

BUSINESS DEVELOPMENT

OUR HISTORY

The history of our Group could be traced back to 1999 when the first operating subsidiary of our Group, Yinshilai Textile, was established on 1 December 1999 as a sino-foreign equity joint venture enterprise in the PRC. Our second operating subsidiary, Huiyin Textile, was established on 9 June 2006 as a sino-foreign equity joint venture enterprise in the PRC. A brief history of our development is set out below.

IMPORTANT MILESTONES

The following are the important milestones in our history to date:

- In December 1999, Yinshilai Textile was established in the PRC.
- In September 2003, Yinshilai Textile commenced production and was principally engaged in the production of Fabric Products.
- In January 2005, Yinshilai Textile obtained accreditation of ISO 9001 in respect of our quality control.
- In May 2006, Yinshilai Textile obtained accreditation of ISO 10012 in respect of our measurement management system.
- In June 2006, Yinshilai Textile obtained accreditation of ISO 14001 in respect of our environment management system.
- In June 2006, Huiyin Textile was established in the PRC.
- In November 2007, Huiyin Textile commenced the production and was principally engaged in the production of dobby fabrics.
- Since October 2010, Yinshilai Textile has imported 128 sets jacquard looms to enhance its jacquard fabric production capacity which doubled the jacquard fabric production capacity by April 2011.
- In April 2011, the designed fabric production capacity of our Group reached approximately 89 million metres.
- In August 2011, Yinshilai Textile obtained accreditation of ISO9001:2008 in respect of our quality control.
- In August 2011, Yinshilai Textile obtained accreditation of ISO14001:2004 in respect of our environment management system.
- In August 2011, Yinshilai Textile obtained accreditation of GB/T28001-2001 in respect of our occupational health and safety management system.

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- In August 2011, Huiyin Textile obtained accreditation of ISO9001 : 2008 in respect of our quality control.
- In August 2011, Huiyin Textile obtained accreditation of ISO14001:2004 in respect of our environment management system.
- In August 2011, Huiyin Textile obtained accreditation of GB/T28001-2001 in respect of our occupational health and safety management system.

CORPORATE DEVELOPMENT

The following presents a general description of the corporate history of our operating subsidiaries, Yinshilai Textile and Huiyin Textile.

Yinshilai Textile

Yinshilai Textile, one of the operating subsidiaries of our Group, was established in Shandong Province in the PRC as a sino-foreign equity joint venture enterprise on 1 December 1999 with a registered capital of US\$2,500,000, which was then owned as to 75% and 25% by Yinlong Industrial and Top Grade, respectively. At the time of establishment of Yinshilai Textile, the equity interest of Yinlong Industrial was owned as to 60%, 20% and 20% by Mr. LIU Yanjiang (who is an uncle of Mr. LIU Dong), Ms. LIU Hongrui (who is the spouse of Mr. LIU Yanjiang) and Mr. LIU Yanqing (who is the father of Mr. LIU Dong), respectively, while the equity interest of Top Grade was owned as to 50% and 50% by Mr. SUN Qiyin (who is an uncle of Mr. LIU Dong) and Ms. LUK Ching Sanna (an Independent Third Party), respectively. The principal business of Top Grade was investment and trading in the textile industry and the medical industry. Top Grade became acquainted with the then management of Yinlong Industrial through Mr. LIU Dong and Mr. SUN Qiyin.

Yinshilai Textile commenced production in 2003 and was then principally engaged in the business of the production of Fabric Products. Between December 1999 and 2003, Yinshilai Textile was at the stage of planning prior to commencement of production and had not engaged in other business operation.

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While the equity interest in Yinshilai Textile remained to be held as to 75% and 25% by Yinlong Industrial and Top Grade, respectively, there had been various increases in the registered capital and transfers of the equity interest of Yinlong Industrial. On 17 June 2005, Yinlong Industrial transferred its 75% equity interest in Yinshilai Textile to Yinshan Chemical Fiber in consideration of US\$9,300,000. The consideration was determined after negotiation on arm's length basis and by reference to the value of the capital contribution of the registered capital held by Yinlong Industrial. The shareholding structure of Yinshan Chemical Fiber at the time of the transfer on 17 June 2005 was as follows:

Shareholders	Shareholding percentage
Mr. LIU Dong	86%
Ms. WANG Lingli ¹ (the spouse of Mr. LIU Dong)	2%
Ms. SUN Qilian ¹ (the mother of Mr. LIU Dong)	2%
Mr. LIU Bin ¹ (an employee of Yinshan Chemical Fiber and a cousin of Mr. LIU Dong)	2%
Mr. SONG Zuoshun ¹ (a former employee of Yinshan Chemical Fiber)	2%
Mr. SUN Qigen ¹ (a former employee of Yinshan Chemical Fiber and a brother of Ms. SUN Hongchun)	2%
Mr. LIU Yanjiang	2%
Ms. LV Yun (a sister of Mr. LV Ruichuan, a consultant of our Company)	2%
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	100%

Since the incorporation of Yinshan Chemical Fiber in December 2003 and up to the Latest Practicable Date, each of Ms. WANG Lingli, Ms. SUN Qilian, Mr. LIU Bin, Mr. SONG Zuoshun and Mr. SUN Qigen (collectively referred to as the “Yinshan Trustees”) has been holding their respective equity interest in Yinshan Chemical Fiber as trustee on behalf of Mr. LIU Dong pursuant to the declaration dated 24 June 2011 made by each of them, respectively. According to Mr. LIU Dong, he entered into the trust arrangement with the Yinshan Trustees due to his lack of time in managing Yinshan Chemical Fiber and for personnel motivation reasons. This is because he had been engaged in his office as a director and the general manager of Lushang Property Co., Ltd. (魯商置業有限公司) (formerly known as Shandong Wanjie Industrial Co. Ltd. (山東萬杰實業股份有限公司) and Shandong Wanjie High-Tech Co. Ltd. (山東萬杰高科技股份有限公司)) (“Wanjie High-Tech”)², the shares of which have been listed on the Shanghai Stock Exchange (stock code: 600223) since January 2000, and could not spare sufficient time in the management of Yinshan Chemical Fiber at that time, so he had delegated a portion of daily management authorities to the Yinshan Trustees and let them hold some nominal equity interest on behalf of Mr. LIU as a symbolic recognition for motivating their works. Mr. LIU Dong advised that this method of achieving motivation benefit has proven to be effective. The respective trust between each of

¹ As trustee for and on behalf of Mr. LIU Dong.

² The principal business of Wanjie High-Tech covers the textile, electricity, education and medical industries (prior to the restructuring and change of name to Lushang Property Co., Ltd. (魯商置業有限公司) in 2009) and real estate development (after the restructuring in 2009).

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the Yinshan Trustees and Mr. LIU Dong was originally created orally. Each of the parties intended and agreed to reduce their oral trust agreement to writing in order to ensure that the parties' rights and obligations would be expressly and clearly protected and provided for and hence the aforesaid declarations were made.

Mr. LIU Dong has further advised that given his other commitments and the lack of time in managing Yinshan Chemical Fiber on a full time basis, he had placed substantial reliance on the Yinshan Trustees in managing Yinshan Chemical Fiber during some important stages of development of Yinshan Chemical Fiber, and in the PRC, it is not uncommon for certain trust arrangements to be made not on a written basis for private companies. The Sole Sponsor noted such representation of Mr. LIU Dong and, given that the events took place very long time ago and at a time when the operations of our Group were in an evolving and fast growing phase, does not consider that there is no basis in his statements or that the statements are unreasonable in the context of the business practices in the PRC then.

Our PRC legal advisers have advised that, there was no legal restriction on the duration of the trust arrangement for Mr. LIU to hold the equity interest of Yinshan Chemical Fiber in his own name, and given that the declarations are made based on the Yinshan Trustees' true will and do not violate any applicable PRC laws or regulations, the declarations have retrospective effect on the trust arrangement prior to the date of the declarations and are validly and legally existing under PRC laws and regulations and constituted a valid and legally binding obligation for the signing parties.

On 15 July 2008, Mr. LIU Yanjiang transferred his 2% equity interest in Yinshan Chemical Fiber to Mr. LIU Dong as part of the settlement arrangement for the dispute among the shareholders of Yinlong Industrial under the Proceedings (as defined in the paragraph headed "Financial Assistance Provided by the Company for the Benefit of a Connected Person" in the section headed "Connected Transactions" in this prospectus) in about June 2006. For further information, please refer to the paragraph headed "Financial Assistance Provided by the Company for the Benefit of a Connected Person" in the section headed "Connected Transactions" in this prospectus.

For further information in relation to our relationship with Yinlong Industrial, please refer to the paragraph headed "Relationship with Yinlong Industrial" in the section headed "Our Relationship with Controlling Shareholders" in this prospectus.

Huiyin Textile

Huiyin Textile, one of the operating subsidiaries of our Group, was incorporated in Shandong Province in the PRC as a sino-foreign equity joint venture enterprise on 9 June 2006 with a registered capital of US\$10,400,000, which was then owned as to 70% and 30% by Tianrui Investment (a company controlled by Mr. LIU Dong) and Angel Dyeing (an Independent Third Party), respectively. The principal business of Angel Dyeing includes manufacturing, dyeing and finishing, and trading of textile products.

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Huiyin Textile commenced production in 2007 and was then principally engaged in the production of dobby fabrics.

Tianrui Investment acquired another 5% equity interest in Huiyin Textile on 22 June 2007. Since 22 June 2007 and immediately before the Reorganization, the equity interest of Huiyin Textile was owned as to 75% and 25% by Tianrui Investment and Angel Dyeing, respectively.

Since the incorporation of Tianrui Investment and up to the Latest Practicable Date, the equity interest of Tianrui Investment was wholly owned by Mr. LIU Dong's associates, namely, Ms. WANG Lingli, who is Mr. LIU Dong's spouse, and Ms. SHAN Min, who is Ms. WANG Lingli's mother, as to 80% and 20%, respectively, as trustee on behalf of Mr. LIU Dong pursuant to the trustee agreements dated 20 May 2011 between Mr. LIU Dong, Ms. WANG Lingli and Ms. SHAN Min. According to Mr. LIU Dong, he entered into the trust arrangement regarding the equity interest in Tianrui Investment with Ms. WANG and Ms. SHAN for time management reason because Tianrui Investment was an investment holding vehicle and he considered the holding of the equity interest could be delegated to the trustees so that he could focus on the substantive management and operation of Yinshilai Textile. The trusts between the parties were originally created orally. Each of the parties intended and agreed to reduce their oral trust agreement to writing in order to ensure that the parties' rights and obligations would be expressly and clearly protected and provided for and hence the aforesaid trust agreements in writing were made.

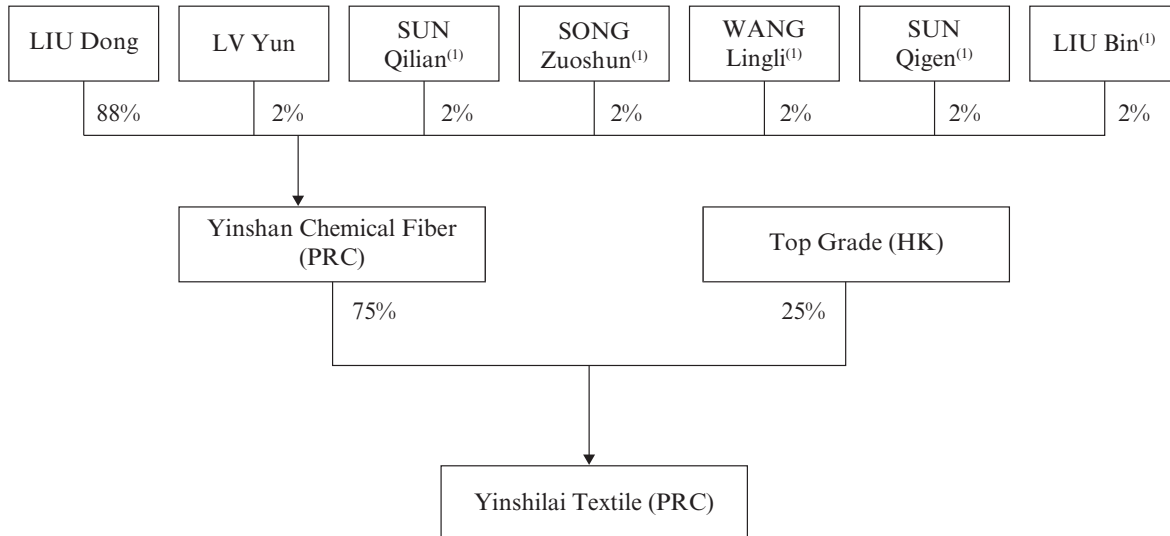
Our PRC legal advisers have advised that there was no legal restriction on the duration of the trust arrangement for Mr. LIU to hold the equity interest of Tianrui Investment in his own name, and given that the trust agreements are made based on the true will of the parties and do not violate any applicable PRC laws or regulations, the trust agreements have retrospective effect on the trust arrangement prior to the date of the agreements and are validly and legally existing under PRC laws and regulations and constituted a valid and legally binding obligation for the signing parties.

As the initial shareholders of Yinshilai Textile and Huiyin Textile were unable to come to an agreement in relation to the form and direction of their investments in Yinshilai Textile and Huiyin Textile respectively at their start-up stage, there were delays in the payments of registered capital by these shareholders. According to the Administrative Penalties Law of PRC, where an unlawful act is not discovered within two years of its commission, an administrative penalty will not be imposed, except as otherwise prescribed by law. The registered capital of Yinshilai Textile and Huiyin Textile had been fully paid up in 2003 and 2006 respectively, and both Yinshilai Textile and Huiyin Textile have passed the annual inspection since their establishment, as advised by our PRC legal advisers, no penalties will be imposed on the Group in this regard.

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REORGANIZATION

The group structure of Yinshilai Textile, one of our operating subsidiaries, prior to the offshore reorganization as at 1 January 2009 (being the commencement of the Track Record Period) was as follows:

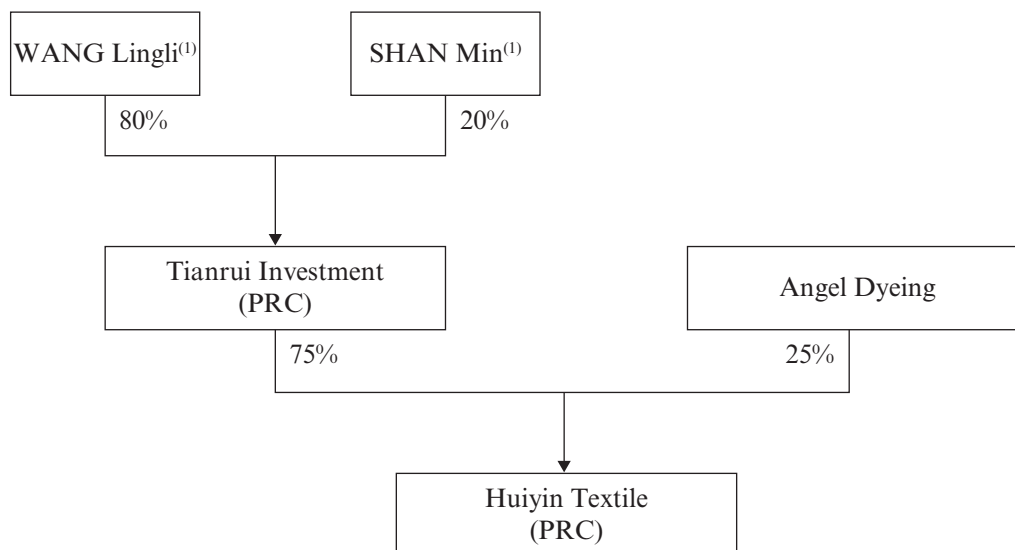


Note:

- (1) Each of Ms. WANG Lingli, Ms. SUN Qilian, Mr. LIU Bin, Mr. SONG Zuoshun and Mr. SUN Qigen holds their respective 2% equity interest in Yinshan Chemical Fiber as trustee on behalf of Mr. LIU Dong, respectively.

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The group structure of Huiyin Textile, one of our operating subsidiaries, prior to the offshore reorganization as at 1 January 2009 (being the commencement of the Track Record Period) was as follows:



Note:

- (1) Each of Ms. WANG Lingli and Ms. SHAN Min holds their respective interest in Tianrui Investment as trustee on behalf of Mr. LIU Dong, respectively.

In preparation for the Listing, our Group underwent various procedures (including establishment of our offshore shareholding structure and restructuring of our PRC operating subsidiaries) pursuant to the Reorganization, the particulars of which are set out below and the paragraph headed “Further Information about our Company — 4. Group reorganization” in Appendix VI to this prospectus. The main steps of our Reorganization were:

Establishment of offshore shareholding structure

Excel Orient

On 19 November 2009, Excel Orient was incorporated in the BVI as a limited company with an authorized share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 8 February 2010, one share with par value of US\$1.00 was allotted and issued as fully paid at par to Mr. LIU Dong.

Power Fit and Swift Power

On 8 January 2010, each of Power Fit and Swift Power was incorporated in the BVI, each of which has an authorized share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. Each of Power Fit and Swift Power has only issued one share and is held as to 100% by Wellex Management Limited, the subscriber.

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Our Company

On 24 February 2010, our Company was incorporated in the Cayman Islands as an exempted company with an authorized share capital of US\$50,000 divided into 50,000 shares having a par value of US\$1.00 each. On the same date, one share with par value of US\$1.00 was allotted and issued as fully paid at par to Offshore Incorporations (Cayman) Limited, the subscriber, which was then transferred to Excel Orient. Upon completion of the said share transfer, our Company was owned as to 100% by Excel Orient.

On 25 February 2010, one issued share in each of Power Fit and Swift Power was transferred to our Company by their respective subscriber for the consideration of US\$1.00. Upon completion of the said share transfers, each of Power Fit and Swift Power was owned as to 100% by our Company.

HK YSL and HK Huiyin

On 1 March 2010, each of HK YSL and HK Huiyin was incorporated in Hong Kong as a limited liability company with an authorized share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. On the same date, one share with par value of HK\$1.00 of each of HK YSL and HK Huiyin was allotted and credited as fully paid at par to Power Fit and Swift Power as the founding member, respectively.

Restructuring of our PRC operating subsidiaries

On 16 April 2010, HK YSL and HK Huiyin acquired the entire equity interest in Yinshilai Textile and Huiyin Textile, respectively, under the following equity transfers:

- (a) Pursuant to an equity transfer agreement dated 2 April 2010 entered into between Yinshan Chemical Fiber and HK YSL, HK YSL acquired 75% equity interest in Yinshilai Textile from Yinshan Chemical Fiber in consideration of RMB110,000,000. The consideration was determined after negotiation on arm's length basis and by reference to the net asset value of Yinshilai Textile assessed by an independent asset valuer as at 31 December 2009.
- (b) Pursuant to an equity transfer agreement dated 2 April 2010 entered into between Top Grade and HK YSL, HK YSL acquired 25% equity interest in Yinshilai Textile from Top Grade in consideration of RMB36,600,000. The consideration was determined after negotiation on arm's length basis and by reference to the net asset value of Yinshilai Textile assessed by an independent asset valuer as at 31 December 2009.
- (c) Upon completion of the equity transfers on 16 April 2010, the registered capital of Yinshilai Textile was owned as to 100% by HK YSL, and Yinshilai Textile was converted into a wholly foreign-owned enterprise.
- (d) Pursuant to an equity transfer agreement dated 2 April 2010 entered into between Tianrui Investment and HK Huiyin, HK Huiyin acquired 75% equity interest in Huiyin Textile from Tianrui Investment in consideration of RMB67,280,000. The

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consideration was determined after negotiation on arm's length basis and by reference to the net asset value of Huiyin Textile assessed by an independent asset valuer as at 31 December 2009.

- (e) Pursuant to an equity transfer agreement dated 2 April 2010 entered into between Angel Dyeing and HK Huiyin, HK Huiyin acquired 25% equity interest in Huiyin Textile from Angel Dyeing in consideration of RMB22,430,000. The consideration was determined after negotiation on arm's length basis and by reference to the net asset value of Huiyin Textile assessed by an independent asset valuer as at 31 December 2009.
- (f) Upon completion of the equity transfers on 16 April 2010, the registered capital of Huiyin Textile was owned as to 100% by HK Huiyin, and Huiyin Textile was converted into a wholly foreign-owned enterprise.

Our PRC legal advisers confirmed that the equity transfers of the equity interests in Yinshilai Textile throughout the Reorganization were legal and valid and that all necessary government approvals and registration procedures had been obtained and duly complied with.

Transfer of equity interest from Excel Orient to Sunlion and Solemnity

For the purposes of obtaining funding for the Reorganization, Mr. LIU Dong entered into the following loan agreements (collectively the “**Loan Agreements**”) (as amended and supplemented):

Date of Agreement	Lender	Amount of loan	Fixed date of repayment	Interest
1 July 2010	Mr. YAN Tangfeng	HK\$160,000,000 (Note 1)	30 June 2011	5% per annum
1 July 2010	Mr. SIU Wun Lung	HK\$116,100,000 (Note 2)	30 June 2011	5% per annum

The above loans were part of the source of funding for the provision of loans for the total sum of HK\$273,310,000 by Excel Orient to our Company in 2010 and 2011. Pursuant to two deeds of loan dated 23 November 2010 and 1 April 2011, respectively, Excel Orient (being the lender) and our Company (being the borrower) agreed and acknowledged that the above shareholder's loans for the total sum of HK\$273,310,000 were interest-free with a fixed repayment term of five years (the “**Shareholder's Loan**”) (Note 3).

Notes:

- Including the sum of HK\$27,550,000, HK\$30,000,000, HK\$20,890,000, HK\$20,160,000, HK\$30,000,000, HK\$31,000,000 and HK\$400,000 paid on 26 August 2010, 27 September 2010, 19 November 2010, 16 February 2011, 18 March 2011, 30 March 2011 and 17 August 2011, respectively.
- Including the sum of HK\$40,000,000, HK\$5,400,000, HK\$52,780,000 and HK\$17,920,000 paid on 23 August 2010, 25 August 2010, 26 August 2010 and 27 August 2010, respectively.

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3. The outstanding sum owed to Excel Orient by our Group (including but not limited to the Shareholder's Loan after deducting the repaid amount) was waived pursuant to a deed of waiver dated 14 March 2012 between our Company and Excel Orient. No additional Shares will be issued as a result of the waiver of the repayment of the outstanding amount owed to Excel Orient.

The Shareholder's Loan was our source of funding for the acquisition of the equity interest of our PRC subsidiaries, Yinshilai Textile and Huiyin Textile, in the Reorganization.

On 16 June 2011, Excel Orient (as the borrower) entered into a deed of loan with Sunlion (a company wholly-owned by Mr. YAN Tangfeng) and Solemnity (a company wholly-owned by Mr. SIU Wun Lung), respectively, pursuant to which the parties to the deed agreed to partly settle the outstanding loan amount by way of transfer of Shares held by Excel Orient to each of Sunlion and Solemnity, respectively (collectively, the "**Deeds of Loan**"). The material terms of the Deeds of Loan (as supplemented by a supplemental deed dated 12 July 2011 made between Excel Orient, Mr. LIU Dong, Sunlion and Mr. YAN Tangfeng and two supplemental deeds dated 12 July and 18 August 2011, respectively, made between Excel Orient, Mr. LIU Dong, Solemnity and Mr. SIU Wun Lung) (*Notes 1 and 2*) are set out below:

Lender	Shares transferred	Outstanding amount of loan after the transfer of Shares	Fixed date of repayment for the outstanding amount	Interest
Sunlion	723 (representing 7.23% equity interest in our Company as at 16 June 2011) as settlement of loan of HK\$70,000,000	HK\$90,000,000	15 June 2016	5% per annum
Solemnity	619 (representing 6.19% equity interest in our Company as at 16 June 2011) as settlement of loan of HK\$60,000,000	HK\$56,100,000	15 June 2016	5% per annum

Notes:

1. Pursuant to the supplemental deed dated 12 July 2011 between Excel Orient, Mr. LIU Dong, Sunlion and Mr. YAN Tangfeng, the parties agreed and acknowledged that (i) Excel Orient's obligation to transfer 7.23% equity interest to Sunlion was satisfied by way of completion of the transfer of 723 Shares on 19 June 2011, and (ii) the relevant Loan Agreement was terminated and superseded by the Deed of Loan and that all obligations and liabilities of Mr. LIU Dong and Mr. YAN Tangfeng (both of whom were not parties to the Deed of Loan) under the Loan Agreement were terminated as at the date of the Deed of Loan.
2. Pursuant to the supplemental deed dated 12 July 2011 between Excel Orient, Mr. LIU Dong, Solemnity and Mr. SIU Wun Lung, the parties agreed and acknowledged that (i) Excel Orient's obligation to transfer 6.19% equity interest to Solemnity was satisfied by way of completion of the transfer of 619 Shares on 19 June 2011, and (ii) the relevant Loan Agreement was terminated and superseded by the Deed of Loan and that all obligations and liabilities of Mr. LIU Dong and Mr. SIU Wun Lung (both of whom were not parties to the Deed of Loan) under the Loan Agreement were terminated as at the date of the Deed of Loan. Pursuant to the second supplemental deed dated

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18 August 2011, it was acknowledged and rectified that the total amount of loan provided by Mr. SIU Wun Lung to Mr. LIU Dong was HK\$116,100,000 instead of HK\$120,000,000 as previously agreed under the relevant Loan Agreement.

Upon completion of the transfer of Shares pursuant to the Deeds of Loan, on 19 June 2011, the equity interest of our Company was owned as to 86.58%, 7.23% and 6.19% by Excel Orient, Sunlion and Solemnity, respectively. Pursuant to the Deeds of Loan, Excel Orient shall be liable for repayment of the outstanding amount of the loan after the above transfer of Shares. Our Company is not liable for any part of the outstanding amount of the loans and Mr. YAN and Mr. SIU have no special rights in our Company in their capacities as our Shareholders or as lenders of the above loans to Excel Orient.

The number of Shares transferred by Excel Orient to Sunlion and Solemnity and the consideration for such Shares were determined after arm's length commercial negotiations between the parties based on the estimated net profit of the Group for the year ended 31 December 2010 of approximately RMB100.50 million (estimated at the time of the equity transfers) and a price earning ratio of eight times.

The investment cost per Share of Sunlion and Solemnity (with reference to all Shares held by each of Sunlion and Solemnity, respectively, immediately prior to the Listing, including the Shares issued pursuant to the Capitalization Issue) was approximately HK\$1.51 and HK\$1.52, respectively, indicating a premium of approximately 24.79% and 25.62% to HK\$1.21, being the mid-point of the indicative Offer Price range, respectively.

The details of the investments made by Sunlion and Solemnity in our Company are summarized as follows:

Investor	Date of investment and payment date <i>(Notes 1 and 2)</i>	Consideration	Cost per Share and premium to IPO price <i>(Notes 3 and 4)</i>	Use of proceeds	Shareholding upon Listing
Sunlion	16 June 2011	HK\$70,000,000 (as partial settlement of amount owed by Mr. LIU Dong to Mr. YAN Tangfeng)	HK\$1.51; 24.79%	Part of the source of funding for the Shareholder's Loan	5.78%
Solemnity	16 June 2011	HK\$60,000,000 (as partial settlement of amount owed by Mr. LIU Dong to Mr. SIU Wun Lung)	HK\$1.52; 25.62%	Part of the source of funding for the Shareholder's Loan	4.95%

Notes:

- Being the date on which the respective Shares were transferred from Excel Orient to the investors, respectively, as partial settlement of the outstanding sum owed by Mr. LIU Dong to each of Mr. YAN Tangfeng and Mr. SIU Wun Lung.
- Mr. YAN Tangfeng provided a loan for the total sum of HK\$160,000,000 to Mr. LIU Dong which was advanced during the period from August 2010 and August 2011. The full consideration of HK\$70,000,000 for the investment has been fully already transferred to Mr. LIU Dong (to the bank account of Excel Orient pursuant to Mr. LIU Dong's request) before 16 June 2011 (being the date of transfer of the relevant Shares by Excel Orient in partial settlement of the outstanding sum owed by

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Mr. LIU Dong to Mr. YAN Tangfeng) under various advancements. As to the loan provided by Mr. SIU Wun Lung for the total sum of HK\$116,100,000, the whole sum (including the consideration of HK\$60,000,000 for the investment) has already been transferred to Mr. LIU Dong (to the bank account of Excel Orient pursuant to Mr. LIU Dong's request) before 16 June 2011 (being the date of transfer of relevant Shares by Excel Orient in partial settlement of outstanding sum owed by Mr. LIU Dong to Mr. SIU Wun Lung).

3. With reference to all Shares held by each of Sunlion and Solemnity, respectively, immediately prior to the Listing, including the Shares issued pursuant to the Capitalization Issue.
4. With reference to HK\$1.21, being the mid-point of the indicative Offer Price range.

For details of the background information of Mr. YAN Tangfeng (who has been the sole director and sole shareholder of Sunlion since its incorporation), please refer to the section headed "Directors, Senior Management and Employees" in this prospectus. As a private investor, Mr. YAN became acquainted with Mr. LIU Dong when he was introduced to Mr. LIU by the official of the Bureau of Commerce of Zibo Municipality in 2008 and conducted various visits to our Group during which he had acquired a deeper understanding of the operation and competitive strength of our Group. Mr. SIU Wun Lung has been a director and sole shareholder of Solemnity since its incorporation. Mr. SIU is a private investor who currently holds equity interest and management positions in various companies which engage in the business of dyeing and finishing and trading of textile products. Mr. SIU became acquainted with Mr. LIU Dong in 1998 through engagements of the textile industry. Since then, as a personal friend of Mr. LIU Dong, Mr. SIU occasionally visited our Group through which he had acquired an understanding of our operation. Mr. YAN and Mr. SIU were introduced to each other through Mr. LIU Dong in 2008 and understood that our Group might consider obtaining further finance for our development. In 2010, upon understanding from Mr. LIU Dong that we were planning to apply for listing in Hong Kong and would need capital for the Reorganization, Mr. YAN and Mr. SIU agreed to provide the aforesaid loans.

Both Mr. YAN Tangfeng and Mr. SIU Wun Lung are passive investor and do not participate in the management and operation of our Group.

In February 2010, we engaged Sinolion Investment and Management Consultancy (Shandong) Co., Ltd. (中獅投資管理諮詢(山東)有限公司) (a limited company incorporated in the PRC) ("**Sinolion Investment**") as our adviser to prepare for us and assist us in the Listing for matters involving internal coordination within the Company, including (i) to provide administrative support and assistance to us in facilitating the completion of due diligence exercise by the professional parties, (ii) to assist us in finalizing the plan for the Reorganization, (iii) to offer suggestion and recommendation of professional parties for the Listing, and which fall outside the scope of any regulated activity which requires a licence under the SFO and/or any service that is to be provided by a sponsor to a listing applicant under the Listing Rules, for the reason that our Directors believe that the engagement of Sinolion Investment would minimise the diversion of the attention of the management of our Group from our business which is rapidly growing. Service charge for the total sum of RMB600,000 was fully settled in 2010 and 2011.

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Sinolion Investment is wholly owned by Sinolion Investment Pte. Ltd., the equity interest of which was owned as to 70% and 30% by Ms. YANG Chun (the spouse of Mr. YAN Tangfeng) and one of its employees, respectively. Ms. YANG Chun is a director of Sinolion Investment Pte. Ltd. while Mr. YAN Tangfeng is the chief executive officer.

Each of Mr. YAN Tangfeng, Mr. SIU Wun Lung, Sunlion and Solemnity has confirmed to the Company that, save as disclosed in this section and that Mr. YAN Tangfeng is our Director, he/it is an Independent Third Party and has no relationship with our Shareholders, Directors, senior management and their respective associates. They have also confirmed that they are independent from and not related to each other. The Shares held by them will not be aggregated and they will not be treated as substantial shareholders of our Company after the Listing. Solemnity will be regarded as a member of the public after the Listing pursuant to Rule 8.24 of the Listing Rules and that its Shares will be treated as part of the public float.

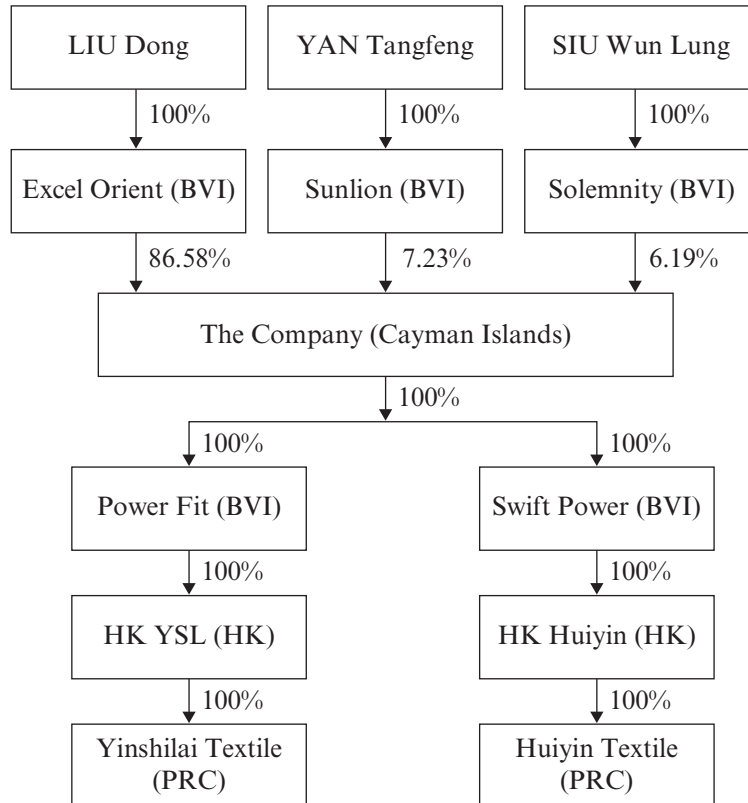
Lock-up

Sunlion (and its shareholder, namely Mr. YAN Tangfeng) and Solemnity (and its shareholder, namely Mr. SIU Wun Lung) have provided an undertaking to our Company and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in relation to the non-disposal of the Shares during the period of six months from the Listing Date. For more information, please see the section headed “Underwriting” in this prospectus.

Upon completion of the Reorganization, our Company became the holding company of our Group in anticipation of the Global Offering.

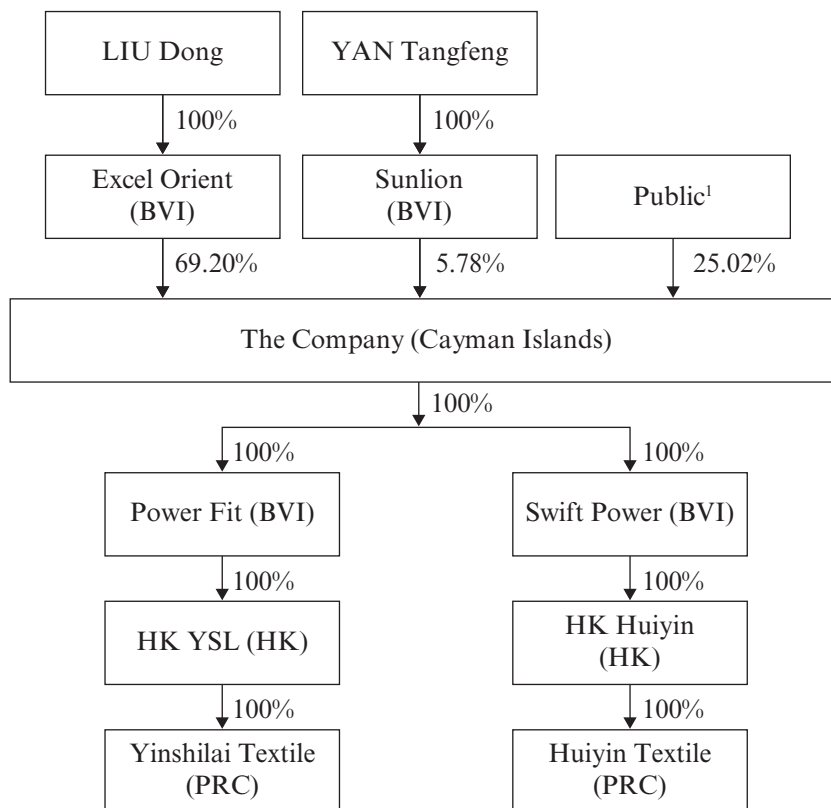
HISTORY, REORGANIZATION AND GROUP STRUCTURE

The following chart sets forth shareholding structure immediately following our Reorganization:



HISTORY, REORGANIZATION AND GROUP STRUCTURE

The following chart sets forth our shareholding structure immediately following the settlement and waiver of the outstanding sum owed to Excel Orient by our Group and completion of the Global Offering and Capitalization Issue (taking into no account of any Shares that may be issued pursuant to the exercise of the Over-allotment Option and that may be issued upon the exercise of share options granted under the Share Option Scheme):



¹ Shares to be held by the public include the Shares held by Solemnity which shall represent approximately 4.95% of the enlarged issued share capital of the Company and is regarded as part of the public float.

M&A RULES

According to the Rules on the Acquisition of Domestic Enterprises by Foreign Investors (the “Circular 10”) 《關於外國投資者併購境內企業的規定》 which were promulgated by MOFCOM, the State-owned Assets Supervision and Administration Commission, the CSRC, the SAT, the SAIC and the SAFE and became effective on 8 September 2006, where a domestic company, enterprise or natural person intends to takeover its/his/her affiliated domestic company in the name of an offshore company which it/he/she lawfully established or controls, the takeover shall be subject to the examination and approval of the MOFCOM; and where a domestic natural person holds equity interest in a domestic company through an offshore special purpose company, the overseas listing of that special purpose company shall be subject to approval by the CSRC. Yinshilai Textile was established on 1 December 1999 as a sino-foreign enterprise, which owned necessary assets to conduct its business within the approved business scope, and Yinshilai Textile was changed to a wholly foreign owned enterprise on 16 April 2010. According to the agreement

HISTORY, REORGANIZATION AND GROUP STRUCTURE

entered into between Yinshilai Textile and Yinlong Industrial for Yinlong Assets Acquisition dated 1 April 2011, Yinshilai Textile acquired from Yinlong Industrial approximately 90,000 spindles and other spinning machineries and supporting equipment (the “**Acquired Assets**”) on 31 December 2010, and such acquisition was completed on the same date. As advised by our Group’s PRC legal advisers, on the basis that (i) Yinshilai Textile has been established as a foreign invested enterprise and in operation with its own assets before the occurrence of Yinlong Assets Acquisition; and (ii) the Acquired Assets did not constitute material assets compared to the total assets of Yinshilai Textile as at 31 December 2010, Circular 10 does not apply to the Yinlong Assets Acquisition. Our PRC legal advisers have further advised that the Circular 10 is not applicable to our Listing and it is not necessary for us to obtain approval from the CSRC and the MOFCOM because the foreign-invested enterprises involved in the Listing, namely Yinshilai Textile and Huiyin Textile, were not domestic companies defined under the Circular 10 and were set up as sino-foreign equity joint venture enterprises before 8 September 2006.

Our Directors are of the view that, based on the advice of our PRC legal advisers, the M&A Rules are not applicable to our Listing and it is not necessary for us to obtain approval from the CSRC and the MOFCOM.

CIRCULAR 75

According to the Notice of SAFE on Relevant Issues Relating to Foreign Exchange Control on Financing and Round-trip Investments by Domestic Residents Through Offshore Special Purpose Vehicles (the “**Circular 75**”) 《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) promulgated by the SAFE on 21 October 2005 and effective on 1 November 2005, “Domestic Resident Individuals” must make an “overseas investment foreign exchange registration” with SAFE before the establishment of an overseas special purpose vehicle (“**SPV**”) which is established by them for financing and round trip investments. Circular 75 further requires that “Domestic Resident Individuals” must update such registration on the occurrence of material change in the capital of the SPV such as (1) capital increase or decrease; (2) transfer or swap equities; (3) merger or spin-off from another company; (4) investments in long-term equities or creditor’s rights; and (5) external guarantee. Subject to completion of the aforesaid registration, payment of dividends, profits and other payments to such SPV will be permitted.

Our PRC legal advisers have conducted consultation with the Zibo sub-branch of SAFE as well as Shandong branch of SAFE which are the appropriate authorities and confirmed that Mr. YAN Tangfeng, who is a Singapore permanent resident holding PRC passport, and Mr. SIU Wun Lung, who is a Hong Kong permanent resident, both of whom being the relevant beneficial Shareholders of the Company, had submitted their separate applications for foreign exchange registration of offshore investment at the Zibo sub-branch of SAFE on 10 August 2011, and the officers have indicated that Mr. YAN Tangfeng and Mr. SIU Wun Lung do not fall into the registration category ascribed in the Circular 75. Based on the foregoing, our PRC legal advisers are of the view that Mr. YAN

HISTORY, REORGANIZATION AND GROUP STRUCTURE

and Mr. SIU do not have to take further action to complete the foreign exchange registration as they are not categorized within the registration scope required by the Circular 75 and no penalties will be imposed on our Company due to such non-registration.

Our PRC legal advisers have advised that Circular 75 applies to our Listing as our ultimate Controlling Shareholder, Mr. LIU Dong, is a domestic resident. Our PRC legal advisers have confirmed that Mr. LIU Dong registered with the local branch of SAFE in accordance with Circular 75 in 2010.