

BUSINESS OVERVIEW

We are one of the leading fabric manufacturers in the high-end¹ home textile fabric industry of the PRC principally engaged in the design, manufacturing and sale of high-end Fabric Products. Our principal products can be broadly divided, by their weaving constructions, into two categories, namely, jacquard fabrics and dobby fabrics. Our Fabric Products are mainly made with high-end yarns (which are made from high grade cotton, organic cotton, Egyptian cotton and pima cotton), Tencel and/or new materials and fibers (such as milk fiber, soybean fiber, corn/bamboo blended fiber, wool and linen, etc.), and are manufactured by advanced air-jet looms and rapier looms, some of which have been equipped with electronic jacquard machines. Our dobby fabrics are suitable for manufacturing a broad range of quality home textile products such as bed-linen as well as apparel textile products such as garment, whereas our jacquard fabrics are primarily used for manufacturing high-end home textile products such as high-end bed-linen for hotel guest rooms, as far as our Directors are aware. Further, we are committed to product innovations and developments to expand our product offerings and improve our product quality with a view to catering to the ever changing market demand and customers' preference. For the year ended 31 December 2011, the Fabric Products that we have designed and/or produced for our customers were over 7,000 varieties as classified in terms of woven designs, raw materials used and fabric specifications.

The high-end home textile fabric market in the PRC in which we carry on business is a niche market and a segment of the high-end grey fabric market². The entire grey fabric market of the PRC is substantial. According to the Euromonitor Report, in 2010, approximately 65.5 billion meters of grey fabrics were produced by the PRC manufacturers above the designated size³ in the cotton textile industry in the PRC in which high-end grey fabrics as well as high-end home textile jacquard fabrics and high-end home textile dobby fabrics accounted for approximately 4.1% and 0.67%, respectively of the total grey fabrics produced. In terms of the manufacturer sales value, in 2010, high-end grey fabrics produced by the PRC manufacturers above the designated size reached approximately RMB40,834.8

¹ According to the Euromonitor Report, high-end grey fabrics generally refer to a class of grey fabrics made with combed yarns which are made from high grade cotton (e.g. first-grade and second-grade local produced cotton or the imported cotton of equivalent grade, organic cotton and pima cotton) and/or new fibers (e.g. Tencel, silk, milk fiber, soybean fiber, linen, etc). Yarns used to produce high-end grey fabrics shall be high count yarns (with yarn count over 40S), and high-end grey fabrics usually have high thread density (i.e. total number of weft and wrap is above 180 in one square inch (equivalent to approximately 709 thread/10cm)). For further information, please refer to the section headed "Industry Overview — High-End Grey Fabrics in Cotton Textile Industry Segment" in this prospectus.

² For further details of the categorisation of the high-end grey fabric market and high-end home textile fabric market in which we carry on business and the market size thereof in the PRC, please refer to the section headed "Industry Overview — High-end Jacquard and Dobby Grey Fabric Market in the PRC" in this prospectus.

³ The phrase "PRC manufacturers above the designated size" refers to the PRC manufacturers with core business revenue over RMB5 million, according to the Euromonitor Report. Given the immense size of the textile industry and the business scale of the PRC manufacturers below the designated size is usually very small, the phrase "PRC manufacturers above the designated size" is commonly adopted in the fabric manufacturing industry as a benchmark for measuring market size and industry output, according to the Euromonitor Report.

million in which high-end home textile jacquard fabrics and high-end home textile doobby fabrics in aggregate accounted for approximately 19.59%, based on the Euromonitor Report. We were ranked as the largest high-end home textile jacquard fabric manufacturer and the second largest high-end home textile doobby fabrics manufacturer in the PRC with approximately 18.9% and 9.4% respectively of the share in the respective market in 2010 in terms of the manufacturer sales value of such products produced by the PRC manufacturers above the designated size, according to the Euromonitor Report.

Our principal products

As at the Latest Practicable Date, in terms of revenue, the production and sale of doobby fabrics represented the core of our business. For the years ended 31 December 2009, 2010 and 2011, sales of our doobby fabrics amounted to approximately RMB420.49 million, RMB574.65 million and RMB641.16 million respectively, representing approximately 79.38%, 74.27% and 69.11% respectively of our total revenue during the same period and a CAGR of approximately 23.48%. The gross margins from their sales amounted to approximately 11.43%, 21.62% and 24.21% respectively during the Track Record Period.

Based on our belief that the demand for high-end home textile fabrics and home textile products in the PRC will continue to grow in the long run due to the rapid and sustained economic development in China and that the expected gross margins from their sale are relatively higher, since 2008, we have increased our focus on the manufacturing and sale of jacquard fabrics. For the years ended 31 December 2009, 2010 and 2011, sales of our jacquard fabrics amounted to approximately RMB97.42 million, RMB132.93 million and RMB233.87 million respectively, representing a CAGR of approximately 54.94%, and the gross margins from their sales amounted to approximately 23.73%, 32.84% and 28.71% respectively. With complex designs, stringent production requirements and rich colour and raw materials combinations, our jacquard fabrics are featured by their high quality, high added value and differentiated properties, which enable us to command higher selling price for them and make them appealing to high-end finished home textile manufacturers. Our Directors believe that the sustained development of this line of business will play an increasingly important role in the continuing success and growth of our business.

Our customers

During the Track Record Period, we have manufactured Fabric Products for, and/or provided processing services to, over 1,200 customers. Of our about 320 customers comprising over 270 domestic customers and 50 export sale customers for the year ended 31 December 2011, a majority of them had business relationship of more than three years with us. Apart from the direct sale of Fabric Products, we also undertake to provide processing services for certain customers who would like to capitalise on our advanced weaving facilities and our capability of offering high quality Fabric Products to fulfil their production requirements. As a result of our dedication to offering high-end, functional and differentiated Fabric Products over the years, we have established close and stable business relationship with our customers, some of whom are well-known home and apparel textile manufacturers in the PRC such as Jiangsu Golden Sun Textile Co., Ltd. (江蘇金太陽紡織科技有限公司), Nantong Zhan Qun Textile Co., Ltd. (南通展群紡織有限公司), Jiangyin Hong

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Liu Bedsheet Co., Ltd. (江陰市紅柳被單廠有限公司), Lu Thai Textile Co., Limited (魯泰紡織股份有限公司) (a company listed on Shenzhen Stock Exchange), Fuanna Bedding and Furnishing Company Limited (深圳市富安娜家居用品股份有限公司) (a company listed on Shenzhen Stock Exchange), Shanghai Shuixing Home Textile Limited (上海水星家用紡織品有限公司) and Luolai Home Textile Co., Ltd. (羅萊家紡股份有限公司) (a company listed on Shenzhen Stock Exchange). These customers in aggregate accounted for approximately 10.83%, 18.56% and 17.92%, respectively, of our total revenue during the Track Record Period. Save as Jiangyin Hong Liu Bedsheet Co., Ltd. (江陰市紅柳被單廠有限公司) who was our customer for the years ended 31 December 2009 and 2010, all these customers were our Group's customers throughout the Track Record Period.

Our machines and equipment

As at the Latest Practicable Date, we were equipped with over 900 sets of advanced air-jet looms, rapier looms, electronic jacquard machines, sizing machines and automatic drawing-in machines, most of which were imported from overseas countries such as Japan, Italy, France and Belgium, and have high performance, automatic controls and highly adaptable features. As at the Latest Practicable Date, we operated over 250 sets of advanced electronic jacquard looms comprising Tsudakoma air-jet looms and Itema rapier looms which had been equipped with Stäubli electronic jacquard machines or Bonas electronic jacquard machines. According to the Euromonitor Report, as of June 2011, we were one of the few fabric manufacturers in the cotton textile industry in the PRC equipping with more than 100 sets jacquard machines. We have also installed advanced spinning machines to support our fabric productions. We believe that our investments in advanced production facilities over the years have strengthened our leading position in the high-end home textile fabric market especially in the jacquard fabric and doobby fabric segments. We also believe that high capital intensive requirement of our production facilities and process poses remarkable barriers to entry for new competitors.

Vertical integration of yarn and fabric productions

To complement the increasing scale of our fabric manufacturing business and secure reliable and quality yarn supplies, on 31 December 2010, we purchased from Yinlong Industrial, a company controlled by Mr. LIU Dong until 29 October 2010 and by his associate until 21 April 2011, approximately 90,000 spindles and other spinning machineries and supporting equipment which enabled us to achieve economies of scale from the vertical integration of yarn and fabric productions. For further details, please see “Our Relationship with Controlling Shareholders — Relationship with Yinlong Industrial — Yinlong Assets Acquisition” in this prospectus. The Yinlong Assets Acquisition has allowed us to produce different types of yarns to satisfy our production requirements and reduced our reliance on external yarn suppliers.

Our production base

We are strategically located in Shandong Province, one of the major cotton textile production regions in the PRC. Our strategic location allows us to procure raw materials and sell our products in a timely and cost effective manner. We have established an integrated production base in Boshan Economic Development Zone, Zibo City, Shandong

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Province with a site area of approximately 76,614.9 sq.m. We believe that our scaled business facilitates us to manufacture a full range of quality Fabric Products to meet the consumers' need on a timely basis.

Our financial performance

We enjoyed rapid growth in both revenue and profitability in recent years. Our revenue increased from approximately RMB529.71 million for the year ended 31 December 2009 to approximately RMB927.77 million for the year ended 31 December 2011, representing a CAGR of approximately 32.34%. During the same period, our profit before taxation increased from approximately RMB42.35 million for the year ended 31 December 2009 to approximately RMB187.89 million for the year ended 31 December 2011, representing a CAGR of approximately 110.63%.

The following table sets out our revenue by product and service category and the percentage contribution by each category to our total revenue during the Track Record Period:

	For the year ended 31 December					
	2009		2010		2011	
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%
Fabric Products						
Dobby fabrics	420,491	79.38	574,649	74.27	641,160	69.11
Jacquard fabrics	97,415	18.39	132,925	17.18	233,868	25.21
Sub-total	517,906	97.77	707,574	91.45	875,028	94.32
Others (Note 1)	450	0.09	35,144	4.54	25,010	2.69
Processing service	11,352	2.14	31,049	4.01	27,736	2.99
Total revenue	<u>529,708</u>	<u>100.00</u>	<u>773,767</u>	<u>100.00</u>	<u>927,774</u>	<u>100.00</u>

Note:

- (1) "Others" comprises sale of other fabric products such as finished home textile products and ancillary items, to Yinlong Industrial, Tianhao (a company controlled by Mr. LIU Dong), and other customers. For further details of our sale of goods to related parties during the Track Record Period, please refer to Note 27 to the Accountants' Report set out in Appendix I to this prospectus.

COMPETITIVE STRENGTHS

We believe that we possess the following competitive strengths to develop our business:

We are one of the leading high-end home textile fabric manufacturers in the PRC.

We are well-recognized in the industry

Our commitment to offering high-end, functional and differentiated Fabric Products contributed to our reputation as one of the leading high-end home textile fabric manufacturers in the industry. According to the Euromonitor Report, we were ranked as the largest manufacturer of high-end jacquard fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry and the second largest manufacturer of high-end dobby fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry in the PRC, in terms of the manufacturer sales value, accounting for approximately 18.9% and 9.4% of the total market share in 2010 in the PRC.

In recognition of our market position and quality of our products, we have received numerous awards and honours. We were one of the Top 500 Competitive Companies of China's Textile and Apparel Industry (中國紡織服裝企業競爭力500強企業) for years 2007 to 2010, one of the Textile Industry's Top 50 enterprises (棉紡織行業前50強“排頭兵企業”) for years 2006, 2008 and 2009, and one of the Textile and Yarn-Dyed Industry's Top 20 Enterprises from 2007 to 2011 (中國棉紡、色織行業競爭力20強企業). In September 2006, our Yinshilai's branded pure cotton with high-count and high-density grey fabrics (銀仕來牌高支高密純棉坯布) were selected as China Top Brand (中國名牌) for the period from 2006 to 2009 by Central Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) and the validity period of the award was subsequently extended to September 2011. Details of our Group's awards and certificates and the awarding bodies are set out in the sub-section headed “Awards and Accreditations” below.

We have stringent quality control

As part of our brand-building process, we maintain stringent quality control over the whole production chain with a view to strengthening our customers' confidence in our products. According to the letter issued by China Cotton Textile Association (中國棉紡織行業協會) in May 2007, we had participated in the review and revision of GB/T 406-2008 and GB/T398-2008 standards which are the national quality benchmarks for cotton grey fabrics and cotton yarns. We have also adopted a set of quality inspection system for jacquard and dobby fabrics such as the quality standard entitled “original-coloured fabric product” (Q/0300ZHY) formulated by us in January 2011 which demonstrated our experience and expertise in fabric quality control.

We have established customer base

As a result of our market position as well as our quality assurance measures, we have successfully established close and stable business relationship with our customers. Of our about 320 customers comprising over 270 domestic customers and 50 export sale customers for the year ended 31 December 2011, a majority of them had more than three years business relationship with us. Some of our customers are well-known home and apparel textile manufacturers such as Jiangsu Golden Sun Textile Co., Ltd. (江蘇金太陽紡織科技有限公司), Nantong Zhan Qun Textile Co., Ltd. (南通展群紡織有限公司), Jiangyin Hong Liu Bedsheet Co., Ltd. (江陰市紅柳被單廠有限公司), Lu Thai Textile Co., Limited (魯泰紡織股份有限公司) (a company listed on Shenzhen Stock Exchange), Fuanna Bedding and Furnishing Company Limited (深圳市富安娜家居用品股份有限公司) (a company listed on Shenzhen Stock Exchange), Shanghai Shuixing Home Textile Limited (上海水星家用紡織品有限公司) and Luolai Home Textile Co., Ltd. (羅萊家紡股份有限公司) (a company listed on Shenzhen Stock Exchange).

We believe that our leading market position and reputation will continue to enable us to introduce and market our products, attract new quality customers and capture new business opportunities as they arise.

We are well positioned to benefit from the steady increase in the consumers' expenditure in home textile fabric market in China.

We operate in the large and fast growing PRC economy which offers high growth potential to the home textile fabric manufacturing industry. According to the Euromonitor Report, the GDP, per capita annual disposable income of urban population and per capita annual net income of rural population in China increased from approximately RMB18.5 trillion, RMB10,493.0 and RMB3,254.9, respectively in 2005 to approximately RMB47.2 trillion, RMB21,810.0 and RMB6,977, respectively in 2011, representing a CAGR of approximately 16.9%, 13.0% and 13.6%, respectively. According to the Euromonitor Report, such impressive growth couple with other positive growth drivers in the PRC such as increasing urbanisation and growth in hotel and tourist industries stimulated the domestic demand for home textile products.

In addition, consumers in China enjoy higher standards of living and have higher spending power with strong brand consciousness in recent years which leads to change in consumers' behaviour. As an important kind of soft furnishing, consumers pay increasing attention to the quality, functions and designs of home textile products. Thus, they are willing to pay more for branded home textile products with product designs. Based on the data from the Euromonitor Report, per capita consumer expenditure on home textile products by PRC residents steadily increased from approximately RMB26.1 in 2005 to RMB57.2 in 2011, representing a CAGR of approximately 14.0%.

The growth in the people's spending power and expansion in the domestic home textile industry particularly high-end home textile segment in turn increased the demand in the PRC for quality home textile fabrics serving as raw materials for manufacturing high-end home textile products which benefited our business. Based on the data derived from the Euromonitor Report, the aggregate manufacturer sales value of high-end jacquard fabrics

and high-end doobby fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry increased from approximately RMB3,031.1 million in 2005 to approximately RMB8,000.4 million in 2010, representing a CAGR of approximately 21.42%.

The domestic home textile industry (including the home textile fabric market) was also boosted by favourable policies in the recent years. For example, the Outline for Science & Technology Progress of Textile Industry in the 12th Five-Year Plan (紡織工業“十二五”科技進步綱要) and the Guiding Catalogue for Adjustment in the Structure of Industries (2011 version) (產業結構調整指導目錄(2011年本)) promoted and fostered the development of capital intensive, technology-advanced and innovative textile enterprises in the PRC, and encouraged the use of advanced production technique such as compact spinning and the production of jacquard fabrics by advanced technology and equipment, as well as the application of differentiated and new fibers. We believe that such government policies will provide a favourable business environment for the sustained growth and development of our business in China.

We offer high-end, functional and differentiated Fabric Products.

We strategically focus on offering high-end, functional and differentiated Fabric Products which distinguish us from other fabric manufacturers in the market. We are able to use combed yarns with the maximum yarn counts of 200S to weave high-end and high-density fabrics having the maximum thread density of 6,300 threads/10cm, if so specified by our customers. In addition, we have the technical expertise and yarn production facilities to apply in the weaving process a wide range of special yarns and fibers such as Tencel, milk fiber, soybean fiber, bamboo fiber, CoolMax, chitosan fiber, Modal, wool, viscose, organic cotton as well as other fibers. These materials can give our Fabric Products differentiated properties, desired fabric textures and value-added features such as anti-static, anti-bacterial, thermal insulating, anti-odour, moisture-absorbent, recyclable after use, biodegradable anti-ultraviolet which are valued by our customers. Our Fabric Products can also be tailored to our customers' specifications. We are able to offer to our customers Fabric Products with the maximum width of 3.45 meters, multi-colour combinations and tailor-made woven designs to suit the specific needs of our customers. For the year ended 31 December 2011, the Fabric Products that we have designed and/or produced for our customers had more than 7,000 varieties as classified in terms of woven designs, raw materials used and fabric specifications. Since the production of high-end, functional and differentiated Fabric Products, especially jacquard fabrics, requires relatively higher technical requirements and advanced production facilities, we believe that we are one of the few fabric manufacturers that have the proven capability to design and manufacture such products. Our high-count and high-density fabrics and fabrics made with new fibers were named as one of “The Most Influential Fabric Products in the Past 60 Years (60年最具影響力的紡織產品)” in the 60th Anniversary of New China Commemorative Edition (新中國60華誕紀念特刊) in 2009 published by China Textiles News (中國紡織報) which was the recognition of our high technical capability and high quality of our products.

With the continuing prosperity of the domestic economy and increasing people's spending power in the PRC in the recent years which have elevated the consumer's requirement for the quality and design of home textile products, we believe that our product positioning will place us advantageously to capture future growth opportunities.

Our strong research and development capabilities allow us to continuously expand our product offerings and increase our competitiveness.

Strong product development capability

We place particular emphasis on product innovations and application of new materials and technologies. We have a dedicated research and development team primarily responsible for fabric products' designs and the development of new materials and fibers' applications to continuously improve our existing products. Our fabric design unit of the research and development team is equipped with specialised fabric design software and facilities to design and develop new fabric products in accordance with our customers' specifications. We have also been dedicating significant resources to upgrade our research and development facilities. In 2011, we commenced the construction of our new research and development centre at our production base in Zibo City, Shandong Province specifically designed for research and development, information gathering, testing and analysis and exhibitions of our products. On 9 December 2010 and 16 December 2011, Zibo City Science and Technology Bureau (淄博市科學技術局) and the Science and Technology Department of Shandong Province (山東省科學技術廳) respectively granted an approval for our establishment of Jacquard Fabric Engineering, Technology and Research Centre (大提花工程技術研究中心) at city and provincial levels, and pursuant to the approval certificates, the relevant local government departments and bureaus were encouraged to formulate policies and measures to support, and provide guidance for, the establishment and development of such research centre which we believe, will reinforce our future research and development efforts.

Collaboration with external institutions enhances our research and development strength

In addition to our internal research capability, we collaborate with external research institutions for product and technology innovations and technical training. For example, on 18 March 2010, we entered into a patent licence agreement with Wuhan Textile University (formerly known as Wuhan Institute of Science and Technology (武漢科技學院)) pursuant to which, for a term of five years, we were granted an exclusive licence to use in our production process the technology associated with the Extraction Method of Bamboo Shoot Case Fiber for Spinning (紡紗用竹筍殼纖維的提取方法), and Wuhan Textile University agreed to provide, amongst others, technical training, relevant know-how and facility to us for the application of the aforesaid technology in our production process. On 15 August 2011, we entered into a cooperation agreement with the Design College of Nanjing Art Institute (南京藝術學院設計學院) pursuant to which, for a term of three years, the Design College of Nanjing Art Institute (南京藝術學院設計學院) agreed to cooperate with us, on an exclusive basis, to establish a specialised team for our product design innovation, provide design proposals, conduct studies to enhance our brand image, provide technical training and arrange for secondment of staff, etc. to strengthen our design

capabilities and enrich our product portfolio. For further details of the terms of cooperation with these external institutions, please refer to “Business — Research and Development” in this prospectus.

Our achievements in product research and development

In June 2011, we submitted three products developed by us to Shandong Science and Technology Bureau (山東省科技廳) for technology achievement appraisal and according to the appraisal report, the production technology required for these products was confirmed by the panel either as attaining international leading standard or domestic leading standard which were a recognition of our research and development efforts. Further, we have received various awards in respect of our research and development achievements. For example, we were granted by China Cotton Textile Association (中國棉紡織行業協會) the honour of “Finest Jacquard Fabric Base of China” (中國大提花面料精品基地) in 2011 which we were the first and the only enterprise in China awarded with such honour at that time. Details of our Group’s awards and certificates are set out in the sub-section headed “Awards and Accreditations” below.

We believe that, with our strong research and development capabilities, we will be able to further expand our product mix and improve our product quality thereby increasing the competitiveness of our Fabric Products.

Our advanced production facilities and technical expertise enable us to enjoy a leading position in a niche fabric market.

We believe that our strength in manufacturing high-end, functional and differentiated Fabric Products is supported by our advanced production facilities and technical expertise. Our core weaving machineries and equipment were imported from overseas countries such as Japan, Italy, France and Belgium. As at the Latest Practicable Date, we were equipped with over 900 sets of advanced weaving machineries comprising air-jet looms, rapier looms, electronic jacquard machines, automatic drawing-in machines and supporting facilities, which have high performance, automatic controls and highly adaptable features. Our about 250 sets of electronic jacquard looms comprising Tsudakoma air-jet looms and Itema rapier looms have been equipped with Stäubli electronic jacquard machines or Bonas electronic jacquard machines which are highly technological and fully computerized in their operations. These electronic jacquard looms are capable of weaving high-count and high-density jacquard fabrics with different yarns and colour combinations, and the maximum yarn counts and density of the jacquard fabrics that can be woven on these machines can reach 200S and 6,300 threads/10cm, respectively, if so specified by our customers.

Of our 128 sets jacquard looms comprising Tsndakoma air-jet looms and Itema rapier looms newly installed at our production base, our Itema rapier looms imported from Italy are equipped with Bonas 10,560 bits electronic jacquard machines which are capable of weaving a single non-repetitive woven pattern on a whole piece of 3,400mm broad width fabric. We are also equipped with advanced spinning machines to support our fabric productions. For example, our Murata automatic winding machines imported from Japan are capable of processing different types and sizes of yarn and/or fiber efficiently.

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We believe that our investments in advanced production facilities over the years have enabled us to manufacture a great variety of Fabric Products to satisfy our customers' requirements, strengthened our leading position in the high-end home textile fabric market especially in the high-end jacquard fabric and high-end dobby fabric segments, reduced our reliance on the supply of labour force, simplified the production process, increased production efficiency and facilitated our control over the quality of our products. Further, the high capital intensive requirement of our business poses significant barriers to entry for new competitors.

A scaled and integrated business brings us synergies from economies of scale.

For the year ended 31 December 2011, our production capacity of Fabric Products have reached approximately 86.74 million metres. In addition to the production of Fabric Products, we also manufacture, for internal consumption, a wide variety of quality yarns, ranging from pure cotton yarns with different yarn counts to yarns with advanced production expertise such as Tencel/cotton blended yarns, acrylic fiber/cotton blended yarns, polyester/cotton blended yarns and other fiber-blended yarns with different functional properties. We believe that our scaled business and vertical integration of yarn and fabric productions have enabled us to achieve synergies arising from economies of scale, provided us with the flexibility to adjust product mix to meet changing market conditions and demands, and given us the ability to manufacture quality Fabric Products to meet the customer's need on a more timely basis. The scale of our operations has also afforded us with more bargaining power to negotiate for competitive pricing for raw materials which resulted in lower unit production cost and higher profit margin. As a result, we enjoy flexibilities in pricing our products and maintain their competitiveness in face of the changing market demand.

We have an experienced, stable and energetic management team.

We have an experienced, stable and energetic management team. Our senior management team is led by Mr. LIU Dong with extensive experience and knowledge in the textile industry. Mr. LIU Dong, who is the chairman of our Group and an executive Director, has over 20 years of experience in the textile industry and received several recognitions and honours. Other executive Directors and members of our senior management team include Mr. LIU Zongjun (劉宗君), Mr. TIAN Chengjie (田成杰) and Ms. SUN Hongchun (孫紅春). Most of them have nearly 20 years of experience in the textile industry and have been with our Group since our inception. Their commitment to our Group has contributed to the stability of our senior management team. With an average age of about 40, our senior management team is energetic and adaptable to challenges. For further details of the biographies and relevant industry experience of our management team, please see the section headed "Directors, Senior Management and Employees" in this prospectus. We believe that an experienced, stable and committed management team will contribute significantly to our future growth.

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Over the years, we have been offering to our customers consistently high-end, functional, differentiated and high value-added Fabric Products so that we are able to establish a leading position in the PRC's high-end home textile fabric market, especially in the jacquard fabric and dobby fabric segments. Going forward, our vision is to continue to solidify and enhance our leading position in the high-end home textile fabric market in the PRC. To achieve our goal, the following are our principal strategies and future plans:

Expanding our product mix by enhancing our research and development capabilities.

We will continue to strengthen our leadership position in the home textile fabric market, especially in the jacquard fabric and dobby fabric segments, and capitalise on the expected segmental growth and changes in consumer behavior. To this end, we will continue our positioning to offer high-end, functional and differentiated Fabric Products targeted at high-end home textile fabric market, further enrich our product mix, innovate our product designs and stay at the technology forefront of the industry.

We plan to invest additional resources in research and development such as upgrading the facilities at our research and development centre, cooperating with external research institutions such as Design College of Nanjing Art Institute (南京藝術學院設計學院) for product design innovation and training of our design personnel to enhance our capabilities to commercialize, design and develop our Fabric Products. In addition, we will continue to develop and broaden the applications of new and special raw materials such as hemp fiber (漢麻), Bemberg (Cupro fiber) (銅氨纖維) and corn/bamboo blended fiber in our production chain in order to introduce new functional fabrics and improve the designs of our Fabric Products. We also intend to recruit more talented fabric designers and enhance training to our design personnel such as organising secondment program with research institutions or universities to exchange innovative idea and strengthen our fabric design capability. We will continue to leverage our market research capabilities to keep abreast of latest market trend and consumer's preferences in the PRC. By expanding our product mix and developing our existing products, we believe that our products will continue to appeal to a wide spectrum of new customers which is essential for us to consolidate our leading position in the high-end home textile fabric market in China.

Expanding and upgrading our production facilities to capture growth opportunities and enhance our market share.

According to the Euromonitor Report, from 2005 to 2010, the aggregate manufacturer sales value of high-end jacquard fabrics and high-end dobby fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry increased from approximately RMB3,031.1 million in 2005 to approximately RMB8,000.4 million, representing a CAGR of approximately 21.42% and this growing trend is expected to continue in the near future. To meet the anticipated growing demand for high-end and quality home and apparel fabric products and increase our market share, we believe that further expansion and upgrade of our production capacity are instrumental to our future success.

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To achieve this goal, we have been purchasing advanced equipment and machineries from domestic and overseas manufacturers to enlarge our production capacity. In 2010 and 2011, we imported from overseas countries 128 sets of new jacquard looms installed with advanced product design software at the cost of approximately RMB170 million which are expected to bring us additional 10.63 million metres of jacquard fabrics output per annum upon full operation. To capture growth opportunity in the future, we plan to purchase additional weaving facilities and equipment such as 128 sets of wide width shuttleless loom for manufacturing high-end Fabric Products. We believe that our expansion plan will enable us to continue to manufacture quality fabric products for our customers on a more timely basis and enlarge our future market share. For further details of our expansion plans for production facilities, please see the section headed “Business — Expansion Plans” in this prospectus.

In anticipation of the potential future expansion of our production scale and business, we also plan to upgrade our information management system to enhance our system management capability.

Strengthening our brand building efforts for our products.

We believe that our strategic focus on offering high-end, functional and differentiated products has contributed to our positive market reputation and brand building as one of the leading high-end home textile fabric manufacturers in the PRC, which is instrumental to the growth of our business. To increase the reach of our brand to customers and our brand recognition, we will strengthen our brand building efforts, particularly in the selected market and industry segments, such as conducting advertising campaigns on well-known newspapers in the industry, magazines, internet and other media as well as increased participation in product promotional activities, organising or sponsoring product design contests such as the national jacquard design contest, and participating in international trade fairs, textile conferences and exhibitions such as International Istanbul Home Textiles Exhibitions (土耳其國際家紡展), Texworld USA, International Apparel Sourcing Show, Home Textiles Sourcing Expo and Heimtextil Frankfurt (法蘭克福家用紡織品展覽會). We also plan to increase the frequency of our promotional activities.

Seeking for strategic investments and/or cooperative alliances with a view to securing our raw material supplies and capturing other potential market opportunities.

In addition to our organic expansion, we have been actively seeking for strategic investment opportunities in businesses that complement our business.

Given the importance of cotton for cotton yarn production and the fluctuations in cotton price in recent years, our Directors believe that the ability to secure a steady supply of cotton at reasonable cost is one of the key success factors in the PRC textile industry. To this end, we have been contemplating the possibility of making investment in or form cooperative relationship with cotton producers in cotton growing or distribution regions in China such as Xinjiang Autonomous Region. Our Directors believe that such strategy would enable us to secure abundant quality cotton supplies for our internal production and

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reduce our reliance on external supplies in the future. This, in turn, provides an opportunity for us to better monitor over the quality of the cotton we use, the supply and price of cotton which eventually increase our flexibility in pricing and costs of sale.

With our success in the manufacturing and sale of Fabric Products, we also consider leveraging our established brand image and reputation in the industry to expand our footprint in other textile related businesses, such as home and/or apparel textile manufacturing to capture potential market opportunities, achieve greater synergies, expand our sales network and diversify our business risk. To this end, we are seeking opportunity to invest in or cooperate with enterprise(s) currently engaged in such businesses and which we consider to be of high quality and have potential for development in order to minimize the upfront cost and risks associated with starting up a new business by us.

From time to time, we actively identify suitable alliances or cooperation targets and explore the possible ways of alliance or cooperation. However, as at the Latest Practicable Date, no agreement or letter of intent with any potential alliance or cooperation target has been entered into by us.

For further details of our future plans and use of proceeds, please refer to the section headed “Future Plans and Use of Proceeds” of this prospectus.

EXPANSION PLANS

We set forth below the particulars of our expansion plans for production facilities and operations as well as research and development, subject to market conditions, at the relevant times:

Details of the expansion	Expected commencement date	Expected date of completion	Estimated total investment cost (HK\$ million)	Designed annual production capacity/size of site	Status as of the Latest Practicable Date
Acquisition of 128 sets of wide width shuttleless loom, supporting equipment and ancillary facilities	Third quarter of 2012	Second quarter of 2013	102	Approximately 7.7 million meters of high-end Fabric Products	Preparatory work has not yet commenced
Research and development on new enhanced types of fabrics including fabrics made with new materials and fibres	Third quarter of 2012	Second quarter of 2014	7	n/a	Preparatory work has not yet commenced
Information management system	Third quarter of 2012	Second quarter of 2013	5	n/a	Preparatory work has not yet commenced
Acquisition of land use right(s) to house the above additional production facilities to be acquired by the Company	Third quarter of 2012	Fourth quarter of 2013	30	Approximately 80,000 sq.m	Discussions with local government. No binding agreement has been entered into

As at the Latest Practicable Date, we had not yet incurred any cost in respect of the implementation of these expansion plans, except that we have paid RMB2 million as upfront payment to the local government of Boshan District for the proposed acquisition of the above mentioned piece of land, and we expect that the total estimated expenditures for implementation of such expansion plans will be approximately HK\$144 million. We intend

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to use part of the net proceeds from the Global Offering as well as our bank facilities and cash flows from operations, if the net proceeds from the Global Offering are not sufficient to fund the uses set forth above, to cover such estimated expenditures.

Pursuant to the above expansion plans, an estimated amount of approximately HK\$102 million of the net proceeds from the Global Offering is expected to be used for the acquisition of wide width shuttleless loom, supporting equipment and ancillary facilities. The shuttleless loom equipment that we plan to purchase is intended to be used for manufacturing dobby fabrics for which our Directors perceive that there is a continuing strong market demand. Our last large-scale equipment expansion was made for manufacturing jacquard fabrics. During the Track Record Period, the gross profit margin of dobby fabrics is generally lower than that of jacquard fabric products manufactured by our Group.

Our Group purchased approximately 90,000 spindles and other spinning machineries from Yinlong Industrial on 31 December 2010, which enabled us to produce part of the yarns we needed for manufacture of fabrics at costs generally lower than yarn prices quoted by third party suppliers. Our Group currently does not have any plan to increase our production capacity of yarns to match the increase in production capacity of Fabric Products according to the above expansion plans. In this connection, it is possible that the overall profit margin of our fabric products may decrease if our Group increases the percentage of purchase of yarns from third parties suppliers.

Our Directors consider that the overall gross profit margins of our products are affected by a number of factors including the ratio of Fabric Products made with Tencel or new materials and fibres, as compared to other raw materials such as cotton, costs of raw materials and production efficiency. Our Directors consider that the expected increase in our scale of production based on the expansion plans and the increasing proportion of our revenue derived from our sale of Fabric Products made with Tencel or new materials and fibres (which generally enjoyed higher gross profit margin when compared to Fabric Products made with pure cotton during the Track Record Period) will enable our Group to achieve better economy of scale and implement our plans on product structure and profit margins.

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PRODUCTS

The following table sets forth the breakdown of our revenue by product and service category and geographical segments during the Track Record Period:

Product category and geographical segments

	For the year ended 31 December					
	2009		2010		2011	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Fabrics Products						
Jacquard fabrics						
— <i>PRC</i>	96,546	18.23	132,586	17.14	231,187	24.92
— <i>Overseas</i>	<u>869</u>	<u>0.16</u>	<u>339</u>	<u>0.04</u>	<u>2,681</u>	<u>0.29</u>
Sub-total	97,415	18.39	132,925	17.18	233,868	25.21
Dobby fabrics						
— <i>PRC</i>	345,351	65.20	432,105	55.84	555,284	59.85
— <i>Overseas</i>	<u>75,140</u>	<u>14.19</u>	<u>142,544</u>	<u>18.43</u>	<u>85,876</u>	<u>9.26</u>
Sub-total	420,491	79.39	574,649	74.27	641,160	69.11
Others						
— <i>PRC</i>	450	0.08	5,941	0.77	4,698	0.50
— <i>Overseas</i>	<u>Nil</u>	<u>Nil</u>	<u>29,203</u>	<u>3.77</u>	<u>20,312</u>	<u>2.19</u>
Sub-total	450	0.08	35,144	4.54	25,010	2.69
Processing services						
— <i>PRC</i>	11,352	2.14	31,049	4.01	27,736	2.99
— <i>Overseas</i>	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>
Sub-total	<u>11,352</u>	<u>2.14</u>	<u>31,049</u>	<u>4.01</u>	<u>27,736</u>	<u>2.99</u>
Total	<u><u>529,708</u></u>	<u><u>100.00</u></u>	<u><u>773,767</u></u>	<u><u>100.00</u></u>	<u><u>927,774</u></u>	<u><u>100.00</u></u>

Fabric Products

We are principally engaged in the design, manufacturing and sale of high-end¹ Fabric Products. Our Fabric Products are generally used by our customers as raw materials for manufacturing a range of home and apparel textile products, with manufacturing high-end home textile products being our products' principal application, as far as our Directors are aware. Our principal products can be broadly divided, by their weaving constructions, into two categories, namely, jacquard fabrics and dobby fabrics.

For the year ended 31 December 2011, the Fabric Products that we had designed and/or produced for our customers had more than 7,000 varieties as classified in terms of woven designs, raw materials used and fabric specifications. The following sets out the key characteristics of each of our Fabric Products.

Jacquard fabrics

Jacquard fabric is a type of woven fabric manufactured by specialised jacquard loom through processing and designing with different structures and sequences, raw materials, colour combinations and density requirements. In a knit-float-knit sequence of warp and weft, various intricate woven patterns such as flowers, birds, fishes, insects and animals can be incorporated into the weave. Compared with dobby fabrics, jacquard fabrics have much larger and finer woven patterns with pure colours and clear layers. The structures or patterns of jacquard fabrics are produced by weaving instead of printing.

Our jacquard fabrics are featured by their high-end and high value-added properties and great differentiations in product range, raw materials used, functional properties and woven pattern designs. By making use of our advanced and specialised electronic jacquard looms, we are able to weave high-count and high-density jacquard fabrics with the maximum yarn counts up to 200S and maximum thread density up to 6,300 threads/10cm, which are far above the ordinary thread density of high-count and high-density grey fabric products of 709 threads/10 cm in the PRC market, according to the Euromonitor Report. High-count and high-density fabrics have durable, soft, smooth and lustrous characteristics which can command higher selling price and gross margins, as far as our Directors are aware. Further, we are able to weave extra broad width jacquard fabrics with the maximum width up to 3.25 metres, and use fine raw materials such as high grade pure cotton, Tencel and/or other new materials and fibers in the production. As a result of their distinguishing features, they are suitable for manufacturing a broad range of high-end home textile products such as high-end bed-linen for domestic use and for hotel guest rooms.

¹ According to the Euromonitor Report, high-end grey fabrics generally refer to a class of grey fabrics made with combed yarns which are made from high grade cotton (e.g. first-grade and second-grade local produced cotton or the imported cotton of equivalent grade, organic cotton and pima cotton) and/or new fibers (e.g. Tencel, silk, milk fiber, soybean fiber, linen, etc). Yarns used to produce high-end grey fabrics shall be high count yarns (with yarn count over 40S), and high-end grey fabrics usually have high thread density (i.e. total number of weft and wrap is above 180 in one square inch (equivalent to approximately 709 thread/10cm)). For further information, please refer to the section headed "Industry Overview — High-end Grey Fabrics in Cotton Textile Industry Segment" in this prospectus.

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Based on our belief that the demand for high-end grey fabrics in the PRC will continue to grow in long run and that the expected gross margins from their sale are relatively higher, we expect that the production and sale of our jacquard fabrics will play an increasingly important role in the continuing success and growth of our business.

The width of our jacquard fabrics ranges from 1.51 meters to about 3.25 meters. Set out below are the specifications of some of our jacquard fabrics offered to our customers:

Jacquard fabrics by major raw materials	Descriptions
<i>Pure cotton</i>	
CM60SX40S 173X120 (1150T/10cm)	: Pure cotton jacquard fabric with yarn counts of 60S (warp) and 40S (weft) and thread density of approximately 293T/square inch (equivalent to 1,150 threads/10cm)
CM60SX60S 173X156 (1295T/10cm)	: Pure cotton jacquard fabric with yarn counts of 60S (warp) and 60S (weft) and thread density of approximately 329T/square inch (equivalent to 1,295 threads/10cm)
CM60SX80S 173X210 (1507T/10cm)	: Pure cotton jacquard fabric with yarn counts of 60S (warp) and 80S (weft) and thread density of approximately 383T/square inch (equivalent to 1,507 threads/10cm)
CM60SX60S 200x95 (1161T/10cm)	: Pure cotton jacquard fabric with yarn counts of 60S (warp) and 60S (weft) and thread density of approximately 295T/square inch (equivalent to 1,161 threads/10cm)
CM80SX80S 200X183 (1507T/10cm)	: Pure cotton jacquard fabric with yarn counts of 80S (warp) and 80S (weft) and thread density of approximately 383T/square inch (equivalent to 1,507 threads/10cm)

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Jacquard fabrics by major raw materials	Descriptions
<i>Tencel and new materials and fibers</i>	
CM60SXBamboo 40S 173X120 (1150T/10cm)	: Cotton and bamboo yarn interwoven jacquard fabric with yarn counts of cotton yarn 60S (warp) and bamboo yarn 40S (weft) and thread density of approximately 293T/square inch, (equivalent to 1,150 threads/10cm)
CM60XSoybean 40S 173X120 (1150T/10cm)	: Cotton and soybean yarn interwoven jacquard fabric with yarn counts of cotton yarn 60S (warp) and soybean yarn 40S (weft) and thread density of approximately 293T/square inch (equivalent to 1,150 thread/10cm)
CM60XModal 40S 173X120 (1150T/10cm)	: Cotton and modal yarn interwoven jacquard fabric with yarn counts of cotton yarn 60S (warp) and Modal yarn 40S (weft) and thread density of approximately 293T/square inch (equivalent to 1,150 thread/10cm)
Tencel60SXTencel/cotton40S 173X120 (1150T/10cm)	: Tencel and Tencel/cotton blended yarn interwoven jacquard fabric with yarn counts of tencel yarn 60S (warp) and tencel/cotton blended yarn 40S (weft) and thread density of approximately 293T/square inch (equivalent to 1,150 thread/10cm)
Tencel 60SXSILK 22D/3 173X180 (1389T/10cm)	: Tencel and silk yarn interwoven jacquard fabric with yarn counts of Tencel yarn 60S (warp) and silk yarn 22D (weft: 3 silk yarns) and thread density of approximately 353T/square inch (equivalent to 1,389 thread/10cm)

Notes:

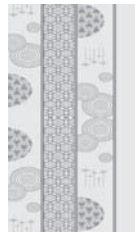
- (a) “CM” is an abbreviation of “Combed”.
- (b) “D” is an abbreviation of “Denier”, one of the units to express yarn specification. For example, 22D means 9,000 meters of single yarn with weight of 22 grams.

- (c) “T” is an abbreviation of “thread” which is used to express the thread density.
- (d) A thread of yarn can be made up of more than one type of raw materials, i.e. it is fiber-blended. For example, Bamboo/Corn means the yarn is composed of bamboo and corn fibers, and 55/45 means 55% of the yarn is bamboo fiber and 45% of the yarn is corn fiber.

By leveraging our advanced production facilities, through specialised computer software, we can design different colour combinations and intricate, artistic and multi-dimensional woven patterns for our jacquard fabrics. Our jacquard fabric designs such as “Tian Cang Feng Mu” (天藏風木), “Gui Zu Feng Hua” (貴族風華) and “Hua Kai De Sheng Yin” (花開的聲音) have been awarded with either the Best Innovation Award (最佳創意獎) or Award for Nomination (入圍獎) in the Jacquard Fabric Innovation Design Competition organized by China Cotton Textile Association (中國棉紡織行業協會) and sponsored by us. We believe, our role and achievement in this design contest played a positive role in expanding our resources for innovation, widening the horizon of our research personnel and increasing our publicity in the industry. We have also registered in the PRC the outlook design patents in respect of some of our jacquard fabric designs such as “Yao Rao” (妖嬈), “Lan Man Zhi Hua” (爛漫之花), “Xin Xiang Ying” (心相映), “An Xiang Fu Dong” (暗香浮動) and “Mi Qing” (迷情).



“Hua Kai De Sheng Yin” (花開的聲音)
awarded with Best Innovation Award in 2011



“Gui Zu Feng Hua” (貴族風華) awarded with Award for Nomination in 2011



“Tian Cang Feng Mu” (天藏風木) awarded with Award for Nomination in 2011



“Mi Qing” (迷情)



“Yao Rao” (妖嬈)



“Lan Man Zhi Hua” (爛漫之花)



“Xin Xiang Ying” (心相映)



“An Xiang Fu Dong” (暗香浮動)

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Dobby fabrics

Dobby fabrics are our principal product in terms of revenue. Dobby fabrics are woven fabrics which are manufactured through processing selected groups of yarns with selected colour combinations on the air-jet dobbie looms or dobbie looms. Similar to jacquard fabrics, dobbie fabrics have woven pattern designs but such woven patterns are mainly geometric. According to our customer's specifications, we are able to weave extra broad width high-count and high-density dobbie fabrics with the maximum width up to 3.45 metres, maximum yarn counts up to 200S and maximum thread density up to 6,300 thread/10cm, and are able to use pure cotton, Tencel and/or other new materials and fibers as raw materials in the weaving process so that such dobbie fabrics will have the required textures and functions. Our dobbie fabrics are suitable for manufacturing a broad range of fine home and apparel textile products such as quality bedding products and fashion garment.

The width of our dobbie fabrics that we can weave on our air-jet dobbie looms ranges from 1.14 meters to about 3.45 meters. Set out below are the specifications of some of our dobbie fabrics offered to our customers:

Dobby fabrics by major raw materials

Descriptions

Pure cotton

CM60SX60S 173X101 (1078T/10CM)	:	Pure cotton dobbie fabric with yarn counts of 60S (warp) and 60S (weft) and thread density of approximately 274T/square inch (equivalent to 1,078 threads/10cm)
CM80SX80S 200X183 (1507T/10CM)	:	Pure cotton dobbie fabric with yarn counts of 80S (warp) and 80S (weft) and thread density of 383T/square inch, approximately equivalent to 1,507 threads/10cm
CM100SX100S 230X190 (1653T/10CM)	:	Pure cotton dobbie fabric with yarn counts of 100S (warp) and 100S (weft) and thread density of approximately 420T/square inch (equivalent to 1,653 threads/10cm)
CM100SX100S 230X230 (1811T/10CM)	:	Pure cotton dobbie fabric with yarn counts of 100S (warp) and 100S (weft) and thread density of approximately 460T/square inch (equivalent to 1,811 threads/10cm)

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Dobby fabrics by major raw materials	Descriptions
CM80SX120S 230X(92X8) (3803T/10CM)	: Pure cotton doobby fabric with yarn counts of 80S (warp) and 120S (weft) and thread density of approximately 966T/square inch (equivalent to 3,803 threads/10cm)
CM80SX160S 250X(112X12) (6196T/10CM)	: Pure cotton doobby fabric with yarn counts of 80S (warp) and 160S (weft) and thread density of approximately 1,594T/square inch (equivalent to 6,196 threads/10cm)
<i>Tencel and new materials and fibers</i>	
Tencel 30% Wool 10% Cotton 60% 60SXJC40S 200X135 (1318T/10cm)	: Dobby fabric with warp of Tencel/wool/cotton 30/10/60 blended yarn with yarn counts of 60S, weft yarn is combed cotton yarn with yarn counts of 40S, thread density of approximately 335T/square inch (equivalent to 1,318 threads/10cm)
JC/Rayon 80/20 80SX80S 180X120 (1181T/10cm)	: Dobby fabric with both warp and weft of cotton/rayon 80/20 blended yarn with yarn counts of 80S, thread density of approximately 300T/square inch (equivalent to 1,181 threads/10cm)
Cotton/Linen 80/2060S X Cotton/Linen 80/20 40S 200X150 (1377T/10cm)	: Dobby fabric with both warp and weft of cotton/linen 80/20 blended yarn with warp yarn counts of 60S and weft yarn counts of 40S, thread density of approximately 350T/square inch (equivalent to 1,377 threads/10cm)
Tencel 60SX Tencel 60S 182X120 (1188T/10cm)	: Tencel doobby fabric with yarn counts of 60S in both warp and weft, thread density of approximately 302T/square inch (equivalent to 1,188 threads/10cm)

Dobby fabrics by major raw materials

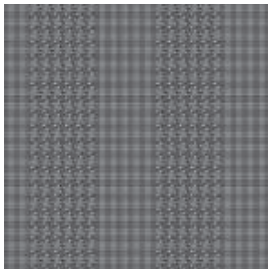
Descriptions

60% Bamboo/40% Cotton 60SX60%
Bamboo/40% Cotton 40S 173X116
(1137T/10cm)

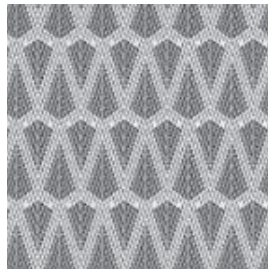
: Dobby fabric with both warp and weft of bamboo/cotton 60/40 blended yarn with warp yarn counts of 60S and weft yarn counts of 40S, thread density of approximately 289T/square inch (equivalent to 1,137 threads/10cm)

Notes:

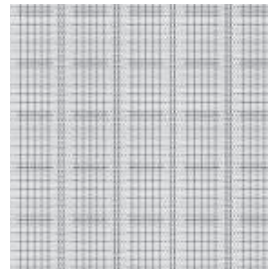
- (a) “CM” is an abbreviation of “Combed”.
- (b) “JC” is an abbreviation of “Combed cotton yarn”.
- (c) “T” is an abbreviation of “thread” which is used to express the thread density.
- (d) A thread of yarn can be made up of more than one type of raw materials, i.e. it is fiber-blended. For example, Bamboo/Corn means the yarn is composed of bamboo and corn fibers, and 55/45 means 55% of the yarn is bamboo fiber and 45% of the yarn is corn fiber.



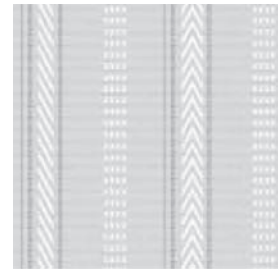
Our doobby design “Lang man xing cheng” (浪漫星程) which we received award certificate in The 23rd Fabric China Appraisal Entry Enterprise — 2011 Spring/Summer in 2010



Our doobby design “Jing hua shui yue” (鏡花水月) which we received award certificate in The 23rd Fabric China Appraisal Entry Enterprise — 2011 Spring/Summer in 2010



Our doobby design “Die cui liu she” (疊翠流舍)



Our doobby design “Hua tuan jin cu” (花團錦簇)

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Properties of our Fabric Products

Our Fabric Products can be further sub-divided by the major raw materials used in the weaving process.

Set out below is the breakdown of our revenue by products made with different major raw materials during the Track Record Period:

Product category by raw materials component

	For the year ended 31 December					
	2009		2010		2011	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Pure cotton						
Dobby fabrics	330,827	63.88	332,724	47.02	297,876	34.04
Jacquard fabrics	48,229	9.31	55,226	7.81	123,622	14.13
Sub-total	379,056	73.19	387,950	54.83	421,498	48.17
Tencel or new materials and fiber fabrics						
Dobby fabrics	89,664	17.31	241,925	34.19	343,284	39.23
Jacquard fabrics	49,186	9.50	77,699	10.98	110,246	12.60
Sub-total	138,850	26.81	319,624	45.17	453,530	51.83
Total	517,906	100.00	707,574	100.00	875,028	100.00

The following sets forth the characteristics of our Fabric Products made with pure cotton, Tencel and/or new materials and fibers which serve as the major raw materials in our fabric production.

Pure cotton fabrics

A majority of our Fabric Products are pure cotton fabrics which are fabrics made from pure cotton yarns. During the year ended 31 December 2011, approximately 48.17% of our Fabric Products in terms of revenue were made from pure cotton yarns. Pure cotton fabrics have high moisture absorbent properties and comfortable texture. We use various types of fine pure cotton comprising mainly high grade cotton, organic cotton, Egyptian cotton and pima cotton to produce pure cotton Fabric Products which have high value-added, sheen, good moisture absorbent and smooth properties.

Tencel and/or new materials and fiber fabrics

Tencel fabrics are fabrics made from pure Tencel yarns or Tencel blended yarns or from Tencel yarns interwoven with cotton yarns or other fibers. Tencel is a type of man-made fibers produced from the natural cellulose in harvested wood pulp using a solvent spinning technique, and the solvent can be totally recycled. Tencel offers a

unique combination of the most desirable properties of man-made and natural fibers: soft as silk, strong as polyester, cool as linen, warm as wool and absorbent as cotton. Fabrics made from pure Tencel yarns or Tencel blended yarns are sheen, soft, light, biodegradable and recyclable after use, and have good moisture absorption and release ability, which make them suitable for manufacturing fine home and apparel textile products.

In addition to Tencel, we use in our production process new materials and fibers such as milk fibers, soybean fibers, bamboo fibers, CoolMax, chitosan fibers, Modal, wool, viscose, organic cotton as well as other yarns and fibers (including yarns interwoven with cotton yarns). We use these materials and fibers to produce functional fabrics with value-added properties such as anti-radiative, anti-static, fire resistant, anti-bacterial, moisture-absorbent, breathable, thermal insulating and/or anti-odour. Some of these materials and fibers are made from plant extract which are renewable and biodegradable after use, and our Directors believe that the manufacturing and sale of Fabric Products made with such materials and fibers are in line with the growing trend of consuming low-carbon and eco-friendly products. With the increasing popularity of these new materials and fibers in the market in the recent years, we believe that the application of these raw materials in our production chain will reduce our reliance on cotton and broaden the diversity of our product mix. We are also dedicated to research, develop and commercialise the application of new materials and fibers such as hemp fiber (漢麻纖維), Bemberg (Cupro fiber)(銅氨纖維) and corn/bamboo blended fiber in our fabric production process.

During the year ended 31 December 2011, approximately 51.83% of our Fabric Products in terms of revenue were made from pure Tencel yarns or Tencel blended yarns or from Tencel yarns interwoven with cotton yarns or other yarns, and/or new materials and fibers.

Yarns

As an integrated fabric manufacturer, we manufacture a wide variety of quality yarns for our fabric production. All of the yarns we produce are for internal consumption only and we do not sell any of our yarn products. Cotton yarn is our principal yarn product, representing approximately 67.88% of our total yarn production for the year ended 31 December 2011, and is one of the principal raw materials for our fabric production. Due to our strategic focus on the production and sale of high-end, functional and differentiated Fabric Products, we have very stringent requirements on the quality and functional properties of our yarns. We are able to capitalise on our internal yarn spinning facilities to produce cotton yarns, Tencel yarns, acrylic yarns, viscose yarns and other fiber-blended yarns such as polyester/cotton blended yarns, Tencel/cotton blended yarns, cotton/milk blended yarns, acrylic/cotton blended yarns, cotton/Tencel/CoolMax blended yarns and cotton/bamboo blended yarns, etc., which have different functional characteristics.

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We have not manufactured any yarns before January 2011. During the Track Record Period, our yarn supplies were mainly sourced from Yinlong Industrial (a company controlled by Mr. LIU Dong until 29 October 2010 and after that, by his associate until 21 April 2011) and other external suppliers. In addition to direct sourcing of yarn supplies from Yinlong Industrial, we entered into processing agreements on a monthly basis with Yinlong Industrial during the years ended 31 December 2009 and 2010 pursuant to which we supplied with Yinlong Industrial cottons procured by us and Yinlong Industrial manufactured the yarns in accordance with our requirements. Under such arrangement, we paid Yinlong Industrial processing fees in consideration of their processing services provided to us. The processing agreements entered into between our Group and Yinlong Industrial provided for, amongst other matters, the specifications and quantity of yarns required by our Group, the processing fee per tonne of yarns, the date of delivery and the minimum quality standard. The processing fee was determined with reference to, amongst other things, the type and quality of the raw materials used in producing the yarns, the technical specifications and requirements for their production, the production volume, the date of delivery and the market price of comparable yarn products in the then prevailing market. Our Directors have confirmed that, under the aforesaid processing agreements, there was no minimum processing quantity requirement imposed on our Group, and our Group sourced yarns from Yinlong Industrial during the Track Record Period based on our actual production requirements. Notwithstanding that most of the yarns produced by Yinlong Industrial during the Track Record Period were supplied to our Group due to the geographical proximity between our Group and Yinlong Industrial, the long established and stable business relationship between our Group and Yinlong Industrial as well as the product quality offered by Yinlong Industrial to our Group, Yinlong Industrial did not supply their yarn products or provide processing services to us on any exclusive basis, and a small quantity of their yarn products was sold to other third party customers. For further details about Yinlong Industrial, please see the section headed “Our Relationship with Controlling Shareholders — Relationship with Yinlong Industrial — Information of Yinlong Industrial” in this prospectus.

With the increasing scale of our fabric productions and to secure a reliable and quality yarn supplies, on 31 December 2010, we purchased from Yinlong Industrial approximately 90,000 spindles and other spinning machineries and supporting equipment at the total consideration of RMB28,100,984.67. For further details of the Yinlong Assets Acquisition, please see the section headed “Our Relationship with Controlling Shareholders — Relationship with Yinlong Industrial — Yinlong Assets Acquisition” in this prospectus. Since then, we can leverage our internal yarn spinning facilities for the supply of yarns. During the year ended 31 December 2011, yarns internally produced by our Group represented approximately 42.38% of the total amount of yarns consumed by our Group during that period, and all the yarns internally produced by our Group were consumed by us for fabric productions.

To ensure that we will have sufficient and a variety of yarn supplies to fulfil our production requirements of differentiated Fabric Products and our customers' specifications from time to time, as well as to cope with any future possible expansion of our production capacity of Fabric Products, our Group will continue to procure yarns from external suppliers in the near future.

Following the completion of the Yinlong Assets Acquisition, we recruited skilled labour in Shandong Province to operate the spinning machineries and equipment acquired from Yinlong Industrial. Some of these new workers were previously employed by Yinlong Industrial before completion of the Yinlong Assets Acquisition and we recruited them in consideration of their skill and familiarity with the operation of these machines and equipment which could reduce our staff training cost and increase our operational efficiency. Further, yarn production and fabric production are inter-connected. We have commenced fabric production since 2003 and closely worked with our suppliers since our inception, and most of our senior management members have the requisite industry experience in yarn production, quality control and relevant factory management which enabled us to smoothly adapt our operation to yarn manufacturing.

Our Directors consider that our Group has been able to reduce the costs of yarns by leveraging our internal production facilities to manufacture some of the yarns required for the production of Fabric Products after the Yinlong Assets Acquisition on 31 December 2010, and therefore, increasing the profit margin of our Fabric Products. For the year ended 31 December 2011, the costs of yarns produced by our Group were lower than the prices of yarns quoted by Independent Third Party suppliers and gross profit margin of Fabric Products for the year ended 31 December 2011 increased to approximately 25.41% from approximately 23.73% for the year ended 31 December 2010.

Others

Apart from Fabric Products, during the Track Record Period, we also sold other fabric products such as finished home textile products and ancillary items. For the years ended 31 December 2009, 2010 and 2011, revenue derived from these products amounted to approximately RMB450,000, RMB35.14 million and RMB25.01 million respectively, representing approximately 0.08%, 4.54% and 2.69% of our total revenue during the same period.

Processing services

In addition to the manufacturing and sale of Fabric Products in accordance with the purchase orders placed by our customers, we also undertake to provide processing services for certain customers who would like to capitalise on our advanced weaving facilities and our capability of offering high quality Fabric Products, and exercise control over the source and type of raw materials used by us in the fabric weaving process. Under such arrangement, our customers supply the raw materials to us for manufacturing fabric products designated by them and we will be paid a processing fee by our customers in consideration of the provision of such processing services by us.

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For the years ended 31 December 2009, 2010 and 2011, the processing fee received from the provision of processing services by us amounted to approximately RMB11.35 million, RMB31.05 million and RMB27.74 million, representing approximately 2.14%, 4.01% and 2.99%, respectively, of our total revenue.

SALES AND MARKETING

Our markets

Our Fabric Products are sold both domestically and overseas. A large proportion of our sales of Fabric Products are derived from the domestic sales and the geographical coverage of our products spreads across different provinces such as Jiangsu, Zhejiang, Guangdong, Shandong and Fujian and Shanghai municipality in China. Since we expect that the economy of the PRC will continue to prosper and develop which will offer high growth potential for high-end home textile fabric products, we have been focusing on domestic market to expand and consolidate our market share. For the years ended 31 December 2009, 2010 and 2011, domestic sales of our Fabric Products amounted to approximately RMB453.70 million, RMB601.68 million and RMB818.90 million, representing approximately 85.65%, 77.76% and 88.27% respectively of our total revenue. On the other hand, our Fabric Products were also sold to overseas countries and we plan to maintain our overseas sales which will provide an alternative revenue source. For the years ended 31 December 2009, 2010 and 2011, overseas sales of our Fabric Products were approximately RMB76.01 million, RMB172.09 million and RMB108.87 million, representing approximately 14.35%, 22.24% and 11.73% respectively of our total revenue. The growth in domestic and overseas sales of our Fabric Products for the years ended 31 December 2009, 2010 and 2011 represented a CAGR of approximately 34.35% and 19.68% respectively. Our exporting countries and regions include the United States, Europe, Korea, Brazil and India, etc. All overseas sales recorded by our Group were export sales.

Sales

We had established a sales and marketing department comprising 39 staff members as at 31 December 2011. The senior management of our sales team is primarily responsible for formulating marketing and pricing strategies and overall sales planning whilst our sales team is primarily responsible for following up purchase orders, obtaining feedback from our customers and attending to other customer management activities such as business visits.

Our Fabric Products are sold directly to our customers. The sales conducted by us are based on purchase or processing orders pursuant to which we undertake to manufacture and/or sell our products to our customers in accordance with their purchase or processing orders. Our customers normally place order with us one to three months in advance of the delivery. We provide product samples to our potential customers and invite them to visit our production facilities to increase their confidence in our production capability and quality measures. After receipt of purchase order from our potential customer, our sales team will liaise with such potential customer directly to understand its specifications and requirements and forward such information to the planning department for analysis and

assessment. If we decide to accept the order, we will negotiate the terms of sales including pricing by reference to a number of factors, such as the cost of raw materials required, our production schedule, customer's reputation and credit quality, and the overall sales and market environment. For further details of our pricing and payment terms, please see "Pricing and Payment Terms" below. To better serve our customer and allow our customer to have a deeper understanding of the technical requirements of his order, we generally involve a management team member from our production department in the negotiation process to advise our customer the relevant technical and production details. Once we have confirmed the terms of sale with our customer, we typically enter into a sales contract with our customer specifying the purchase amount, specifications, quality standard, purchase price, delivery date and mode of delivery, etc., and forward a copy of such contract to our sales and marketing department and account department for record keeping. There is no minimum purchase requirement under our sales contracts. During the Track Record Period, we had not appointed nor had any distributor for the sale of our products.

Apart from our sales team based at our head office, we have a dedicated team to serve our customers in our key markets outside Shandong Province such as Shanghai, Nantong, Wuxi, Shaoxing and Shishi cities, and the team members are responsible for market information gathering, liaison and handling customers' feedback, after sales and follow-up services.

For export sales of our Fabric Products, our Directors have confirmed that (a) it is our responsibility to ensure compliance with the relevant export laws and regulations in the PRC; and (b) our customers arrange for customs clearance in overseas countries and hence, it is their obligation to ensure compliance with the relevant import laws and regulations in the overseas countries. Our PRC legal advisers have opined that, as at the Latest Practicable Date, they were not aware of any violation of applicable PRC import and export laws and regulations by us which would result in any material adverse effect to our operations in the PRC.

Marketing

In addition to the sales activities, our sales team is also responsible for promoting our products. We promote our products through the following channels:

Direct marketing activities

We contact our target customers through referrals by industry associations and communications with other members of industry associations. We promote our products directly to our customers and meet them to obtain orders. Our sales team also works closely with our customers in order to understand their needs. This includes regular visits to customers' offices to collect feedback on the quality and designs of our products and how to improve our services.

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Participation in exhibitions and trade fairs and organising site visits

We have participated in various domestic or international exhibitions and trade fairs such as 18th International Istanbul Home Textiles Exhibitions (第18屆土耳其國際家紡展) in Turkey, Texworld USA, International Apparel Sourcing Show and Home Textiles Sourcing Expo in the United States in 2011, Heimtextil Frankfurt (法蘭克福家用紡織品展覽會) in Germany in 2011, and East China Fair (華東進出口商品交易會) and China Import and Export Fair (中國進出口商品交易會) (previously known as Canton Fair (廣交會)) in the PRC in 2008 and 2009 respectively. We took these opportunities to keep abreast of any development in the textile industry and market trend, promote our products and brand, and meet potential customers.

Promotion and advertisements

We advertise through various channels including websites, magazines and journals released by textile related associations to develop our corporate image and promote our products. We also promote our products by ways of emails and distribution of product samples and brochures. These channels help us broaden the reach of our products to consumers and increase their awareness of our products. Our new research centre at our production base in Zibo City, Shandong Province will also provide an exhibition area for our products. To increase the publicity of our products, we have organised national jacquard fabrics design contests with various textile associations and media in China. We also used this opportunity to gather innovative designs and boost our corporate image.

Our sales and marketing expenses relate to our sales commissions and salaries, advertising and promotional fees and exhibition expenses. For the years ended 31 December 2009, 2010 and 2011, our sales and marketing expenses amounted to approximately RMB10.12 million, RMB10.96 million and RMB11.80 million respectively.

Our Customers

During the Track Record Period, we have manufactured Fabric Products and/or provided processing services for over 1,200 customers. Our customers are mainly domestic and overseas manufacturers of finished home and apparel textile products, processing factories (such as dyeing and printing factories who then sell the products after processing to finished textile product manufacturers as far as our Directors are aware), exporters and fabric traders. We maintain close and stable business relationship with our customers. Of our about 320 customers comprising over 270 domestic customers and 50 export sale customers for the year ended 31 December 2011, a majority of them had more than three years business relationship with us. Some of our customers are well-known home or apparel textile manufacturers in China. For example, we supply our Fabric Products to Jiangsu Golden Sun Textile Co., Ltd. (江蘇金太陽紡織科技有限公司), Nantong Zhan Qun Textile Co., Ltd. (南通展群紡織有限公司), Jiangyin Hong Liu Bedsheet Co., Ltd. (江陰市紅柳被單廠有限公司), Lu Thai Textile Co., Limited (魯泰紡織股份有限公司), (a company listed on Shenzhen Stock Exchange), Fuanna Bedding and Furnishing Company Limited (深圳市富安娜家居用品股份有限公司) (a company listed on Shenzhen Stock Exchange), Shanghai Shuixing Home Textile Limited (上海水星家用紡織品有限公司) and Luolai Home Textile Co., Ltd. (羅萊家紡股份有限公司) (a company listed on Shenzhen Stock Exchange). These

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companies are principally engaged in the manufacturing and sale of high-end finished home textile products. Our Directors have confirmed that none of our customers are distributors since our products are sold to them in accordance with their purchase or processing orders placed with us and they resell our products (or products manufactured by us pursuant to the processing order) under their name to their customers for their own account.

During the Track Record Period, our five largest customers were mainly home textile fabric manufacturers principally engaged in fabric manufacturing and trading, and their respective principal place of operation covered Jiangsu, Liaoning, Anhui, Zhejiang and Hebei provinces of the PRC and the United States. We have developed business relationship with our five largest customers during the Track Record Period ranging from one to seven years with most of them having business relationship with us for approximately three years or more. For the years ended 31 December 2009, 2010 and 2011, sales to our five largest customers accounted for approximately 15.49%, 27.80% and 32.81% respectively of our total revenue, and sales to our largest customer accounted for approximately 4.66%, 9.80% and 12.28% respectively of our total revenue during that period.

As at the Latest Practicable Date, none of our Directors, their respective associates or any Shareholders (who to the knowledge of our Directors owned more than 5% of our issued share capital) had any interest in any of our five largest customers. Our Directors have confirmed that the five largest customers of our Group were and are all Independent Third Parties.

We normally do not enter into any long-term contract with our customers in order to maintain flexibility in terms of pricing and production. We enter into sales contracts when our customers place purchase or processing orders with us. To manage our exposure to the potential credit risks arising from our sales to customers, we have credit checking procedures to assess the potential customer's credit quality. Pursuant to our credit checking procedure, before proceeding with the purchase orders placed by such customers, our sales personnel will conduct background check against these customers such as requiring our customers to provide us with the valid business registration certificate, checking their credit quality and sales performance in the region in which they carry on business and requesting such customers to make a payment of deposit of 10% to 30% of the purchase price, etc. As a result of our credit checking policy, during the Track Record Period, we had not experienced any material difficulties in collecting payments from our customers.

Logistics

We do not maintain any delivery team or delivery vehicles. We outsource the transportation in China to third party logistics service providers. We engage independent transport operators to arrange for transportation of our products. Through these arrangements, we are able to reduce our capital investment in logistics and eliminate the risk of liability for loss during transit.

After sales services

We value our customers' comments and feedback. We closely follow up with the sales of our products and conduct a survey on the level of satisfaction of our customers to our products supplied and services rendered at least once a year. We have procedures in place which specify the channel, manner and frequency of communication required to be undertaken by our sales personnel with our customers.

Our standard sales contract normally provides for the minimum quality standard of our products (such as quality benchmark and packaging), destination and mode of delivery, allowance for deficiency in the quantity of goods delivered and the form of dispute resolution (which is normally stated in standard sales contract to be resolved in accordance with the Contract Law of the PRC). Upon receipt of feedback from our customers on the defective products sold by us, we may discuss with our customers to resolve the matters according to the terms of the sales contract and our internal procedures. It is our policy that our customers are not entitled to return our products except for quality reason. In the case where our customers allege that our products are defective, investigation will be conducted and remedial measures (such as price adjustment or return of goods) will be taken in accordance with our internal procedures, if appropriate.

During the Track Record Period, we have not had any sales recall or return and have not experienced any material product liability or other claims due to the quality of our products.

PRICING AND PAYMENT TERMS**Pricing and customer policy**

Our pricing is based on a variety of factors, including prevailing market conditions, raw material prices, production costs, overheads, time of delivery and the particulars of each sales order. This enables us to respond rapidly to changing market conditions. During the Track Record Period, we generally were able to reflect the increase in our major raw material costs in the selling prices of our Fabric Products. Apart from pricing and other terms offered, in considering accepting orders from potential customers, we take into account other factors such as their financial strength, credibility and market reputation, the existence of previous business relationship, order cycle time and our own production capacity to deal with the orders.

Payment terms with customers

To properly manage the credit risk that may arise from our sales, we generally request our customers to pay 10% to 30% of the purchase price once they have placed order with us and pay the balance of the price on delivery. For export sale customers, they are required to settle the purchase price by a letter of credit. For some customers who have established a long-term business relationship with us with good settlement history and reputation, we may waive the deposit requirement and grant a credit period typically ranging from 30 to 90 days pursuant to the payment terms of the purchase or processing order. The length of credit period depends on various factors such as financial strength, size of the business and

settlement history of the customer. Before accepting any new customer, we have credit checking procedures to assess the potential customer's credit quality and determine its payment terms. All payment terms are subject to our senior management's approval. In addition, our senior management will review the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

As at 31 December 2009, 2010 and 2011, trade receivables turnover days were 28 days, 32 days and 23 days respectively, and our trade and other receivables amounted to approximately RMB98.63 million, RMB117.47 million and RMB121.84 million respectively. We make the allowance for the trade receivables based on the evaluation of collectibility and our management's judgement by reference to the estimation of the future cash flows discounted at an effective interest rate to calculate the present value.

PROCUREMENT

Raw materials

As at 31 December 2011, we had a procurement team comprising 7 staff members responsible for sourcing raw materials and supplies we need. The principal raw materials used in our production are yarns, cotton and sizing agent. During the years ended 31 December 2009, 2010 and 2011, our raw materials costs accounted for approximately 66.93%, 71.45% and 76.93% respectively of our total cost of sales. The yarns sourced by us include cotton yarns, Tencel yarns and fibers and new materials and fibers. The key features of our principal raw materials are set forth as follows:

Cotton yarns

Cotton yarn is the principal raw material for our fabric production.

We source cotton yarns from domestic suppliers which are mainly based in Shandong Province, the PRC, where our production base is located. We consider that the proximity of such suppliers offers us convenience, minimizes our procurement cost and enhances our control over the inventory.

Tencel yarns and fibers and new materials and fibers

We use Tencel fibers for spinning and Tencel yarns or Tencel blended yarns for weaving pure Tencel fabrics, Tencel interweave fabrics and Tencel fiber-blended fabrics. Tencel is a type of man-made fiber produced from the natural cellulose in harvested wood pulp using a solvent spinning technique, and the solvent can be recycled.

In addition to Tencel yarns and fibers, we use new materials and fibers comprising milk fibers, soybean fibers, bamboo fibers, CoolMax, chitosan fiber, Modal, wool, viscose, organic cotton as well as other fibers for the production of functional yarns.

We source Tencel yarns and fibers and new materials and fibers from domestic suppliers.

Cotton

Cotton is the principal raw material for yarn spinning. We use both domestic cottons mainly sourced from Xinjiang Autonomous Region and overseas cottons mainly sourced from major cotton growing regions such as the United States, Egypt, Benin, Burkina Faso and Australia. Different type of cotton varies in colour and texture, thus providing each type of cotton with different properties. We use different and mixture of cottons according to our customer's specification with an aim to optimise our product quality and minimize procurement cost. During the years ended 31 December 2009, 2010 and 2011, 100% and approximately 89.67% and 53.60%, respectively, of our total cotton in terms of purchase cost was sourced from overseas suppliers. During the Track Record Period, generally, there was no significant price difference between domestic and imported cotton procured by us.

Sizing agent

Sizing agent is a special adhesive composition used in the sizing process to bind and protect the yarn from abrasion, and to strengthen it to facilitate weaving. We source sizing agent from both domestic and overseas suppliers.

Our Suppliers

To ensure the raw materials supplied to us are of good quality and the supply can be made on a timely basis, our procurement department has established a set of criterion to assess the suitability of potential suppliers based on their scale, technical capability, reputation, product quality, ability to assure timely delivery of raw materials and their quality assurance measures such as whether their production processes have been accredited. Where the quality management system of the potential suppliers and the products supplied by them are not accredited, our procurement personnel will conduct necessary site visit before we enter into purchase contracts with such potential suppliers. It is our policy to conduct assessment of the suitability of our potential suppliers at least once a year.

We have established comprehensive management procedures and rules to govern dealings with our suppliers. For the supplies of principal raw materials such as cotton yarns, Tencel yarns and fibers, and new materials and fibers, we determine the purchase requirements mainly based on our inventory level of such raw materials, the orders on hand and our customer's specifications. For the supplies of cotton, we usually seek to purchase in bulk to obtain more favorable purchase prices. The lead time for sourcing our domestic cotton varies from one to five days within Shandong Province to 15 to 30 days for those out of Shandong Province after placement of orders, and the lead time for our overseas cotton sourcing is about one month after loading on board for shipment.

We normally maintain at least three potential suppliers from time to time for the supply of our principal raw materials. With such practice, we are able to enhance our bargaining power on price and to avoid over-reliance on a single supplier. Our principal raw materials such as cotton yarns, Tencel yarns and fibers, new materials and fibers, and cotton are commodities readily available in the PRC as well as from overseas suppliers.

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Therefore, in the event that any of our suppliers ceases supplying us with such raw materials, we believe that we will be able to obtain supplies of such raw materials from alternative sources.

In order to maintain flexibility in terms of choice and pricing, we generally do not enter into any long-term supply contract with our suppliers. We enter into supply contracts with our suppliers when we place procurement order with them. As such, we are free to source raw materials from a number of suppliers. We believe this arrangement allows us to ensure that we source raw materials that are available to us at the highest quality and the most competitive pricing.

Our raw materials purchased in the PRC are normally paid after delivery while raw materials sourced from overseas suppliers are normally paid by letters of credit with a credit period generally ranging from one month to three months. Purchases are mainly denominated and settled in Renminbi for domestic purchases and in U.S. dollars for overseas purchases.

Yinlong Industrial was our largest suppliers for the years ended 31 December 2009 and 2010. Yinlong Industrial, a company controlled by Mr. LIU Dong until 29 October 2010 and, after that, by his associate until 21 April 2011, is established in the PRC and is principally engaged in the production and sale of different yarn products. For the years ended 31 December 2009, 2010 and 2011, purchases from Yinlong Industrial (including the processing fees paid to Yinlong Industrial) amounted to approximately RMB99.12 million, RMB131.01 million and RMB15.38 million respectively, accounting for approximately 29.33%, 26.18% and 3.19% respectively of total raw material purchase. Our Directors believe that, in consideration of the quality of yarns supplied by Yinlong Industrial and the proximity of their production premises to our warehouse and production facilities, our direct sourcing of yarns from Yinlong Industrial and the processing arrangement with them enabled us to maintain stable and consistently high quality of yarn supplies to fulfil our production needs, increased our production efficiency and reduced our production cost. Our Directors consider that the yarns sold by Yinlong Industrial to us during the Track Record Period were on normal commercial terms and at a comparable price level with those supplied by other suppliers in the market. Our Directors also consider that the processing fees in respect of yarns paid to Yinlong Industrial during the Track Record Period were on normal commercial terms. Our Group has not entered into any processing arrangements in respect of yarns with processing agents other than Yinlong Industrial during the Track Record Period. The Sole Sponsor has conducted independent due diligence work including the review of selected transactions. On the basis of its work done, the Sole Sponsor is satisfied that the yarns sold by Yinlong Industrial to our Group during the Track Record Period were on normal commercial terms and at similar price levels of comparable grades of products from other third party suppliers, and that the processing fees paid to Yinlong Industrial during the Track Record Period were also on normal commercial terms. For further details of the related party transactions during the Track Record Period with Yinlong Industrial, please refer to “Our Relationship with Controlling Shareholders — Relationship with Yinlong Industrial” and Note 27 to the Accountants’ Report set out in Appendix I to this prospectus.

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With the increasing scale of our fabric production and to secure reliable and quality yarn supplies, on 31 December 2010, we purchased from Yinlong Industrial approximately 90,000 spindles and other spinning machineries and supporting equipment at a total consideration of RMB28,100,984.67. For further details of the Yinlong Assets Acquisition, please see “Our Relationship with Controlling Shareholders — Relationship with Yinlong Industrial — Yinlong Assets Acquisition” in this prospectus.

Our Directors have confirmed that, since 21 April 2011, Yinlong Industrial has been an Independent Third Party. For further details regarding the change in shareholding of Yinlong Industrial during the Track Record Period, please see “Our Relationship with Controlling Shareholders — Relationship with Yinlong Industrial — Change in Shareholding in Yinlong Industrial” in this prospectus.

During the Track Record Period, we did not encounter any material production disruption due to shortages of raw materials nor had we experienced any difficulty in the sourcing of raw materials. As far as our Directors are aware, there will not be any shortage in the supply of any of our raw materials in the foreseeable future.

During the Track Record Period, our five largest suppliers were yarn and fiber manufacturers, cotton producers or traders, and their principal place of operation covered Shandong and Henan provinces and Beijing municipality in the PRC, Switzerland, India and the United States. For the years ended 31 December 2009, 2010 and 2011, total purchases from our five largest suppliers accounted for approximately 43.12%, 41.76% and 27.27% respectively of the total raw material purchase, and total purchases from our largest supplier accounted for approximately 29.33%, 26.18% and 9.04% respectively of the total raw material purchase. We have developed business relationship with our five largest suppliers during the Track Record Period ranging from one to eight years with most of them having business relationship with us for approximately two years or more. Save for Yinlong Industrial which was our largest supplier for the years ended 31 December 2009 and 2010, as at the Latest Practicable Date, none of our Directors, their respective associates or any Shareholders (who to the knowledge of our Directors owned more than 5% of our issued share capital) had any interest in any of our five largest suppliers and our other top five largest suppliers were and are all Independent Third Parties.

Inventory management

We maintain stocks of raw materials at our warehouses situated at our production base in Zibo City, Shandong Province. There are installations at our warehouses specifically designed to prevent stored materials from being damaged by fire, moisture and dampness on the ground. In addition, we have in place proper storage procedures to ensure that the raw materials are kept in appropriate conditions and the physical movements of stock are properly recorded. We update the record of the incoming and outgoing items everyday and our finance department staff attends to stock count every month.

Except for cotton, we generally keep raw material supply for 20 to 120 days depending on the orders from our customers and the prevailing market conditions. On the other hand, since the market price of cotton is relatively volatile when compared with other raw materials, to maintain a continued production cycle, we have a policy of maintaining cotton

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inventory for at least 90 days and may maintain a higher level of inventory when we perceive that there is an upward trend of cotton price in the future. The level of our cotton inventory is subject to the amount of orders on hand, prevailing market price of cotton in the PRC, the imported cotton price, import quotas for cotton allocated to our Group and the perceived future trend in the price of cotton. The types and volumes of import quota for cotton allocated to our Group are at the discretion of NDRC which varies from enterprise to enterprise. During the Track Record Period, we imported cotton based on the prevailing market price of overseas cotton compared to that of domestic cotton of equivalent grade, our production requirements and our customers' specifications. The types of import cotton quota allocated to our Group were quota for normal trade and process trade. For further details, please see "Description of Relevant PRC Laws and Regulations — 11. Summary of relevant laws and regulations on imports of cotton and exports of textile products" in Appendix V in this prospectus. Inventories are stated at cost calculated using the weighted average method or net realizable value, whichever is lower. We have an inventory provisioning method to value our inventories and write off inventories when they become obsolete or damaged, or when their market value is below their carrying costs. For the years ended 31 December 2009, 2010 and 2011, our average inventory turnover days are 81, 104 and 53 days respectively.

PRODUCTION

Our production operations are undertaken at six weaving workshops and two spinning workshops, all of which are under the direct supervision of our general manager in charge of production, who also supervises our production equipment unit and safety unit. As at 31 December 2011, our production department comprised 1,862 staff members. For further details, please see "Directors, Senior Management and Employees — Staff" in this prospectus.

Upon receipt of the purchase order from a customer by our sales department, our planning department will normally first analyse the requirements and specifications of our customer as specified in the purchase order and then forward the purchase order to the production department for feasibility study. The production department, in assessing the feasibility of proceeding with the purchase order, will consider the date of delivery, delivery quantity and technical requirements by our customer. If our production department considers that the implementation of such purchase order is feasible, our planning department will coordinate the production schedule for such purchase order and our sales team will confirm with our customer the particulars of the purchase order including the price, date of delivery and the quantity. To better serve our customers and allow them to have a deeper understanding of the technical requirements of their orders, we generally involve a management team member from our production department in the negotiation process to advise our customers the relevant technical and production details. Upon confirmation of the purchase order, we will manufacture the Fabric Products in accordance with the requirements as stated therein. Apart from daily production planning according to our customers' orders, at the end of each year, we formulate the production plan for the following year based on the estimated annual production capacity of our production facilities and evaluate whether further expansion of our production facilities will be

required. Our general manager in charge of production is responsible for ensuring the implementation of the production plans and making appropriate adjustments in the course of production.

Production facilities

Our six weaving workshops and two spinning workshops are all located at our production base at Zibo City, Shandong Province, the PRC. Our production base with a site area of approximately 76,614.9 sq.m. comprises warehouses, office buildings and other ancillary facilities. The equipment or machineries we have installed at our production base include air-jet looms, rapier looms and electronic jacquard machines for weaving, and combing machines and automatic winding machines for spinning. Our core weaving machineries and equipment were imported from overseas countries. For example, our about 250 sets of advanced air-jet looms and rapier looms equipped with electronic jacquard machines were imported from Japan, Italy, France and Belgium. These machines and equipment are highly technological and fully computerized in their operations and are capable of weaving high-count and high-density jacquard fabrics with different yarns and colour combinations in accordance with our customers' requirements. In particular, all of our Itema rapier looms imported from Italy are equipped with Bonas 10,560 bits electronic jacquard machines which are capable of weaving a single non-repetitive woven pattern on a whole piece of 3,400mm broad width fabric.

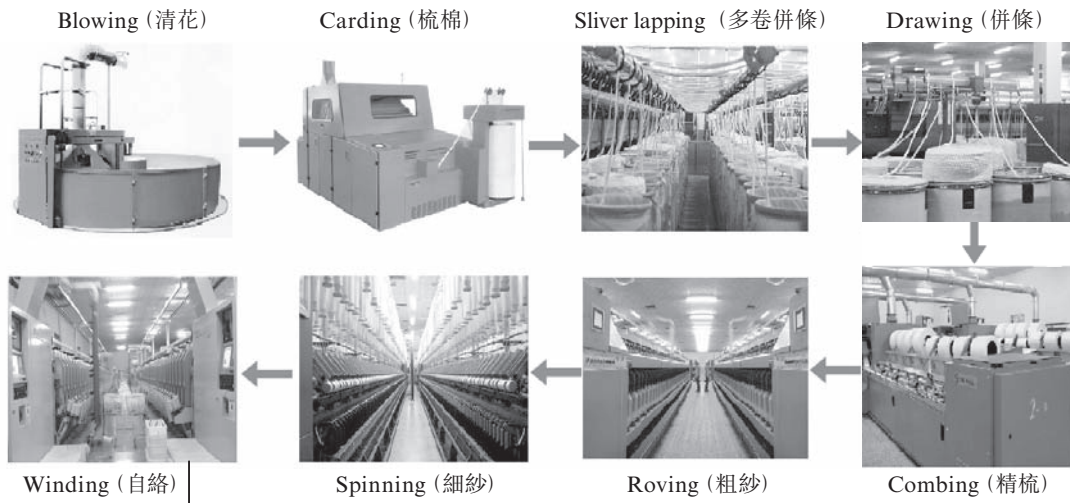
Our PRC legal advisers have opined that, as at the Latest Practicable Date, our production facilities did not fall within the "Eliminated Category" or "Restricted Category" under the Guiding Catalogue for Adjustment in the Structure of Industries (2011 version) (產業結構調整指導目錄(2011年本)) currently in force.

Our Directors have confirmed that, subject to the introduction of more advanced models or technology, generally, the life span for our production machineries and equipment is around 8 to 15 years. For our facilities for general applications such as electrical appliances and vehicle, they normally have a life span of 8 years whereas our core weaving machines and equipment normally have a life span of 15 years and are expected to have a longer life span if they are properly maintained. As at the Latest Practicable Date, all of our core weaving machines and equipment of our Group were in operation for less than 8 years, and based on the regular inspection and maintenance carried out by our facilities maintenance team, our machineries and equipment were in good conditions. We provide our technicians and personnel with appropriate training to ensure that they are equipped with the requisite technical capabilities to operate the advanced equipment and machineries.

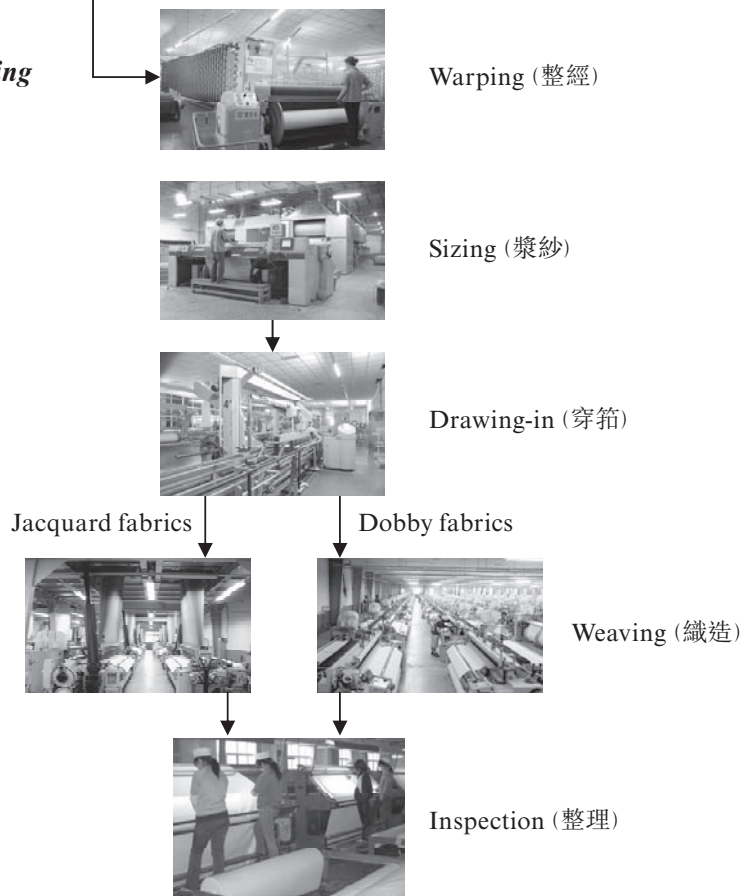
Production process

The following diagram sets forth the key procedures typically adopted by us in our production process:

Cotton yarn spinning



Fabric weaving



Cotton yarn spinning

Blowing (清花)

Cotton is loosened from a tightly packed bale into loose tufts to remove dirt and foreign matters. The loosened clean tufts are then reformed into a sheet suitable for carding.

Carding (梳棉)

Carding separates the sheet of tufts into individual fibers, removes trash particles and short fibers, orientates the fibers lengthwise and evenly distributes them before reassembling the fibers into a net-like and sliver form.

Sliver lapping (多卷併條)

Sliver lapping is a process where carded slivers are drawn together to form a roll of lap. By repeated doubling of slivers, laps of uniform and stable quality can be produced.

Drawing (併條)

Drawing increases the parallelism of the fibers and combines several carded slivers into one drawn sliver. This is a blending operation that contributes to greater yarn uniformity.

Combing (精梳) (for combed cotton yarn only)

Combing parallels the fibers and removes any short fibers and impurities from the long staple so that the combed fibers will be more uniform in length and suitable for further processing.

Roving (粗紗)

Roving reduces the size of the drawn sliver and increases the parallelism of the fibers which are twisted to be suitable for spinning.

Spinning (細紗)

Spinning further attenuates and twists the fibers to produce a continuously twisted strand of yarn.

Winding (自絡)

Yarn is subject to winding by an automatic winding machine in order to increase the length of the yarn on the package, control its quality and to eliminate impurities and defects.

Fabric weaving

Warping (整經)

Warping is a process during which hundred of yarns are simultaneously unwound from a group of bobbins placed in special creels and then wound again on a cylindrical roller (beam) with application for certain tension for sizing.

Sizing (漿紗)

Sizing is a process to give suitable weavability. During sizing, yarns from several rollers are joined into one package which can be used directly on the loom, and yarns are treated with a special adhesive composition called “sizing agent” to bind and protect the yarn from abrasion, and to strengthen it to facilitate weaving.

Drawing-in (穿筘)

Drawing-in is a process of, subject to fabric requirements, drawing the warp on the beam through drop wires of the warp stop motion, heddles and reed in accordance with the craft requirements, with the aim to form shed for preparation of weaving and insertion of weft to weave into the desired fabric. This is the last process in warp preparation. We use automatic drawing-in machines to complete this process which greatly enhance production efficiency and save labour force.

Weaving (織造)

Weaving is a process of interlacing two yarns across each other at right angles according to the technical requirement to produce fabric. The warp runs lengthwise and the weft runs perpendicular to warp, the interwoven of which produces fabric.

Inspection (整理)

Inspection is a process of which the finished fabric are inspected, graded, mended, re-inspected and packaged before storage or shipment.

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Production capacities and utilization rates

Fabric Products

We set out below the production capacity and utilization rate for the production of our Fabric Products during the Track Record Period.

	Machines in operation (sets)	Designed production capacity ⁽¹⁾ ('000 metres)	Production volume ⁽²⁾ ('000 metres)		Utilization rate ⁽⁴⁾ (%)
			Actual	Converted ⁽³⁾	
Year ended 31 December 2009					
Jacquard fabrics	128	10,600	5,408	8,300	78.30
Dobby fabrics	668	67,100	44,690	56,000	83.46
Total		<u>77,700</u>	<u>50,098</u>	<u>64,300</u>	<u>82.75</u>
Year ended 31 December 2010					
Jacquard fabrics	128/160 ⁽⁵⁾	11,150	5,936	9,100	81.61
Dobby fabrics	668	67,100	48,500	62,400	93.00
Total		<u>78,250</u>	<u>54,436</u>	<u>71,500</u>	<u>91.37</u>
Year ended 31 December 2011					
Jacquard fabrics	192/256 ⁽⁶⁾	19,640	9,961	15,800	80.45 ⁽⁷⁾
Dobby fabrics	668	67,100	48,710	65,000	96.87
Total		<u>86,740</u>	<u>58,671</u>	<u>80,800</u>	<u>93.15</u>

- (1) The designed production capacity is derived based on the following bases and assumptions:
- (a) the relevant production facilities only produced Fabric Products with standard weft density of 72 threads/inch only;
 - (b) the relevant production facilities operated 24 hours per day and 358 days per year taking into account the Chinese New Year holiday and our specific maintenance and operation schedules;
 - (c) the relevant production facilities operated at 70% of their maximum speed; and
 - (d) the Fabric Products were manufactured by such number of machines set out in the column entitled "Machines in operation (sets)".

The production capacity of the production facilities may be affected by other factors such as synchronization of various types of machinery employed in different production stages and skill of the staff in operating the machinery.

- (2) The actual production volume refers to the actual amount of each category of Fabric Products produced each year and comprises Fabric Products of different types and specifications. The production volume of each category of Fabric Products consisting of different product types and specifications is converted to corresponding production volume of Fabric Products with standard weft density of 72 threads/inch for comparison purpose.

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- (3) Converted production volume is calculated by the product of actual production volume and weighted weft density divided by standard weft density of 72 threads/inch. The standard weft density is determined by reference to the Letter of invitation of opinions in relation to the industry standards of Electricity Quota for Cotton Textile Industrial Products — Electricity Consumption in the Production of Original — Coloured Grey Fabrics (關於對《棉紡織工業產品用電定額 — 本色坯布生產用電》行業標準徵求意見的函).
- (4) Utilization rate is derived by dividing the converted production volume by the designed production capacity. As the designed production capacity is determined based on certain assumptions and the converted production volume for comparison purposes does not represent the actual production volume, our utilization rates as set out in the above table are for reference only and are subject to change if the underlying assumptions were different.
- (5) The number of machines for producing jacquard fabrics was 128 sets for the period from January 2010 to October 2010 and increased to 160 sets for the period from November 2010 to December 2010.
- (6) The number of machines for producing jacquard fabrics was 192 sets for the period from January 2011 to February 2011 and increased to 256 sets for the period from March 2011 to December 2011.
- (7) A relatively lower utilization rate in respect of the production capacity of jacquard fabrics for the year ended 31 December 2011 was caused by the increase in the designed production capacity of jacquard fabrics as a result of the increase in the number of jacquard looms after 31 December 2010.

Yarns

Production capacity of yarn is largely determined by the number of spindles. We set out below the utilization rate for the production of our yarns during the Track Record Period.

	No. of spindles (pieces)	Designed production capacity ⁽¹⁾ (tonnes)	Production volume ⁽²⁾ (tonnes)		Utilization rate ⁽³⁾ (%)
			Actual	Converted	
Year ended					
31 December 2011	113,400 ⁽⁴⁾	9,933 ⁽⁴⁾	6,623	9,691	97.56

Notes:

- (1) The designed production capacity refers to the production capacity of our ring-spinning spindles and is derived based on the following bases and assumptions:
- the relevant production facilities only produce 40-yarn-count pure cotton yarns; and
 - the relevant production facilities are in operation 24 hours a day for 358 days per year taking into account the Chinese New Year holiday and our specific maintenance schedule; and
 - the relevant production facilities operated at 95% of their maximum speed.

The production capacity of the production facilities may be affected by other factors such as synchronization of various types of machinery employed in different production stages and skill of the staff in operating the machinery.

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- (2) The actual production volume refers to the actual amount of yarns produced in each given period and comprises yarns of different yarn counts depending on customers' requirements and specifications. The production volume of yarn of different yarn counts is converted to corresponding production volume of 40-yarn-count yarns for comparison purposes.
- (3) Utilization rate is derived by dividing the converted production volume by the designed production capacity. As the designed production capacity is determined based on certain assumptions and the converted production volume for comparison purposes does not represent the actual production volume, our utilization rate as set out in the above table is for reference only and is subject to change if the underlying assumptions were different.
- (4) On 31 December 2010, Yinshilai Textile purchased from Yinlong Industrial approximately 90,000 spindles and other spinning machineries and supporting equipment together with all rights and benefits to them at a total consideration of RMB28,100,984.67. We have been manufacturing different types of yarn since then. As at 31 December 2011, the total number of spindles was 113,400.

Fuel and utilities

Our primary fuel and utilities requirements are electricity and steam. Steam is primarily used in our production process to maintain an optimum temperature and humidity. Steam is generated by burning coal. Our fuel and utilities costs accounted for approximately 10.79%, 9.99% and 8.25% of our total cost of sales for the years ended 31 December 2009, 2010 and 2011 respectively. During the Track Record Period, we did not experience any material interruption of operation as a result of electricity or steam suspension.

Steam

During the Track Record Period, all steam supplies to Yinshilai Textile and Huiyin Textile were provided by Yinlong Industrial. Pursuant to the steam supply agreements entered into between us and Yinlong Industrial dated 18 December 2008 and 22 December 2009 respectively, for the years ended 31 December 2009 and 2010, Yinlong Industrial agreed to supply steam in accordance with the quality and quantity standards specified therein and at the fixed rate determined by reference to the then prevailing market price. The Sole Sponsor has reviewed the price of steam announced by the Price Control Bureau of Zibo Municipal and concurred with the Directors' view that the purchase price of steam supplied by Yinlong Industrial to our Group during the Track Record Period was determined by reference to the then prevailing market price.

Pursuant to the steam supply agreement with Yinlong Industrial dated 7 October 2011 (the "**Steam Supply Agreement**"), (a) for the period from 1 January 2011 to 31 December 2014, Yinlong Industrial agreed to supply steam to Yinshilai Textile in accordance with the quality and quantity standards specified therein; (b) pricing for the steam supply is to be fixed by mutual agreement of the parties on a half yearly basis and is determined by reference to the prevailing market price of coal for the production of steam, subject to adjustment at the expiration of each six-month period; (c) the fee for the provision of steam will be payable by us to Yinlong Industrial on a monthly basis and shall be settled within 10 days from the beginning of the month in respect of the steam supplied in the preceding month; and (d) before the parties have agreed to the pricing, Yinlong Industrial is not

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permitted to suspend the steam supply without prior notice to us. Our Directors have confirmed that, in the event that Yinlong Industrial suspends the supply of steam, since steam supply is readily available in Shandong Province, there is no foreseeable difficulty for us to purchase steam from other suppliers at reasonable cost. For the years ended 31 December 2009, 2010 and 2011, the amounts paid to Yinlong Industrial in respect of utility expenses for steam were approximately RMB4.98 million, RMB5.96 million and RMB6.74 million, respectively. For further details of the related party transactions with Yinlong Industrial during the Track Record Period, please refer to Note 27 to the Accountants' Report set out in Appendix I to this prospectus. We purchase steam from Yinlong Industrial instead of generating steam on our own since Yinlong Industrial has the steam generating facilities and specialized personnel to operate these facilities, and is in the possession of the requisite regulatory approval so that we could obtain steam supply without incurring any cost for establishing, operating and maintaining steam supply facilities. Our Directors have confirmed that, our purchases of steam from Yinlong Industrial for the years ended 31 December 2009, 2010 and 2011 were on normal commercial terms and at a comparable price level with other steam suppliers. Our Directors consider that the Steam Supply Agreement was entered into on normal commercial terms under arms' length negotiation, and the terms thereof were fair and reasonable and in the interests of the Shareholders as a whole.

Electricity

Electricity supply to our operating subsidiaries in the PRC, namely, Yinshilai Textile and Huiyin Textile is provided by the local power supply company. For the years ended 31 December 2009 and 2010, due to (a) the proximity of the premises of Yinlong Industrial, Yinshilai Textile and Huiyin Textile, all of which were situated in Yinlong Village, Zibo City, Shandong Province; and (b) these entities having been under the same control of Mr. LIU Dong and his associate until 21 April 2011, the utility bills for the use of electricity by these entities were addressed to Yinlong Industrial only who was also the registered account holder for the utilities (i.e. electricity) used by us. Yinshilai Textile and Huiyin Textile did not apply for separation of account for utility bill since more favourable charging arrangement (such as basic connection fee exemption) for the supply of electricity was made available by the relevant power supply company to Yinlong Industrial as bulk user.

Our Directors have confirmed that, due to the aforementioned reasons, during the years ended 31 December 2009 and 2010, there was an arrangement between us and Yinlong Industrial pursuant to which Yinlong Industrial paid the utility bill on behalf of Yinshilai Textile and Huiyin Textile who agreed to, upon receipt of invoice from Yinlong Industrial, reimburse Yinlong Industrial for the amount in proportion to their actual usage of electricity in respect of the relevant period and at the same rate charged by the relevant power supply company. For the years ended 31 December 2009 and 2010, the amount paid by our Group to Yinlong Industrial under aforementioned arrangement amounted to approximately RMB3.58 million and RMB5.93 million respectively. The Directors have confirmed that, since January 2011, a new arrangement was made pursuant to which the utility bills (including the portion of the charges of electricity used by Yinlong Industrial) were issued to Yinshilai Textile instead of Yinlong Industrial and Yinshilai Textile paid the utility bills on behalf of Yinlong Industrial who agreed to reimburse Yinshilai Textile for

the amount in proportion to its actual usage of electricity and at the same rate charged by the relevant power supply company upon receipt of invoice from Yinshilai Textile. For the year ended 31 December 2011, the amount received by our Group from Yinlong Industrial for the aforementioned purpose amounted to approximately RMB3.48 million. As Yinlong Industrial is no longer under the control of Mr. LIU Dong and his associate and has become an Independent Third Party since 21 April 2011, Yinshilai Textile has applied for and already completed the procedures with the relevant power supply company for the separation of accounts from our Group for the utilities used by Yinlong Industrial, and has terminated the aforementioned arrangement with Yinlong Industrial since 1 November 2011.

QUALITY CONTROL

As part of our brand building process, we strive to provide consistently high quality Fabric Products for our customers. To achieve this goal, we have established a dedicated quality control team. As at 31 December 2011, our quality control team comprised 25 staff members, approximately 80% of them had received a diploma or higher educational qualification, and its core team members comprising 5 persons had five years or more of relevant experience. We maintain stringent quality control over the whole production chain, from the procurement of raw materials to inspection, summary of which are as follows:

Purchase of raw materials

We have in place a set of procedure of assessing the suitability of our potential suppliers. We will only procure the raw materials from those suppliers who have met our assessment requirements. We may require our suppliers to provide a quality inspection report before we accept the products supplied by them. We conduct sample testing such as testing on the pull length, short fiber content and impurity of the fiber prior to the confirmation of our orders of cotton purchases so as to ensure that the quality of the cotton which we purchase meets our specifications. For raw materials such as yarns, testing will be conducted on the yarn internal properties including their strength, tenacity, elongation, yarn counts and moisture regain rate. Incoming raw materials are inspected before they are stored into our warehouses for future use. Substandard raw materials are returned to suppliers or accepted at a discounted price in accordance with the terms of the supply contract.

Production

Our production process can be divided into preparation, manufacturing and inspection stages and we have assigned a team responsible for conducting quality control at different stage of our production process. At the inspection stage, finished fabrics will be inspected, graded, mended and re-inspected, and final sample inspection will be conducted on the finished fabrics before despatching to warehouses for storage. Products with inferior quality will be reprocessed or mended.

For our Fabric Products, we have adopted the PRC standard of GB/T406-2008 and international standard of American's Four Points System as quality benchmarks for the inspection of the fabric construction, strength, width, density, defects and packaging of our

Fabric Products. For cotton yarns, we apply PRC standard of GB/T398-2008 as our quality benchmark. GB/T398-2008 is a PRC standard for quality of original-coloured cotton yarn products. According to the letter issued by China Cotton Textile Association (中國棉紡織行業協會) in May 2007, we had participated in the review and revision of GB/T 406-2008 and GB/T398-2008 standards. We have also adopted a set of quality inspection system for jacquard and dobby fabrics such as the quality standard entitled “original-coloured fabric product” (Q/0300ZHY) formulated by us in January 2011, which demonstrated our experience and expertise in fabric productions and quality control. The same set of quality control measures also applies to the processing services provided by us to our customers.

Inventory storage

We have established proper warehouse management regulations which cover various aspects such as incoming, outgoing, storage, delivery and transportation of materials to ensure proper management and control of our inventories. We conduct regular and random inspections and stock taking on a monthly basis to ensure compliance with our warehouse management regulations.

Machinery and equipment management

Our engineers carry out regular inspections and maintenance of our machinery and equipment on a monthly basis or more frequently in order to ensure optimum performance of our machinery and equipment. We have a team in each production workshop responsible for facilities maintenance.

Sales

Our sales department are responsible for collecting customers’ comments and handling customers’ complaints. Our sales team regularly discusses with other departments on the feedback received from our customers and forwards such feedback to the production department for analysis and assessment. We have a policy in place requiring our sales department personnel to properly record our customers’ complaints, respond to our customers within a specified period after he has received the analysis report from our production department on the matter complained of and discuss with our customers the remedial measures, if appropriate. We also conduct a survey on the level of satisfaction of our customers to our products supplied and services rendered at least once a year in order to continue to improve the quality and design of our products.

Staff quality awareness and reward and penalty system

We conduct training for and continuous assessments of our staff. In order to promote awareness on quality control among our staff, we have implemented a reward and penalty system whereby bonus or penalties will be granted or imposed based on our internal guidelines.

We have obtained several accreditations for our quality control system. For example, we were accredited with GB/T19001-2008 (idt ISO 9001:2000) certifications in respect of the conformity of quality management system in 2011, which is valid until 2014. In 2007, we

received Certificate for Product Exemption from Quality Surveillance Inspection (產品質量免檢證書) issued by Central Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) in respect of our pure cotton fabrics for use in apparel textile with effect from December 2007 to December 2010 which demonstrated the recognition of the quality of our products. Details of our Group's accreditations and certificates relating to our quality control are set out in the sub-section headed "Awards and Accreditations" below.

During the Track Record Period, we have not had any sales recall or return and have not experienced any material product liability or other claims due to the quality of our products.

RESEARCH AND DEVELOPMENT

We place particular emphasis on product innovation, application of new materials and improvement of production technique in our production process to ensure that our product offerings evolve and our products remain competitive.

We have a dedicated team primarily responsible for Fabric Product designs and research and development. As at 31 December 2011, our research and development team comprised 48 staff, approximately 90% of them had obtained diploma or higher educational qualification, and approximately 55% of them had more than 3 years of relevant experience. Apart from product research and development functions, our research and development team is also responsible for advising us on matters relating to compliance with customers' special requirements and adoption of new production technique. Our research and development team holds discussions with our customers on the introduction of new product model and improvement in the existing product designs, attends trade fairs and conferences and reviews industry journals to keep abreast of market and product development trends. Further, our fabric design unit is equipped with specialised fabric design software and facilities to design and develop new Fabric Products in accordance with our customers' specifications. One of the key focuses of our research and development team is to conduct ongoing research into the development of new fabric functionalities such as high flame retardant fabric, improvement of high-count yarns production technique and the application of new and eco-friendly yarns such as hemp fiber (漢麻), Bemberg (Cupro fiber) (銅氨纖維) and corn/bamboo blended fiber in our production process in order to expand the diversity of our raw materials, increase our product mix and improve yarn quality.

To centralize and enhance our research and development efforts, in 2012 we set up our new research and development centre at our production base at Zibo City, Shandong Province, specifically designed for research and development, information gathering, testing and analysis and exhibitions of our products. In line with our future focus on the manufacture and sale of jacquard fabrics, we also plan to invest additional resources in research and development such as upgrading the facilities at our research and development centre. On 9 December 2010 and 16 December 2011, Zibo City Science and Technology Bureau (淄博市科學技術局) and the Science and Technology Department of Shandong Province (山東省科學技術廳) respectively granted an approval for our establishment of Jacquard Fabric Engineering, Technology and Research Centre (大提花工程技術研究中心)

at city and provincial levels, and pursuant to the approval certificates, the relevant local government departments and bureaus were encouraged to formulate policies and measures to support, and provide guidance for, the establishment and development of such research centre which we believe, will reinforce our future research and development efforts. We also intend to recruit more talented fabric designers and enhance training to our design personnel such as organising secondment programs with research institutions or universities to exchange innovative idea and strengthen our fabric design capability. In 2010, we organised a national jacquard fabric design contest with China National Textile and Apparel Council (中國紡織工業協會), Shandong Zibo City Textile Industry Association (山東省淄博市紡織工業協會) and a local media to gather innovative designs, increase the publicity of our jacquard fabrics, boost our corporate image and attract design talents.

We collaborate with external parties for product and technology innovations. For example, on 18 March 2010, we entered into a patent licence agreement with Wuhan Textile University (formerly known as Wuhan Institute of Science and Technology (武漢科技學院)) pursuant to which, for a term of five years and at a total consideration of RMB50,000 (which was an one-off payment), we were granted an exclusive licence to use in our production process the technology associated with the Extraction Method of Bamboo Shoot Case Fiber for Spinning (紡紗用竹筍殼纖維的提取方法), the patent of which is owned by Wuhan Textile University. Under such agreement, Wuhan Textile University agreed to provide, amongst others, technical training, relevant know-how and facility to us for the application of the aforesaid technology in our production process. On 15 August 2011, we entered into a cooperation agreement with the Design College of Nanjing Art Institute (南京藝術學院設計學院) pursuant to which, for a term of three years, the Design College of Nanjing Art Institute (南京藝術學院設計學院) agreed to cooperate with us, on an exclusive basis, to establish a specialised team for our product design innovation, provide design proposals, conduct study to enhance our brand image, provide technical training and arrange for secondment of staff, etc. to strengthen our design capabilities and enrich our product portfolio. Under such cooperation agreement, (a) we agreed to pay to the Design College of Nanjing Art Institute (南京藝術學院設計學院) a fee of RMB50,000 payable each year during the term of the agreement; (b) we and the Design College of Nanjing Art Institute (南京藝術學院設計學院) will jointly own the intellectual property rights associated with the product designs developed thereunder whereas we will own the right to commercialise the product designs developed under such agreement and be entitled to apply such designs to our products; and (c) without our prior written consent, the Design College of Nanjing Art Institute (南京藝術學院設計學院) is not permitted to use the product design developed under the cooperation agreement on its own account. It is our policy that the intellectual property rights associated with any new product or design developed under our collaboration agreements with external institutions will be owned by us or jointly owned by us and the relevant research partner, subject to the terms of the relevant agreement.

In June 2011, we submitted three products developed by us to Shandong Science and Technology Bureau (山東省科技廳) for technology achievement appraisal and according to the appraisal report, the production technology required for these products was confirmed by the panel either as attaining international leading standard or domestic leading standard which were the recognition of our research and development efforts. Further, we have

received various awards and certificates in respect of our research and development achievements. For example, we were granted by China Cotton Textile Association (中國棉紡織行業協會) the honour of “Finest Jacquard Fabric Base of China” (中國大提花面料精品基地) in 2011 where we were the first and the only enterprise in China awarded with such honour at that time, and our high-count and high-density fabrics and fabrics made with new fibers were named as one of “The Most Influential Fabric Products in the Past 60 Years (60年最具影響力的紡織產品)” in the 60th Anniversary of New China Commemorative Edition (新中國60華誕紀念特刊) in 2009 published by China Textile News (中國紡織報). We also received the Certificate of High and New Technology Enterprise (高新技術企業證書) issued by various Shandong governmental authorities in 2010, were awarded with the 2010 Culture Innovation Enterprise of China Textile Brand (2010 中國紡織品牌文化創新企業) by China National Textile and Apparel Council (中國紡織工業協會) and Association for the Culture Construction of China Textile Enterprises (中國紡織企業文化建設協會) in 2010, and were short-listed as Fabric China Appraisal Entry Enterprise (中國流行面料入圍企業) in 2010. Details of our Group’s awards and certificates are set out in the sub-section headed “Awards and Accreditations” below.

Our expenses on research and development were approximately RMB18.13 million, RMB19.74 million and RMB31.53 million for the years ended 31 December 2009, 2010 and 2011, representing approximately 3.42%, 2.55% and 3.40% respectively of our total revenue during the same period. Our expenses on research and development include, amongst others, costs of production of samples for customers and related expenditures on raw material, expenditures on collaboration with external research institutions and research and development of new products, costs arising from trial operation of new machineries and equipment, payment of salaries to the staff members of our research and development team and other costs and expenses arising from the daily operations of our research and development team. The increase in the expenditures on our research and development for the year ended 31 December 2011 compared to those during the years ended 31 December 2009 and 2010 is primarily attributable to the expenses incurred from the trial operation of the newly installed jacquard looms and equipment in 2011 and the increasing number of new products developed by our Group.

COMPETITION

We believe that we are operating in a highly competitive industry. For domestic sales of Fabric Products, we mainly face direct competition from major players in the industry in China, although we believe that our present operating scale is still much larger than many domestic competitors and we strategically focus on offering high-end, functional and differentiated Fabric Products targeted at high-end home textile fabric market in the PRC which enables us to maintain a competitive edge over such domestic competitors. For Fabric Products exported to overseas markets, we believe we face competition from both domestic and foreign manufacturers such as manufacturers from Turkey, which include many companies that are larger in size and have greater financial resources than us. Although we may face competition from existing and new entrants in the future, we believe that our niche market focus, the quality of our Fabric Products, our comprehensive

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products range and our advanced production expertise enable us to remain competitive, whereas the increasing capital and technology requirements and the importance of customer relationships pose significant barriers to entry for new competitors.

INTELLECTUAL PROPERTY RIGHTS

Our intellectual property rights primarily consist of the trademarks, patents and the domain names we use for the manufacturing, sales and marketing of our products. For further details, please see “Further Information about the Business of our Company — 9. Intellectual property rights of our Group” in Appendix VI to this prospectus.

We are not aware of any material infringement of our intellectual property rights during the Track Record Period. We believe that we have taken all reasonable measures to prevent any infringement of our own intellectual property rights and to avoid any losses as a result of infringement of the intellectual property rights by third parties. As at the Latest Practicable Date, we were not aware of any pending or threatened claims against us or any of our subsidiaries relating to the infringement of any intellectual property rights owned by third parties.

AWARDS AND ACCREDITATIONS

We have obtained numerous awards and honours in recognition of our success and achievements. Set forth below is the highlight of some of the major awards and certifications in respect of our business or products.

<u>Award/Certification (Note)</u>	<u>Awarding Authority/ Accrediting Body (Note)</u>	<u>Year Awarded/ Valid period</u>	<u>Description (Note)</u>
<i>Market Position</i>			
Finest Jacquard Fabric Base of China (中國大提花面料精品基地)	China Cotton Textile Association (中國棉紡織行業協會)	May 2011	Being the first and the only enterprise in the PRC awarded with such honour at the time of receipt of the award
Textile and Yarn-Dyed Industry's Top 20 Enterprises (中國棉紡、色織行業競爭力20強企業)	China Cotton Textile Association (中國棉紡織行業協會)	September 2011	2010–2011
		September 2010	2009–2010
		August 2009	2008–2009
	Statistic Center of China National Textile and Apparel Council (中國紡織工業協會統計中心)	July 2008	2007–2008
Top 500 Competitive Companies of China's Textile and Apparel Industry (中國紡織服裝企業競爭力500強企業)	China National Textile and Apparel Council (中國紡織工業協會)	September 2010	2009–2010
		August 2009	2008–2009
		July 2008	2007–2008

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<u>Award/Certification (Note)</u>	<u>Awarding Authority/ Accrediting Body (Note)</u>	<u>Year Awarded/ Valid period</u>	<u>Description (Note)</u>
<i>Research and development and Design Capabilities</i>			
Approval for the establishment of Jacquard Fabric Engineering, Technology and Research Centre of Shandong Province (山東省大提花面料工程技術研究中心)	Science and Technology Department of Shandong Province (山東省科學技術廳)	December 2011	Approval for the establishment of engineering, technology and research centre
Certificate of High and New Technology Enterprise (高新技術企業證書)	Science and Technology Department of Shandong Province (山東省科學技術廳)	26 September 2010 to 25 September 2013	—
	Finance Bureau of Shandong Province (山東省財政廳)		
	State Tax Bureau of Shandong Province (山東省國家稅務局)		
	Local Tax Bureau of Shandong Province (山東省地方稅務局)		
2010 Culture Innovation Enterprise of China Textile Brand (2010年中國紡織品牌文化創新企業)	China National Textile and Apparel Council (中國紡織工業協會)	September 2010	—
	Association for the Culture Construction of China Textile Enterprises (中國紡織企業文化建設協會)		
The 23rd Fabric China Appraisal Entry Enterprise — 2011 Spring/Summer (中國流行面料入圍企業 — 2011年 春/夏季)	China Textile Information Center (中國紡織信息中心)	March 2010	For the product called “Romantic Journey” (入圍產品：浪漫星程)
	China Textile Development Center (國家紡織產品開發中心)		
Fabrics China Appraisal Partner Enterprises — Autumn/Summer 2010/2011 (中國流行面料入圍企業 — 2010/11年 秋/冬季)	China Textile Information Center (中國紡織信息中心)	Oct 2010	For the product called “Jing Hua Shui Yue” (入圍產品：鏡花水月)
	China Textile Development Center (國家紡織產品開發中心)		

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<u>Award/Certification (Note)</u>	<u>Awarding Authority/ Accrediting Body (Note)</u>	<u>Year Awarded/ Valid period</u>	<u>Description (Note)</u>
Award of Innovative Management Enterprise of Zibo City (淄博市企業管理創新獎)	People's Government of Zibo City (淄博市人民政府)	December 2011	Award for innovative technology and management
Shandong Well-Managed and Innovative Enterprise (山東省管理創新優秀企業)	Shandong Economic and Information Technology Committee (山東省經濟和信息化委員會)	December 2010	—
Excellence in Innovation Award (優秀創新獎)	China National Textile and Apparel Council (中國紡織工業協會), China Printing and Dyeing Association (中國印染行業協會), China Yarn-Dyed Weaving Association (中國色織行業協會), Research Centre of National Cotton Textile Printing and Dyeing Products(全國棉紡織印染產品調研中心)	August 2008	For products: “Chu Chu Jiao Mei” (楚楚嬌媚), sateen (緞紋), Tencel yarns (棉天絲紗線), Tencel yarns 160S (棉天絲紗線160S), Plain weave (平紋), “Qing Si” (情思), “Yao Ran Sheng Hui” (耀然生輝), “Zhen Ai, Zhen Ai” (真愛·真愛) Acetate fiber fabric (醋酸纖維面料), sateen (緞紋), “Fang Xiang Si Yi” (芳香四溢), “Feng Lun Zhuan Hui” (風輪轉回), “Lang Man Yi Jiu” (浪漫依舊), “Si Ji Qing Xiang” (四季清香), “Yong Heng De Xin” (永恆的心), “Zhong Cheng Juan Shu” (終成眷屬)
		August 2007	For products: “200-count yarn” (200支棉紗), “Hua Ying Yao Rao” (花影妖嬈), “Mei Gui Hua Kai” (玫瑰花開), “satin” (直貢)
Outstanding Design Award (優秀設計獎)	China Cotton Textile Association (中國棉紡織行業協會), China Printing and Dyeing Association (中國印染行業協會), China Yarn-Dyed Weaving Association (中國色織行業協會), Research Centre of National Cotton Textile Printing and Dyeing Products (全國棉紡織印染產品調研中心)	August 2007	For products: “100-count flame resistant yarn” (100支棉阻燃紗), “down-proof fabric” (防羽布), “Fu Gui Man Tang” (富貴滿堂), “Hua Xiang Ji Jie” (花香季節), “cotton jacquard grey fabric” (棉大提花坯布), “satin” (直貢)

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<u>Award/Certification (Note)</u>	<u>Awarding Authority/ Accrediting Body (Note)</u>	<u>Year Awarded/ Valid period</u>	<u>Description (Note)</u>
<i>Products</i>			
China Top Brand (中國名牌)	國家質量監督檢驗檢疫總局 (General Administration of Quality Supervision, Inspection and Quarantine of PRC)	September 2006 to September 2009, subsequently extended to September 2011	For Yinshilai branded pure cotton with high-count and density grey fabrics (銀仕來牌高支高密純棉坯布)
“Top grade dobby products without using PVA sizing” (提花產品無PVA上漿優秀一等產品)	China Cotton Textile Association (中國棉紡織行業協會), China Printing and Dyeing Association (中國印染行業協會)	May 2008	For products: “JC60x60 173x118x106 Jacquard (大提花)”, “JC60x80x173x215x103 Jacquard (大提花)” and “JC60xR150Dx173x105x 103 Dobby (提花)”
純棉系列坯布“產品密度之高創國內之最”	Science and Technology Department of Shandong Province (山東省科學技術廳)	May 2006	The density of warp and weft of “pure cotton with high count and density grey fabrics” reaches 3600-6300T/10cm, the yarn counts being the highest in China with technological level reaching advanced world level at that time. (“高支高密純棉系列坯布”產品經緯加合密度達到3600-6300根/10cm，根數之多創國內之最，技術水平達到當時國際先進水平)
<i>Quality Control</i>			
Certificate for Product Exemption from Quality Surveillance Inspection (產品質量免檢證書)	General Administration of Quality Supervision, Inspection and Quarantine of PRC (國家質量監督檢驗檢疫總局)	December 2007 to December 2010	The pure cotton clothing products of Yinshilai are exempted from quality surveillance inspection. (銀仕來牌，服裝純棉面料系列產品批准免檢)
GB/T19001-2008 idt ISO 9001:2008 Certificate of Conformity of Quality Management System Certification	Beijing Zhongshui Brilliant Certification Co., Ltd (北京中水卓越認證有限公司)	5 August 2011	With a valid period to 4 August 2014
GB/T24001-2004 idt ISO 14001:2004 Environmental Management System	Beijing Zhongshui Brilliant Certification Co., Ltd (北京中水卓越認證有限公司)	5 August 2011	With a valid period to 4 August 2014

Note: The English translation of the official Chinese names and descriptions of the awards/certifications and the PRC awarding/accrediting authorities or bodies are for identification purpose only.

PROPERTIES

Owned properties

As at 30 April 2012, which is the date of the property valuation for the purpose of this prospectus, we owned the land use rights of a parcel of land with a site area of approximately 76,614.9 sq.m., on which 14 buildings and various ancillary structures have been constructed for production, storage, office and ancillary purposes. The total gross floor area of these 14 buildings is approximately 56,993.26 sq.m. We have obtained the state-owned land use rights certificate and building ownership certificates for all the above land and buildings except for five buildings with a total gross floor area of approximately 3,893.56 sq.m., where we did not obtain the relevant construction planning permits.

According to the applicable PRC laws and regulations, all the land in the PRC is classified into state-owned land and rural collectively-owned land. Private entities are able to use the state-owned land legally and properly and will be granted the legal title upon completing the required procedures and obtaining the state-owned land use right certificate. The said five buildings are being used for warehouse and compressed air station purposes. As advised by our PRC legal advisers, due to the fact that we have failed to obtain the required planning permits, we could be ordered by the relevant PRC authorities to demolish these buildings and undertake other remedial measures, or the relevant buildings could be confiscated by the relevant PRC authorities. We could also be liable to a fine of up to a maximum of 10% of the construction costs in respect of the buildings that we have failed to obtain the relevant planning permits, which amounts to approximately RMB392,437.23.

As at the Latest Practicable Date, we had not received any remedial notice from the relevant PRC authorities or other administrative penalty. The aforesaid five properties are used for storage or other ancillary purposes and there are alternative premises available nearby. No revenue and profit contribution were generated from the aforesaid properties. We have delivered the application materials for necessary permits to the relevant authorities and according to the confirmation letters dated 17 September 2011 and 19 September 2011 respectively from Boshan Branch of Zibo Urban Planning Bureau and Boshan Branch of Zibo Housing and Urban-rural Development Bureau which are the competent government authorities for issuing such confirmation letters, the construction of the aforesaid five buildings had complied with the requirements of urban planning and they were in the course of processing our Group's application for the issuance of the relevant planning and construction permits. As advised by our PRC legal advisers, there is no foreseeable obstacle for us to obtain the aforesaid permits. We expect that we could obtain the planning and construction permits before September 2012, and we will deliver application materials for building ownership certificate for the aforesaid five buildings as soon as we obtain the planning and construction permits. In case we fail to obtain the building ownership certificate in due course, we will consider other available premises nearby and as confirmed by our Directors, the aforesaid five buildings are not crucial to our Group's business operations. We estimate that the relocation costs would be no more than RMB20,000.

Leased properties

As at 30 April 2012, we leased a property situated in Yinlong Village, Economic Development Zone, Boshan District, Zibo City from Yinlong Villagers' Committee. The property comprises a workshop building and other ancillary building with a total lettable area of approximately 16,287.77 sq.m. We use the aforesaid workshop building and ancillary building principally for our yarn production purpose. Pursuant to the tenancy agreement dated 21 June 2006 and its supplemental agreement dated 8 April 2011, the property was leased to Yinshilai Textile for a term commencing from 1 January 2011 and expiring on 30 August 2032, at a total monthly rent of RMB62,467.69 for workshop buildings with an area of 13,604.381 sq.m. at RMB4 per sq.m. and ancillary buildings with an area of 2,683.389 sq.m. at RMB3 per sq.m., exclusive of water, electricity and gas charges and other outgoings. Our PRC legal advisers have confirmed that, according to the relevant law of the PRC, since the leasing period should not be longer than 20 years, the effective term of the lease should be from 1 January 2011 to 1 January 2031.

As at the Latest Practicable Date, we had yet to receive from the lessor the land use rights certificate and other evidence of title to the said land, and we also had not received any building ownership certificate and other evidence of title to the property on such land. Yinlong villager's committee had verbally advised the Company that the leased properties were collectively owned by the Yinlong villagers before entering into the lease agreement though no land use/ownership rights certificate could be provided because no land use/ownership rights certificate in relation to the leased properties had been issued by the local authorities. We have made an enquiry with the relevant authorities and were informed that the Yinlong villagers collectively own the land use rights of the lease properties, though there was no record of registration of the land use/ownership rights of the properties leased to our Group by Yinlong villager's committee.

As advised by our PRC legal advisers, with the support of applicable laws and regulations, the verification and issuance of land use/ownership rights certificates for collectively owned land has not been fully implemented nationwide due to practical condition constraints, and relevant departments of the central government have requested local authorities to accelerate the verification and registration of each collectively owned land as well as the issuance of land ownership rights certificate for collectively owned land to collective economic organizations nationwide and such work is aimed to be accomplished until the end of 2012. As further indicated by the local authorities, the verification and issuance of land use/ownership rights certificates for collectively owned land in Zibo city has not yet been comprehensively expanded. As far as the authority of Yinlong villagers' committee to enter into the lease agreement with our Group is concerned, our PRC legal advisers have further advised that according to the applicable PRC laws and regulations relating to collectively-owned land in the PRC, the villagers' committee of the village is legally entitled to exercise powers in connection with the ownership of the land collectively held by the villagers on behalf of these villagers. In addition, the management committee of Boshan economic development zone which is the competent authority over the administration of Yinlong village, has concluded in a confirmation letter dated 27

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February 2012 that Yinlong village is in its jurisdiction and that the relevant lease agreement has been adequately authorized and performed by each party to the lease agreement, after its examination of the relevant financial documents.

Our PRC legal advisers have advised that, if the lessor of the relevant leased properties does not have the requisite rights to lease out the relevant leased properties, the relevant lease agreements may be deemed invalid, and as a result, we may be required to move out from the relevant leased properties and relocate our production facilities. Besides, due to the lack of land use rights certificate of the aforesaid properties, if the properties are not used in accordance with their prescribed usage, according to the applicable PRC laws and regulations, we may also be required to relocate our relevant production facilities and face a fine up to RMB30 per square metre of the illegally occupied property, which amounts to approximately RMB488,633.

Our Directors have confirmed that the time required to complete the relocation of the aforesaid yarn production facilities will be not more than five months. Our Directors are of the view that, (a) alternative premises are available in the area to house such production facilities; (b) during the period of relocation, the affected facilities will be disassembled and relocated stage by stage so that we could commence the operation of some of the affected production facilities at the new site within a short period of time and minimize the impact of the relocation on our Group's yarn production; (c) on the basis that we have maintained long and stable relationship with a number of yarn suppliers, coupled with the fact that Shandong Province is one of the major yarn production regions in China and yarns are readily available in the PRC, our Directors do not anticipate any significant difficulty for us to obtain alternative source of yarns from our external suppliers at a reasonable cost during the period of relocation; and (d) the estimated cost for such relocation is expected to be not more than RMB1.5 million. In view of the above, should the circumstances arise such that the lease agreement is deemed invalid and hence the relevant production facilities have to be relocated, the PRC operations of our Group will not be materially affected. Our Group is now actively identifying appropriate locations for relocating the relevant business activities currently conducted in the properties leased from Yinlong Villager's committee, and will make relocation arrangement as soon as practicable after we are required to move out from the relevant leased properties and relocate our production facilities.

Further details of our properties are set forth in Appendix III to this prospectus.

As of the Latest Practicable Date, our Group has paid an upfront payment of RMB2 million to the local government of Boshan district, Shandong province, the PRC for the purpose of the proposed acquisition of land with a total site area of 234 mu (equivalent to approximately 156,000 sq. m) from the said local government. We intend to acquire such piece of land primarily for expansion of our production facilities in several stages. Our Group expects to acquire a piece of land with a total site area of 120 mu (equivalent to approximately 80,000 sq.m) prior to the fourth quarter of 2013. (Please refer to the section headed "Business — Expansion Plans" for more details). Based on the letter of confirmation from the local government, the disposal of the said piece of land by the said local government will be through the process of tender, auction or listing-for-bidding in accordance with the applicable laws and regulations of the PRC and accordingly, the

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acquisition price is not known yet. The Company confirms that no transaction relating to such piece of land was completed within the two preceding years. However, there is no assurance that we will succeed in such tender, auction or listing for acquiring such land. As confirmed by our PRC Legal Advisers with the support of the aforesaid letter of confirmation, our Group has no binding obligation to acquire such land until our Group is successful in our bid through the process of tender, auction or listing-for-bidding and has signed the bid confirmation as the acquirer of the said piece of land, unless otherwise agreed among relevant parties. In this connection, if we are not successful in our bid for the acquisition of such land or we decide not to proceed with the acquisition of such land, we may demand for refund of RMB2 million having been paid by our Group or bid for another piece of land for housing the additional production facilities.

INSURANCE

We take out insurance covering risks in respect of properties and vehicles and goods in transit.

We are not required under PRC laws and regulations to maintain compulsory product liability insurance. As is consistent with the customary practice in China, we do not maintain insurance against product liability for the products we sell. Our Directors confirm that we have never experienced any material third party liability claims in relation to our products.

ENVIRONMENTAL PROTECTION

According to applicable PRC laws and regulations, companies which discharge pollutants must register with the local environmental protection department, and report on their facilities which discharge such pollutants, their treatment plants, the type, amount and concentration of the pollutants discharged. Besides, the environmental protection system and procedures should be implemented simultaneously with the commencement of and during the operation of construction, production and other activities undertaken by the company. For details of the environmental protection requirements to which our Group is subject, please refer to Appendix V to this prospectus.

We believe that our production process does not generate hazards that have any significant adverse effects on the environment. Due to the composition of the products which we manufacture, there is minimal waste discharge from the air-conditioner and in the sizing process prepared for weaving. Sewage generated in our production process will be processed and recycled for use after treatment by our own sewage processing facilities, and up to the Latest Practicable Date, our production does not involve any dyeing process.

According to the confirmation letter issued by the Boshan Environmental Protection Branch Bureau of Zibo City, Shandong Province (山東省淄博市環境保護局博山環保分局) on 25 April 2012, since their respective date of incorporation up to 15 April 2011, each of Yinshilai Textile and Huiyin Textile, being our PRC subsidiaries engaged in manufacturing operations, has complied with the requirements of national and local environmental protection laws and regulations, and there were no circumstances which may result in the violation of the relevant environmental protection policies and regulations by Yinshilai

Textile or Huiyin Textile. Both Yinshilai Textile and Huiyin Textile have obtained the temporary sewage discharge permits since January 2011. We obtained the temporary sewage discharge permits with the validity period from December 2011 to February 2012, and such permits were renewed on 23 February 2012 with the validity period from March 2012 to June 2012. Based on the confirmation letter issued by Zibo Environmental Protection Bureau (淄博市環境保護局) and inquiries with Environmental Protection Bureau of Shandong Province which are the competent governmental authorities, as the allocation plan of total permitted pollution from 2011 to 2015 for Shandong Province has not yet been promulgated, it is the normal practice for Zibo Environmental Protection Bureau to grant temporary permits to local entities at the request of such entities until such allocation plan has been promulgated, and there is no universally applied sewage discharge permit system within Shandong Province, local authorities are entitled to take appropriate measures to supervise total pollution discharge quantities within their jurisdiction. As at the Latest Practicable Date, we were in the course of applying for renewal of our sewage discharge permits which will expire at the end of June 2012, and as advised by our PRC legal advisers, subject to any further revision and amendments to the presently applicable PRC laws and regulations, there is no foreseeable legal impediment for us to renew the sewage discharge permits if Yinshilai Textile and Huiyin Textile comply with the then applicable PRC laws and regulations. Our PRC legal advisers have further confirmed that we have obtained all permits and licences required under applicable environmental protection laws and regulations in China and that we have complied with applicable environmental laws and regulations in all material respects.

In light of the above, our Directors believe that our operations have been in compliance with the applicable environmental laws and regulations during the Track Record Period. For further details, please see “Description of Relevant PRC Laws and Regulations” as set forth in Appendix V to this prospectus.

During the Track Record Period, our costs for compliance with applicable environmental rules and regulations were approximately RMB300,000, RMB300,000 and RMB1,600,000 respectively. These costs comprised primarily expenses and charges associated with sewage treatment and fees paid to the governmental authority in respect of the relevant environmental rules and regulations in the PRC. The increase in such expenditure for the year ended 31 December 2011 was attributable to the purchase and installation of additional sewage treatment facilities to enhance our Group’s sewage treatment capability and higher operational expenses of such facilities. Since we do not produce a large amount of waste during the production process, our Directors do not anticipate that there will be a substantial amount of expenses that we may incur in the near future for environment compliance matters.

LEGAL PROCEEDINGS

As at the Latest Practicable Date, we were not aware of any current, pending or threatened litigations, arbitration or administrative proceedings against us or any of our subsidiaries or any of our Directors which could have a material adverse effect on our financial condition or results of operation.

REGULATORY COMPLIANCE

Please refer to the section headed “Description of Relevant PRC Laws and Regulations” in Appendix V to this prospectus for the laws and regulations applicable to our operations in the PRC.

As advised by the PRC legal advisers, as at the Latest Practicable Date, Yinshilai Textile and Huiyin Textile were duly incorporated in accordance with the relevant PRC laws and regulations and had duly obtained or completed the approvals, permits, licences and registrations necessary for the conduct of our business and all of them were presently in force. Our PRC legal advisers have further confirmed that, save as disclosed below, as at the Latest Practicable Date, Yinshilai Textile and Huiyin Textile had complied with all applicable PRC laws and regulations for their business activities and operations in all material aspects during the Track Record Period and up to the Latest Practicable Date.

MEASURES TO STRENGTHEN CORPORATE GOVERNANCE PROCEDURES

Our Company has adopted the following measures to prevent reoccurrence of non-compliance incidents in the future:

Incidents

Defective property title (as more particularly described in the section headed “Business — Properties” in this prospectus)

Prevention measures

Future property development would only be commenced after the necessary licences and permits have been obtained.

Properties under development would only be used after the respective authorities had inspected the properties and issued the necessary licences and permits.

Properties would be recorded as fixed assets according to the respective accounting standard timely and proper record would be maintained.

Temporary constructions would be removed within the time frame granted under the respective licences and permits.

Our Group will only enter into lease agreements after the lessor has provided all relevant title documents.

Incidents

Prevention measures

Failure to fully pay social insurances and housing fund contributions (as more particularly described in the section headed “Directors, Senior Management and Employees — Social insurances and housing fund” in this prospectus)

Reinforcement education regarding the importance of participation in the social insurance scheme would be provided to all new employees. Each of Yinshilai Textile and Huiyin Textile has made social insurances contributions for all of its eligible employees since April 2011. Each of Yinshilai Textile and Huiyin Textile has made housing fund contribution for all of its eligible employees since May 2011.

Failure to pay the registered capital of our subsidiaries within the prescribed time (as more particularly described in the section headed “History, Reorganization and Group Structure — Corporate development” in this prospectus)

Legal and compliance staff have been employed to monitor the respective compliance issues and follow up with the payment of capital contribution. Regular review would be conducted to ensure timely payment.

In order to prevent future occurrence of legal non-compliance by our Company, a legal compliance department will be established by our Board to oversee the matter and ensure compliance with the laws and regulations. In particular, our Company will put in place the following measures to prevent future occurrence of legal non-compliance.

(a) Establish legal compliance department

As part of the enhanced internal compliance procedures, the legal compliance department has been set up to take active steps to address the legal non-compliance issues and improve the legal and compliance standards of our Company. In particular, the legal compliance department provides greater supervision so as to ensure that our Company will be in compliance with all laws and regulations issued by the relevant regulatory authorities which are applicable to our business operations.

The legal compliance department is headed by our executive Director, Mr. TIAN Chengjie, who has accumulated substantive corporate governance experience through serving as a director and supervisor of Wanjie High-Tech, a company listed on the Shanghai Stock Exchange since January 2000, between December 1996 and November 2004. Mr. TIAN will be supported by a team comprising managers and staff members (and external professional advisers when appropriate) with experience in handling regulatory compliance matters. The legal compliance department acts as the internal supervisory system of our Company to identify, report and address any legal and compliance issues.

(b) Provide training to employees

In addition, specialized training programs have been provided for all Directors and staff members who will be involved in the legal and compliance issues of our Company to raise their awareness on the importance of internal legal compliance and to strengthen their risk management skills. In the PRC laws training session, our PRC legal advisers provided training to our Directors and staff members who will be involved in the legal and compliance issues of our Company covering (i) all major PRC laws and regulations in relation to corporate governance, property, social insurance and housing fund, and (ii) case studies based on historical incidents that took place within our Group. In the Hong Kong laws and Listing Rules training session, our legal advisers provided training to our Directors covering relevant topics such as (i) corporate governance under the Companies Ordinance, (ii) director's responsibilities, (iii) price sensitive information disclosure requirements, and (iv) notifiable transactions.

Our Company will continue to provide similar training to all relevant staff members on risk management and the implementation of compliance policies and procedures in key business areas with external legal advisers and other professional advisers when appropriate.

(c) Consult external professional advisers

Our Company will also consult external legal counsel and other professional advisers when appropriate. In particular, our Company will retain external legal advisers or other professional advisers with relevant experience and expertise.

Our Company will also source and retain an external legal adviser for regular consultation. In case our Board or the legal compliance department has any doubt regarding any compliance issues of the Listing Rules, or any other relevant laws and regulations, our Board and the legal compliance department will be able to seek immediate assistance from the external legal adviser so as to minimize the risk of any legal non-compliance.