You should read the following discussion and analysis of our financial condition and our results of operations together with our financial information included in the Accountants' Report set out in Appendix I to this prospectus. The consolidated financial information contained in the Accountants' Report has been prepared in accordance with IFRS. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth in the section headed "Risk Factors" in this prospectus.

OVERVIEW

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

For the three years ended 31 December 2011, our revenue was approximately RMB927.77 million for the year ended 31 December 2011 ("**FY2011**"), approximately RMB773.77 million for the year ended 31 December 2010 ("**FY2010**") and approximately RMB529.71 million for the year ended 31 December 2009 ("**FY2009**"), representing a CAGR of approximately 32.34%. Our profit attributable to equity shareholders was approximately RMB162.13 million for FY2011, approximately RMB100.29 million for FY2010 and approximately RMB30.41 million for FY2009, representing a CAGR of approximately 130.91%.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on 24 February 2010. Pursuant to a group reorganization completed on 16 April 2010, our Company became the holding company of companies now comprising our Group. The companies that took part in the Reorganization were controlled by Mr. LIU Dong prior to and after the Reorganization. The control is not transitionary and, consequently, there was a continuation of the risks and benefits to Mr. LIU Dong. Therefore, the Reorganization is considered as a business combination of entities under common control. The financial information contained in the accountants' report as set out in Appendix I has been prepared using the principles of merger accounting as if the companies now comprising our Group have been combined at the beginning of the relevant period unless the combining companies first came under common control at a later date. The net assets of the combining companies are combined using the existing book values from the perspective of Mr. LIU Dong.

The consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of our Group for the relevant period as set out in Section B of the accountants' report in Appendix I include the results of operations of the companies now comprising our Group (or where the companies were incorporated/established at a date later than 1 January 2009, for the period from the date of incorporation/establishment to 31 December 2011). The consolidated statements of financial position of our Group as at 31 December 2009, 2010 and 2011 as set out in Section B of the accountants' report have been prepared to present the state of affairs of our Group as at the respective dates as if the Reorganization was completed at the beginning of the relevant period.

All material intra-group balances and transactions have been eliminated on consolidation in preparing the financial information contained in the accountants' report as set out in Appendix I.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by a number of factors, including those set out below:

Demand for our products

Demand for our products is affected by the demand and growth of the home textile market and apparel market, competition within these market segments and the popularity of individual products. Stronger demand for a product generally results in its higher revenue and gross profit contribution.

We manufacture our fabric products according to the requirements specified by our customers. We believe that our success going forward is largely dependent upon our ability to continue to manufacture high quality products that fit the requirements of our customers and to improve our operating efficiencies. Our strategy is to focus on high quality products with higher profit margins or operating efficiency.

Product mix

Our results of operations are significantly affected by the relative contribution of our principal products, being jacquard fabric products and dobby fabric products. Our products vary significantly in different fibers (such as pure cotton, Tencel, other new materials or fiber-blended), characteristics and woven pattern design (such as jacquard patterns and dobby patterns). Therefore, our jacquard fabrics and dobby fabrics may have different gross profit margins and selling prices even though they may have similar woven pattern design. We strategically focus on producing high-end products that we believe enjoy higher gross profit margin or operating efficiency.

The following table sets forth, for the periods indicated, selected data related to product mix and gross profit margins of our principal products:

- *Product mix by category:*

	For the year ended 31 December					
	2009		2010		2011	
	Turnover *RMB'000*	*%*	Turnover *RMB'000*	*%*	Turnover *RMB'000*	*%*
Dobby fabrics	420,491	81.19	574,649	81.21	641,160	73.27
Jacquard fabrics	97,415	18.81	132,925	18.79	233,868	26.73
Total	517,906	100.00	707,574	100.00	875,028	100.00

- *Dobby fabrics (by raw material component)*

	For the year ended 31 December					
	2009		2010		2011	
	Turnover *RMB'000*	*%*	Turnover *RMB'000*	*%*	Turnover *RMB'000*	*%*
Pure cotton	330,827	78.68	332,724	57.90	297,876	46.46
Tencel or new material and fiber fabrics *(Note)*	89,664	21.32	241,925	42.10	343,284	53.54
Total	420,491	100.00	574,649	100.00	641,160	100.00

- *Jacquard fabrics (by raw material component)*

	For the year ended 31 December					
	2009		2010		2011	
	Turnover *RMB'000*	*%*	Turnover *RMB'000*	*%*	Turnover *RMB'000*	*%*
Pure cotton	48,229	49.51	55,226	41.55	123,622	52.86
Tencel or new material and fiber fabrics *(Note)*	49,186	50.49	77,699	58.45	110,246	47.14
Total	97,415	100.00	132,925	100.00	233,868	100.00

Note: Tencel or new material and fiber fabrics include fabrics made from pure Tencel yarns or Tencel blended yarns or from Tencel yarns interworen with cotton yarns or other fibers.

- *Gross profit*

	For the year ended 31 December					
	2009		2010		2011	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(RMB'000)	*(%)*	*(RMB'000)*	*(%)*	*(RMB'000)*	*(%)*
Dobby fabrics	48,079	11.43	124,223	21.62	155,230	24.21
Jacquard fabrics	23,116	23.73	43,650	32.84	67,136	28.71
Total	71,195		167,873		222,366	

Dobby fabrics contributed the largest portion of turnover of our Group during the Track Record Period. For each of the years ended 31 December 2009, 2010 and 2011, turnover from dobby fabrics amounted to approximately RMB420.49 million, RMB574.65 million and RMB641.16 million, representing approximately 79.38%, 74.27% and 69.11% of the total turnover of our Group, respectively.

Jacquard fabrics products, another major product category of our Group, contributed higher gross profit margins during the Track Record Period due to the fact that there are lesser competitors equipped with the required machinery and having the expertise for manufacturing jacquard fabrics products. For each of the years ended 31 December 2009, 2010 and 2011, turnover from jacquard fabrics amounted to approximately RMB97.42 million, RMB132.93 million and RMB233.87 million, representing approximately 18.39%, 17.18% and 25.21% of the total turnover of our Group, respectively.

A substantial portion of dobby fabrics and jacquard fabrics were made from pure cotton during the Track Record Period. Approximately 78.68%, 57.90% and 46.46% of total volume of dobby fabrics produced were made from pure cotton for each of the years ended 31 December 2009, 2010 and 2011 respectively, and approximately 21.32%, 42.10% and 53.54% of the total volume of dobby fabrics produced were made from tencel or new material and fiber. Approximately 49.51%, 41.55% and 52.86% of total volume of jacquard fabrics produced were made from pure cotton for each of the years ended 31 December 2009, 2010 and 2011 respectively, and approximately 50.49%, 58.45% and 47.14% of the total volume of jacquard fabrics produced were made from tencel or new material and fiber. The percentage of our Fabric Products made from tencel or new material and fiber generally increased during the three years ended 31 December 2011.

The gross profit margins of dobby fabrics had increased year on year for the three years ended 31 December 2011. The gross profit margins of jacquard fabric had increased for the two years ended 31 December 2010, but decreased for the year ended 31 December 2011. Since the Group has substantially increased the production capacity of jacquard fabrics during 2011, in order to secure more orders from customers after such increase in production capacity, the Group has sold jacquard fabrics at a lower profit margin level in general for FY2011, when compared to that for FY2010. The gross profit margin of dobby fabrics were generally less than that of jacquard fabrics for the three years ended 31 December 2011. Product mix may affect the overall gross profit margins of our Group, though the product mix of our Group is to a large extent determined by the production facilities of our Group.

Raw materials

The following table sets forth, for the periods indicated, the total purchase of raw materials:

	For the year ended 31 December					
	2009		2010		2011	
	Raw materials cost *(RMB'000)*	%	Raw materials cost *(RMB'000)*	%	Raw materials cost *(RMB'000)*	%
Yarns	251,259	74.36%	384,554	76.86%	269,756	56.05%
Cotton	35,597	10.53%	64,174	12.83%	152,333	31.65%
Sizing agent	16,925	5.01%	15,346	3.07%	15,380	3.20%
Other	34,128	10.10%	36,265	7.24%	43,805	9.10%
Total	337,909	100.00%	500,339	100.00%	481,274	100.00%

The raw materials used in our production mainly consist of yarns and sizing agent. In order to procure good quality cotton yarns and cotton-blended yarns, during the Track Record Period, we have purchased cotton and supplied it to Yinlong Industrial for manufacture of yarns in accordance with our requirements prior to the Yinlong Assets Acquisition. After the Yinlong Assets Acquisition, we have purchased cotton for our own yarn production.

The amount of raw materials purchased increased by approximately 48.07% for FY2010 when compared to the previous corresponding period. The increases in the amount of raw materials purchased was mainly due to the increase in the sales of Fabric Products and also reflected the effects from the price trends of certain raw materials. After the acquisition of the yarns production equipments from Yinlong Industrial, the amount of cotton purchased as a percentage of total purchase of raw materials increased and the amount of yarns purchased as a percentage of total purchase of raw materials for the year ended 31 December 2011 decreased as our Group manufactured some of the yarns needed for the production of Fabric Products by itself.

The yarns used by our Group for production of Fabric Products consist of a number of different fibers, including cotton, tencel and other new materials and fibers. However, cotton is a major material used in the yarns used by our Group, and therefore, market prices and supplies of cotton may affect our cost of yarns.

According to the Euromonitor Report, the average market prices of cotton yarn contained therein and on the basis of the CC Index 328, a cotton index from China Cotton Association, decreased by approximately 15% and 2% respectively for FY2009, and increased by approximately 30% and 52% respectively for FY2010.

The average cost of purchase of yarns and cotton of our Group were also in the same trend but the average purchase cost of yarns for FY2010 increased at a higher percentage when compared to the average manufacturer selling price of cotton yarns for the same period.

Fluctuations in the prices of yarns and cotton may affect the costs of our raw materials and this is one of the factors that may affect the gross profit margins of our products.

Average purchase cost of major raw materials

The following table sets forth, for the periods indicated, average purchase cost of our major raw materials and volume purchased:

	For the year ended 31 December				
	2009	2010		2011	
	Average purchase cost	Average purchase cost	% change	Average purchase cost	% change
	(RMB)	*(RMB)*		*(RMB)*	
Yarns *(tonne)*	19,410	36,180	86.40%	35,831	–0.97%
Cotton *(tonne)*	10,736	16,163	50.55%	21,748	34.55%

Scenario analysis based on purchase price of yarns and cotton

The following table shows the effects on net profit before taxation of our Group due to the increase in the purchase price of yarns and cotton in different scenarios, assuming all other factors remain the same, for the periods indicated. It should be noted that, in reality, if there are increases in the purchase price of yarns or cotton, some other factors affecting net profit shall come into place. Accordingly, the following scenario analysis is purely for reference purpose only.

Increase in average purchase price of yarns	Decrease in profit before taxation	Percentage reduction in profit before taxation	Decrease in profit before taxation	Percentage reduction in profit before taxation	Decrease in profit before taxation	Percentage reduction in profit before taxation
	FY2009		FY2010		FY2011	
	(RMB in million)		*(RMB in million)*		*(RMB in million)*	
1%	2.51	5.93%	3.85	2.92%	2.70	1.44%
5%	12.56	29.66%	19.23	14.59%	13.49	7.18%

Increase in average purchase price of cotton	Decrease in profit before taxation	Percentage reduction in profit before taxation	Decrease in profit before taxation	Percentage reduction in profit before taxation	Decrease in profit before taxation	Percentage reduction in profit before taxation
	FY2009		FY2010		FY2011	
	(RMB in million)		*(RMB in million)*		*(RMB in million)*	
1%	0.36	0.84%	0.64	0.49%	1.52	0.81%
5%	1.78	4.20%	3.21	2.44%	7.62	4.06%

YINLONG ASSETS ACQUISITION

Our Group acquired approximately 90,000 spindles and other spinning machineries and supporting equipment on 31 December 2010 at the total consideration of approximately RMB28.10 million from Yinlong Industrial. The Yinlong Assets Acquisition decreased our cash and working capital position by approximately RMB28.10 million upon completion, and such amount represented approximately 4.59% of the current assets of our Group as at 31 December 2010.

Upon the completion of the Yinlong Assets Acquisition, our Group is able to leverage on our internal yarn spinning facilities for the supply of yarns and reduce the costs of the supply of yarns, and enhance our ability to increase the profit margin of our Fabric Products. Based on the best knowledge of our Directors, for the year ended 31 December 2011, the costs of yarns produced by our Group were generally lower than the prices of yarns quoted by Independent Third Party suppliers by more than 10% on average. Since the cost of cotton (the raw material for our cotton yarns production) plus product cost of cotton yarns were lower than the costs of cotton yarns supplied by other suppliers in general, the amount of inventories and trade payables were lowered (assuming no change in production volume of Fabric Products). In this connection, the working capital requirement of our Group has been lowered from this perspective.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations as included in this prospectus is based on the Financial Statements prepared in accordance with the significant accounting policies set forth in Note 1 of Section C of the Accountants' Report set out in Appendix I to this prospectus, which conform with IFRS. Accounting methods, assumptions and estimates that underlie the preparation of the Financial Statements affect our financial condition and results of operations reported. Such assumptions and estimates are made based on historical experience and various other assumptions that we believe to be reasonable, the results of which form the basis of judgments on our carrying amounts of assets and liabilities and our results. Results may differ under different assumptions or conditions.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our Financial Statements. We believe that the following accounting policies involve the most significant accounting judgments and estimates used in the preparation of our Financial Statements.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to our Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

(i) Sale of goods

Revenue is recognized when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Service income

Service income is recognized when the relevant services are rendered.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Property, plant and equipment

Property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of overheads and borrowing costs.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Leased assets

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

(i) Classification of assets leased to our Group

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

(ii) Assets acquired under finance leases

Where our Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely our Group will obtain ownership of the asset, the life of the asset. Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting periods. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where our Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of our Group about one or more of the following loss events.

— significant financial difficulty of the debtor;

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

— it becoming probable that the debtor will enter bankruptcy or other financial reorganization;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognized as follows:

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When our Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

— property, plant and equipment;

— pre-paid interests in leasehold land classified as being held under an operating lease;

— construction in progress;

— intangible assets; and

— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognized.

Inventories

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Trade and other payables

Trade and other payables are initially recognized at fair value and are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where our Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognized as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognized in accordance with our Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognized in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognized as deferred income is amortized in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognized in accordance with note (ii) if and when (i) it becomes probable that the holder of the guarantee will call upon our Group under the guarantee, and (ii) the amount of that claim on our Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognized, less accumulated amortization.

(ii) Other provisions and contingent liabilities

Provisions are recognized for other liabilities of uncertain timing or amount when our Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax assets can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, our Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future or, in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities and deferred tax assets against deferred tax liabilities, if our Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

(i) in the case of current tax assets and liabilities, our Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

(ii) in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either

— the same taxable entity; or

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

RESULTS OF OPERATIONS

The following table summarises the consolidated income statements data from the Financial Statements during the Track Record Period, details of which are set out in the Accountants' Report in Appendix I to this prospectus.

	For the year ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	529,708	773,767	927,774
Cost of sales	(456,669)	(595,949)	(697,670)
Gross profit	73,039	177,818	230,104
Other revenue	2,524	2,524	—
Other net (losses)/gains	(2,648)	(147)	5,338
Distribution costs	(10,124)	(10,957)	(11,795)
Administrative expenses	(12,750)	(16,070)	(30,665)
Profit from operations	50,041	153,168	192,982
Finance income	9,958	5,097	20,007
Finance costs	(17,649)	(26,509)	(25,103)
Profit before taxation	42,350	131,756	187,886
Income tax	(1,555)	(26,197)	(25,760)
Profit for the year	40,795	105,559	162,126
Profit attributable to equity shareholders of our Company	30,406	100,291	162,126

PRINCIPAL ITEMS IN CONSOLIDATED INCOME STATEMENT

Turnover

We derive our turnover mainly from the sale of dobby fabrics and jacquard fabrics to customers in the PRC and selected overseas markets. The following table sets forth, for the periods indicated, a breakdown of our revenue:

	For the year ended 31 December					
	2009		2010		2011	
	Turnover *RMB'000*	%	Turnover *RMB'000*	%	Turnover *RMB'000*	%
Turnover						
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%
Others	450	0.09%	35,144	4.54%	25,010	2.69%
Sub-total	518,356	97.86%	742,718	95.99%	900,038	97.01%
Processing services	11,352	2.14%	31,049	4.01%	27,736	2.99%
Total	529,708	100.00%	773,767	100.00%	927,774	100.00%

Sales volume and average selling prices of Fabric Products

The following table sets forth, for the periods indicated, sales volume and average selling prices of our Group's Jacquard fabrics and Dobby fabrics:

	For the year ended 31 December					
	2009		2010		2011	
	Sales volume *('000 meters)*	Average selling price *(RMB/m)*	Sales volume *('000 meters)*	Average selling price *(RMB/m)*	Sales volume *('000 meters)*	Average price *(RMB/m)*
Dobby fabrics	45,497	9.24	38,758	14.83	38,118	16.82
Jacquard fabrics	5,251	18.55	5,532	24.03	9,663	24.20

The average selling prices of our jacquard fabrics have increased during the Track Record Period, which amounted to approximately RMB18.55 per meter, RMB24.03 per meter and RMB24.20 per meter for the year ended 31 December 2009, 2010 and 2011 respectively. The increase in average selling prices of our jacquard fabrics during the Track Record Period was mainly attributable to the increase in market demand and our high quality products and products with enhanced features and properties. The sales volume of jacquard fabrics increased from approximately 5,251,000 meters for the year ended 31 December 2009 to approximately 5,532,000 meters for the year ended 31 December 2010 and then increased to approximately 9,663,000 meters for the year ended 31 December 2011. Such increase in sales volume was due to our Group's effort to increase its sales of jacquard fabrics after the substantial increase in production capacity of jacquard fabrics.

The average selling prices of our dobby fabrics increased from approximately RMB9.24 per meter for FY2009 to approximately RMB14.83 per meter for FY2010 and further increased to approximately RMB16.82 per meter for FY2011. The increase in average selling prices of our dobby fabrics for FY2010 and FY2011 when compared to the corresponding period in the previous year were mainly attributable to the increase in market demand of our high quality products and products with enhanced features and properties and also reflected the changing product categories and mix including the general increase in width and/or density of yarns of the dobby fabric products over those two years. The sales volume of dobby fabrics represented by length of meters sold decreased from approximately 45,497,000 meters for FY2009 to approximately 38,758,000 meters for FY2010, and decreased to approximately 38,118,000 meters for FY2011. This was due to changes in product categories and mix over the years and that the dobby farbics products increased in width generally over those two years. Sales value for FY2011 and FY2010 increased as compared to the respective previous year.

Dobby fabrics contributed the largest portion of turnover of our Group during the Track Record Period. For each of the years ended 31 December 2009, 2010 and 2011, turnover from dobby fabrics amounted to approximately RMB420.49 million, RMB574.65 million and RMB641.16 million, representing approximately 79.38%, 74.27% and 69.11% of the total turnover of our Group, respectively.

For each of the years ended 31 December 2009, 2010 and 2011, turnover from jacquard fabrics amounted to approximately RMB97.42 million, RMB132.93 million and RMB233.87 million, representing approximately 18.39%, 17.18% and 25.21% of the total turnover of our Group, respectively.

Other products mainly comprise home textile product and the turnover derived from such sales amounted to approximately RMB0.45 million, RMB35.14 million and RMB25.01 million for each of the years ended 31 December 2009, 2010 and 2011.

Turnover from processing services increased from approximately RMB11.35 million for FY2009 to approximately RMB31.05 million for FY2010, representing an increase of approximately 173.51%. The increase in the processing fees was mainly due to the substantial increase in volume of weaving fabric processing. Turnover from processing services for FY2011 reduced to approximately RMB27.74 million representing a reduction of approximately 10.67%. The reduction was mainly due to the decrease in volume of weaving fabric processing.

Cost of sales

Our cost of sales comprises mainly cost of raw materials, fuel and utilities, direct labour costs and other production overheads. The following table sets forth, for the periods indicated, a breakdown of our cost of sales based on the percentage of cost of production of each category according to the management accounts of our Group:

	For the year ended 31 December					
	2009		2010		2011	
	RMB'000	*% of total cost of sales*	*RMB'000*	*% of total cost of sales*	*RMB'000*	*% of total cost of sales*
Raw materials:						
Yarns	287,957	63.06%	408,768	68.59%	520,129	74.55%
Sizing agent	17,690	3.87%	17,040	2.86%	16,592	2.38%
Sub-total	**305,647**	**66.93%**	**425,808**	**71.45%**	**536,721**	**76.93%**
Electricity	42,303	9.26%	50,092	8.41%	50,558	7.25%
Direct labour	23,223	5.09%	35,174	5.90%	41,220	5.91%
Other production overheads	85,496	18.72%	84,875	14.24%	69,171	9.91%
Sub-total	**151,022**	**33.07%**	**170,141**	**28.55%**	**160,949**	**23.07%**
Total	**456,669**	**100.00%**	**595,949**	**100.00%**	**697,670**	**100.00%**

- *Raw materials.* Raw materials are our main component of cost of sales, accounting for 66.93%, 71.45% and 76.93% of our total cost of sales for each of the years ended 31 December 2009, 2010 and 2011, respectively. The major raw materials used in our production of Fabric Products are yarns and sizing agent.

- *Gross profit*

	For the year ended 31 December					
	2009		2010		2011	
	Gross profit *(RMB'000)*	**Gross profit margin** *(%)*	**Gross profit** *(RMB'000)*	**Gross profit margin** *(%)*	**Gross profit** *(RMB'000)*	**Gross profit margin** *(%)*
Dobby fabrics	48,079	11.43%	124,223	21.62%	155,230	24.21
Jacquard fabrics	23,116	23.73%	43,650	32.84%	67,136	28.71
Total	71,195		167,873		222,366	

Other revenue

Other revenue amounted to approximately RMB2.5 million for each of the years ended 31 December 2009 and 2010. Other revenue was rentals receivable from operating leases of certain machinery to Yinlong Industrial in relation to the production of yarns and rental income from leasing a portion of leasehold land and buildings to Yinlong Industrial for production purpose. No such revenue was recorded for the year ended 31 December 2011.

Other net losses/gains

For each of the years ended 31 December 2009 and 2010, our Group recorded other net loss of approximately RMB2.65 million and RMB0.15 million, respectively, and other net gain of approximately RMB5.34 million for the year ended 31 December 2011. Other net gain or loss included net gain/(loss) on sale of property, plant and equipment, net loss on interest rate swaps and/or financial guarantee issued, net loss on forward exchange contracts, and/or net gain on sale of scrap materials.

Distribution cost

The following table sets forth, for the periods indicated, a breakdown of our distribution costs:

	For the year ended 31 December					
	2009		2010		2011	
	RMB'000	*% of distribution costs*	*RMB'000*	*% of distribution costs*	*RMB'000*	*% of distribution costs*
Sales commission and wages	2,678	26.45%	2,972	27.12%	2,255	19.12%
Transportation	3,584	35.40%	3,747	34.20%	5,570	47.22%
Travelling	1,863	18.40%	2,261	20.64%	2,230	18.91%
Miscellaneous	1,999	19.75%	1,977	18.04%	1,740	14.75%
Total	10,124	100.00%	10,957	100.00%	11,795	100.00%

Distribution and selling expenses amounted to approximately 1.91%, 1.41%and 1.27% of turnover for each of the years ended 31 December 2009, 2010 and 2011, respectively. Distribution cost comprises mainly sales commission and wages, transportation, travelling and miscellaneous expenses.

Administrative expenses

The following table sets forth, for the periods indicated, a breakdown of our administrative expenses:

	For the year ended 31 December					
	2009		2010		2011	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Salaries and welfare	2,968	23.28%	5,856	36.44%	6,905	22.52%
Social insurances	464	3.64%	711	4.42%	667	2.17%
Depreciation and amortization	1,753	13.75%	2,196	13.67%	2,432	7.93%
Entertainment	906	7.10%	1,207	7.51%	482	1.57%
Taxes	1,113	8.73%	1,171	7.29%	2,094	6.83%
Office and utilities	1,185	9.29%	657	4.09%	1,506	4.91%
Research and development	2,325	18.24%	2,861	17.80%	7,406	24.15%
Travelling	435	3.41%	270	1.68%	683	2.23%
Miscellaneous	1,601	12.56%	1,141	7.10%	8,490	27.69%
Total	12,750	100.00%	16,070	100.00%	30,665	100.00%

Administrative expenses amounted to approximately 2.41%, 2.08%, and 3.31% of turnover for each of the years ended 31 December 2009, 2010 and 2011, respectively. Administrative expenses comprise mainly staff cost, depreciation and amortization, entertainment, taxes, office and utilities, research and development, travelling, and other miscellaneous expenses.

Finance costs

Finance costs amounted to approximately RMB17.65 million, RMB26.51 million and RMB25.10 million for each of the years ended 31 December 2009, 2010 and 2011, respectively. Finance costs comprise mainly interest on bank and other borrowings, finance charges on obligations under finance leases, foreign exchange loss and other finance charges.

Income tax

Our Company is a Cayman Islands company and has subsidiaries incorporated in the BVI, Hong Kong and the PRC.

PRC tax. The applicable PRC statutory enterprise income tax rate, or EIT, for wholly foreign-owned enterprises was 25%.

— Prior to 1 January 2008, Yinshilai Textile and Huiyin Textile, being production-type foreign investment enterprise, were entitled to a tax holiday of 2-year full exemption followed by 3-year 50% reduction in the income tax rate commencing from their respective first profit-making years from a PRC tax perspective ("2 + 3 tax holiday"). On 16 March 2007, the New Enterprise Income Tax Law of the PRC (the "New Tax Law"), which stipulates the statutory income tax rate at 25% and was effective on 1 January 2008, was passed. The New Tax Law and its relevant regulations grandfather the 2 + 3 tax holiday and require such tax holiday to begin on 1 January 2008 should it be not started earlier.

— Yinshilai Textile started its 2 + 3 tax holiday in 2006, which, as advised by our Group's PRC Legal Advisers, was granted by the appropriate competent authority. Accordingly, it is subject to income tax at 12.5% from 2008 to 2010 and at 25% thereafter. During the year ended 31 December 2011, Yinshilai Textile was granted the status of a "High and New Technology Enterprise" and, accordingly, entitles to preferential PRC EIT rate of 15% from 2011 onwards, after yearly consent from local tax authorities.

— Huiyin Textile started its 2 + 3 tax holiday in 2008, which, as advised by our Group's PRC Legal Advisers, was granted by the appropriate competent authority. As such, it is exempted from PRC income tax for 2008 and 2009, and is subject to income tax at 12.5% from 2010 to 2012 and at 25% thereafter.

Our PRC legal advisers advised, on the basis of information available to it and its enquiries, that, as at the Latest Practicable Date, the preferential income tax treatments presently and previously enjoyed by our Group have been in compliance with the applicable tax laws and regulations.

Taxes in other jurisdictions. During the Track Record Period, our Group was not subject to any corporate income tax in Hong Kong, the Cayman Islands and the BVI.

Set out below is the reconciliation of our Group's income tax expenses and payment made during the Track Record Period:

	For the year ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Profit before taxation	42,350	131,756	187,886
Notional tax on profit before taxation, calculated at the rates applicable to the profits in the jurisdictions concerned	10,588	32,582	46,156
Effect of tax holiday and preferential tax benefits	(9,182)	(16,022)	(19,820)
Effect of non-deductible expenses *(Note 1)*	149	307	1,007
Effect of entities not subject to income tax *(Note 2)*	—	(694)	(1,583)
PRC dividend withholding tax	—	10,024	—
Income tax expense	1,555	26,197	25,760
Less: Deferred tax (charged)/credited to profit or loss	329	(10,024)	6,000
Provision for PRC Enterprise Income Tax for the year	1,884	16,173	31,760
Add: Current taxation provision at 1 January	620	1,183	5,691
Less: Current taxation provision at 31 December	(1,183)	(5,691)	(8,261)
Tax paid	1,321	11,665	29,190

Notes:

1. Non-deductible expenses mainly include listing expenses.

2. For FY2010 and FY2011, certain members of our Group which are incorporated in Hong Kong had recorded exchange gains which are not subject to income tax.

Effective tax rate

During the Track Record Period, the effective tax rate of our Group was approximately 3.67% for FY2009, approximately 19.88% for FY2010 and approximately 13.71% for FY2011. The increase in effective tax rate for FY2010 was mainly due to (i) a change in the applicable tax rate of Huiyin Textile from 0% to 12.5%; and (ii) PRC dividend withholding tax of approximately RMB10.02 million. According to the New Tax Law, dividends receivable by non-PRC resident corporate investors from PRC-residents are subject to withholding tax at 10%. Even though our Group had distributed profits for FY2009, our Group did not record any dividend withholding tax for FY2009 as the then shareholders, which are non-PRC resident corporate investors, are not members of our Group. On the other hand, since HK YSL and HK Huiyin, the subsidiaries of our Company, were established during 2010, and Yinshilai Textile and Huiyin Textile had intention to distribute profits for the year ended 31 December 2010, the dividend received and to be received by HK YSL and HK Huiyin were subject to PRC dividend withholding tax and as a result, our Group had recorded PRC dividend withholding tax of approximately RMB10.02 million for FY2010.

Effective tax rate for FY2011 decreased to approximately 13.71% when compared to that of FY2010. This was mainly due to the fact that our Group had not recorded any dividend withholding tax for FY2011, as our Group had not distributed, as at the Latest Practicable Date, and has no plan to distribute profits for the year ended 31 December 2011 in the foreseeable future, whereas PRC dividend withholding tax of approximately RMB10.02 million was recorded for FY2010.

Period to Period of results of operations

Year ended 31 December 2011 compared to year ended 31 December 2010

Turnover

Turnover from dobby fabrics increased from approximately RMB574.65 million for FY2010 to approximately RMB641.16 million for FY2011, representing approximately an increase of approximately 11.57%. The increase in turnover of dobby fabrics was mainly attributable to the increase in average selling price of Dobby fabrics from approximately RMB14.83 per meter for FY2010 to approximately RMB16.82 per meter for FY2011 but the effect of increase in average selling price was partly offset by the decrease in sales volume of dobby fabrics to approximately 38,118,000 meters for FY2011 from that of approximately 38,758,000 meters for FY2010.

Turnover from jacquard fabrics increased from approximately RMB132.93 million for FY2010 to approximately RMB233.87 million for FY2011, representing an increase of approximately 75.94%. The increase was mainly attributable to the increase in sales volume of jacquard fabrics from approximately 5,532,000 meters for FY2010 to approximately 9,663,000 meters for FY2011 and increase in average selling price from approximately RMB24.03 per meter for FY2010 to approximately RMB24.20 per meter for FY2011.

Turnover from other fabric products decreased to approximately RMB25.01 million for FY2011 from approximately RMB35.14 million for FY2010, representing 28.84% decrease. The decrease was mainly due to the decrease in sale of other products such as finished home textile products as a result of the decrease in demand for such products.

Turnover from processing services decreased to approximately RMB27.74 million for FY2011 from approximately RMB31.05 million for FY2010, representing approximately a decrease of approximately 10.67%. Such decrease in processing fees was mainly due to the decrease in volume of weaving fabrics processed for customers.

Cost of sales

Cost of sales increased by approximately 17.07% to approximately RMB697.67 million for FY2011 from approximately RMB595.95 million for FY2010. The increase in costs of sales was mainly due to the increase in cost of raw materials, electricity and labour costs.

Gross profit and gross profit margin

As a result of the increase in turnover and overall gross profit margin of our Group, gross profit increased by approximately 29.40% to approximately RMB230.10 million for FY2011 from approximately RMB177.82 million for FY2010.

Gross profit margin of our dobby fabrics increased to approximately 24.21% for FY2011 when compared to the gross profit margin of approximately 21.62% for FY2010. Gross profit margin of our jacquard fabrics decreased to approximately 28.71% for FY2011 from approximately 32.84% for FY2010. Gross profit margin of our Group increased to approximately 24.80% for FY2011 from approximately 22.98% for FY2010. The increase in gross profit margin was mainly attributable to (i) the increase in the average selling price of the dobby fabrics of our Group for FY2011 when compared to that for FY2010; (ii) our Group's efforts in adjustment of product mix based on market demand and sale of fabrics made with new material and fibers and/or fabrics with enhanced features and/or properties which required higher production technology that could demand higher profit margins; and (iii) the lower percentage of increase in costs of raw materials and other production costs when compared to the percentage increase in turnover as a result of our Group's efforts in controlling the increase in costs as well as the reduction of cost of yarns as a result of the Yinlong Assets Acquisition.

Other revenue

Our Group did not record any other revenue for FY2011 when compared to other revenue of approximately RMB2.52 million for FY2010. Other revenue for FY2010 was rentals receivable from operating leases of certain machinery to Yinlong Industrial in relation to the production of cotton yarns and rental income from leasing a portion of leasehold land and building to Yinlong Industrial. Our Group did not receive the above mentioned rental income after the Yinlong Assets Acquisition on 31 December 2010. For further details, please see "Our Relationship with Controlling Shareholders — Relationship with Yinlong Industrial — Yinlong Assets Acquisition" in this prospectus.

Other net gain

Other net gain of approximately RMB5.34 million for FY2011 was recorded when compared with net loss of approximately RMB0.15 million for FY2010. The net gain was mainly attributable to (i) the gain in financial guarantee issued of approximately RMB1.33 million; (ii) other gain of approximately RMB2.42 million which mainly included government subsidies; and (iii) net gain on sale of scrap materials of approximately RMB1.59 million was mainly attributable to sales of cotton noils produced during the production process of yarns by our Group for 2011 after our Group's acquisition of production equipment of yarns on 31 December 2010.

Distribution costs

Distribution costs increased by approximately 7.66% to approximately RMB11.80 million for FY2011 from approximately RMB10.96 million for FY2010. The increase in distribution costs was due to the increase in transportation costs.

Administrative expenses

Administrative expenses increased by approximately 90.82% to approximately RMB30.67 million for FY2011 from approximately RMB16.07 million for FY2010. The substantial increase in administrative expenses was mainly attributable to the increase in staff costs, research and development cost, as well as other miscellaneous expenses.

Finance income

Finance income increased by approximately 292.35% to approximately RMB20.01 million for FY2011 from approximately RMB5.10 million for FY2010. The substantial increase was mainly attributable to the foreign exchange gain of approximately RMB12.13 million for FY2011 versus foreign exchange loss of approximately RMB10.60 million recorded for FY2010. The foreign exchange gain recorded for FY2011 was mainly due to (i) the increase in the exchange rate of RMB against HK dollars as at 31 December 2011 when compared to that as at 31 December 2010 and (ii) substantial amounts due to related parties denominated in HK dollars.

Finance costs

Finance costs decreased by approximately 5.32% to approximately RMB25.10 million for FY2011 from approximately RMB26.51 million for FY2010. The decrease was mainly because our Group did not record any foreign exchange loss arising on settlement or translation of foreign currency monetary items, but our Group had recorded such loss for FY2010 due to the increasing trend in the exchange rate of Japanese yen against Renminbi during FY2010 and our Group had substantial amount of bank loans in Japanese yen to finance the purchase of production equipment from overseas countries, including Japan.

Profit before taxation

As a result of the foregoing, profit before taxation increased by approximately 42.60% to approximately RMB187.89 million for FY2011 from approximately RMB131.76 million for FY2010.

Income tax expense

Income tax expense decreased by approximately 1.67% to approximately RMB25.76 million for FY2011 from approximately RMB26.20 million for FY2010. Such decrease was due to the 50% reduction in income tax rate for Huiyin Textile, one of the major subsidiaries of our Group. Effective tax rate decreased to approximately 13.71% for FY2011 from approximately 19.88% for FY2010. This was mainly due to the fact that our Group had not recorded any dividend withholding tax for FY2011 as our Group had not distributed profits for the year ended 31 December 2011, whereas PRC dividend withholding tax of approximately RMB10.02 million was recorded for FY2010.

Profit for the year

As a result of the foregoing, including the increase in turnover and overall gross profit margin, as well as increase in foreign exchange gain, profit for the year increased by approximately 53.59% to approximately RMB162.13 million for FY2011 from approximately RMB105.56 million for FY2010. Net profit margin increased from approximately 13.64% for FY2010 to approximately 17.47% for FY2011. This was mainly attributable to (i) our Group's efforts to sell fabrics made with new material and fibers and/or fabrics with enhanced features or properties, which required higher production technology that could demand higher profit margin; (ii) the increase in average selling prices of our dobby fabrics; and (iii) substantial increase in sales volume of our jacquard fabrics.

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

Turnover

Turnover from dobby fabrics for FY2010 increased to approximately RMB574.65 million, representing an increase of approximately 36.66%. The increase in revenue of dobby fabrics for FY2010 was attributable to increase in average selling price of dobby fabrics to approximately RMB14.83 per meter for FY2010 from approximately RMB9.24 per meter for FY2009, but sales volume of dobby fabrics decreased to approximately 38,758,000 meters from approximately 45,497,000 meters. The increase in average selling price and the decrease in sales volume of dobby fabrics for FY2010 was mainly attributable to the decrease in sales volume of relatively lower margin products and the increase in sales of products with enhanced features or properties which required higher production technology and which may require relatively longer time for production than lower margin products.

Turnover from jacquard fabrics for FY2010 increased to approximately RMB132.93 million, representing an increase of approximately 36.45%. The management of our Group has put its endeavour to increase the sale of higher margin products. For FY2010, the increase in revenue of jacquard fabrics was mainly due to increase in sales volume to approximately 5,532,000 meters for FY2010 from approximately 5,251,000 meters for FY2009 and increase in average selling price to approximately RMB24.03 per meter for FY2010 from approximately RMB18.55 per meter for FY2009 as a result of increase in market demand.

Other products mainly comprises finished home textile products, and the turnover derived from such sale increased to approximately RMB 35.14 million for FY2010 from approximately RMB0.45 million for FY2009. Such increase was mainly due to the increase in orders of finished home textile products from customers in accordance with their requirements.

Turnover from processing services for FY2010 increased to approximately RMB31.05 million, representing an increase of approximately 173.51% when compared to the processing fees for FY2009 of approximately RMB11.35 million. The increase in processing fees was mainly due to substantial increase in volume of weaving fabrics processed for customers.

Cost of sales

Cost of sales increased by approximately 30.50% to approximately RMB595.95 million for FY2010 from approximately RMB456.67 million for FY2009. The increase in costs of sales was mainly due to the increase in the costs of raw materials.

Gross profit and gross profit margin

As a result of the foregoing, including the substantial increase in turnover and increase in gross profit margin, gross profit increased by approximately 143.46% to approximately RMB177.82 million for FY2010 from approximately RMB73.04 million for FY2009.

Gross profit margin increased to approximately 22.98% for FY2010 from approximately 13.79% for FY2009. This was mainly attributable to the increase in the average selling prices of our Group's dobby fabrics and jacquard fabrics as a result of market demand and increase in prices of raw materials. Selling prices and gross profit margins of our Group's Fabric Products are subject to a number of factors, such as raw materials, functional properties, woven pattern designs, yarn counts and density. The gross profit margins of dobby fabrics increased from approximately 11.43% for FY2009 to approximately 21.62% for FY2010. The gross profit margins of jacquard fabrics increased from approximately 23.73% for FY2009 to approximately 32.84% for FY2010 due to our Group's efforts in sale of products with enhanced features or properties which required higher production technology.

During FY2010, the prices of yarns (including cotton yarns), which are our main raw materials, were generally on an upward trend. Notwithstanding the rising trend of the costs of raw materials, the gross profit margins of our products increased for FY2010 as (i) the selling prices of our products have reflected the increasing prices of raw materials; (ii) our Group enjoyed cost benefits for our inventory of yarns and cotton; and (iii) our Group has focused on products with higher profit margins.

Other revenue

Other revenue amounted to approximately RMB2.5 million for each of the years ended 31 December 2009 and 2010. Other revenue was rentals receivable from operating leases of certain machinery to Yinlong Industrial in relation to the production of cotton yarns and rental income from leasing a portion of leasehold land and building to Yinlong Industrial.

Other net loss

Other net loss reduced to approximately RMB0.15 million for FY2010 from approximately RMB2.65 million for FY2009. The reduction was mainly due to the fact that our Group recorded a net loss on interest rate swaps of approximately RMB2.40 million for FY2009. Since such interest rate swaps were settled during 2009, other net loss for FY2010 decreased by approximately 94.45% when compared to FY2009. Other net loss for FY2010 was mainly attributable to net loss on forward exchange contracts which was mainly due to the increasing trend of Japanese yen versus Renminbi during FY2010 and that the increase in purchase of fixed assets as our Group had purchase production equipment from overseas countries, including Japan and financial guarantee issued.

Distribution costs

Distribution costs increased by approximately 8.23% to approximately RMB10.96 million for FY2010 from approximately RMB10.12 million for FY2009. The increase in distribution costs were mainly attributable to the increase in transportation expenses for FY2010. This expense is relatively stable considering the increase in sales for the year as the increase in sales was mainly contributed by the increase of average selling prices of the products of our Group for the year.

Administrative expenses

Administrative expenses increased by approximately 26.04% to approximately RMB16.07 million for FY2010 from approximately RMB12.75 million for FY2009. Administration expense accounted for approximately 2.41% and 2.08% of revenue for each of the years ended 31 December 2009 and 2010 respectively. The growth rate in administration expenses were lower than that of revenue for FY2010.

Finance income

Finance income decreased by approximately 48.82% to approximately RMB5.10 million for FY2010 from approximately RMB9.96 million for FY2009. The reduction was mainly attributable to the foreign exchange gain of approximately RMB3.33 million recorded for FY2009 versus nil foreign exchange gain recorded for FY2010.

Finance costs

Finance costs increased to approximately RMB26.51 million for FY2010 from approximately RMB17.65 million for FY2009, representing an increase of approximately 50.20%. The increase was mainly due to the finance charges on obligations under finance leases of approximately RMB2.67 million and foreign exchange loss of approximately RMB10.60 million recorded for FY2010. The significant foreign exchange loss for FY2010 was mainly due to the increasing trend of Japanese yen versus Renminbi during FY2010 and our Group had substantial increase in bank loans in Japanese yen to finance the purchase of production equipment from overseas countries, including Japan.

Profit before taxation

As a result of the foregoing, profit before taxation increased by approximately 211.11% to approximately RMB131.76 million for FY2010 from approximately RMB42.35 million for FY2009.

Income tax

Income tax was approximately RMB26.20 million and approximately RMB1.56 million for FY2010 and FY2009, respectively. Effective tax rate of our Group was approximately 19.88% for FY2010 versus approximately 3.67% for FY2009. The increase was mainly due to (i) a change in the applicable tax rate of Huiyin Textile, one of our principal operating subsidiaries, from 0% to 12.5%; and (ii) PRC dividend withholding tax of approximately RMB10.02 million. According to the New Tax Law, dividends receivable by non PRC resident corporate investors from PRC-residents are subject to withholding tax at 10%. Even though our Group had distributed profits for FY2009, our Group did not record any dividend withholding tax for FY2009 as the then shareholders, which are non PRC resident corporate investors, are not members of our Group. On the other hand, since HK YSL and HK Huiyin, the subsidiaries of our Company, were established during 2010 and received dividend from our Group's subsidiaries in the PRC, the dividends receivables by HK YSL and HK Huiyin were subject to PRC dividend withholding tax and as a result, our Group had recorded approximately RMB10.02 million of PRC dividend withholding tax.

Profit for the year

As a result of the foregoing, including the substantial increase in turnover and increase in gross profit margin, profit for the year increased by approximately 158.75% to approximately RMB105.56 million for FY2010 from approximately RMB40.80 million for FY2009. Net profit margin increased from approximately 7.7% for FY2009 to approximately 13.64% for FY2010, which was mainly attributable to (i) increase in average selling prices of our jacquard fabrics and dobby fabrics which contributed to the increase in gross profit margins, and (ii) reduction in other net loss for FY2010.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we funded the working capital needs for our operations (such as cash payment for operating expenses and payment for purchase of raw materials), capital commitment and other major expenditures primarily through a combination of cash generated from our operations (including cash receipts from sale of Fabric Products), bank borrowings, and equity financing. Our Directors are not aware of any material change to the underlying drivers of the sources of cash of our Group and the use of cash by our Group subsequent to 31 December 2011 and up to date of this prospectus.

Upon the completion of the Global Offering, we expect to meet our working capital needs primarily through cash generated from our operations and bank borrowings and the net proceeds obtained from the Global Offering. Our Directors are of the opinion that our Company will have sufficient working capital for the present requirements, which is for at least the next 12 months from the date of this prospectus.

During the Track Record Period, our Group has not encountered any withdrawal of banking facilities, early payment of outstanding loans on demand of the creditor or significant cancellation of purchase orders or significant defaults on the parts of our customers or suppliers.

As of 31 December 2011, our material sources of liquidity are bank balances and cash of RMB130.23 million, pledged bank deposits of RMB188.38 million, and bank borrowing of RMB373.19 million.

Cash flow data

The following table summarises, for the periods indicated, our statements of cash flows:

	For the year ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Net cash generated from operating activities	44,367	177,812	273,589
Net cash used in investing activities	(107,287)	(139,931)	(82,163)
Net cash generated from/(used in) financing activities	95,378	(24,959)	(129,463)
Net increase in cash and cash equivalents	32,458	12,922	61,963
Cash and cash equivalents at the beginning of the financial year	22,885	55,343	68,265
Cash and cash equivalents at the end of the financial year	55,343	68,265	130,228

Net cash generated from operating activities

For FY2011, we generated net cash from our operating activities of approximately RMB273.59 million, mainly reflecting (i) net profit before taxation for FY2011 of approximately RMB187.89 million, (ii) adding back non-cash charges of depreciation and amortisation of approximately RMB55.84 million in aggregate, and finance costs of approximately RMB24.33 million, (iii) decrease in inventories of approximately RMB69.72 million, (iv) decrease in guarantee deposits for issuance of commercial bills and bank acceptance of approximately RMB77.93 million, and (v) decrease in trade and other receivables of approximately RMB23.61 million, but partially offset by (i) decrease in trade and other payables of approximately RMB128.62 million, (ii) adjustment of interest income of approximately RMB7.87 million, and (iii) income tax paid of approximately RMB29.19 million.

For FY2010, we generated net cash from our operating activities of approximately RMB177.81 million, mainly reflecting (i) profit before taxation for FY2010 of approximately RMB131.76 million, (ii) adding back non-cash charges of depreciation and amortisation of approximately RMB45.31 million in aggregate, and finance costs of approximately RMB14.01 million, (iii) increase in the amounts of trade and other payables of approximately RMB74.40 million, and (iv) decrease in guarantee deposits for issuance of commercial bills and bank acceptance of approximately RMB51.59 million, but partially offset by (i) increase in the amount of inventories of approximately RMB69.23 million, (ii) increase in the amount of trade and other receivables of approximately RMB53.26 million, (iii) adjustment of interest income of approximately RMB5.10 million, and (iv) income tax paid of approximately RMB11.67 million.

For FY2009, we generated net cash of approximately RMB44.37 million from our operating activities, mainly reflecting (i) profit before taxation for FY2009 of approximately RMB42.35 million, (ii) adding back non-cash charges of depreciation and amortisation of approximately RMB44.86 million in aggregate, and finance costs of approximately RMB16.70 million, (iii) increase the amounts of in trade and other payables of approximately RMB32.27 million, (iv) decrease in the amounts of trade and other receivables of approximately RMB23.45 million, and (v) increase in guarantee deposits for issuance of commercial bills and bank acceptance of approximately RMB96.69 million, but partially offset by (i) increase in the amount of inventories of approximately RMB10.64 million, (ii) adjustment of interest income of approximately RMB6.63 million, and (iii) income tax paid of approximately RMB1.32 million.

Net cash used in investing activities

Cash used in our investing activities has been mainly related to the capital expenditures.

Net cash used in investing activities for FY2011 was approximately RMB82.16 million. The amount reflected primarily cash used for capital expenditures of approximately RMB81.08 million and increase in guarantee deposits for bank loans of approximately RMB9.75 million but partially offset by interest received of approximately RMB7.87 million.

Net cash used in investing activities for FY2010 was approximately RMB139.93 million. The amount reflected primarily cash used for capital expenditures of approximately RMB82.77 million and increase in guarantee deposits for bank loans of approximately RMB62.26 million, but partially offset by interest received of approximately RMB5.10 million.

Net cash used in investing activities for FY2009 was approximately RMB107.28 million. The amount reflected primarily cash used for capital expenditures of approximately RMB50.75 million, increase in guarantee deposits for bank loans of approximately RMB62.67 million and payment for interest rate swaps of approximately RMB1.09 million, but partially offset by interest received of approximately RMB6.63 million.

Net cash generated from/(used in) financing activities

Cash generated from/(used in) our financing activities has been mainly derived from bank and other borrowings, as well as advances from holding company.

Net cash used in financing activities for FY2011 was approximately RMB129.46 million, reflecting net cash inflow from bank and other loans of approximately RMB373.19 million, net advances from holding company of approximately RMB61.79 million, deemed distribution to the then equity holders upon the Reorganization of approximately RMB66.74 million, other borrowing costs paid of approximately RMB25.70 million, and dividends paid to equity holders of approximately RMB37.02 million.

Net cash used in financing activities for FY2010 was approximately RMB24.96 million, reflecting net cash inflow from bank and other loans of approximately RMB107.81 million, advances from holding company of approximately RMB165.46 million, deemed distribution to the then equity holders upon the Reorganization of approximately RMB108.34 million, other borrowing costs paid of approximately RMB17.59 million, payments for acquisition of non-controlling interests of approximately RMB61.23 million and dividends paid to equity holders of approximately RMB111.07 million.

Net cash generated from financing activities for FY2009 was approximately RMB95.38 million, reflecting net cash inflow from bank and other loans of approximately RMB112.07 million, after netting off other borrowing costs paid of approximately RMB16.70 million.

Net current assets/(liabilities)

The table below sets out, as of the end of the reporting periods indicated, selected information for our current assets and current liabilities:

	As at 31 December			As at 30 April
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
CURRENT ASSETS				
Inventories	101,272	170,504	100,789	115,934
Trade and other receivables	98,627	117,469	121,838	144,329
Pledged bank deposits	245,899	256,568	188,380	145,166
Cash and cash equivalents	55,343	68,265	130,228	80,465
	501,141	612,806	541,235	485,894
CURRENT LIABILITIES				
Trade and other payables	153,126	492,347	270,068	88,590
Bank loans	302,741	345,889	373,189	307,157
Obligations under finance leases	—	28,782	31,394	30,558
Current taxation	1,183	5,691	8,261	4,421
	457,050	872,709	682,912	430,726
NET CURRENT ASSETS/ (LIABILITIES)	44,091	(259,903)	(141,677)	55,168

As at 30 April 2012, our current assets were approximately RMB485.89 million, including inventories of approximately RMB115.93 million, trade and other receivables of approximately RMB144.33 million, pledged bank deposits of approximately RMB145.17 million and cash balance of approximately RMB80.47 million. Our current liabilities then were approximately RMB430.73 million, including trade and other payables of approximately RMB88.59 million, bank loans of approximately RMB307.16 million, obligations under finance leases of approximately RMB30.56 million and current taxation of approximately RMB4.42 million. We recorded net current assets of approximately RMB55.17 million as at 30 April 2012, whereas we recorded net current liabilities of approximately RMB141.68 million as at 31 December 2011. Such improvement in the net current asset position was mainly due to the fact that the amounts due to a related party, Excel Orient, of approximately RMB146.63 million were waived on 14 March 2012 and credited as capital contribution prior to 30 April 2012 and the profit earned for the first 4 months of 2012.

As at 31 December 2011, our current assets were approximately RMB541.24 million, including inventories of approximately RMB100.79 million, trade and other receivables of approximately RMB121.84 million, pledged bank deposits of approximately RMB188.38 million and cash balance of approximately RMB130.23 million. Our current liabilities then were approximately RMB682.91 million, including trade and other payables of approximately RMB270.07 million, bank loans of approximately RMB373.19 million, obligations under finance leases of approximately RMB31.39 million and current taxation of approximately RMB8.26 million. We recorded net current liabilities of approximately RMB141.68 million as at 31 December 2011. The net current liabilities position of our Group as at 31 December 2010 and 2011 was mainly attributable to trade and other payables, which included amounts due to a related party, namely Excel Orient, which amounted to approximately RMB176.63 million and arose during the financial year ended 31 December 2010 as a result of the Reorganization and the acquisition of non-controlling interests of certain subsidiaries of our Group. The amounts due to Excel Orient repaid as to RMB30 million in cash, and the balance was waived on 14 March 2012 and credited as capital contribution.

After netting off the amounts due to related party, Excel Orient, of approximately RMB146.63 million waived by Excel Orient, our Group would record net current assets of approximately RMB4.95 million as at 31 December 2011.

As at 31 December 2011, our Group has unutilized banking facilities of approximately RMB175.11 million. Our Group expects to repay bank borrowings from our internal financial resources, including cash generated from operations, when they fall due. The Directors consider that the banking facilities are likely to be renewed and in fact increased when they fall due after our Company has become a listed company.

Having considered the internal financial resources of, and the banking facilities available to, our Group, and the estimated net proceeds from the Global Offering, our Directors and the Sole Sponsor consider that our Group has sufficient working capital for its present requirements and for at least the next 12 months commencing from the date of this prospectus.

We recorded net current liabilities of approximately RMB259.90 million as at 31 December 2010 when compared to the net current assets of approximately RMB44.09 million as at 31 December 2009. The net current liabilities position of our Group as at 31 December 2010 was mainly attributable to the substantial increase in trade and other payables of approximately RMB339.22 million during the year, which included the substantial increase in the amounts due to related parties of approximately RMB294.67 million. After netting off the amounts due to Excel Orient of approximately RMB165.46 million which arose as a result of the Reorganization and the acquisition of certain subsidiaries of our Group during the year out of the total amounts due to related parties, the current liabilities would reduce to approximately RMB94.44 million as at 31 December 2010. Other factors contributing to the changes in the net current liabilities position of our Group as at 31 December 2010 included the increase in short-term bank loans of approximately RMB43.15 million, the increase in obligations under finance leases of approximately RMB28.78 million, the increase in current taxation of approximately

RMB4.51 million, which were partially offset by the increase in inventories of approximately RMB69.23 million, the increase in trade and other receivables of approximately RMB18.84 million, the increase in pledged bank deposits of approximately RMB10.67 million and the increase in cash and cash equivalent of approximately RMB12.92 million. The increase in other receivables during FY2010 included the increase in prepayment relating to purchase of raw materials and VAT recoverable. The increase in prepayments relating to purchase of raw materials for FY2010 was mainly due to the increase in deposits when placing orders to purchase raw materials so as to secure the supply and lower purchase prices of raw materials. Furthermore, the increase in VAT recoverable during FY2010 was mainly due to the increase in purchase of imported production equipments for jacquard fabrics. The VAT paid relating to production equipment purchased from overseas can be used to offset the VAT incurred from the sale of products of our Group resulting in the increase in VAT recoverable.

Inventories, trade receivables and trade payables

Turnover days

The following table sets forth, for the periods indicated, selected operating efficiency ratios for our Group:

	For the year ended 31 December		
	2009	**2010**	**2011**
Trade receivables turnover (days) (1)	28	32	23
Trade payables turnover (days) (2)	61	54	27
Inventory turnover (days) (3)	81	104	53

Notes:

(1) Trade receivables turnover is calculated based on trade receivables at the end of a given period, divided by revenue during the given period, and multiplied by 365 days for the year ended 31 December 2009, 2010 and 2011.

(2) Trade payables turnover is calculated based on trade payables at the end of a given period divided by cost of sales during the given period, and multiplied by 365 days for the year ended 31 December 2009, 2010 and 2011.

(3) Inventory turnover is calculated based on inventory, net of impairment, at the end of a given period, divided by cost of sales during the given period, and multiplied by 365 days for the year ended 31 December 2009, 2010 and 2011.

Trade receivables

The credit terms offered to a customer are decided by our senior management and depend on various factors such as financial strength, size of the business and payment history of the customer. We generally allow a credit period of 30 to 90 days to our customers, and may grant a credit period of up to 180 days to certain customers. Our management works closely with our sales personnel to conduct regular reviews of customers with overdue payments. We usually pursue collection of delinquent payments through telephone calls and in person as deemed necessary. Payments are generally received in RMB (for domestic sales) or U.S. Dollars (for overseas sales) and payment methods mainly include telegraphic transfers, letters of credit and acceptance bills.

Trade receivables increased from approximately RMB40.57 million as at 31 December 2009 to approximately RMB68.41 million as at 31 December 2010, and decreased to RMB58.86 million as at 31 December 2011, representing an increase of approximately 68.61% as at 31 December 2010 and a decrease of approximately 13.96% as at 31 December 2011. As at the Latest Practicable Date, approximately RMB57 million of trade receivables as at 31 December 2011 was subsequently settled.

During the Track Record Period, trade receivable turnover was at a relatively stable level, which was 28 days for FY2009, increased to 32 days for FY2010 and decreased to 23 days for FY2011. The decrease in trade receivables as at 31 December 2011 was mainly due to the Group's effort in collecting the trade receivables and relatively shorter credit periods given to customers. The table below sets forth, as of the end of reporting periods indicated, an ageing analysis of our trade receivables (net of allowance for doubtful debts):

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables:			
Current	36,900	67,302	56,621
Less than 3 months past due	379	967	1,904
3 to 6 months past due	3,294	141	335
	40,573	68,410	58,860

Trade payables

Our trade payables consist primarily of payables to our raw material suppliers. Our raw material suppliers generally offer us trade credit periods from 30 to 90 days.

Trade payables increased from approximately RMB76.04 million as at 31 December 2009 to approximately RMB87.90 million as at 31 December 2010, and reduced to approximately RMB50.86 million as at 31 December 2011, representing an increase of approximately 15.60% as at 31 December 2010 and a reduction of approximately 42.13% as at 31 December 2011. The decrease in trade payables as at 31 December 2011 was mainly due to the shortened payment period and increase in the amount of prepayment to raw material suppliers so as to obtain more discounts on or lower the purchase costs of raw materials. The prepayments relating to purchases of raw materials of approximately RMB47.80 million as at 31 December 2011 has been subsequently settled.

Trade payables turnover decreased from 61 days for FY2009 to 54 days for FY2010 and then further decreased to 27 days for FY2011. The table below sets forth, as of the end of reporting periods indicated, an ageing analysis of our trade payables:

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Due within 3 months or on demand	3,741	41,445	43,356
Due after 3 months but within 6 months	71,583	44,808	7,027
Due after 6 months but within 12 months	718	1,648	481
	76,042	87,901	50,864

Inventory

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	31,629	74,089	27,040
Work in progress	26,242	29,300	37,215
Finished goods	42,706	65,938	35,078
Consumables	695	1,177	1,456
	101,272	170,504	100,789

Our inventories consist of raw materials, work-in-progress, finished goods and consumables. Inventories increased from approximately RMB101.27 million as at 31 December 2009, to approximately RMB170.50 million as at 31 December 2010, but reduced to approximately RMB100.79 million as at 31 December 2011, representing an increase of approximately 68.36% as at 31 December 2010 and a reduction of approximately 40.89% as at 31 December 2011. The increase in inventories as at 31 December 2010 was mainly attributable to the increase in raw materials of approximately RMB42.46 million as at 31 December 2010. The increase in purchase cost of raw materials had led to increase in the amount of inventories as at 31 December 2010. However, as at 31 December 2011, the reduction in inventories was mainly due to the decrease in inventories of raw materials of approximately RMB47.05 million as a result of the decrease in purchase volume of raw materials, but partly offset by increase in work in progress of approximately RMB7.92 million. As at the Latest Practicable Date, approximately RMB81 million (or approximately 80%) of the inventories as at 31 December 2011 was subsequently used.

Inventory turnover days increased from 81 days for FY2009 to 104 days for FY2010, but then decreased to 53 days for FY2011. As the prices of the principal raw materials of our Group were on an upward trend and that our Group increased our inventory of the principal raw materials during 2010, the value of our inventory of raw materials as at 31

December 2010 increased, which contributed to the increase in inventory turnover days. However, the value of our inventory of raw materials during the year ended 31 December 2011 decreased as the prices of raw materials were generally on an downward trend in the first three quarters of 2011 but stabilised in the last quarter of 2011.

Other payables

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Receipts in advance	12,185	21,583	11,436
Other creditors and accrued charges	31,690	17,194	30,337
Dividends payable	—	37,024	—
Amounts due to related parties	32,363	327,037	176,633
Derivative financial instruments:			
— foreign exchange contracts	148	279	798
Financial guarantees issued	698	1,329	—
	77,084	404,446	219,204

Other payables comprise (i) amounts due to related parties, (ii) dividends payable, (iii) receipts in advance, (iv) other creditors and accrued charges, (v) derivative financial instruments, and (vi) financial guarantees issued. As at 31 December 2010, a substantial amount of other payables came from amounts due to related parties and dividends payable which were RMB327.04 million and RMB37.02 million respectively. The amount due to related parties as at 31 December 2010 of RMB327.04 million comprises of (i) the amount due to Excel Orient of RMB165.46 million, (ii) the amount due to Tianhao of RMB94.84 million and (iii) the amount due to Yinshan Chemical Fiber of RMB66.74 million. The amounts due to Tianhao and Yinshan Chemical Fiber were mainly current account transactions, and such amounts has been settled by the internal resources of our Group during 2011. As at 31 December 2011, a substantial amount of other payables came from amounts due to related parties which were RMB176.63 million.

The amount due to Excel Orient mainly represents loans to our Group for financing the Reorganization and the acquisition of non-controlling interests of Yinshilai Textile and Huiyin Textile during FY2010 and FY2011. Such amount due to Excel Orient has been settled as to RMB30 million by the internal resources of our Group subsequent to 31 December 2011 and as to the balance of RMB146.63 million has been waived by Excel Orient prior to the listing of the Shares. Such waived amount was credited directly to equity as a capital contribution.

The breakdown of the amounts due to related parties is disclosed in the section "Transactions with related parties" below. The amounts due to related parties and dividends payable had all been settled prior to the Latest Practicable Date.

Capital expenditures

Our capital expenditures during the Track Record Period have been primarily used in the expansion of our production capabilities and capacity through the acquisition of production machinery and ancillary facilities. The following table sets forth, for the periods indicated, our capital expenditures:

	For the year ended 31 December		
	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*
Buildings	—	137	656
Machinery and equipment	5,506	28,101	7,205
Office equipment	145	390	421
Motor vehicles	512	3,382	1,260
Construction in progress	—	84,278	43,788
	6,163	116,288	53,330

We have incurred major capital expenditures during the financial year ended 31 December 2010 and 2011 which amounted to aggregate amounts of approximately RMB116.29 million and RMB53.33 million respectively. During the Track Record Period, a majority of the capital expenditures were related to purchases of production equipment. For our future plans on capital expenditures, please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus.

Working capital

Our Directors confirm that, taking into consideration the financial resources presently available to us, including banking facilities and other internal resources, and the estimated net proceeds from the Global Offering, we have sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this prospectus.

Save as disclosed in this prospectus, our Directors are not aware of any other factors that would have a material impact on our Group's liquidity. Details of the funds necessary to meet our existing operations and to fund our future plans are set out in the section headed "Future Plans and Use of Proceeds" in this prospectus.

CONTRACTUAL OBLIGATIONS AND OTHER OFF-BALANCE SHEET ARRANGEMENTS

The following table sets forth the breakdown of our capital commitments as of the dates indicated:

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Contracted for	—	38,867	—

We had capital commitments of RMB38.8 million outstanding as at 31 December 2010. A majority of such commitments are related to the purchase of production equipment.

INDEBTEDNESS

The following table sets forth the bank loans of our Group as of the dates indicated:

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	302,741	345,889	373,189
After 1 year but within 2 years	20,000	10,000	—
Total bank loans	322,741	355,889	373,189
Representing			
— secured and guaranteed	125,900	89,908	—
— secured	131,931	161,981	244,389
— unsecured and guaranteed	64,910	74,000	—
— unsecured	—	30,000	128,800

The above secured bank loans were secured against certain of our Group's assets, including machinery and equipment and short-term bank deposits.

The following table sets forth the obligations under finance leases as at the dates indicated:

	As at 31 December	
	2010	2011
	RMB'000	*RMB'000*
Within 1 year	28,782	31,394
After 1 year but within 2 years	30,132	14,730
After 2 year but within 5 years	15,748	—
	74,662	46,124

The following table sets forth the interest rates of our Group's bank loans and obligations under finance leases, and net borrowings as at the dates indicated:

	As at 31 December					
	2009		2010		2011	
	Effective interest rate		Effective interest rate		Effective interest rate	
	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*
Net fixed rate borrowings:						
Obligations under finance leases	—%	—	5.4–5.9%	74,662	5.9–6.7%	46,124
Bank loans	0.9–6.9%	302,741	1.7–6.4%	265,889	3.2–7.3%	286,071
Less: pledged bank deposits	2.0–2.5%	(225,899)	1.9–2.8%	(236,568)	2.0–3.5%	(188,380)
		76,842		103,983		143,815
Variable rate borrowings:						
Bank loans	5.4–6.4%	20,000	3.3–9.7%	90,000	3.0–5.6%	87,118
Less: pledged bank deposits	0.4%	(20,000)	0.4–0.7%	(20,000)	—%	—
Less: cash at bank	0.4%	(54,816)	0.4–0.7%	(67,781)	0.4–0.5%	(130,169)
		(54,816)		2,219		(43,051)
Total net interest-bearing borrowings		22,026		106,202		100,764

Approximately RMB80.77 million, RMB146.66 million and RMB124.24 million of our bank loans were denominated in Japanese yen as at 31 December 2009, 2010 and 2011 respectively. Approximately RMB21.16 million, RMB15.32 million and RMB22.40 million of our bank loans were denominated in US$ as at 31 December 2009, 2010 and 2011 respectively. Approximately RMB7.90 million of our bank loans were denominated in Euros as at 31 December 2011. Our remaining bank loans and obligations under finance leases as at 31 December 2009, 2010 and 2011 were denominated in RMB.

At the close of business on 30 April 2012, being the latest practicable date for the purpose of this indebtedness statement ("Indebtedness Date"), our Group had outstanding short-term bank and other borrowings of approximately RMB337.72 million (of which RMB238.92 million was unguaranteed but secured by fixed charges on certain of our Group's assets, including machinery and equipment and short-term bank deposits, the remaining amount of RMB98.80 million was unsecured and unguaranteed) and long-term borrowings of approximately RMB7.97 million (which was unguaranteed but secured by fixed charges on certain of our Group's assets, including machinery and equipment). In addition, our Group had contingent liabilities of RMB10 million in respect of financial guarantee provided to third parties in favour of Mr. Liu in relation to the Civil Mediation Agreement entered between Mr. LIU Dong and the third parties. As at 30 April 2012, we had credit facilities in the aggregate maximum amount of RMB301 million made available to us by two commercial banks, of which RMB174 million were not utilised and available to be drawn down. Our Directors confirm that all the guarantees relating to banking facilities granted to related and unrelated parties have been released before listing. Furthermore, our Directors confirm that there are no material covenants relating to the Group's outstanding bank loans. Save as disclosed above, there has been no material change in our indebtedness position since the Indebtedness Date except that subsequent to 30 April 2012, our Group entered into a loan agreement with China Everbright Bank (Zibo branch) of RMB20 million for a period from 18 May 2012 to 17 May 2013 ("New Loan Agreement"). Borrowings under the New Loan Agreement is unsecured and unguaranted. Save as the fund raising exercise under the Global Offering, extension of the existing bank borrowings when becoming due, and the New Loan Agreement, we have no material external financing plans.

Save as aforesaid or as otherwise disclosed herein and in the paragraph headed "Contingent Liabilities" in this section, and apart from intra-group liabilities, at the close of business on 30 April 2012, our Group did not have outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, debt securities, mortgages, charges, finance leases or hire purchases commitments, capital commitments, guarantees or other contingent liabilities.

Capital adequacy ratios

The following table sets forth certain capital adequacy ratios for the periods indicated:

	As at 31 December		
	2009	**2010**	**2011**
Gearing (Note)	45.51%	78.63%	65.34%

Note: Calculated as the total debts at the end of the period, divided by total assets at the end of the period and multiplied by 100%. Debts are defined to include current and non-current borrowings and other payables (excluding receipts in advance, deferred taxation, trade creditors and bills payable).

The gearing ratio increased from approximately 45.51% as at 31 December 2009 to approximately 78.63% as at 31 December 2010. The increase in the gearing ratio as at 31 December 2010 was principally due to the substantial increase in amounts due to related parties which were arranged for the restructuring of our Group and dividends payable. The gearing ratio decreased to approximately 65.34% as at 31 December 2011. This was mainly attributable to the decrease in amounts due to related parties as at 31 December 2011 when compared to that as at 31 December 2010. The amounts due to related parties has been fully settled prior to Listing.

Contingent liabilities

Under the Civil Mediation Agreement entered during the year ended 31 December 2008, which is related to a dispute among shareholders of Yinlong Industrial, including Mr. LIU Dong, a subsidiary of our Group agreed to be jointly and severally liable to the mediation settlement totaling RMB45 million. As at 31 December 2009, 2010 and 2011, the outstanding mediation settlement amounted to RMB30 million, RMB20 million and RMB10 million respectively. Based on legal advice, the directors do not consider it probable that a claim will be made against our Group under the guarantee as at 31 December 2009 and 2010. The maximum liability of our Group at 31 December 2009, 2010, and 2011 under the guarantee issued is RMB30 million, RMB20 million and RMB10 million respectively. As at 30 April 2012, the Indebtedness Date, our Group had contingent liabilities of RMB10 million in respect of financial guarantee provided to third parties in respect of Mr. LIU Dong in relation to the Civil Mediation Agreement. In June 2012, Mr. Liu paid RMB10 million into the bank account of the Jurisdiction Court which will make payment of remaining mediation settlement.

As at 31 December 2009, 2010 and 2011, our Group has issued guarantees in respect of loans made by banks to related companies. As at 31 December 2009, 2010 and 2011, the Directors do not consider it probable that a claim will be made against our Group under any of the guarantees. The maximum liability of our Group at 31 December 2009, 2010 and 2011 under the guarantees issued is the outstanding amount of the loans to the related companies of RMB30 million, RMB50 million and nil respectively.

As at 31 December 2009, 2010 and 2011, our Group has issued guarantees in respect of loans made by banks to unrelated parties. Our Group has not received any fees for issuing those guarantees during the Track Record Period.

The Directors consider that as banks in the PRC may require guarantees from third party companies for granting loans, it is not uncommon that unrelated companies in the PRC issue guarantees to banks for each other so as to obtaining loans from banks. In this connection, our Group issued guarantees for the benefit of certain unrelated parties. Notwithstanding the above, our Group will no longer issue guarantees to unrelated companies upon listing.

As at 31 December 2009, 2010 and 2011, the Directors do not consider it probable that a claim will be made against our Group under any of the guarantees. The maximum liability of our Group at 31 December 2009, 2010 and 2011 under the guarantees issued is the outstanding amount of the loans to unrelated parties of RMB48 million, RMB28 million and nil respectively.

Save as disclosed above, our Directors confirm that we do not have other contingent liabilities as at 30 April 2012.

TRANSACTIONS WITH RELATED PARTIES

The following table sets forth, for the periods indicated, our material transactions with related parties other than the advances to or by related parties:

Name of related party	Nature of transactions	For the year ended 31 December		
		2009	2010	2011
		RMB'000	*RMB'000*	*RMB'000*
Yinlong Industrial	Rental income from operating leases	2,524	2,524	—
	Purchase of cotton yarns	70,538	103,878	7,483
	Purchase of electricity and steam power	8,561	11,885	1,629
	Processing services provided by Yinlong Industrial	28,086	26,832	889
	Purchase of equipment	—	28,101	—
	Provision of electricity to Yinlong Industrial	—	—	1,074

The following table sets forth, for the periods indicated, certain information on loans, advances, guarantees we made to or received from related parties:

Name of related party		**As at 31 December**		
		2009	**2010**	**2011**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due from related parties				
— Tianhao		—	—	—
— Yinshan Chemical Fiber		12,580	—	—
— Tianrui Investment		12,455	—	—
— Mr. Lv Ruichuan		499	751	—
— Ms. Sun Hongchun		—	582	—
— Mr. Tian Chengjie ("Mr. Tian")		297	602	—
Trade creditors				
— Yinlong Industrial		24,570	45,066	—
Amounts due to related parties				
— Excel Orient	(i)	—	165,462	176,633
— Tianhao		8,308	94,837	—
— Yinshan Chemical Fiber		—	66,739	—
— Mr. LV Ruichuan		17,842	—	—
— Ms. SUN Hongchun		5,700	—	—
— Mr. TIAN Chengjie		513	—	—
Personal guarantees provided to our Group in respect of banking facilities				
— Mr. LIU Dong		58,000	30,000	—
— Mr. LV		—	14,000	—
Corporate guarantees provided to our Group for banking facilities				
— Yinlong Industrial		142,810	149,908	—
— Tianhao		107,900	103,908	—
Guarantees provided to related parties				
— Mr. LIU Dong	(ii)	30,000	20,000	10,000
— Yinlong Industrial		30,000	30,000	—
— Tianhao		—	20,000	—

Notes:

(i) The amount due to Excel Orient represents cash advances to our Group to finance the Reorganization and the acquisition of non-controlling interests during the year ended 31 December 2010. The Directors of our Company have confirmed that the balance with Excel Orient have been subsequently settled by our Company prior to the listing of our Company's shares on the Stock Exchange.

(ii) Pursuant to the Mediation Agreement and the Civil Mediation Agreement, Yinshilai Textile, a subsidiary of our Group, was jointly and severally liable to the respective sums with Mr. LIU Dong (amongst others). In June 2012, Mr. LIU Dong paid RMB10,000,000 into the bank account of the Jurisdiction Court which will make payment of the remaining sum to the payees directly. For details, please refer to the section headed "Connected Transactions — Financial Assistance Provided by the Company for the Benefit of a Connected Person" in this prospectus.

The Directors consider that the related party transactions during the Track Record Period were conducted on arm's length basis and on normal commercial terms.

Furthermore, the Directors confirm that the balances with and guarantees provided to/by related parties will be settled/released prior to the listing of the Shares. The Directors consider that there has not been any material delay or any risk of default in repayment of bank and other borrowings.

MARKET RISK

Interest rate risk

Our exposure to the risk of changes in market interest rates relates primarily to borrowings with floating interest rate.

It is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have changed our Group's profit for the year/period and retained earnings as follow.

	As at 31 December					
	2009		2010		2011	
	Increase/ (decrease) in basis points	Effect on profit for the year and retained earnings	Increase/ (decrease) in basis points	Effect on profit for the year and retained earnings	Increase/ (decrease) in basis points	Effect on profit for the period and retained earnings
		RMB'000		*RMB'000*		*RMB'000*
Interest rate	50	257	50	(9)	50	181
	(50)	(257)	(50)	9	(50)	(181)

During the Track Record Period, our Group has entered into an interest rate swap contract ("Interest Rate Swap Contract") dated 5 March 2008 with one of our principal banks in the PRC with principal amount of approximately US$14 million as an investment, pursuant to which our Group shall receive certain amount of interests if the constant maturity swap index relating to the rate of 30-year EURIBOR ("EURO CMS 30") is higher than the constant maturity swap relating to the rate of 2-year EURIBOR ("EURO CMS 2") but our Group shall pay certain amount of interests if EURO CMS 2 is higher than EURO CMS 30. The position of the Interest Rate Swap Contract was closed in October 2009. As at the Latest Practicable Date, our Group do not use any derivative contracts to hedge its exposure to interest rate risk or for investment purposes.

Our Directors confirm that our Group has no current intentions to enter into any derivative contracts to hedge its exposure to interest rate or for investment purposes. The entering into of interest rate swap contracts should require prior approval from the Board.

Currency risk

Our Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency. The currencies giving rise to this risk are primarily Euros, United States dollars and Japanese Yen as our Group has sales to overseas countries denominated in United Sates dollars, and our Group has also purchased certain production equipment from equipment manufacturers in Europe and Japan.

The following table sets out our Group's exposure at the end of each reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than Renminbi, the functional currency of our Group. The amounts of the exposure are shown in Renminbi, translated using the spot rate at the year/period end date. Differences resulting from the translation of the financial statements of non-PRC companies comprising our Group into our Group's presentation currency are excluded.

	Exposure to foreign currencies (expressed in Renminbi)										
	As at 31 December										
	2009			2010				2011			
	Euros	USD	JPY	Euros	USD	JPY	HKD	Euros	USD	JPY	HKD
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other receivables	—	5,347	—	—	25,285	—	—	—	2,317	—	—
Pledged bank deposits	—	171	—	8,797	—	—	—	—	—	—	—
Cash and cash equivalents	—	6,787	22,103	28	13,329	14	—	40	906	86	446
Trade and other payables	—	(20,996)	—	—	(24,917)	—	(165,462)	—	(17,734)	—	(176,633)
Bank loans	—	(21,157)	(80,774)	—	(15,324)	(146,657)	—	(7,899)	(22,402)	(124,244)	—
Gross exposure arising from recognised assets and liabilities	—	(29,848)	(58,671)	8,825	(1,627)	(146,643)	(165,462)	(7,859)	(36,913)	(124,158)	(176,187)
Notional amounts of forward exchange contracts	—	19,056	—	6,988	15,285	—	—	7,899	3,955	—	—
Net exposure arising from recognised assets and liabilities	—	(10,792)	(58,671)	15,813	13,658	(146,643)	(165,462)	40	(32,958)	(124,158)	(176,187)

The following table demonstrates the sensitivity of our Group's profit to changes in foreign exchange rates to which our Group has significant exposure at the end of the reporting period, assuming all other risk variables remained constant.

		As at 31 December		
		2009	2010	2011
	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit	Increase/ (decrease) in profit	Increase/ (decrease) in profit
	%	*RMB'000*	*RMB'000*	*RMB'000*
Euros	10%	—	1,384	3
	(10%)	—	(1,384)	(3)
United States Dollars	5%	(472)	598	(1,401)
	(5%)	472	(598)	1,401
Japanese Yen	10%	(5,868)	(12,832)	(10,853)
	(10%)	5,868	12,832	10,853
Hong Kong Dollar	5%	—	(8,273)	(8,809)
	(5%)	—	8,273	8,809

During the Track Record Period, our Group had entered into forward exchange contracts, some of which were used to hedge part of our foreign currency exposure. Those forward exchange contracts were subsequently settled before the Latest Practicable Date. As at the Latest Practicable Date, our Group has did not have any of foreign currency forward contracts for hedging or investment purpose. Our Group has set up an investment review committee to monitor the foreign currency risk control. The investment review committee includes Mr. LIU Dong (Chairman, executive Director and Chief Executive Officer), Mr. SONG Shuli (chief financial officer), Ms. SUN Qiaoyun (financial controller) and Mr. ZHANG Yong (manager of Finance Department — Capital Division). For details of experience of Mr. LIU Dong, Mr. SONG Shuli and Ms. SUN Qiaoyun, please refer to the section headed "Directors, Senior Management and Employees" in this prospectus. Mr. ZHANG has worked in accounting department of ZiBo Boshan Branch of China Construction Bank Corporation from December 2002 to December 2003 and has worked with our Group since December 2003. Mr. ZHANG Yong is responsible for cash and funding management of our Group. Mr. Zhang studied accounting at 山東兵器工業職工大學 (Shandong University of Weapon Industrial Worker) from July 1995 to July 1998.

Furthermore, the entering into of foreign currency forward contracts as well as other relevant derivatives and the maximum amount shall be approved by the Board. The cash flow management team of our Group will be responsible for management of the foreign currency, including relevant forward contracts and derivatives, and will report regularly to the investment review committee and the Board in respect of foreign currency position.

Credit risk

Our Group's credit risk is primarily attributable to bank deposits, and trade and other receivables. We monitor our exposures to these credit risks on an ongoing basis. During the Track Record Period, our Group did not record significant bank debts losses.

Credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors with balances that are past due are requested to settle all outstanding balances before any further credit is granted.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the financial statements after deducting any impairment allowance. Further quantitative disclosures in respect of our Group's exposure to credit risk arising from trade and other receivables are set out in note 16 in the Accountants' Report set out in Appendix I to this prospectus.

Liquidity risk

We aim at maintaining a suitable level of liquidity to finance the daily operation, capital expenditure and repayment of borrowings. We regularly monitor the current and expected liquidity requirements and its compliance with lending covenants.

The following tables show the maturities profile of our Group's financial liabilities as at the periods indicated:

	As at 31 December 2009				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years within 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	316,775	21,080	—	337,855	322,741
Trade creditors, bills payable, other creditors and accrued charges	107,732	—	—	107,732	107,732
Amounts due to related parties	32,363	—	—	32,363	32,363
	456,870	21,080	—	477,950	462,836
Financial guarantees issued:					
Maximum amount guaranteed	88,000	10,000	10,000	108,000	698

	As at 31 December 2010				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years within 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	353,473	10,539	—	364,012	355,889
Trade creditors, bills payable, other creditors and accrued charges	105,095	—	—	105,095	105,095
Dividend payable	37,024	—	—	37,024	37,024
Obligations under finance lease	32,196	32,196	16,098	80,490	74,662
Amounts due to related companies	327,037	—	—	327,037	327,037
	854,825	42,735	16,098	913,658	899,707
Financial guarantees issued:					
Maximum amount guaranteed	88,000	10,000	—	98,000	1,329

	As at 31 December 2011				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years within 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	381,808	—	—	381,808	373,189
Trade creditors, bills payable, other creditors and accrued charges	81,201	—	—	81,201	81,201
Obligations under finance lease	32,394	16,197	—	48,591	46,124
Amounts due to related companies	176,633	—	—	176,633	176,633
	672,036	16,197	—	688,233	677,147
Financial guarantees issued:					
Maximum amount guaranteed	10,000	—	—	10,000	—

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

DIVIDENDS AND DIVIDEND POLICY

Each of Yinshilai Textile and Huiyin Textile declared a dividend of approximately RMB120.92 million and RMB27.18 million respectively on 4 January 2010 to their then eligible shareholders of Yinshilai Textile and Huiyin Textile. Save for the above, no dividend had been paid or declared by our Group to any Shareholder during the Track Record Period.

Subject to below, it is our Company's dividend policy that approximately 25% to 35% of our Group's profits available for distribution will be recommended for distribution in each financial year, commencing from the financial year ending 31 December 2012, in the form of interim dividend and final dividend. Our Directors consider that, in general, the amount of any future dividends to be declared by our Company will depend on our Group's results, working capital, cash position, capital requirements, the provisions of the relevant laws and other factors as may be considered relevant at such time by our Directors. Our Directors consider that our Company's dividend policy mentioned above will not materially affect our Group's working capital position in the coming years.

Future declarations of dividends may or may not reflect our Group's historical declarations of dividends and will be at the absolute discretion of our Directors. Future dividend payments by our Company will also depend upon the availability of dividends received from our subsidiaries in China. PRC laws require that dividends be paid only out of net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS and HKFRS. PRC laws also require foreign-invested enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses, or in accordance with any restrictive covenants in bank credit facilities or other agreements that our Company or our subsidiaries and associated companies may enter into in the future.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 24 February 2010 and is an investment holding company. There were no reserves available for distribution to the Shareholders as of 31 December 2011.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is set out to illustrate the effect of the Global Offering on our net tangible assets as of 31 December 2011 as if it had taken place on 31 December 2011.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustration purpose only and, because of its hypothetical nature, it may not give a true picture of our net tangible assets as of 31 December 2011 or any future date following the Global Offering. It is prepared based on our net assets as of 31 December 2011 as set out in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below.

	Consolidated net tangible assets attributable to equity shareholders of our Company as at 31 December 2011	**Estimated net proceeds from the Global Offering**	**Unaudited pro forma adjusted net tangible assets**	**Unaudited pro forma adjusted net tangible assets per Share**	**Unaudited pro forma adjusted net tangible assets per Share**
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*(HK$ equivalent)*
Based on an offer price of HK$1.10 per share	251,579	111,000	362,579	0.45	0.56
Based on an offer price of HK$1.32 per share	251,579	139,000	390,579	0.49	0.60

PROPERTY INTERESTS

For the purpose of the Listing, Jones Lang LaSalle Corporate Appraisal and Advisory Limited has valued the property interests of our Group at RMB90,036,000 as at 30 April 2012. Particulars of the property interest of our Group are set out in Appendix III to this prospectus.

A reconciliation of our Group's property interest and the valuation of such property interest as required under Rule 5.07 of the Listing Rules is set forth below:

	RMB'000
Net book value of property interest as of 31 December 2011	69,263
Movement from 31 December 2011 to 30 April 2012	
Additions	853
Depreciation	(1,111)
Disposals	—
Net book value of property interests as of 30 April 2012 (unaudited)	69,005
Valuation surplus as of 30 April 2012	21,031
Valuation as of 30 April 2012 per Valuation Report set out in Appendix III	90,036

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this prospectus and save as disclosed in the paragraph headed "Trading Position after 31 December 2011" in this section, there has been no material adverse change in our financial or trading position since 31 December 2011, the end of the period reported in the Accountants' Report set out in Appendix I to this prospectus.

TRADING POSITION AFTER 31 DECEMBER 2011

On the basis of the management accounts and unaudited financial information of our Group for the five months ended 31 May 2012, the total sales of our products were close to the level for the same period in 2011. Volume sales for our principal products, namely jacquard fabrics and dobby fabrics in terms of meters sold in total represented an increase of approximately 11.64% for the five months ended 31 May 2012 as compared to the same period in 2011. However, the gross profit margin of our products for this five month period dropped to approximately 21.70% from that of approximately 24.30% for the corresponding period in 2011. This was principally due to the increase in production costs including depreciation and electricity charges as well as the decrease in selling prices of our products generally for the five months ended 31 May 2012.

Average selling prices of our principal products dropped approximately 10.4% during the five month period ended 31 May 2012 as compared to those in 2011. Such decrease was partly due to the reduction in the purchase cost of cotton as a principal raw material (which enabled lower selling prices), the different mix of product categories and more competitive market condition during the period.

Our Directors consider that the textile industry in China is in a more competitive market condition for the five month period ended 31 May 2012, as compared to that in 2011 generally. However, our Directors believe that the focus of our Group in high-end Fabric Products has enabled us to remain relatively more competitive as compared to some other textile companies in more generic products, and that we would strike to maintain our profit margins by further enhancing our product structure and mix, and production efficiency.