net current assets (liabilities)	(58,077)	(35,099)	2,785	77	13,701

We had net current liabilities of approximately RMB58,077,000 and RMB35,099,000 as at 31 December 2008 and 2009 respectively, which was primarily due to the utilisation of short-term bank loans from PRC licensed banks and other loans to finance our Group's business and enhancement of our production facilities. The amount of short-term bank loans and other loans amounted to RMB54,167,000 and RMB58,156,000 as at 31 December 2008 and 2009 respectively. There was an improvement in our net current liabilities position as at 31 December 2009 as compared to that as at 31 December 2008. Despite the increase in trade and bills payables, the improvement was mainly due to the increase in our working capital resources, mainly restricted bank deposits, trade receivables and cash and bank balances, generated from sales of our products during the year 2009, higher level of inventories prepared for the expected sales growth and decrease in amount due to a shareholder.

Our working capital resources was further improved during the year 2010, from net current liabilities of approximately RMB35,099,000 as at 31 December 2009 to net current assets of approximately RMB2,785,000 as at 31 December 2010. Although there was a decrease in our restricted bank deposits and cash and bank balances, our level of inventories increased as our management expected that there will be a continuous increase in price of raw materials in the near future, and thus we intentionally procured more inventories as at 31 December 2010 as a method to control our cost of sales. Besides, our level of work-in-progress also increased to satisfy customers' orders which were due for delivery shortly after year ended. It is also noted that our trade receivables increased significantly as a result of the increase in our sales to domestic customers and our new US customer (through a sourcing agent) mentioned in the paragraph headed "Period to period/year to year comparison of results of our Group's operations — Year ended 31 December 2010 compared with year ended 31 December 2009 — Revenue" in this section, who normally settle their payments longer than our Japanese customers. Furthermore, despite the increase in trade and bills payables and interest-bearing borrowings, which was normal as our business has been expanding (in terms of both operating and capital nature), our amount due to a shareholder further decreased as at 31 December 2010.

As at 30 June 2011, we recorded net current assets of approximately RMB77,000. Our cash and bank balances increased from approximately RMB9,454,000 as at 31 December 2010 to RMB16,665,000 as at 30 June 2011. Apart from this, our inventories increased significantly from RMB51,400,000 as at 31 December 2010 to approximately RMB100,473,000 as at 30 June 2011 as we needed to maintain a higher inventory level to manufacture the products for delivery in the third quarter of 2011, which is the peak season for delivery. Such increase was offset by the increase in interest-bearing borrowings to finance our Group's business and enhancing our production facilities.

As at 31 October 2011, being the latest practicable date for the preparation of the indebtedness statement in this prospectus, we recorded net current assets of approximately RMB13,701,000. Our cash and bank balances increased from approximately RMB16,665,000 as at 30 June 2011 to approximately RMB36,448,000. Prepayment and other receivables decreased from approximately RMB22,135,000 to approximately RMB16,582,000 as advance to suppliers was utilised for purchase of raw materials. Apart from this, trade and bills payables as well as accruals and other payables decreased from approximately RMB53,764,000 and RMB12,247,000 as at 30 June 2011 to approximately RMB42,319,000 and RMB11,694,000 as at 31 October 2011 respectively as our Group settled part of the payables due to our Group's suppliers. The interest-bearing borrowings also decreased from approximately RMB113,046,000 as at 30 June 2011 to approximately RMB79,278,000 as at 31 October 2011 as we repaid certain short-term bank loan upon receiving the settlement from the customers.

Inventories

Inventories is the key item of our current assets and represented approximately 41.9%, 27.3%, 35.8% and 54.0% of our total current assets as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively. Our inventories mainly comprised raw materials, work-in progress and finished goods. The following table sets forth the balance of our inventories as at each of the balance sheet dates during the Track Record Period:

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
	(audited)	*(audited)*	*(audited)*	*(audited)*
Raw materials	7,019	5,092	14,942	41,157
Work-in-progress	9,903	9,813	31,440	49,244
Finished goods	3,909	9,785	5,018	10,072
	20,831	24,690	51,400	100,473

The gradual increase in our inventory balance as at each of the year/period end date during our Track Record Period was mainly due to the expansion of our business. The increase in inventories for the year 2010 also attributed to our intention to procure more inventories as a method to control our cost of sales due to our management's expectation on the continuous increase in price of raw materials in the near future, and our increased level of work-in-progress to satisfy customers' orders which were due for delivery shortly after year ended. As at 30 June 2011, there was a substantial increase of inventories as we need to maintain a higher level of inventory to satisfy customers' orders in the third quarter of 2011. Our Group will continue to monitor and control the level of inventories to avoid excess orders was made for raw materials or excess production of our products, and will also monitor the market price of raw materials and make necessary procurement to minimise the production costs. We normally confirm purchase orders with our customers before purchasing raw materials and making production.

We do not have a general inventory impairments policy. Only specific impairments were made on inventories aged over one year. During the Track Record Period, we made impairments for slow-moving inventories of nil, RMB58,000, RMB646,000 and nil for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 respectively. As at the Latest Practicable Date, 96.8% of our inventories as at 30 June 2011 were consumed or sold.

Average inventory turnover days

The following table summaries the average inventory turnover days for the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June
	2008	2009	2010	2011
Average inventory turnover days *(note)*	60	65	51	147

Note: Calculated as the average of the beginning and ending inventory balances for the year/period, divided by the cost of sales for the year/period, multiplied by 365 days/181 days.

The average inventory turnover days increased from 60 days for the year ended 31 December 2008 to 65 days for the year ended 31 December 2009 and decreased to 51 days for the year ended 31 December 2010. The increase in 2009 was primarily due to the reason that Shandong Grand Concord, one of our PRC subsidiaries, was only established in July 2007 and commenced its production in May 2008. It normally took more time for Shandong Grand Concord to complete a sale from customer order to product delivery as compared to those of Zhucheng Eternal Knitting and Zhucheng Yumin Knitting. Our management considered that the situation will be improved in the near future once the workers of Shandong Grand Concord become familiar with the operations.

The decrease in 2010 was due to the change of our product mix in 2010. As described above, our sales of functional fabrics increased in a rate greater than that of sales of functional innerwear. Since less production processes were required, our lead time for functional fabrics is shorter than that for functional innerwear, therefore our average inventory turnover days was shortened for year ended 31 December 2010.

For the six months ended 30 June 2011, the average inventory turnover days increased from 51 days to approximately 147 days as starting from the third quarter of 2011, which is our peak season for delivery, we need to stock up raw materials and work-in-progress and finished goods as at 30 June 2011 to satisfy our customers' orders shortly after the period ended.

Trade receivables

Set out below are the balances of our trade receivables as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively, together with the aging analysis of our trade receivables net of allowance of impairment of doubtful debts for the Track Record Period:

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
	(audited)	*(audited)*	*(audited)*	*(audited)*
Trade receivables	7,998	13,387	54,893	31,700
Less: allowance for doubtful debts	(39)	(39)	(39)	(39)
	7,959	13,348	54,854	31,661

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
	(audited)	*(audited)*	*(audited)*	*(audited)*
Aging analysis of trade receivables				
0 — 30 days	6,160	9,274	38,492	29,618
31 — 60 days	1,163	739	15,725	1,657
61 — 90 days	43	8	190	164
Over 90 days	593	3,327	447	222
Total	7,959	13,348	54,854	31,661

Our trade receivables represented around 16.0%, 14.8%, 38.2% and 17.0% of our total current assets as at 31 December 2008, 2009 and 2010 and 30 June 2011. The increase in our trade receivables from approximately RMB7,959,000 as at 31 December 2008 to approximately RMB13,348,000 as at 31 December 2009, and further to approximately RMB54,854,000 as at 31 December 2010 were primarily due to our business expansion in the three years ended 31 December 2010. The increase as at 31 December 2010 was also attributed to the increase in our sales to domestic customers (whose credit terms are usually 60 days) and our new US customer (through a sourcing agent) who normally settles its payments longer than our Japanese customers (whose credit terms are usually 30 days). As at 31 December 2010, the trade receivables from the new US customer (through a sourcing agent) was approximately RMB21,797,000 with a credit term of 30 days. However, this customer normally settles its payments within 60 days after all shipping documents are received.

For the six months ended 30 June 2011, our trade receivables decreased to approximately RMB31,661,000 as our sales was relatively low in the first half of 2011 since our Group normally recorded higher sales in the second half of the year.

Except for some new and relatively small customers, where deposits of 20-30% in advance are normally required, we generally provide trade credits to the majority of our customers of 30 to 60 days from the date of invoices depending on the creditworthiness of the customers. All credit terms are subject to our senior management's approval. Payments are generally settled in USD and RMB. Most of our customers settle their payments through letter of credits, while some of them settle through telegraphic transfers or cash on delivery.

Average trade receivable turnover days

The table below shows our average trade receivable turnover days for the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June
	2008	**2009**	**2010**	**2011**
Average trade receivable turnover days *(note)*	22	20	33	56

Note: Calculated as the average of the beginning and ending trade receivable balances for the year/period, divided by the revenue for the year/period, multiplied by 365 days/181 days.

The average trade receivable turnover days were similar for both years ended 31 December 2008 and 2009, being 22 days and 20 days respectively, but increased to 33 days for the year ended 31 December 2010 and further increased to 56 days for the six months ended 30 June 2011. The increase in average trade receivable turnover days for the year ended 31 December 2010 and the six months ended 30 June 2011 was mainly due to the increase in sales to domestic customers and US customers, whose settlement periods are longer than our Japanese customers as mentioned above.

Our sales representatives are responsible to collect outstanding trade receivables from customers, they normally prepare daily reports to closely monitor the amount due from customers. As at the Latest Practicable Date, approximately 98.4% of trade receivables as at 30 June 2011 have been settled, among which, all of trade receivables of our US customer (through a sourcing agent) as at 30 June 2011 have been settled.

We do not have a general doubtful debt provision policy. We based on the aging of trade receivable balances, customers' creditworthiness, and historical write-off experience to estimate impairment losses for trade receivables. During the Track Record Period, substantial balances of trade receivables were neither past due nor impaired as there was no recent history of default of most of our customers. However, as set out in the table below, there were debtors with aggregate carrying amounts of approximately RMB636,000, RMB3,335,000, RMB637,000 and RMB386,000 included in our Group's trade receivable balances as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively, which were past due as at the respective reporting dates for which we have not provided for impairment loss.

Aging of trade receivables based on payment due date

			Past due but not impaired		
As at	**Total**	**Neither past due nor impaired**	**Less than 30 days**	**31 — 120 days**	**Over 120 days**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
31 December 2008	7,959	7,323	43	133	460
31 December 2009	13,348	10,013	8	2,077	1,250
31 December 2010	54,854	54,217	190	447	—
30 June 2011	31,661	31,275	164	201	21

Trade receivables that were past due but not impaired related to a number of customers that have good relationships with us. Based on past experience, we believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in creditworthiness and the balances are still considered fully recoverable.

During the Track Record Period, impairment losses of RMB28,000, nil, nil and nil for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 respectively were provided as we assessed that the relevant trade receivables, which were overdue for 1 year, were not recoverable and determined to be impaired.

Prepayments and other receivables

Set out below are the balances of our prepayments and other receivables as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively.

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
	(audited)	*(audited)*	*(audited)*	*(audited)*
Prepayments	—	462	3,752	3,483
Advance to suppliers	3,393	4,024	7,694	10,319
Other receivables	2,551	1,850	5,651	8,572
	5,944	6,336	17,097	22,374
Less: Amount shown under non-current portion	—	—	—	(239)
	5,944	6,336	17,097	22,135

The total prepayments and other receivables represented approximately 11.9%, 7.0%, 11.9% and 11.9% of the total current asset as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively.

Our prepayments mainly represented the fees prepaid to professionals involved in the Listing during the Track Record Period.

Our advances to suppliers increased by approximately 18.6% from RMB3,393,000 as at 31 December 2008 to RMB4,024,000 as at 31 December 2009, and further increased by approximately 91.2% to RMB7,694,000 as at 31 December 2010, which was mainly due to the increase in the amount prepaid for our raw materials and deposits for our new machinery as a result of our business expansion. Furthermore, in view of the significant increase in raw materials consumption in 2010, it is our intentions to increase our advances to suppliers in 2010 to secure the stable supply of and cost control on raw materials in the coming year. As at 30 June 2011, our advance to suppliers amounted to approximately RMB10,319,000, representing an increase of approximately 34.1% from approximately RMB7,694,000 as at 31 December 2010, as our Group needs to maintain a higher level of inventory to satisfy customers' orders in the third quarter of 2011 and hence more advances were paid to the suppliers for purchasing the raw materials.

Other receivables mainly represent value-added tax ("**VAT**") refundable and other receivables. The VAT refundable is derived when (i) input VAT (derived from domestic purchases) is larger than output VAT (derived from domestic sales); or (ii) exempted VAT (derived from the difference between export sales and import purchases), whichever is the lower in the same period. For the years ended 31 December 2008, 2009 and 2010, VAT refundable was calculated based on (i) mentioned above, and for the six months ended 30 June 2011, it was calculated based on (ii) mentioned above. The VAT refundable as at 31 December 2008 and 2009 were approximately RMB1,817,000 and RMB1,724,000, respectively. The VAT refundable increased by 2.1 times to approximately RMB5,392,000 as at 31 December 2010 as our Group intentionally increased the inventory level by means of purchases during the end of 2010. As at 30 June 2011, our other receivables increased by approximately RMB2,921,000 or 51.7% from approximately RMB5,651,000 as at 31 December 2010 to approximately RMB8,572,000. Such amount principally comprised (i) VAT refundable in the amount of approximately RMB3,535,000, which decreased by RMB1,857,000 as a result of relatively lower export sales during the first half of 2011 comparing to that of the full year of 2010; and (ii) freight charges in the amount of approximately RMB4,245,000 which were paid by our Group on behalf of customers in advance for express delivery of our products. As at the Latest Practicable Date, approximately RMB3,000,000 was reimbursed by these customers.

Trade and bills payables

Set out below are the balances of our trade and bills payables as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively, together with the aging analysis of our trade payables for the Track Record Period:

	As at 31 December			**As at 30 June**
	2008	**2009**	**2010**	**2011**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
	(audited)	*(audited)*	*(audited)*	*(audited)*
Trade payables	27,407	25,693	47,228	45,554
Bills payables	10,905	25,922	7,810	8,210
Total	38,312	51,615	55,038	53,764

	As at 31 December			**As at 30 June**
	2008	**2009**	**2010**	**2011**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
	(audited)	*(audited)*	*(audited)*	*(audited)*
Aging analysis of trade and bill payables				
0 — 30 days	13,714	18,821	25,956	36,560
31 — 90 days	11,786	14,374	14,034	11,648
91 — 180 days	8,225	12,566	9,854	2,106
Over 180 days	4,587	5,854	5,194	3,450
Total	38,312	51,615	55,038	53,764

Our trade and bills payables mainly related to the purchase of raw materials which represented approximately 35.5%, 41.2%, 39.1% and 28.9% of our total current liabilities as at 31 December 2008, 2009 and 2010 and 30 June 2011.

Our trade and bills payables increased from approximately RMB38,312,000 as at 31 December 2008 to approximately RMB51,615,000 as at 31 December 2009, then increased to approximately RMB55,038,000 as at 31 December 2010. These increases were primarily due to the increase in purchases of raw materials driven by the increase in sales volume during the Track Record Period. As at 30 June 2011, our trade and bills payables amounted to approximately RMB53,764,000, which decreased slightly as compared to approximately RMB55,038,000 as at 31 December 2010.

Our suppliers generally offer our Group between 30 to 120 days of trade credits. Our purchases are mainly made in RMB and settled with telegraphic transfer and bills. There are no current disputes between our Group and any of its suppliers.

Average trade and bills payable turnover days

Set out below is our average trade and bills payable turnover days during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June
	2008	**2009**	**2010**	**2011**
Average trade and bills payable turnover days *(note)*	107	129	71	105

Note: Calculated as the average of the beginning and ending trade and bills payable balance for the year/period, divided by the cost of sales for the year/period, multiplied by 365 days/181 days.

Our trade and bills payable turnover days during the Track Record Period were generally in line with the trade credit periods granted by our suppliers. The average trade and bills payable turnover days increased from 107 days for the year ended 31 December 2008 to 129 days for the year ended 31 December 2009, which was resulted from our business expansion and increased orders to these suppliers, as a result they were willing to grant a longer credit period to us. However, our trade and bills payable turnover days decreased to 71 days for the year ended 31 December 2010, which was mainly due to the significant increase in the prices of cotton yarns and synthetic yarns, suppliers requested us to pay 20% to 30% deposit in advance, as a result, the amounts of relevant trade and bills payables decreased. For the six months ended 30 June 2011, the average trade and bills payable turnover days increased to approximately 105 days since our Group needs to maintain a higher level of inventory to satisfy customers' orders in the third quarter of 2011. As at the Latest Practicable Date, approximately 74.1% of trade and bills payables as at 30 June 2011 have been settled.

LIQUIDITY AND CAPITAL RESOURCES

Financial resources

During the Track Record Period, we funded our growth principally from equity and shareholders' funding as well as net cash generated from our operations and interest-bearing borrowings. Our Directors confirmed that we did not experience any liquidity problems during the Track Record Period and have never experienced any difficulty meeting our obligations to repay interest-bearing borrowings when they become due. As at 30 June 2011, we had total cash and bank balances of approximately RMB16,665,000. The cash and bank balances are required to finance our working capital and part of our capital expenditure plans in light of our continuing growth and expansion plan.

As at 30 June 2011, we had a total of approximately RMB129,046,000 in general credit facilities made available by banks, and RMB119,046,000 of which had been utilised. As at 31 October 2011, being the latest practicable date for the purpose of ascertaining our indebtedness position, we had in total approximately RMB135,278,000 banking facilities available, of which approximately RMB85,278,000 was utilised. Our loans generally range from 1 year to 3 years, and are denominated mainly in RMB.

We believe that the proceeds of the Share Offer, together with our current cash and bank balances, our lines of credit and net cash generated from our operating activities will be sufficient to meet our capital commitments and anticipated cash needs for working capital, capital expenditures, business expansion, investments and debt repayment for at least the next 12 months commencing from the date of this prospectus.

Thereafter, we plan to finance our operations with net cash generated from our operations and, if required, additional debt or equity financing. However, our ability to generate cash for working capital and other payment obligations depends on our future performance, which will depend on the future economic conditions as well as our customers' preferences, which are beyond our control. We can also give no assurance that we will be able to raise additional capital on terms acceptable to us or at all. The issue of new equity or equity-linked securities may result in dilution to our shareholders. From time to time, we will evaluate possible investments, acquisitions, divestments or mergers and may, if a suitable opportunity arises, make an investment, acquisition or divestment or enter into a merger.

Cash flows

The table below presents selected cash flow data from the audited consolidated statements of cash flows for the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June	
	2008	2009	2010	2010	2011
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
	(audited)	*(audited)*	*(audited)*	*(unaudited)*	*(audited)*
Net cash generated from (used in) operating activities	33,074	49,122	(4,811)	(10,402)	(11,635)
Net cash used in investing activities	(35,937)	(28,801)	(26,628)	(39,053)	(21,815)
Net cash generated from (used in) financing activities	4,288	(4,262)	20,948	42,075	40,583
Net increase (decrease) in cash and cash equivalents	1,425	16,059	(10,491)	(7,380)	7,133
Cash and cash equivalents at the end of the year/period	3,870	19,761	9,454	12,453	16,665

Net cash generated from (used in) operating activities

Our cash generated from operating activities is mainly derived from the payments received from sales of our products and cash used in operating activities is mainly for the purchases of our raw materials and employment of direct labour for production, and also for expenses incurred in our daily operations. Positive net cash was generated from operating activities for each of the two years ended 31 December 2008 and 2009 which was mainly attributable to our ability to operate our business profitably. There was a net operating cash outflow for the year ended 31 December 2010, which was primarily due to the increases in inventories and trade receivables to cater for our Group's business expansion, as reflected by our increase in profit from approximately RMB31,612,000 in 2009 to approximately RMB53,471,000 in 2010. Similarly, despite we recorded a net operating cash outflow of approximately RMB11,635,000 for the six months ended 30 June 2011, which was primarily due to the increase in inventories to cater for our Group's production and delivery of products during the third quarter of 2011, being the peak season for products delivery, we recorded a net profit of approximately RMB4,117,000 for the six months ended 30 June 2011.

Net cash used in operating activities for the six months ended 30 June 2011 was approximately RMB11,635,000, which was principally contributed by the operating cash generated from operations before movements in working capital of approximately RMB25,376,000, and the decrease in trade receivables of approximately RMB23,193,000 as our sales was relatively low in the first half of 2011 since our Group normally recorded higher sales in the second half of the year. However, such cash inflows were offset by the increase in inventories of approximately RMB49,073,000 to cater for our Group's production and delivery of products during the third quarter of 2011.

Net cash used in operating activities for the six months ended 30 June 2010 was approximately RMB10,402,000, which was primarily contributed by the operating cash generated before movements in working capital of approximately RMB19,263,000 and the increase in trade and bills payables of approximately RMB17,872,000 as a result of our increase in purchases of raw materials for business expansion. These cash inflows were offset by the increase in inventories of approximately RMB34,368,000 to cater for our Group's production and delivery of products during the third quarter of 2010 and the increase in prepayments and other receivables of approximately RMB12,914,000 for appointing professionals in the course of preparing the Listing.

Net cash used in operating activities for the year ended 31 December 2010 was approximately RMB4,811,000, which was primarily contributed by the operating cash generated before movements in working capital of approximately RMB78,794,000, the increase in trade and bills payables of approximately RMB3,423,000 and increase in accruals and other payables of approximately RMB6,033,000 as a result of increase in purchases of raw materials and employment of more staff for our business expansion in 2010. These cash inflows were offset by the increases in inventories of approximately RMB27,356,000, trade receivables of approximately RMB41,506,000, prepayments and other receivables of approximately RMB10,761,000 to cater for our business expansion, particularly for the increase in our level of raw materials as a result of our additional procurement of certain raw materials based on management's expectation on continuous price increase in raw materials in the near future and the increase in work-in-progress to satisfy customers' orders which were due for delivery shortly after year ended. It is also noted that our trade receivables increased significantly as a result of the increase in our sales to domestic customers and the US customer (through a sourcing agent) mentioned in the paragraph headed "Period to period/year to year comparison of results of our Group's operations — Year ended 31 December 2010 compared with year ended 31 December 2009 — Revenue" in this section who normally settle their payments longer than our Japanese customers. Furthermore, there was also an increase in prepayments and other receivables of approximately RMB10,761,000 as there was an increase in our advance of approximately RMB3,670,000 to suppliers to ensure stable supply of raw materials and increase in the payment of approximately RMB3,752,000 prepaid for appointing professionals in the course of preparing the Listing. During 2010, we also paid EIT of approximately RMB12,737,000.

Net cash generated from operating activities for the year ended 31 December 2009 was approximately RMB49,122,000, which was primarily contributed by the operating cash generated before movements in working capital of approximately RMB52,301,000, and the increase in trade and bills payables of approximately RMB13,303,000 as a result of increase in purchases of raw materials for our business expansion in 2009. Part of these cash inflows were offset by the increases in inventories of approximately RMB3,917,000 and trade receivables of RMB5,389,000 to cater for our business expansion and EIT paid of approximately RMB6,544,000 in the year 2009.

Net cash generated from operating activities for the year ended 31 December 2008 was approximately RMB33,074,000, which was primarily contributed by the operating cash generated before movements in working capital of approximately RMB20,698,000, the increases in trade and bills payables of approximately RMB16,364,000 and other payables and accruals of approximately RMB2,084,000 as a result of increase in purchases of raw materials and employment of staff for our business expansion in 2008. Part of these cash inflows was offset by the increase in inventories of RMB8,022,000 to cater for our business expansion in the year 2008 and EIT paid of RMB914,000 in 2008.

Net cash used in investing activities

Our cash inflows from investing activities is mainly derived from the interests received from bank deposits, proceeds from disposal of property, plant and equipment and decrease in restricted bank deposit balances while the cash used in investing activities is mainly for the purchases of our property, plant and equipment and leasehold land in the PRC for expansion and increase in restricted bank deposits balances as securities for our trade financing.

Net cash used in investing activities for the six months ended 30 June 2011 was approximately RMB21,815,000, of which approximately RMB9,522,000 was incurred in our Group's purchases of equipment and machinery and construction of buildings and facilities for expanding our business. In addition, we have also paid a deposit of approximately RMB8,113,000 for acquiring additional knitting machines and constructing building facilities in the near future.

Net cash used in investing activities for the six months ended 30 June 2010 was approximately RMB39,053,000, of which approximately RMB26,916,000 was incurred for the purchases of equipment and machinery and the construction of new factory building of Shandong Grand Concord. A payment of land premium of approximately RMB2,705,000 for leasehold land in the PRC on which new factory building of Shandong Grand Concord situated was also incurred. The restricted bank deposits also increased by approximately RMB9,678,000 for securing the trade financing as requested by the banks.

Net cash used in investing activities for the year ended 31 December 2010 was approximately RMB26,628,000, which was mainly incurred in purchases of property, plant and machinery for the construction of new factory building of Shandong Grand Concord, purchases of new production machinery for Zhucheng Eternal Knitting, Zhucheng Yumin Knitting and Shandong Grand Concord of approximately RMB38,541,000 in the year 2010. It is also used in the payment of land premium of RMB2,705,000 for leasehold land in the PRC on which the new factory building of Shandong Grand Concord situated. It was partially offset by the decrease in restricted bank deposits of approximately RMB16,322,000 which was previously used for securing our trade financing.

Net cash used in investing activities for the year ended 31 December 2009 was approximately RMB28,801,000, which was mainly incurred for the purchases of property, plant and equipment for the construction of new factory building of Shandong Grand Concord and the purchases of new production machinery for Zhucheng Yumin Knitting and Shandong

Grand Concord for an amount of approximately RMB13,668,000. It was also due to the increase in restricted bank deposits of approximately RMB15,017,000 to secure our trade financing as requested by the banks.

Net cash used in investing activities for the year ended 31 December 2008 was approximately RMB35,937,000, which was incurred mainly for the construction of the water/gas pipe network of Zhucheng Yumin Knitting and the new factory building of Shandong Grand Concord and the purchases of new production machinery for these two PRC subsidiaries for an amount of approximately RMB22,797,000 in the year 2008. It was also due to the increase in restricted bank deposits of RMB10,887,000 to secure our trade financing as requested by the banks.

Net cash generated from (used in) financing activities

Our cash generated from financing activities is mainly derived from loans granted from banks and others and cash used in financing activities mainly comprises repayment of loans, interest paid and repayment of amount due to a shareholder.

Net cash generated from financing activities for the six months ended 30 June 2011 was approximately RMB40,583,000, which was mainly attributed to the proceeds from new bank loans of approximately RMB63,255,000 during the period, with part of which offset by the repayment of loans of approximately RMB18,022,000 and the repayment of amount due to shareholders of approximately RMB1,559,000.

Net cash generated from financing activities for the six months ended 30 June 2010 was approximately RMB42,075,000, which was mainly attributed to the proceeds of new bank loans of approximately RMB61,663,000 during the period, and only part of which was offset by the repayment of loans of approximately RMB8,180,000 and the repayment to the related parties of approximately RMB10,414,000.

Net cash generated from financing activities for the year ended 31 December 2010 was approximately RMB20,948,000. It was mainly attributed to the proceeds from new loans of approximately RMB165,583,000 and advance from a shareholder of RMB3,438,000 during the year, and only part of which was offset by the repayment of loans of RMB141,915,000.

Net cash used in financing activities for the year ended 31 December 2009 was approximately RMB4,262,000. The proceeds from new loans of RMB117,000,000 during the year were mainly offset by the repayment of bank loans of RMB114,997,000 and the repayment of amount due to a shareholder of RMB3,734,000.

Net cash generated from financing activities for the year ended 31 December 2008 was approximately RMB4,288,000. It was mainly attributed to the proceeds from new loans of RMB60,126,000 during the year, and only part of which was offset by the repayment of bank loans of RMB46,444,000 and the repayment of amount due to a shareholder of RMB4,663,000.

INDEBTEDNESS

Interest-bearing borrowings

The table below sets out our interest-bearing borrowings as at the dates indicated:

	As at 31 December			As at 30 June	As at 31 October
	2008	2009	2010	2011	2011
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
	(audited)	*(audited)*	*(audited)*	*(audited)*	*(unaudited)*
Bank loans	52,167	50,156	71,813	119,046	85,278
Other loans	8,000	12,000	14,000	12,000	10,000
	60,167	62,156	85,813	131,046	95,278
Secured	40,167	37,156	71,813	69,046	62,858
Guaranteed	12,000	13,000	—	—	—
Unsecured	8,000	12,000	14,000	62,000	32,420
	60,167	62,156	85,813	131,046	95,278
The interest-bearing borrowings are repayable:					
On demand or within one year	52,900	58,156	63,045	108,131	75,824
More than one year but not exceeding two years	2,000	2,000	12,000	12,000	16,000
More than two years but not exceeding five years	4,000	2,000	6,000	6,000	—
Not repayable within one year from the end of the reporting period but contain a repayment on demand clause	1,267	—	4,768	4,915	3,454
Total borrowings	60,167	62,156	85,813	131,046	95,278

Proceeds from the interst-bearing borrowings were used for capital expenditure, working capital and operating expenses. Proceeds from other loans represented loans of RMB8,000,000, RMB12,000,000, RMB4,000,000 and RMB2,000,000 as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively from 諸城市國有資產經營總公司 (Zhucheng State-owned Assets Management Company*) ("**Zhucheng SAM Co**"), an independent third party, for our capital expenditure and working capital. As at 31 October 2011, being the latest practicable date for the preparation of the indebtedness statement in this prospectus, such loans from Zhucheng Sam Co were fully repaid by our Group. Proceeds from other loans also represented an other loan of RMB10,000,000 as at 31 December 2010, 30 June 2011 and 31 October 2011 from 諸城市舜邦投資開發有限公司 (Zhucheng Shunbang Investment Development Limited Company*), an independent third party, for our working capital.

Certain of our interest-bearing borrowings were secured by our assets during the Track Record Period. The table below sets out the carrying value of the pledged assets as at the dates indicated:

	As at 31 December			As at 30 June	As at 31 October
	2008	2009	2010	2011	2011
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Prepaid lease payments	9,518	9,312	13,613	13,464	8,934
Buildings	26,434	25,657	37,901	37,508	36,808
Machinery	13,393	11,918	14,327	14,602	14,071
Restricted bank deposits	10,905	25,922	9,600	8,210	14,180
Trade receivables	—	—	6,765	1,560	13,880
Total	60,250	72,809	82,206	75,344	87,873

In addition to the above, as requested by the banks, certain of the bank loans were guaranteed by independent third parties during the Track Record Period. The table below sets out the details of these guarantees:

	As at 31 December			As at 30 June	As at 31 October
	2008	2009	2010	2011	2011
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Joint guarantee by 諸城市良豐化學有限公司 (Zhucheng Liangfeng Chemical Co., Ltd.) and Zhucheng SAM Co	10,000	—	—	—	—
Zhucheng SAM Co	—	8,000	—	—	—
諸城市舜邦企業擔保有限公司 (Zhucheng Shunbang Enterprise Guarantee Limited Company*)	2,000	5,000	—	—	—
	12,000	13,000	—	—	—

Bank loans of approximately RMB4,667,000, RMB1,356,000, RMB8,013,000, RMB9,246,000 and RMB7,858,000 as at each of the balance sheet dates during the Track Record Period and as at 31 October 2011, being the latest practicable date for the preparation of the indebtedness statement in this prospectus, were jointly guaranteed by our executive Directors, Mr. Wong and Madam Hung Kin.

The bank has confirmed that the above guarantee will be released and replaced with guarantee by our Company upon Listing.

Amount due from shareholders/to a shareholder

The amounts due from shareholders of approximately RMB3,731,000 as at 30 June 2011, represented temporary fund advances to Mr. Wong and Madam Hung Kin, our Controlling Shareholders and executive Directors. As at 31 October 2011, being the latest practicable date for the preparation of the indebtedness statement in this prospectus, such amounts were fully repaid by them.

The amount due to a shareholder of RMB8,015,000, RMB4,281,000 and RMB1,559,000 as at each of the years ended 31 December 2008, 2009 and 2010 respectively, represented the advance from Madam Hung Kin, our Controlling Shareholder and executive Director. Such amount was repaid gradually during the Track Record Period.

The amount due from shareholders/to a shareholder was unsecured, interest free and repayable on demand.

Capital Commitments

The following table presents our capital commitments in respect of acquisition of property, plant and equipment and construction of factories contracted for but not provided as at the dates indicated:

	As at 31 December			As at 30 June	As at 31 October
	2008	**2009**	**2010**	**2011**	**2011**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Contracted but not provided for	—	—	9,555	2,600	2,600

Contingent Liabilities

As at 31 December 2008, 2009 and 2010, 30 June 2011 and 31 October 2011, being the latest practicable date for the preparation of the indebtedness statement in this prospectus, we had no material contingent liabilities.

Disclaimers

Except as disclosed in the paragraphs headed "Indebtedness", "Amount due from shareholders/to a shareholder" and "Related party transactions" in this section and other than intra-group liabilities, which have been disregarded for these purposes, we did not have any outstanding loan capital, bank overdrafts, liabilities under acceptances (other than normal trade bills) or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, or guarantees or other material contingent liabilities outstanding as at 31 October 2011, being the latest practicable date for the preparation of the indebtedness statement in this prospectus.

Our Directors confirmed that there is no material adverse change in indebtedness and contingent liabilities since 31 October 2011, being the latest practicable date for the preparation of the indebtedness statement in this prospectus.

CAPITAL EXPENDITURES

Our capital expenditures mainly comprise purchases of property, plant and equipment. The following table shows our capital expenditures for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June
	2008	**2009**	**2010**	**2011**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Prepaid lease payments	—	—	4,568	—
Property, plant and equipment	15,754	11,946	27,600	6,075
Construction in progress	8,609	4,721	11,894	5,185
Total	24,363	16,667	44,062	11,260

We estimate that the capital expenditures for the two years ending 31 December 2011 and 2012 will be approximately RMB18 million and RMB65 million respectively. Our Group's planned future capital expenditures mainly include the purchases of additional production facilities and construction of factories. We expect to fund these expansion plans with bank financing, cash flow from its operations and the net proceeds to be received by us from the Share Offer.

The actual amounts of expenditures incurred may vary from the estimate for a variety of reasons, including changes in market conditions and other factors. Our ability to obtain additional funding required for increased capital expenditure in the future is subject to a variety of uncertainties including the future results of our operations, financial condition and cash flows, and economic and political and other conditions in the PRC.

CAPITAL ADEQUACY RATIOS

The following table sets forth certain capital adequacy ratios as at the dates indicated:

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
	(%)	*(%)*	*(%)*	*(%)*
Gearing *(Note 1)*	41.9	32.7	31.4	39.9
Debt to equity *(Note 2)*	191.2	69.6	66.7	91.8

Notes:

1. Calculated as the total debts as at the year/period ended, divided by total assets for the period x 100%. Debts are defined to include current and non-current interest-bearing borrowings.

2. Calculated as the net debts as at the year/period ended, divided by the equity for the period x 100%. Net debts are defined to include all interest-bearing borrowings net of cash and cash equivalents.

Our gearing ratio decreased from 41.9% for the year ended 31 December 2008 to 32.7% for the year ended 31 December 2009, and further decreased to 31.4% for the year ended 31 December 2010. The decrease of the ratio in the years ended 31 December 2009 and 2010 was primarily due to our ability to operate the business profitably which led to the increases in our total assets. The gearing ratio for the six months ended 30 June 2011 was approximately 39.9%, increased as a result of the increase in interest-bearing borrowings for financing our Group's business and enhancing our production facilities.

Our debt to equity ratio decreased significantly from 191.2% for the year ended 31 December 2008 to 69.6% for the year ended 31 December 2009, and further decreased to 66.7% for the year ended 31 December 2010. The decrease of the ratio in the years ended 31 December 2009 and 2010 was primarily due to our ability to operate the business profitably and enlarged our equity base. The debt to equity ratio for the six months ended 30 June 2011 was approximately 91.8% as a result of the increase in interest-bearing borrowings for financing our Group's business and enhancing our production facilities.

PROPERTY INTERESTS

LCH (Asia-Pacific) Surveyors Limited, an independent qualified Professional Surveyor, has valued our property interests, including land use rights, as at 31 August 2011 at approximately RMB114,560,000. The text of its letter, summary of values and valuation certificate are set out in Appendix III to this prospectus. A reconciliation of the net book value of the relevant property interests, including land use rights, as at 30 June 2011 to their fair value as at 31 August 2011 is as follows:

	RMB'000
Valuation as at 31 August 2011 set out in the property valuation report in Appendix III	114,560
Net book value of property interests of our Group as at 30 June 2011	70,590
Valuation surplus	43,970

OFF-BALANCE SHEET ARRANGEMENTS AND CONTINGENCIES

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties. In addition, we have not entered into any derivative contracts that are indexed to our Shares and classified as shareholders' equity, or that are not reflected in our audited consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. Moreover, we do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

EVENTS AFTER THE TRACK RECORD PERIOD

For details of the events after the Track Record Period, please refer to section D of the Accountants' Report set out in Appendix I to this prospectus.

RELATED PARTY TRANSACTIONS

Amounts due from/to related parties

The table below sets out the amounts from/to related parties as at 31 December 2008, 2009 and 2010 and 30 June 2011:

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
	(audited)	*(audited)*	*(audited)*	*(audited)*
Amounts due from				
Bolden Garment Limited ("**Bolden**")	—	—	957	2,954
Amounts due to				
諸城裕興針織服裝有限公司 (Zhucheng Noble Knitting & Garment Co. Ltd.*) ("**Zhucheng Noble**")	—	1,500	—	—
Bolden	178	183	728	753
	178	1,683	728	753

The amounts due from/to related parties were unsecured, interest-free and repayable on demand. All of these balances were non-trade nature and represented only temporary funds advanced to/from related parties. As at 31 October 2011, being the latest practicable date for the preparation of this indebtedness statement in this prospectus, all of these balances were fully repaid.

Trade receivables from/payables to related parties

The table below sets out the trade receivables from/payables to related parties included in trade receivables/trade payables of our Group as at 31 December 2008, 2009 and 2010 and 30 June 2011:

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
	(audited)	*(audited)*	*(audited)*	*(audited)*
Trade receivables				
上海廣裕紡織品有限公司 (Shanghai Guangyu Textiles Co. Ltd.*) ("**Shanghai Guangyu**")	—	2,722	—	—
Zhucheng Noble	—	45	—	—
Bolden	977	—	2,682	—
青島埃瑞柏服飾有限公司 (Qingdao Ai Rui Bo Garment Co. Ltd.*) ("**Qingdao Ai Rui Bo**")	659	2,027	—	—
	1,636	4,794	2,682	—

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
	(audited)	*(audited)*	*(audited)*	*(audited)*
Trade payables				
Zhucheng Noble	406	284	—	—
Bolden	—	290	—	—
	406	574	—	—

All of these balances were and incurred as a result of the following transactions:

	For the year ended 31 December			For the six months ended 30 June
	2008	2009	2010	2011
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
	(audited)	*(audited)*	*(audited)*	*(audited)*
Sales transactions				
Shanghai Guangyu *(note 1)*	—	3,720	21,452	277
Zhucheng Noble *(note 2)*	244	379	90	—
Bolden *(note 3)*	2,513	3,653	15,256	—
Qingdao Ai Rui Bo *(note 4)*	326	1,260	39	—
	3,083	9,012	36,837	277

	For the year ended 31 December			For the six months ended 30 June
	2008	2009	2010	2011
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
	(audited)	*(audited)*	*(audited)*	*(audited)*
Purchases transactions				
Shanghai Guangyu *(note 1)*	—	—	—	279
Zhucheng Noble *(note 2)*	762	530	2,121	—
Bolden *(note 3)*	—	297	518	—
	762	827	2,639	279

Notes:

1. During the Track Record Period, we sold functional fabrics to and purchased yarns from Shanghai Guangyu, a company in which Mr. Wei, previously had 75% equity interest. Such interest was sold to an independent third party in March 2011.

2. During the Track Record Period, we sold fabrics to and paid processing fee for acquiring sewing services from Zhucheng Noble, a company in which Mr. Wong previously had 60% equity interest. Such interest was sold to an independent third party in December 2010.

3. During the Track Record Period, we sold innerwear products to and purchased accessories, e.g. zippers, tags and labels from Bolden, a company owned by Mr. Wong and Regal Investment International Limited, which is in turn owned by Mr. Wong and Madam Hung Kin. Since October 2010, we terminated all sales to Bolden. Bolden was registered as a dormant company on 3 January 2011.

4. During the Track Record Period, we sold innerwear products to Qingdao Ai Rui Bo, a company owned by Mr. Wang Jian She, a brother of Mr. Wong. Our Directors confirmed that sales to Qingdao Ai Rui Bo were terminated in March 2011.

With respect to the above related party transactions, details of which was also set out in the Accountants' Report in Appendix I to this prospectus, our Directors confirm that such transactions were conducted in accordance with normal commercial terms and conditions and/ or such terms were no less favourable to our Group than terms provided to independent third parties and were fair and reasonable and in line with the overall interests of our Shareholders as a whole.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to various market risks, including commodity price risk, credit risk, foreign currency risk, interest rate risk and liquidity risk in the normal course of business. We mainly manage our exposure to these market risks through our regular operating activities.

Commodity price risk

We are exposed to fluctuations in the prices of the raw materials that we require for the production of our products. These raw materials consist principally of cotton yarns, synthetic yarns and dyes. Prices of which are affected by price of cotton and crude oil in commodity market. Therefore, fluctuations in raw materials prices could have an important effect on our results of operations. We do not currently use any commodity derivative instruments to manage commodity price risk and normally shift part of the cost to our customers.

Credit risk

Our Group's principal financial assets are trade and other receivables and cash and bank balances which represent our Group's maximum exposure to credit risk in relation to financial assets.

Our Group's concentration of credit risk by geographical locations is mainly in Japan and the PRC which accounted for 51%, 34%, 10%, 15% and 34%, 65%, 42%, 72% respectively of the total receivables as at 31 December 2008, 2009 and 2010 and 30 June 2011.

As at 31 December 2008, 2009 and 2010 and 30 June 2011, we had a certain concentration of credit risk as of approximately 44%, 27%, 79% and 48% of the total trade receivables were due from our five largest customers respectively.

In order to minimise the credit risk, our management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. We also reviews the recoverable amount of each individual trade debt at each reporting date to ensure adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors consider that the credit risk of our Group is significantly reduced.

The credit risk for bank balances is considered minimal as such amounts are placed with banks with good credit standing.

Foreign currency risk

Our Group are exposed to foreign currency risk. A significant proportion of our revenue were denominated in the USD and certain trade receivables, cash and bank balances, trade payables and interest-bearing borrowings are denominated in USD, Japanese yen and HKD respectively, while substantial operating expenses are denominated in RMB, and our reporting currency is RMB.

We currently do not have a foreign currency hedging policy. In the event of currency fluctuations, we may have to increase our product pricing to compensate for the increase in cost of production. This would decrease our market competitiveness, on a price basis, for our products and could result in a decrease in our revenue. In the future, our management will monitor foreign exchange exposure and will consider hedging or factoring significant foreign currency exposure should the need arise.

Interest rate risk

We are exposed to fair value interest rate risk in relation to fixed-rate interest-bearing borrowings and also exposed to cash flow interest rate risk in relation to variable rate interest-bearing borrowings. Our restricted bank deposits and bank balances also expose our Group to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances.

Our Group historically has not used any financial instruments to hedge potential fluctuations in interest rates. Our management considers that our exposure of the restricted bank deposits and bank balances to cash flow interest rate risk is not significant as we do not anticipate significant fluctuation in the interest rate on bank deposits. To mitigate the impact of interest rate fluctuations, we manage our interest expenses by financing with both fixed and variable rate debts, and will continually assess and monitor our exposure to interest rate risk and will consider other necessary actions when significant interest rate exposure is anticipated.

Liquidity risk

Liquidity risk refers to the risk of our Group to have sufficient funds to meet all contractual financial commitments as they fall due. Our management reviews the liquidity position of our Group on an ongoing basis, including review of the expected cash inflows and outflows, sales, maturity of loans in order to monitor our liquidity requirements in the short and longer terms.

As mentioned above, during the Track Record Period and as at the Latest Practicable Date, we have not and do not use any derivative instruments to manage our market risks, we may enter into such instruments if our Directors determine that it is in our best interest to do so in the future. For additional discussion of quantitative and qualitative analysis related to market risks, please refer to note 6 to our audited consolidated financial statements contained in the Accountants' Report set out in Appendix I to this prospectus.

WORKING CAPITAL

Taking into account the financial resources available to our Group, including internally generated funds, the available banking facilities and the estimated net proceeds to be received by us from the Share Offer, our Directors are of the opinion that our Group has sufficient working capital for at least the next 12 months from the date of this prospectus.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in the financial or trading position of our Group since 30 June 2011 (being the date to which our latest audited consolidated financial statements were prepared as set out in the Accountants' Report in Appendix I to this prospectus).

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that there are no circumstances which would have led us to make required disclosures in accordance with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets of our Group prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Share Offer on the net tangible assets of our Group attributable to the equity holders of our Company as at 30 June 2011 as if the Share Offer had taken place on 30 June 2011.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group as at 30 June 2011 or at any future dates following the Share Offer.

	Audited consolidated net tangible assets of our Group attributable to the equity holders of our Company as at 30 June 2011	Estimated net proceeds to be received by us from the Share Offer	Unaudited pro forma adjusted net tanagible assets	Unaudited pro forma adjusted net tanagible assets per Share	Unaudited pro forma adjusted net tanagible assets per Share
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB)*	*(HK$)*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
Based on the Offer Price of HK$0.80 per Share	124,544	36,382	160,926	0.423	0.499

Notes:

(1) The audited consolidated net tangible assets attributable to owners of our Company as at 30 June 2011 has been derived from the audited consolidated net tangible assets attributable to the owners of our Company of approximately RMB124,544,000 as at 30 June 2011, extracted from the Accountants' Report set out in Appendix I to this prospectus.

(2) The estimated net proceeds to be received by us from the Share Offer are based on the Offer Price of HK$0.80 per Share, after deduction of the underwriting fees and other related expenses payable by our Company.

(3) The unaudited pro forma adjusted net tangible assets attributable to owners of our Company per Share is arrived at after adjustment for the estimated net proceeds to be received by us from the Share Offer payable to our Company as described in note (2) and on the basis that a total of 380,000,000 Shares were in issue as at 30 June 2011 (but takes no account of any additional income which may be earned from the estimated net proceeds).

(4) The unaudited pro forma adjusted net tangible asset attributable to owners of our Company per Share is translated into HK$ at an exchange rate of RMB0.847. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(5) The prepaid lease payments and buildings of the Group as at 31 August 2011 were valued by LCH (Asia-Pacific) Surveyors Limited, an independent Professional Surveyor, and the relevant property valuation report is set out in Appendix III to this prospectus. With reference to the valuation of the Group's property interests as set out in Appendix III to this prospectus, the Group's interest in prepaid lease payments and buildings as at 31 August 2011 was approximately RMB97,760,000. Comparing this amount with the unaudited net carrying value of prepaid lease payments and buildings of the Group as of 31 August 2011 of approximately RMB55,244,000, there was a revaluation surplus of approximately RMB42,516,000. If the revaluation surplus was incorporated in the Group's financial statements, additional annual amortisation and depreciation of approximately RMB1,654,000 will therefore be charged. The surplus on revaluation will not be reflected in the Group's consolidated financial statements in subsequent years as the Group has elected to state its prepaid lease payments and buildings at cost less accumulated amortisation/depreciation and any impairment loss in accordance with the relevant Hong Kong Accounting Standards.

DIVIDEND AND DIVIDEND POLICY

Our Group did not declare or pay any dividend in respect of the Track Record Period.

After completion of the Share Offer, our Shareholders will be entitled to receive dividends declared by us. Final dividends, if any, on the outstanding Shares must be recommended by our Board and approved at our annual general meeting of Shareholders. In addition, our Board may declare special and interim dividends. The timing, form and payment to be made and the amount of any dividends to be declared in the future will be at the discretion of our Directors and will depend on, among others, the following factors:

- our Group's results of operations and cash flows;
- our Group's future prospects;
- general business and financial conditions;
- our Group's operating and capital requirements and surplus;
- contractual restrictions on the payment of dividends by our Company to Shareholders or by subsidiaries to our Company;
- taxation considerations;
- possible effects on our Company's creditworthiness;
- statutory and regulatory restrictions; and
- any other factors our Board may deem relevant.

The payment and the amount of any dividends declared will also be subject to our Articles of Association and the Companies Act. We are entitled under our Articles of Association and the Companies Act to pay dividends out of profits and reserves, including share premium, provided that on the date the proposed dividend is to be paid, we are able to pay our debts when they fall due in the ordinary course of business.

Our ability to pay cash dividends will also depend upon the amount of distributions, if any, received by us from our operating subsidiaries. Under the PRC law, dividends may be paid only out of distributable profits, which are the retained earnings of the relevant companies established in the PRC. We will not ordinarily pay any dividends in a year in which we do not have any distributable earnings.

Subject to the abovementioned, our Directors currently intend to recommend at the next annual general meeting of our Company an annual dividend in an amount equivalent to approximately 30% of the consolidated profit attributable to equity holders of our Company for the period beginning from the Listing Date and ending on 31 December 2011. The above annual dividend should not be viewed as an indication of the amount of dividends that our Company may declare or pay in the future.

DISTRIBUTABLE RESERVES

The total distributable reserves of the companies comprising our Group as at 30 June 2011, which are available for distribution to our Shareholders, were approximately RMB97,869,000.