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**Web Proof Information Pack of**



**銀仕來**

**SILVERMAN HOLDINGS LIMITED**

**銀仕來控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

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## SUMMARY

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### BUSINESS OVERVIEW

We are principally engaged in the design, manufacturing and sale of high-end<sup>1</sup> Fabric Products. Our principal products can be broadly divided, by their weaving constructions, into two categories, namely, jacquard fabrics and dobby fabrics. Our Fabric Products are mainly made with high-end yarns, Tencel and/or new materials and fibers, and are manufactured by advanced air-jet looms and rapier looms, some of which are equipped with electronic jacquard machines. Our dobby fabrics are suitable for manufacturing a broad range of quality home textile products such as bed-linen as well as apparel textile products such as garment, whereas our jacquard fabrics are primarily used for manufacturing high-end home textile products such as high-end bed-linen for hotel guest rooms, as far as our Directors are aware. Further, we are committed to product innovations and developments to expand our product offerings and improve our product quality with a view to catering to the ever changing market demand and customers’ preference. For the year ended 31 December 2011, the Fabric Products that we have designed and/or produced for our customers were over 7,000 varieties as classified in terms of woven designs, raw materials used and fabric specifications.

#### *Our principal products*

As at the Latest Practicable Date, in terms of revenue, the production and sale of dobby fabrics represented the core of our business. For the years ended 31 December 2009, 2010 and 2011, sales of our dobby fabrics amounted to approximately RMB420.49 million, RMB574.65 million and RMB641.16 million respectively, representing approximately 79.38%, 74.27% and 69.11% respectively of our total revenue during the same period and a CAGR of approximately 23.48%. Based on our belief that the demand for high-end home textile fabrics and home textile products in the PRC will continue to grow in the long run due to the rapid and sustained economic development in China and that the expected gross margins from their sale are relatively higher, since 2008, we have increased our focus on the manufacturing and sale of jacquard fabrics. For the years ended 31 December 2009, 2010 and 2011, sales of our jacquard fabrics amounted to approximately RMB97.42 million, RMB132.93 million and RMB233.87 million respectively, representing a CAGR of approximately 54.94%. With complex designs, stringent production requirements and rich colour and raw material combinations, our jacquard fabrics are featured by their high quality, high added value and differentiated properties, which enable us to command higher selling price for them and make them appealing to high-end finished home textile manufacturers. Our Directors believe that the sustained development of this line of business will play an increasingly important role in the continuing success and growth of our business.

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

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## SUMMARY

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### *Our customers*

During the [•], we have manufactured Fabric Products for, and/or provided processing services to, over 1,200 customers. Of our about 320 customers comprising over 270 domestic customers and 50 export sale customers for the year ended 31 December 2011, a majority of them had business relationship of more than three years with us. Apart from the direct sale of Fabric Products, we also undertake to provide processing services for certain customers who would like to capitalise on our advanced weaving facilities and our capability of offering high quality Fabric Products to fulfil their production requirements. As a result of our dedication to offering high-end, functional and differentiated Fabric Products over the years, we have established close and stable business relationship with our customers, some of whom are well-known home and apparel textile manufacturers in the PRC such as Jiangsu Golden Sun Textile Co., Ltd. (江蘇金太陽紡織科技有限公司), Nantong Zhan Qun Textile Co., Ltd. (南通展群紡織有限公司), Jiangyin Hong Liu Bedsheet Co., Ltd. (江陰市紅柳被單廠有限公司), Lu Thai Textile Co., Limited (魯泰紡織股份有限公司) (a company listed on Shenzhen [•]), Fuanna Bedding and Furnishing Company Limited (深圳市富安娜家居用品股份有限公司) (a company listed on Shenzhen [•]), Shanghai Shuixing Home Textile Limited (上海水星家用紡織品有限公司) and Luolai Home Textile Co., Ltd. (羅萊家紡股份有限公司) (a company listed on Shenzhen [•]). These customers in aggregate accounted for approximately 10.83%, 18.56% and 17.92%, respectively, of our total revenue during the [•]. Save as Jiangyin Hong Liu Bedsheet Co., Ltd. (江陰市紅柳被單廠有限公司) who was our customer for the years ended 31 December 2009 and 2010, all these customers were our Group’s customers throughout the [•].

### *Our machines and equipment*

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

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## SUMMARY

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### *Vertical integration of yarn and fabric productions*

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

### *Our production base and production capacities*

We have established an integrated production base in Boshan Economic Development Zone, Zibo City, Shandong Province with a site area of approximately 76,614.9 sq.m. For the years ended 31 December 2009, 2010 and 2011, our production capacity for Fabric Products was approximately 77.70 million meters, 78.25 million meters and 86.74 million meters, respectively, and the average utilization rate of such production facilities achieved approximately 82.75%, 91.37% and 93.15%, respectively, during the same period. For the year ended 31 December 2011, our production capacity for yarns was approximately 9,933 tonnes, and the utilization rate of such production facilities achieved approximately 97.56%. For further details of the annual production capacities of our production facilities, utilization rate and the basis of calculation, please see “Business — Production — Production capacities and utilization rates” in this document.

### *Our industry and market position*

The high-end home textile fabric market in the PRC in which we carry on business is a niche market and a segment of high-end grey fabric market<sup>1</sup>. The entire grey fabric market of the PRC is substantial. According to the Euromonitor Report, in 2010, approximately 65.5 billion meters of grey fabrics were produced by the PRC manufacturers above the designated size<sup>2</sup> in the cotton textile industry in the PRC in which high-end grey fabrics as well as the aggregate of high-end home textile jacquard fabrics and high-end home textile dobby fabrics accounted for approximately 4.1% and 0.67%, respectively, of the total grey fabrics produced. In terms of the manufacturer sales value, in 2010, high-end grey fabrics produced by the PRC manufacturers above the designated size reached approximately

<sup>1</sup> For further details of the categorisation of the high-end grey fabric market and high-end home textile fabric market in which we carry on business and the market size thereof in the PRC, please refer to the section headed “Industry Overview — High-end Jacquard and Dobby Grey Fabric Market in the PRC” in this document.

<sup>2</sup> The phrase “PRC manufacturers above the designated size” refers to the PRC manufacturers with core business revenue over RMB5 million, according to the Euromonitor Report. Given the immense size of the textile industry and the business scale of the PRC manufacturers below the designated size is usually very small, the phrase “PRC manufacturers above the designated size” is commonly adopted in the fabric manufacturing industry as a benchmark for measuring market size and industry output, according to the Euromonitor Report.

## SUMMARY

RMB40,834.8 million in which high-end home textile jacquard fabrics and high-end home textile dobby fabrics in aggregate accounted for approximately 19.59% of the manufacturer sales value of high-end grey fabrics, according to the Euromonitor Report.

We are one of the leading fabric manufacturers in the high-end home textile fabric industry of the PRC. According to the Euromonitor Report, we were ranked as the largest high-end home textile jacquard fabric manufacturer and the second largest high-end home textile dobby fabric manufacturer in the PRC with approximately 18.9% and 9.4% respectively of the share in the respective market in 2010 in terms of the manufacturer sales value of such products produced by the PRC manufacturers above the designated size.

### *Our financial performance*

We enjoyed rapid growth in both revenue and profitability in recent years. Our revenue increased from approximately RMB529.71 million for the year ended 31 December 2009 to approximately RMB927.77 million for the year ended 31 December 2011, representing a CAGR of approximately 32.34%. Our profit attributable to equity shareholders of the Company was approximately RMB162.13 million for the year ended 31 December 2011, approximately RMB100.29 million for the year ended 31 December 2010 and approximately RMB30.41 million for the year ended 31 December 2009, representing a CAGR of approximately 130.91%.

The following table sets out our revenue by product and service category and the percentage contribution by each category to our total revenue for the periods indicated:

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



## SUMMARY

The following tables set forth (based on the Group’s internal record), for the periods indicated, sales volume, average selling prices, gross profit and gross profit margins of the Group’s principal products, namely, jacquard fabrics and dobby fabrics:

|                                 | For the year ended 31 December |                       |               |                       |               |                       |
|---------------------------------|--------------------------------|-----------------------|---------------|-----------------------|---------------|-----------------------|
|                                 | 2009                           |                       | 2010          |                       | 2011          |                       |
|                                 | Sales volume                   | Average selling price | Sales volume  | Average selling price | Sales volume  | Average selling price |
|                                 | (’000 meters)                  | (RMB/m)               | (’000 meters) | (RMB/m)               | (’000 meters) | (RMB/m)               |
| Dobby fabrics ( <i>Note 2</i> ) | 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                 |

|                  | For the year ended 31 December |              |              |              |              |              |
|------------------|--------------------------------|--------------|--------------|--------------|--------------|--------------|
|                  | 2009                           |              | 2010         |              | 2011         |              |
|                  | Gross profit                   | Gross profit | Gross profit | Gross profit | Gross profit | Gross profit |
|                  | margin                         | margin       | margin       | margin       | margin       | 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      |              |

*Notes:*

- (1) “Others” comprises sale of other fabric products such as finished home textile products and ancillary items, to Yinlong Industrial, Tianhao (a company controlled by Mr. LIU Dong), and other customers. For further details of our sale of goods to related parties during the [ • ], please refer to Note 27 to the Accountants’ Report set out in Appendix I to this document.
- (2) Selling prices and gross profit margins of our Group’s Fabric Products are subject to a number of factors, such as fabric materials, functional properties, woven pattern designs, yarn counts and density. The average selling prices of our Fabric Products have generally increased during the [ • ]. Such increase was mainly attributable to the increase in market demand and our high quality products and products with enhanced features and properties.

For further details of our financial performance, please refer to the section headed “Financial Information” in this document.

## COMPETITIVE STRENGTHS

- We are one of the leading high-end home textile fabric manufacturers in the PRC.
- We are well positioned to benefit from the steady increase in the consumers’ expenditure in the home textile fabric market in China.
- We offer high-end, functional and differentiated Fabric Products.
- Our strong research and development capabilities allow us to continuously expand our product offerings and increase our competitiveness.

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- Our advanced production facilities and technical expertise enable us to enjoy a leading position in a niche fabric market.
- A scaled and integrated business brings us synergies from economies of scale.
- We have an experienced, stable and energetic management team.

## BUSINESS STRATEGIES

- Expanding our product mix by enhancing our research and development capabilities.
- Expanding and upgrading our production facilities to capture growth opportunities and enhance our market share.
- Strengthening our brand building efforts for our products.
- Seeking for strategic investments and/or cooperative alliances with a view to securing our raw material supplies and capturing other potential market opportunities.

## RISK FACTORS — HIGHLIGHTS

Price fluctuation of our products may adversely affect our turnover. During the [ • ], the average selling price per meter of our jacquard fabrics was approximately RMB18.55, RMB24.03 and RMB24.20, respectively, whereas the average selling price per meter of our dobby fabrics was approximately RMB9.24, RMB14.83 and RMB16.82, respectively. As such, the significant increase in our total revenue and profit before taxation for the year ended 31 December 2010 when compared to those for the year ended 31 December 2009 was partly a result of the increase in the selling price of our Fabric Products during that period. Please see “Year ended 31 December 2010 compared to year ended 31 December 2009 — Turnover” under the “Financial Information” section in this document for further analysis of the fluctuation.

Our operating results may be adversely affected by fluctuations in prices and supplies of our raw materials. Our average purchase cost of yarns was approximately RMB19,410, RMB36,180 and RMB35,831 per tonne for the years ended 31 December 2009, 2010 and 2011 respectively. Our average purchase cost of cotton was approximately RMB10,736, RMB16,163, and RMB21,748 per tonne for the years ended 31 December 2009, 2010 and 2011 respectively. If there is any significant increase in the prices of raw materials in the future, our business and results of operations would be materially adversely affected if we are unable to pass on the increased cost of raw materials to customers. Please see the section headed “Risk factors — Risks relating to our business — Our operating results may be adversely affected by fluctuations in prices and supplies of our raw materials.” in this document.

During the [ • ], a significant proportion of our sales were derived from domestic sales. For the years ended 31 December 2009, 2010 and 2011, our domestic sales amounted to approximately RMB453.70 million, RMB601.68 million and RMB818.90 million, representing approximately 85.65%, 77.76% and 88.27%, respectively, of our total



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revenue. If there is any economic downturn or adverse change in the political, social or economic conditions in China, our business, financial condition, results of operations and prospects could be materially adversely affected. Please see the section headed “Risk factors — Risks relating to our business — Decrease in our domestic sales, together with insufficient overseas sales, could adversely affect our financial condition and operating results.” in this document.

A significant proportion of our revenue was derived from the manufacturing and sale of dobby fabrics during the [•]. Sales of dobby fabrics accounted for approximately 79.38%, 74.27% and 69.11%, respectively, of our total revenue for the years ended 31 December 2009, 2010 and 2011, respectively. If there is any material adverse change in the market demand for and/or price of our dobby fabrics, our business, financial condition, results of operations and prospects could be materially adversely affected. Please see the section headed “Risk factors — Risks relating to our business — We derive a significant proportion of our revenue from the sales of dobby fabrics.” in this document.

## SUMMARY

### SUMMARY OF SELECTED HISTORICAL FINANCIAL INFORMATION

The following tables summarises the consolidated statements of comprehensive income data and consolidated statements of financial position from our consolidated financial information during the [•], details of which are set out in the Accountants’ Report in Appendix I to this document. The Accountants’ Report has been prepared in accordance with IFRS. Investors should read these selected consolidated financial data together with Appendix I to this document and the discussion under the section headed “Financial Information” in this document.

#### Summary consolidated statements of comprehensive income

|                                                           | <b>For the year ended 31 December</b> |                       |                       |
|-----------------------------------------------------------|---------------------------------------|-----------------------|-----------------------|
|                                                           | <b>2009</b>                           | <b>2010</b>           | <b>2011</b>           |
|                                                           | <i>RMB'000</i>                        | <i>RMB'000</i>        | <i>RMB'000</i>        |
| <b>Turnover</b>                                           | 529,708                               | 773,767               | 927,774               |
| Cost of sales                                             | <u>(456,669)</u>                      | <u>(595,949)</u>      | <u>(697,670)</u>      |
| <b>Gross profit</b>                                       | 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)              |
| Finance income                                            | 9,958                                 | 5,097                 | 20,007                |
| Finance costs                                             | <u>(17,649)</u>                       | <u>(26,509)</u>       | <u>(25,103)</u>       |
| <b>Profit before taxation</b>                             | 42,350                                | 131,756               | 187,886               |
| Income tax                                                | <u>(1,555)</u>                        | <u>(26,197)</u>       | <u>(25,760)</u>       |
| <b>Profit and total comprehensive income for the year</b> | <u><u>40,795</u></u>                  | <u><u>105,559</u></u> | <u><u>162,126</u></u> |
| Profit and total comprehensive income attributable to:    |                                       |                       |                       |
| Equity shareholders                                       |                                       |                       |                       |
| of the Company                                            | 30,406                                | 100,291               | 162,126               |
| Non-controlling interests                                 | <u>10,389</u>                         | <u>5,268</u>          | <u>—</u>              |
|                                                           | <u><u>40,795</u></u>                  | <u><u>105,559</u></u> | <u><u>162,126</u></u> |

## SUMMARY

### Summary consolidated statements of financial position

|                                              | As at 31 December |                  |                  |
|----------------------------------------------|-------------------|------------------|------------------|
|                                              | 2009              | 2010             | 2011             |
|                                              | <i>RMB'000</i>    | <i>RMB'000</i>   | <i>RMB'000</i>   |
| <b>Non-current assets</b>                    |                   |                  |                  |
| Fixed assets                                 | 343,212           | 414,203          | 411,010          |
| Intangible assets                            | 60                | 119              | 130              |
| Goodwill                                     | 6,394             | 6,394            | 6,394            |
| Investments in equity securities             | <u>1,000</u>      | <u>1,000</u>     | <u>1,000</u>     |
|                                              | <u>350,666</u>    | <u>421,716</u>   | <u>418,534</u>   |
| <b>Current assets</b>                        |                   |                  |                  |
| Inventories                                  | 101,272           | 170,504          | 100,789          |
| Trade and other receivables                  | 98,627            | 117,469          | 121,838          |
| Pledged bank deposits                        | 245,899           | 256,568          | 188,380          |
| Cash and cash equivalents                    | <u>55,343</u>     | <u>68,265</u>    | <u>130,228</u>   |
|                                              | <u>501,141</u>    | <u>612,806</u>   | <u>541,235</u>   |
| <b>Current liabilities</b>                   |                   |                  |                  |
| Trade and other payables                     | 153,126           | 492,347          | 270,068          |
| Bank loans                                   | 302,741           | 345,889          | 373,189          |
| Obligations under finance leases             | —                 | 28,782           | 31,394           |
| Current taxation                             | <u>1,183</u>      | <u>5,691</u>     | <u>8,261</u>     |
|                                              | <u>457,050</u>    | <u>872,709</u>   | <u>682,912</u>   |
| <b>Net current assets/(liabilities)</b>      | <u>44,091</u>     | <u>(259,903)</u> | <u>(141,677)</u> |
| <b>Total assets less current liabilities</b> | <u>394,757</u>    | <u>161,813</u>   | <u>276,857</u>   |

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## SUMMARY

|                                                                        | As at 31 December |                |                |
|------------------------------------------------------------------------|-------------------|----------------|----------------|
|                                                                        | 2009              | 2010           | 2011           |
|                                                                        | <i>RMB'000</i>    | <i>RMB'000</i> | <i>RMB'000</i> |
| <b>Non-current liabilities</b>                                         |                   |                |                |
| Bank loans                                                             | 20,000            | 10,000         | —              |
| Obligations under finance leases                                       | —                 | 45,880         | 14,730         |
| Deferred tax liabilities                                               | —                 | 10,024         | 4,024          |
|                                                                        | <u>20,000</u>     | <u>65,904</u>  | <u>18,754</u>  |
| <b>Net assets</b>                                                      | <u>374,757</u>    | <u>95,909</u>  | <u>258,103</u> |
| <b>Capital and reserves</b>                                            |                   |                |                |
| Capital                                                                | 138,046           | —              | 68             |
| Reserves                                                               | <u>140,710</u>    | <u>95,909</u>  | <u>258,035</u> |
| <b>Total equity attributable to equity shareholders of the Company</b> | 278,756           | 95,909         | 258,103        |
| <b>Non-controlling interests</b>                                       | <u>96,001</u>     | —              | —              |
| <b>Total equity</b>                                                    | <u>374,757</u>    | <u>95,909</u>  | <u>258,103</u> |

We recorded net current assets of approximately RMB44.09 million as at 31 December 2009, and net current liabilities of approximately RMB259.90 million and RMB141.68 million as at 31 December 2010 and 31 December 2011, respectively. Our Group had net current liability position as at 31 December 2010 and 31 December 2011 primarily because we financed the Reorganization and the acquisition of non-controlling interests of Yinshilai Textile and Huiyin Textile, the major operating subsidiaries of our Group, during the [•], from amounts due to related party. Our Group has repaid approximately RMB30 million in cash to the related party by internal resources of our Group subsequent to 31 December 2011, and the repayment obligation of the balance of the amounts due to related party of approximately RMB146.63 million have been waived by such related party, being Excel Orient, and such amounts were credited as capital contribution prior to the [•]. After netting off the amounts due to the related party of approximately RMB146.63 million waived by Excel Orient, we would record net current assets of approximately RMB4.95 million as at 31 December 2011.

## 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

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## SUMMARY

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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 strive to maintain our profit margins by further enhancing our product structure and mix, and production efficiency.

## 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. Save for the above, no dividend had been paid or declared by our Group to any Shareholders during the [ • ] and up to the Latest Practicable Date.

Subject to below, it is our Company’s dividend policy that approximately 25% to 35% of the 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.

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## DEFINITIONS

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*In this document, unless the context otherwise requires, the following terms shall have the meanings set out below.*

|                                         |                                                                                                                                                                                                                                                           |
|-----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Angel Dyeing”                          | Angel Dyeing & Finishing Co., Ltd. (安記染整股份有限公司), a limited liability company incorporated in accordance with the laws of Taiwan. Angel Dyeing was and still is an [ • ]                                                                                   |
| “Articles of Association” or “Articles” | the articles of association of our Company conditionally adopted on 26 June 2012, a summary of which is contained in Appendix IV to this document                                                                                                         |
| “Board”                                 | the board of Directors                                                                                                                                                                                                                                    |
| “business day”                          | a day (other than a Saturday, a Sunday or a public holiday in Hong Kong) on which banks in Hong Kong are open for normal banking business                                                                                                                 |
| “BVI”                                   | the British Virgin Islands                                                                                                                                                                                                                                |
| “CAGR”                                  | compound annual growth rate                                                                                                                                                                                                                               |
| “Cayman Islands Companies Law”          | the Companies Law (2011 Revision), Chapter 22 (as consolidated and revised from time to time) of the Cayman Islands                                                                                                                                       |
| “chief executive”                       | the chief executive (as defined in the [ • ]) of the Company                                                                                                                                                                                              |
| “China” or “PRC”                        | the People’s Republic of China. Except where the context requires, references in this document to the PRC or China do not include Hong Kong, the Macau Special Administration Region or Taiwan                                                            |
| “Companies Ordinance”                   | the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time                                                                                                                           |
| “Company” or “our Company”              | Silverman Holdings Limited (銀仕來控股有限公司) (formerly known as Silverman Tech Holdings Limited (銀仕來科技控股有限公司)), an exempted company incorporated with limited liability in the Cayman Islands on 24 February 2010                                               |
| “Controlling Shareholder(s)”            | has the meaning ascribed to it under the [ • ], and in the context of our Company, means Mr. LIU Dong and Excel Orient, details of their shareholdings are set forth in the section headed “History, Reorganization and Group Structure — Reorganization” |
| “CSRC”                                  | China Securities Regulatory Commission (中國證券監督管理委員會)                                                                                                                                                                                                      |



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## DEFINITIONS

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|------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Director(s)”                      | one or all of our directors                                                                                                                                                                                                                                                                                                                                                                     |
| “EIT”                              | enterprise income tax                                                                                                                                                                                                                                                                                                                                                                           |
| “Euro” or “€” or “EUR”             | the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25 March 1957), as amended by the Treaty on European Union (signed in Maastricht on 7 February 1992)                                                                                                       |
| “Euromonitor”                      | Euromonitor International Limited, an [ • ], which engages in the provision of international market intelligence including consumer products, services and lifestyles                                                                                                                                                                                                                           |
| “Euromonitor Report”               | the report dated June 2012 prepared by Euromonitor in relation to, amongst others, the textile industry and high-end grey fabric market in the PRC                                                                                                                                                                                                                                              |
| “Excel Orient”                     | Excel Orient Limited (東越有限公司), a limited liability company incorporated on 19 November 2009 in accordance with the laws of the BVI and wholly owned by Mr. LIU Dong. Excel Orient is our Controlling Shareholder, holding 69.20% of the total issued share capital of our Company upon the [ • ] (assuming no [ • ] is exercised). The principal activity of Excel Orient is investment holding |
| “Fabric Products”                  | jacquard fabrics and dobby fabrics                                                                                                                                                                                                                                                                                                                                                              |
| “Group”, “our Group”, “we” or “us” | our Company and its subsidiaries or, where the context otherwise requires, in respect of the period before our Company becoming the holding company of its present subsidiaries, such subsidiaries and the business carried on by them or (as the case may be) their predecessors                                                                                                               |
| “HKFRS”                            | Hong Kong Financial Reporting Standards issued by HKICPA                                                                                                                                                                                                                                                                                                                                        |
| “HK Huiyin”                        | Huiyin (HK) Limited (匯銀(香港)有限公司), a company incorporated in Hong Kong with limited liability on 1 March 2010. The principal activity of HK Huiyin is investment holding. HK Huiyin is an indirect wholly-owned subsidiary of the Company                                                                                                                                                        |
| “HKICPA”                           | Hong Kong Institute of Certified Public Accountants                                                                                                                                                                                                                                                                                                                                             |

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## DEFINITIONS

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|---------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “HK YSL”                                    | YSL (HK) Limited (銀仕來(香港)有限公司), a limited liability company incorporated on 1 March 2010 in accordance with the laws of Hong Kong. HK YSL is an indirectly wholly-owned subsidiary of our Company. The principal activity of HK YSL is investment holding                                                              |
| “Hong Kong” or “HK”                         | the Hong Kong Special Administrative Region of the PRC                                                                                                                                                                                                                                                                 |
| “Hong Kong dollars” or “HK\$”               | Hong Kong dollars, the lawful currency of Hong Kong                                                                                                                                                                                                                                                                    |
| “Hong Kong Share Registrar”                 | Tricor Investor Services Limited                                                                                                                                                                                                                                                                                       |
| “Huiyin Textile”                            | Zibo Huiyin Textile Co., Ltd. (淄博匯銀紡織有限公司), a limited liability company established on 9 June 2006 in accordance with the laws of the PRC. Huiyin Textile is an indirectly wholly-owned subsidiary of our Company                                                                                                      |
| “IFRS”                                      | the International Financial Reporting Standards                                                                                                                                                                                                                                                                        |
| “Issuing Mandate”                           | the general unconditional mandate given to our Directors by our Shareholders relating to the issue of [ • ], particulars of which are set forth in the paragraph headed “Further Information about our Company — 3. Resolutions in writing of our Shareholders passed on 26 June 2012” in Appendix VI to this document |
| “Latest Practicable Date” or “LPD”          | 26 June 2012, being the latest practicable date for ascertaining certain information in this document prior to its printing                                                                                                                                                                                            |
| “Memorandum of Association” or “Memorandum” | the memorandum of association of our Company, as amended from time to time, a summary of which is contained in Appendix IV to this document                                                                                                                                                                            |
| “MOFCOM”                                    | the Ministry of Commerce of the PRC (中華人民共和國商務部) or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外貿易經濟合作部)                                                                                                                                                              |
| “municipality”                              | cities administered directly under the central government in the PRC                                                                                                                                                                                                                                                   |
| “NDRC”                                      | the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)                                                                                                                                                                                                                                          |
| “New EIT Law”                               | the new PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) promulgated by the National People’s Congress on 16 March 2007 and became effective on 1 January 2008                                                                                                                                                          |

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## DEFINITIONS

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|-----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “PBOC”                      | The People’s Bank of China (中國人民銀行), the central bank of the PRC                                                                                                                                                                                                                                                      |
| “People’s Congress”         | the legislative apparatus of the PRC, including the National People’s Congress and all the local people’s congresses (including provincial, municipal and other regional or local people’s congresses) as the context may require, or any of them (人民代表大會)                                                            |
| “Power Fit”                 | Power Fit Limited (力健有限公司), a limited liability company incorporated on 8 January 2010 in accordance with the laws of the BVI. Power Fit is a directly wholly-owned subsidiary of our Company. The principal activity of Power Fit is investment holding                                                              |
| “PRC Government” or “State” | the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them                                                                                                     |
| “Reorganization”            | the reorganization of the group of companies now comprising our Group, as more particularly described in the section headed “History, Reorganization and Group Structure” in this document and the paragraph headed “Further Information about our Company — 4. Group reorganization” in Appendix VI to this document |
| “RMB” or “Renminbi”         | Renminbi yuan, the lawful currency of the PRC                                                                                                                                                                                                                                                                         |
| “SAFE”                      | the PRC State Administration of Foreign Exchange (中華人民共和國國家外匯管理局)                                                                                                                                                                                                                                                     |
| “SAIC”                      | the PRC State Administration for Industry and Commerce (中華人民共和國國家工商行政管理總局)                                                                                                                                                                                                                                            |
| “SAT”                       | China’s State Administration of Taxation (中華人民共和國國家稅務總局)                                                                                                                                                                                                                                                              |
| “Shareholder(s)”            | holder(s) of Shares                                                                                                                                                                                                                                                                                                   |
| “Share(s)”                  | ordinary share(s) of US\$0.01 each in the share capital of our Company                                                                                                                                                                                                                                                |
| “Solemnity”                 | Solemnity Chance Global Trading Limited (昌隆環球貿易有限公司), a limited liability company incorporated on 11 February 2011 in accordance with the laws of the BVI and wholly owned by Mr. SIU Wun Lung. The principal activity of Solemnity is investment holding                                                             |

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## DEFINITIONS

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|--------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “sq.m.”                              | square metre(s)                                                                                                                                                                                                                                                  |
| “State Council”                      | the State Council of the PRC (中華人民共和國國務院)                                                                                                                                                                                                                        |
| “subsidiary(ies)”                    | has the meaning ascribed to it in section 2 of the Companies Ordinance                                                                                                                                                                                           |
| “Sunlion”                            | Sunlion Holdings Limited, a limited liability company incorporated on 26 November 2010 in accordance with the laws of the BVI and wholly owned by Mr. YAN Tangfeng. The principal activity of Sunlion is investment holding                                      |
| “Swift Power”                        | Swift Power Limited (力迅有限公司), a limited liability company incorporated on 8 January 2010 in accordance with the laws of the BVI. Swift Power is a directly wholly-owned subsidiary of our Company. The principal activity of Swift Power is investment holding   |
| “Tianhao”                            | Zibo Tianhao Dyeing & Textiling Co., Ltd. (淄博天浩織染有限公司), a limited liability company established on 7 August 2003 in accordance with the laws of the PRC, the equity interest of which is owned as to 75% by Tianrui Investment as at the Latest Practicable Date |
| “Tianrui Investment”                 | Zibo Tianrui Investment Co., Ltd. (淄博天瑞投資有限公司), a limited liability company established on 28 April 2006 in accordance with the laws of the PRC                                                                                                                  |
| “Top Grade”                          | Top Grade Holdings Limited (大基集團有限公司), a limited liability company incorporated on 11 December 1996 in accordance with the laws of Hong Kong                                                                                                                     |
| “United States” or<br>“U.S.” or “US” | the United States of America, its territories, its possessions and all areas subject to its jurisdiction                                                                                                                                                         |
| “USD” or “US\$” or<br>“U.S. dollars” | United States dollars, the lawful currency of the United States                                                                                                                                                                                                  |
| “VAT”                                | value-added tax                                                                                                                                                                                                                                                  |
| “WFOE”                               | wholly foreign-owned enterprise                                                                                                                                                                                                                                  |
| “WTO”                                | World Trade Organisation                                                                                                                                                                                                                                         |

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## DEFINITIONS

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|------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Yinlong Assets Acquisition” | the assets acquisition on 31 December 2010 by Yinshilai Textile from Yinlong Industrial, a company controlled by Mr. LIU Dong’s [ • ] at that time, approximately 90,000 spindles and other spinning machineries and supporting equipment at the total consideration of RMB28,100,984.67. Yinlong Assets Acquisition was completed on 31 December 2010 |
| “Yinlong Industrial”         | Zibo Yinlong Industrial Co., Ltd. (淄博銀龍實業有限公司), formerly known as Zibo Boshan Yinlong Chemical Fiber and Textile Co., Ltd. (淄博博山銀龍化纖紡織有限公司) and Zibo Boshan Yinlong Industrial Co., Ltd. (淄博博山銀龍實業有限公司), a limited liability company established on 10 October 1999 in accordance with the laws of the PRC                                             |
| “Yinshan Chemical Fiber”     | Zibo Boshan Yinshan Chemical Fiber Co., Ltd. (淄博博山銀杉化纖有限公司), a limited liability company established on 3 December 2003 in accordance with the laws of the PRC                                                                                                                                                                                         |
| “Yinshilai Textile”          | Zibo Yinshilai Textile Co., Ltd. (淄博銀仕來紡織有限公司), a limited liability company established on 1 December 1999 in accordance with the laws of the PRC. Yinshilai Textile is an indirectly wholly-owned subsidiary of our Company                                                                                                                           |
| “Zibo Kangye”                | Zibo Kangye Labour Despatching Co. Ltd. (淄博康業勞務派遣有限公司), a local labour despatching agent                                                                                                                                                                                                                                                               |
| “%”                          | per cent.                                                                                                                                                                                                                                                                                                                                              |

*For illustration purposes only and unless otherwise specified in this document, amounts denominated in RMB and US\$ have been translated into HK\$ at the rate of RMB0.8107 = HK\$1.00 and US\$1.00 = HK\$7.7500, respectively. No representation is made that the RMB and US\$ amounts could have been, or could be, converted into HK\$ at such rates or at any other rate on such date or on any other date.*

*Unless expressly stated or the context requires otherwise:*

- *all percentages and figures, including share ownership and operating data, have been rounded, and accordingly, totals of rows or columns of numbers in tables may not be equal to the apparent total of the individual items;*
- *where information is presented in thousands or millions of units, amounts may have been rounded up or down; and*
- *all references to any shareholdings in our Company assume no exercise of the [ • ] unless otherwise specified.*

**THIS WEB PROOF INFORMATION PACK IS IN DRAFT FORM.** The information contained herein is incomplete and subject to change and it must be read in conjunction with the section headed “Warning” on the cover page of this Web Proof Information Pack.

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## DEFINITIONS

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*For ease of reference, the names of PRC nationals, PRC established companies or entities have been included in this document in both Chinese and English languages. The name in Chinese language is the official name of each such PRC national, company or entity, while that in English language is an unofficial translation for identification purpose only, and in the event of any inconsistency, the Chinese version shall prevail.*

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## GLOSSARY OF TECHNICAL TERMS

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*This glossary of technical terms contains explanations of certain terms used in this document as they relate to us and as they are used in this document in connection with us and our business. These terms and their given meanings may not correspond to standard industry definitions.*

|                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Air-jet loom”          | a shuttleless weaver that uses air to weave fabric                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| “cm”                    | centimeter(s)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| “combed yarn(s)”        | a stronger, finer and smoother yarn, the production of which requires an additional process known as combing which further straightens the fibers and extracts foreign matters                                                                                                                                                                                                                                                                                                                                               |
| “compact spinning”      | a system of spinning which is performed by adding a condenser unit between the drafting zone and the yarn formation zone that uses air flow to group the fiber strands horizontally thereby producing better yarns than the ordinary combed cotton yarns. Compact yarns can reduce the hairiness, increase the efficiency of weaving machines and save dyes and sizing and desizing costs, making the fabrics more environmentally friendly. Siro-spinning is a type of compact spinning performed by Siro-spinning machines |
| “cotton yarn(s)”        | cotton thread used in knitting and weaving which is produced from cotton that has been put through a spinning process                                                                                                                                                                                                                                                                                                                                                                                                        |
| “designated size”       | size of the companies with core business revenue of RMB5 million (as defined by the National Bureau of Statistics of China)                                                                                                                                                                                                                                                                                                                                                                                                  |
| “dobby fabric(s)”       | woven grey fabrics with geometric woven patterns produced by the selective control of groups of yarns on the air-jet dobby loom                                                                                                                                                                                                                                                                                                                                                                                              |
| “fiber-blended yarn(s)” | cotton or non-cotton fibers blended yarn consisting of cotton (or non-cotton fibers) and other non-cotton fibers such as bamboo fiber, corn fiber, milk fiber and soybean fiber, etc.                                                                                                                                                                                                                                                                                                                                        |
| “Four Points System”    | a standard issued by the American Society of Testing and Materials to measure the quality of fabrics                                                                                                                                                                                                                                                                                                                                                                                                                         |
| “functional fabric”     | fabrics that incorporate value-added features such as anti-bacterial, thermal insulating, anti-odour, moisture-absorbent, recyclable after use, biodegradable and anti-ultraviolet                                                                                                                                                                                                                                                                                                                                           |
| “GB”                    | GuoBiao (國標), a collective term for the mandatory national standard character encodings of China; a GB standard for a particular application usually corresponds to the relevant international standard in the same application                                                                                                                                                                                                                                                                                              |



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## GLOSSARY OF TECHNICAL TERMS

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|---------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “GB/T28001-2001”                            | international occupational health and safety management system specification or national recommended standards for occupational health and safety; also known as “OHSAS18001:1999 or GB/T28001-2001: Occupational Health and Safety System — Standard and Application Manual”                             |
| “GB/T398-2008”                              | GB standard for quality of original-coloured cotton yarn products                                                                                                                                                                                                                                         |
| “GB/T406-2008”                              | GB standard for quality of original-coloured cotton grey fabrics                                                                                                                                                                                                                                          |
| “grey fabric(s)”                            | fabrics taken directly from the loom without any additional finishing operations such as dyeing or bleaching                                                                                                                                                                                              |
| “high-count and high-density”               | thread count of fabric over 40S and thread density of fabric over 709 threads/10cm, according to the Euromonitor Report                                                                                                                                                                                   |
| “home textile” or “home textile product(s)” | textile for home decoration and home furniture (such as covering for beds and tables, quilts, quilt covers, pillow cases, bed sheets, window curtains, window shades). Home textile industry is one of the important downstream industries for high-end grey fabrics, according to the Euromonitor Report |
| “home textile fabric(s)”                    | grey fabrics used for manufacturing home textile products                                                                                                                                                                                                                                                 |
| “ISO”                                       | International Organisation for Standardisation, a worldwide federation of national standards bodies from all over the world                                                                                                                                                                               |
| “ISO 9001”                                  | the international standards of quality management and quality assurance formulated by ISO Technical Committee 176 (ISO/TC 176) in 1987                                                                                                                                                                    |
| “ISO 14001”                                 | the internationally recognised environmental standard for companies                                                                                                                                                                                                                                       |
| “jacquard fabric(s)”                        | woven grey fabric with large, intricate designs woven into it by specialised jacquard loom and equipment. The design is incorporated during the weaving process                                                                                                                                           |
| “jacquard loom”                             | air-jet loom or rapier loom or other weaving loom incorporating the jacquard machine. It enables the production of fabrics with intricate woven patterns                                                                                                                                                  |
| “jacquard machine(s)”                       | a set of special equipment or device installed with a loom such as air-jet loom or rapier loom for manufacturing jacquard fabrics                                                                                                                                                                         |
| “loom”                                      | a machine for weaving fabric by interlacing a series of warp and weft                                                                                                                                                                                                                                     |

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## GLOSSARY OF TECHNICAL TERMS

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|--------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “manufacturer sales value”     | sales value (inclusive of value added tax of 17%) of products or services that manufacturers sell to distributors or to end customers directly                                                                                                                                                                                                                                                                                                               |
| “new material(s) and fiber(s)” | materials or fibers (other than pure cotton yarns) such as milk fiber, soybean fiber, bamboo fiber, CoolMax, chitosan fiber, Modal, viscose, organic cotton as well as fibers blended with cotton used by us in our production                                                                                                                                                                                                                               |
| “rapier loom”                  | a shuttleless weaving loom in which the filling yarn is carried through the shed of warp yarns to the other side of the loom by fingerlike carriers called rapiers                                                                                                                                                                                                                                                                                           |
| “sliver”                       | an untwisted strand rope of textile fiber produced by a carding or combing machine and ready for drawing, roving, or spinning                                                                                                                                                                                                                                                                                                                                |
| “spindle”                      | an upright, slender and rotating rod which holds a bobbin on an spinning machine. When the spindle is rotated at high speed, the bobbin placed on the spindle receives the yarn. Spinning capacity is largely determined by the quantity and speed of spindles                                                                                                                                                                                               |
| “spinning machine”             | a type of machine used to convert fibers into yarns. The traditional and commonly-used spinning system in cotton textile industry is ring-spinning. Other spinning systems used include jet spinning and compact spinning                                                                                                                                                                                                                                    |
| “Tencel”                       | Tencel is the brand name of a category of fibers called lyocell, and Tencel <sup>®</sup> is the trademark owned by Lenzing Group. Tencel is a cellulosic fiber made from wood pulp cellulose through a proprietary Tencel production process. This fiber is twisted or spun into yarn which has different characteristics from normal cotton yarn, and which is woven or knitted into fabrics and garments. Tencel is a man-made fiber but natural in origin |
| “thread density”               | the number of threads in both warp and weft in a square inch or per 10 cm of fabric                                                                                                                                                                                                                                                                                                                                                                          |

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## GLOSSARY OF TECHNICAL TERMS

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|--------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “warp”                         | the set of yarn in a woven fabric that runs parallel to the selvage at the right angles with the weft                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| “weft”                         | the set of yarn in a woven fabric that runs from selvage to selvage at right angles to the warp                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| “winding machine”              | a type of machine used to combine two or more cotton yarn threads into a single thread of cotton yarn and also for further processing and shaping to make cotton yarn more shiny and even. Cotton yarn after processing by a winding machine becomes a finished product                                                                                                                                                                                                                                                                                                                                                                |
| “yarn(s)”                      | a long, continuous length of interlocked fibers used to construct a fabric. As used in this document, yarn includes cotton yarn, new material and fiber yarns and fiber-blended yarn                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| “yarn count” or “thread count” | thickness of a yarn which is based on the relation between length and weight of the yarn and can be represented by the number of fixed lengths of yarn per standard weight. In this document, yarn count or thread count is measured in accordance with the British standard which is expressed in count number with abbreviation “S”. The British standard measures the number of yarn hanks, each of which is 840 yards long, per pound of yarn. Under such system, assuming the raw material used to produce the yarn is being the same, a bigger number generally implies a finer yarn and a smaller number implies a coarser yarn |

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## **RISK FACTORS**

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### **RISKS RELATING TO OUR BUSINESS**

#### **We derive a significant proportion of our revenue from the sales of dobby fabrics.**

A significant proportion of our revenue was derived from the manufacturing and sale of dobby fabrics during the [ • ]. Sales of dobby fabrics accounted for approximately 79.38%, 74.27% and 69.11%, respectively, of our total revenue for the years ended 31 December 2009, 2010 and 2011, respectively. Our revenue is therefore dependent on the demand and supply of the dobby fabric segment of the textile markets in which we sell our products.

The demand for, and the price of, our dobby fabrics are subject to fluctuations, uncertainties and the availability of substitute products. Our revenue may also be affected by trade barriers imposed or to be imposed by countries importing textile products manufactured in the PRC, which may adversely affect the export performance of textile manufacturers in the PRC. Further, any significant downturn in the textile industry is also likely to affect the demand for our dobby fabrics. If any of the foregoing factors occur and we are unable to develop alternative revenue sources, our business, financial condition, results of operations and prospects may be adversely affected which could be material.

Based on our belief that the demand for high-end home textile fabrics and high-end home textile products in the PRC will continue to grow in the long run and that the expected gross margins from their sale are relatively higher, since 2008, we have increased our focus on the manufacturing and sale of jacquard fabrics. For the years ended 31 December 2009, 2010 and 2011, sales of jacquard fabrics amounted to approximately RMB97.42 million, RMB132.93 million and RMB233.87 million respectively, representing approximately 18.39%, 17.18% and 25.21% respectively of our total revenue. We also maintained a steady growth of the gross margins from their sale. For the years ended 31 December 2009, 2010 and 2011, the gross margins of our jacquard fabric sales amounted to approximately 23.73%, 32.84% and 28.71% respectively. Nevertheless, there is no assurance that we can successfully increase our revenue or gross margins from the sale of jacquard fabrics, or, even if we can, there is no assurance that such revenue could generate revenue or gross margins for us at a level comparable to that from the sale of dobby fabrics. In the event that the sales of our jacquard fabrics do not perform as expected so that we have to rely significantly on the sales of dobby fabrics as our major source of revenue, and if there is any material adverse change in the market demand for and/or price of our dobby fabrics, our business, financial condition, results of operations and prospects could be adversely affected.

#### **Decrease in our domestic sales, together with insufficient overseas sales, could adversely affect our financial condition and operating results.**

During the [ • ], a significant proportion of our sales were derived from domestic sales. For the years ended 31 December 2009, 2010 and 2011, our domestic sales amounted to approximately RMB453.70 million, RMB601.68 million and RMB818.90 million, representing approximately 85.65%, 77.76% and 88.27%, respectively, of our total revenue. Our performance in domestic sales is dependent largely upon, amongst others, the continuing prosperity and sustained economic development, improving living standard

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and increasing people’s spending power in China as well as a wide variety of other favourable political, social and macroeconomic conditions in China which have stimulated the domestic demand for high-end home textile and home textile fabric products in the recent years. There is no assurance that the China economy will continue to prosper and the demand for high-end home textile and home textile fabric products in the PRC will continue to grow, and if there is any adverse change in the political, social or economic conditions in China, our business, financial condition, results of operations and prospects could be adversely affected.

Although PRC is our major market, for the years ended 31 December 2009, 2010 and 2011, revenue derived from our export sales amounted to approximately RMB76.01 million, RMB172.09 million and RMB108.87 million, representing approximately 14.35%, 22.24% and 11.73%, respectively, of our total revenue. As such, in the event that we are unable to maintain our growth in our domestic sales and there is any adverse change in the overseas market supply and demand of home textile and home textile fabric products so that we are unable to diversify our revenue source, our business, financial condition, results of operations and prospects could be adversely affected.

### **Price fluctuation of our products may adversely affect our turnover.**

During the years ended 31 December 2009, 2010 and 2011, our total revenue amounted to approximately RMB529.71 million, RMB773.77 million and RMB927.77 million respectively, and our profit before taxation during the same period amounted to approximately RMB42.35 million, RMB131.76 million and RMB187.89 million respectively. The average selling price of our jacquard fabrics was approximately RMB18.55, RMB24.03 and RMB24.20 per meter for the years ended 31 December 2009, 2010 and 2011, respectively. The average selling price of our dobby fabrics was approximately RMB9.24, RMB14.83 and RMB16.82 per meter for the years ended 31 December 2009, 2010 and 2011, respectively. The significant increase in our total revenue and profit before taxation for the year ended 31 December 2010 compared with those for the year ended 31 December 2009 was partly a result of the increase in the selling price of our Fabric Products during that period. Please refer to the paragraph headed “Year ended 31 December 2010 compared to year ended 31 December 2009 — Turnover” under the “Financial Information” section in this document for further analysis of the fluctuation. There is no assurance that our product price will continue to grow or will not decline in the future, and in the event that our product price declines significantly in the future, our business, revenue and results of operations could be materially and adversely affected.

### **Our operating results may be adversely affected by fluctuations in prices and supplies of our raw materials.**

Our cost of raw materials accounted for approximately 66.93%, 71.45% and 76.93% of our cost of sales for the years ended 31 December 2009, 2010 and 2011, respectively. The principal raw materials for use in our production process are yarns, cotton and sizing agent. We rely on cotton for the production of yarns and use yarns for the production of Fabric Products. Cost of yarns accounted for approximately 63.06%, 68.59% and 74.55%, respectively of our cost of sales for the years ended 31 December 2009, 2010 and 2011. Our

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average purchase cost of yarns was approximately RMB19,410, RMB36,180 and RMB35,831 per tonne for the years ended 31 December 2009, 2010 and 2011, respectively. Since yarns are the principal raw materials used in the production of fabrics, fluctuations in yarn prices and supplies will affect the prices and supplies of fabrics.

For the year ended 31 December 2011, a significant proportion of our Fabric Products were made with cotton or cotton blended yarns which were produced from cotton (or from the blending of cotton and other fibers). Our average purchase cost of cotton was approximately RMB10,736, RMB16,163, and RMB21,748 per tonne for the years ended 31 December 2009, 2010 and 2011, respectively. Fluctuations in cotton prices and supplies will affect the prices and supplies of cotton yarns or cotton blended yarns. Cotton prices have significantly decreased since March 2011 to August 2011 but generally have become stabilised since October 2011. CC Index 328, a cotton index from China Cotton Association decreased by approximately 30.33% for year ended 31 December 2011. Since cotton is an agricultural product, its supplies and quality are vulnerable to many factors beyond our control, including weather, infestations and other forces of nature that can result in shortage in supplies and an increase in cotton price. Further, as a domestically and internationally traded commodity, the market prices of cotton are also subject to fluctuation from time to time.

As such, notwithstanding our pricing policy will take into account the cost of our raw materials for manufacturing the products ordered by our customers, if there is any significant increase in the prices of raw materials in the future, our business and results of operations would be materially adversely affected if we are unable to pass on the increased cost of raw materials to our customers.

To meet our production and delivery schedules, we must obtain sufficient quantities of raw materials on a timely basis at commercially reasonable terms. Although we consider that our principal raw materials are commodities readily available in the PRC as well as from overseas suppliers, there is no assurance that we are able to source sufficient raw materials at competitive prices, or at all, in a timely manner. Any shortage of supplies of our principal raw materials may cause disruption to our production. During the [ • ], we did not experience any disruption in our production due to shortage of raw materials supplies or significant increases in raw material prices.

**We rely on a small number of suppliers for a significant portion of our raw material purchases.**

During the years ended 31 December 2009, 2010 and 2011, purchases from our five largest suppliers accounted for approximately 43.12%, 41.76% and 27.27% of our total raw material purchase, respectively, and total purchases from our largest supplier during the same period accounted for approximately 29.33%, 26.18% and 9.04% of our total raw material purchase, respectively.

We do not enter into long-term contracts with our raw material suppliers for constant supply of our raw materials in order to maintain flexibility in the sources of raw materials and pricing. We enter into supply contracts with our suppliers when we place procurement order with them. The ability to source our raw materials at competitive prices in a timely manner is crucial to our success. Such ability allows us to meet our production requirements



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while managing our costs. Any failure to maintain good relationships with any of our major raw material suppliers could cause disruption in our raw material supplies necessary for our production requirements. To avoid over-reliance on a single supplier, we normally maintain at least three potential suppliers from time to time for the supply of the principal raw materials we require. However, there is no assurance that these suppliers are able to provide alternative source of raw materials in a timely manner or at commercially reasonable terms. If our major suppliers cease to supply the raw materials we need and we are unable to locate alternative source of raw materials on time or at commercially reasonable terms or at all, we could experience material production delays and materially increase our production costs, which could materially adversely affect our profit margin.

To ensure consistency in the quality of yarn supplies and benefit from the proximity of the production premises of Yinlong Industrial to our warehouse and production facilities, during the [ • ], we sourced a significant portion of our yarn supplies from, and had yarn processing arrangements with, Yinlong Industrial, a company controlled by Mr. LIU Dong until 29 October 2010 and thereafter, by his [ • ] until 21 April 2011, and which was our largest supplier for the years ended 31 December 2009 and 2010. During the years ended 31 December 2009, 2010 and 2011, purchases (including the processing fee paid to Yinlong Industrial) from Yinlong Industrial amounted to approximately RMB99.12 million, RMB131.01 million and RMB15.38 million, respectively, accounting for approximately 29.33%, 26.18% and 3.19%, respectively, of our total raw material purchase. For further details of our yarn procurement from and processing arrangements with Yinlong Industrial, please see “Business — Products — Yarns” in this document.

On 31 December 2010, to cater to the increasing scale of our fabric productions and to secure a reliable and quality yarn supplies, Yinshilai Textile completed the Yinlong Assets Acquisition pursuant to which it purchased from Yinlong Industrial approximately 90,000 spindles and other spinning machineries and supporting equipment. Since then, we can leverage on our internal yarn spinning facilities for the supply of yarns and purchase additional yarns from other suppliers if our internal yarn production is insufficient to satisfy our need. There is no assurance that, if our internal yarn production is insufficient to satisfy our need, we will be able to source from alternative suppliers sufficient yarn supplies at competitive price, or at all, in a timely manner, and if any of such events occur, our business, financial condition and results of operations could be adversely affected.

### **We operate in the competitive textile manufacturing industry.**

Given the competitive environment that we operate in and the low entry barrier into the textile manufacturing industry as a whole in terms of regulatory restrictions and capital requirements, we are subject to competition from both existing manufacturers and new market entrants in and outside of the PRC. For domestic sales of Fabric Products, we mainly face direct competition from major players in the industry in China, although we believe that our present operating scale are still much larger than many domestic competitors and we strategically focus on offering high-end, functional and differentiated Fabric Products which enables us to maintain a competitive edge. For Fabric Products exported to overseas markets, we believe that we face competition from both domestic and foreign manufacturers such as manufacturers from Turkey for the sale of jacquard fabrics,



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which include many companies that are larger in size and have greater financial resources than us. In addition, for overseas competitors in India, Pakistan and other cotton textile producing countries, since cotton is abundant and the cost of labour is relatively low, they are therefore very competitive in terms of production costs. If we are unable to stay ahead in the face of progressively intense competition from the local and overseas manufacturers, our business, financial condition, results of operations and prospects may be adversely affected.

**We generally do not enter into long-term contracts with our customers.**

We generate our revenues primarily from purchase orders our customers place with us and we generally do not enter into any long-term contracts with our customers. Our customers may cancel, reduce or defer purchase orders at any time. Accordingly, the volume of our customers’ purchase orders and the type of products sold may vary significantly from period to period. Therefore, it is difficult for us to forecast the quantities and trends of future orders. There is no assurance that our customers will continue to place purchase orders with us in the future at the same quantity and price level as in the current or prior periods, or at all. Furthermore, the actual volume of our customers’ purchase orders may not be the same as our expectations at the time we make our future production and development plans. Accordingly, our results of operations may vary from period to period and may fluctuate significantly in the future.

**We may not be able to develop commercially successful products.**

The success of our business is dependent upon our ability to continuously develop, in a timely fashion, new products through research and development to meet our customers’ requirements, diversify revenue streams and introduce new product designs to cater to customers’ preferences. Product design, research and development require investments in time, resources and capital expenditure. We cannot assure you that our product development and research efforts will result in the development of popular fabric products or innovative production technique that lead to production technology breakthroughs, or will be completed on time, or will generate expected benefits. Further, we cannot assure you that we will be able to acquire the sole intellectual property rights over our research efforts which are made in collaboration with external parties although it would generally be our requirement that the intellectual property rights are to be transferred to us or to be co-owned by us or to be used by us on favourable terms pursuant to the cooperation arrangements, or that any newly developed products will be commercially successful. Whether a product is commercially successful depends on a number of factors, such as the absence of other products with similar characteristics or properties and the effectiveness of our sales and marketing and distribution efforts.

If our research and development efforts do not lead to introduction of new products that meet market demand on a timely basis, or manufacture of products that are innovative or superior to those of our competitors or commercially successful or are well accepted by the market, our business, financial condition, results of operations and prospects may be adversely affected.

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**We have had net current liabilities at times during the [ • ].**

As at 31 December 2009, 2010 and 2011, our net current liabilities were approximately nil, RMB259.90 million and RMB141.68 million respectively. The net current liabilities as at 31 December 2010 and 31 December 2011 mainly arose as a result of the amounts due to related parties incurred for arranging restructuring of our Group. Our Group has repaid approximately RMB30 million in cash to the related party subsequent to 31 December 2011, and the repayment obligation of the balance of the amounts due to such related party had been waived by it prior to the [ • ]. Please see the section headed “Financial Information — Net current assets/(liabilities)” in this document for further details.

We cannot assure you that we will not experience periods of net current liabilities in the future. A net current liabilities position would expose us to liquidity risks if we were unable to refinance certain loans when they come due. There can be no assurance that we will always be able to obtain the necessary funding to refinance our short-term borrowings upon maturity and finance our capital commitments. If we were unable to refinance such borrowings when due, and we were not otherwise able to repay such amounts at maturity, we may be in default of such loans, which may result in cross-defaults. In such circumstances, our business operations, liquidity, financial condition and prospects could be materially and adversely affected.

**We need additional capital to fund the expansion of our operations and growth in the future, which we may not be able to obtain on acceptable terms, or at all.**

We need additional capital to fund our capital expenditure associated with expansion of our production capacity through the acquisition of new production machinery and technology upgrades in the future. There is no assurance that we will generate sufficient cash flow from operating activities for our intended expansion plans. In the event we do not have such operating cash flow, we will need to obtain alternative financing.

There is no assurance that we will be able to obtain adequate financing on acceptable terms, or at all. Our ability to obtain additional capital on acceptable terms will be subject to a variety of uncertainties, including:

- investor perceptions of and appetite for securities of companies engaged in the production and sale of fabric products;
- conditions in the capital and financial markets in which we may seek to raise funds;
- our future results of operations, financial condition and cash flows;
- Chinese governmental regulation of foreign investment in companies engaged in the production and sale of fabric products;
- economic, political and other conditions in China and the rest of the world;

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- the amount of capital that other Chinese entities may seek to raise in the foreign capital markets; and
- Chinese governmental policies relating to foreign currency borrowings.

We may be required to scale back our planned capital expenditures, which may adversely affect our ability to achieve economies of scale and implement our planned growth strategy. If we raise additional funding, our interest and debt repayment obligations will increase. The terms of any future debt facilities may also impose restrictive covenants that may restrict our business and operations. In the event that we breach any of these covenants, we may not be able to obtain waivers from our lenders. Our inability to raise additional funds in a timely manner and on terms favorable to us, or at all, may have a material adverse effect on our business, financial condition, results of operations and prospects.

**We may not be able to fully realise our intended expansion plan.**

As disclosed under “Business — Business Strategies” in this document, we plan to adopt a number of strategies, including expanding our product mix, expanding and upgrading our production facilities, strengthening our brand building efforts and exploring strategic investments and cooperative alliances opportunities. The successful implementation of our business plans depends on a number of factors which may or may not be within our control, including but not limited to whether the home textile industry, particularly in the PRC, will continue to grow at a pace anticipated by our Directors, whether we will be able to timely and effectively capture the opportunities associated with such growth, the level of competition arising from other fabric manufacturers, our ability to manage our business growth strategically and cost effectively, our ability to cope with any increase in product demands, our ability to enhance our research and development capabilities and the availability of funds to finance our strategic plans. There is no assurance that we can successfully manage any of these factors. If we fail to implement our plans, our business, financial condition, results of operations and prospects may be adversely affected.

**Our business prospects may be difficult to evaluate due to our relatively short operating history.**

Although most of our senior management members have nearly 20 years of experience in the textile industry, we commenced our fabric manufacturing business in 2003. As our operating history is relatively short, there may be limited operating data available to establish long term trends to evaluate the performance and prospects of our Fabric Products, especially our jacquard fabric business which we expect, will become increasingly important to our business. Due to our limited operating history, there is no assurance that we are able to successfully expand this line of business in the future. Further, same as dobby fabrics, the demand for, and the price of, our jacquard fabrics in the textile markets are subject to fluctuations, uncertainties and the availability of substitute products. In the event that we fail to identify the risks and uncertainties emerging from this market and tackle them effectively, our business, financial condition, results of operations and prospects may be adversely affected.

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### **Non-compliance with the social insurances and housing fund contribution regulations in the PRC could lead to imposition of penalties or other liabilities.**

Our operating subsidiaries in China, namely, Yinshilai Textile and Huiyin Textile, are required to make social insurances contributions and housing fund contribution for the benefit of their own employees under the PRC laws and regulations. In addition, each of Yinshilai Textile and Huiyin Textile is required to make work-related injury insurance contribution for the workforce sourced from Zibo Kangye since April 2011 pursuant to the labour sourcing agreements with Zibo Kangye. Due to the differences in local regulations, inconsistent implementation by local authorities in the PRC, high mobility of rural population and different levels of acceptance of the social insurances and housing fund systems by employees, each of Yinshilai Textile and Huiyin Textile did not make social insurances and housing fund contributions in full for its employees during the [ • ].

As of 31 December 2011, the aggregate outstanding amount of social insurances and housing fund contributions were approximately RMB9,631,518.94 and RMB2,407,062.5 respectively. We may be ordered to make the outstanding contributions and be subject to penalties for late payment. The penalties for failure to make social insurance contributions are calculated at 0.2% per day of the outstanding amount and the penalties for failure to make housing fund contribution are not less than RMB10,000 and not more than RMB50,000. Our Directors are of the view that, since it is not probable that an outflow of resources will be required to settle the outstanding amount of social insurances and housing fund contributions, no provision has been made by our Group in this regard. Please refer to the paragraphs headed “Social insurances and housing fund” under the “Directors, Senior Management and Employees” section of this document for details.

### **We face certain risk relating to the real properties we owned or leased.**

As at 31 December 2011, we did not obtain the relevant construction planning permits for five buildings with a total gross floor area of approximately 3,893.56 sq.m. The said five structures are being used as warehouse and compressed air station purposes. As advised by our PRC legal advisers, due to the fact that we fail to obtain the required planning permits, we could be ordered by the relevant PRC authorities to demolish these buildings and undertake other remedial measures, or the relevant buildings could be confiscated by the relevant PRC authorities. We could also be liable to a fine of up to a maximum of 10% of the construction costs in respect of the buildings that we have failed to obtain the relevant planning permits, which amounts to approximately RMB392,437.23.

We leased a property situated in Yinlong Village, Economic Development Zone, Boshan District, Zibo City from Yinlong Villagers’ Committee for our yarn production purpose. As at the Latest Practicable Date, we had yet to receive from the relevant lessor the land use rights certificate and other evidence of title to the said piece of land, and we also have not received any building ownership certificate of the property on such land. Our PRC legal advisers have advised that, if the lessor of the relevant leased property does not have the requisite rights to lease out the relevant leased property, the relevant lease agreements may be deemed invalid, and as a result, we may be required to move out from the relevant leased property and relocate our production facilities. Besides, due to the lack

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of land use rights certificate of the aforesaid leased property, if the property is not used in accordance with its prescribed usage, according to the applicable PRC laws and regulations, we may also be required to relocate our relevant production facilities and face a fine up to RMB30 per square meter of the illegally occupied property.

We cannot assure you that the relevant PRC authorities will not order the demolition of those buildings we owned for the failure as mentioned above, or to vacate us from our leased premises if our lease agreement is declared void and unenforceable by the relevant PRC authorities, in which case we will need to relocate, but may not be able to successfully find alternative sites to locate our facilities or obtain alternative source of yarns during the period of relocation on commercially reasonable terms, or at all. If any of such events occur, our business operations and future growth may be adversely disrupted, and this could have an adverse effect on our business, financial condition, results of operations and prospects. The Controlling Shareholders have undertaken to indemnify our Group against any damages, losses or liabilities which are or will become payable by any members of our Group as a result of the above non-compliance by our Group in relation to our properties, which are owned or leased by our Group. Please see “Business — Properties” in this document for details.

**We are potentially liable for the payment of the Outstanding Settlement Amount under the Civil Mediation Agreement.**

On 29 April 2008, Mr. LIU Dong, Mr. LIU Yanjiang, Ms. LIU Hongrui, Yinlong Industrial, Yinshilai Textile and Yinshan Chemical Fiber entered into a mediation agreement. As advised by our PRC legal advisers, such mediation agreement was subsequently endorsed by the Jurisdiction Court (as defined in the section headed “Connected Transactions” in this document).

Pursuant to the Civil Mediation Agreement (as defined in the section headed “Connected Transactions” in this document), in consideration of the transfer of all equity interest held by Mr. LIU Yanjiang and Ms. LIU Hongrui in Yinlong Industrial, Yinshilai Textile and Yinshan Chemical Fiber and as the compensation to Mr. LIU Yanjiang and Ms. LIU Hongrui for their interest in and any loan made to the aforementioned companies, Mr. LIU Dong agreed to pay Mr. LIU Yanjiang and Ms. LIU Hongrui RMB5,000,000 before 19 May 2008 and RMB 5,000,000 before 3 June 2008, and Mr. LIU Dong, Yinlong Industrial, Yinshilai Textile and Yinshan Chemical Fiber agreed to be jointly and severally liable to Mr. LIU Yanjiang and Ms. LIU Hongrui for the remaining balance of RMB45,000,000 divided into 9 instalments of RMB5,000,000 each payable half-yearly. As advised by our PRC legal advisers and based on the terms of the Mediation Agreement (as defined in the section headed “Connected Transactions” in this document), the settlement sum was payable to Mr. LIU Yanjiang and Ms. LIU Hongrui (who are married couple) jointly and collectively.

As confirmed by our Directors, the first 7 instalments up to 31 December 2011 for the aggregate sum of RMB35,000,000 had been duly paid by Mr. LIU Dong pursuant to the Civil Mediation Agreement. The Jurisdiction Court also confirmed that the instalments had



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been duly paid. The remaining two instalments for the Outstanding Settlement Amount (as defined in the section headed “Connected Transactions” in this document) are to be paid on or before 30 June 2012 and 31 December 2012, respectively.

On 25 June 2012, Mr. LIU Dong remitted the Outstanding Settlement Amount to the designated bank account of the Jurisdiction Court on a non-refundable basis and irrevocably agreed and undertook to Yinlong Industrial, Yinshan Chemical Fiber and Yinshilai Textile that he would be primarily liable for all liabilities and obligations to Mr. LIU Yanjiang and Ms. LIU Hongrui under the Civil Mediation Agreement. As confirmed by the Jurisdiction Court, since Mr. LIU Dong had irrevocably paid to it the Outstanding Settlement Amount on a non-refundable basis, it will not release the Outstanding Settlement Amount to Mr. LIU Dong or his [ • ] creditors in any circumstance and will only pay such amount in full directly to Mr. LIU Yanjiang and Ms. LIU Hongrui pursuant to the payment schedule under the Civil Mediation Agreement, and accordingly, all obligations and liabilities of Yinshilai Textile under the Civil Mediation Agreement had been discharged and released. Having considered that (i) the Outstanding Settlement Amount has been paid in full into the designated bank account of the Jurisdiction Court which will proceed to pay such amount to Mr. LIU Yanjiang and Ms. LIU Hongrui pursuant to the payment schedule under the Civil Mediation Agreement as confirmed by the Jurisdiction Court in a confirmation letter dated 25 June 2012, and (ii) the joint obligations and liabilities of Yinshilai Textile under the Civil Mediation Agreement is to be discharged by way of cash payment of the Outstanding Settlement Amount to Mr. LIU Yanjiang and Ms. LIU Hongrui, our PRC legal advisers advised that, on the basis that the Jurisdiction Court, which is the competent authority in making the relevant confirmation, will have paid the Outstanding Settlement Amount to Mr. LIU Yanjiang and Ms. LIU Hongrui in full pursuant to the payment schedule under the Civil Mediation Agreement, the joint obligations and liabilities of Yinshilai Textile under the Civil Mediation Agreement can be deemed as having been discharged and released in substance.

As at the Latest Practicable Date, the Outstanding Settlement Amount had been deposited at the designated bank account of the Jurisdiction Court and the disposal thereof was at its absolute discretion. There is no assurance that, if Mr. LIU Dong becomes insolvent, any of his creditors will not be able to successfully file a claim for seizing the assets of Mr. LIU Dong, including the money of Mr. LIU Dong deposited to the Jurisdiction Court, to the extent that those money has not yet been paid to Mr. LIU Yanjiang and Ms. LIU Hongrui, in satisfaction of the debt owed to them. If any of these events occurs, Yinshilai Textile will be jointly and severally liable with Mr. LIU Dong, Yinlong Industrial and Yinshan Chemical Fiber for the payment of the Outstanding Settlement Amount, and any payment of such amount in full or in part by Yinshilai Textile or our Group may adversely affect our cashflow position and financial condition. The Controlling Shareholders have undertaken to indemnify our Group against any damages, losses or liabilities which are or will become payable by our Group as a result of the Civil Mediation Agreement.

For further details relating to the above, please refer to “Connected Transactions — Financial Assistance Provided by the Company for the Benefit of a [ • ]” in this document.

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### **Our success and continued growth are dependent on our key management team.**

We believe that our success is, to a certain extent, attributable to the expertise and experience of our key management team, which comprised Mr. LIU Dong, Mr. LIU Zongjun (劉宗君), Mr. TIAN Chengjie (田成杰) and Ms. SUN Hongchun (孫紅春) as at the Latest Practicable Date. During the [ • ], our senior management team also included Mr. LV Ruichuan, our former director of Huiyin Textile until March 2012, who was primarily responsible for enterprise daily management and implementation of business plan. Mr. LV Ruichuan has ceased to be our employee and has become our consultant since late June 2012. Details of the consultancy agreement entered into between our Company and Mr. LV Ruichuan and his biographical details are set out in “Connected Transactions — Exempt continuing connected transactions”. Details of our current management team, including their relevant areas of expertise, are set forth in “Directors, Senior Management and Employees”. Our current management members possess in-depth know-how in their respective area of expertise, have made significant contribution to our business development and are responsible for implementing our business strategies. Our continued success is dependent, to a large extent, on the ability to attract and retain the services of the key management team members. Accordingly, the loss of services of any of our key management team members without suitable and timely replacements may lead to disruption in our operations, loss or deterioration of important business relations and have a material adverse effect on our business, results of operations and prospects.

### **We rely on a stable supply of skilled labour at reasonable cost.**

Although our production facilities are highly mechanized and do not require a large amount of labour force to operate, we rely on skilled labour force who has technical capabilities to monitor, operate and administer these facilities, to design our products and improve our production technique.

There is no guarantee that our supply of skilled labour and the average labour cost will continue to be stable. If we fail to retain our existing skilled labour and/or recruit sufficient skilled labour in a timely manner, we may not be able to cope with sudden increase in demand for our products or our expansion plans. If we are not able to manufacture and deliver our products on schedule or if we are unable to implement our expansion plans, our business, financial condition, results of operations and prospects would be materially and adversely affected. Moreover, if there is a significant increase in labour cost or shortage of skilled labour, the cost of our business operation would increase and our business, financial condition, results of operations and prospects would be adversely affected.

### **We may face disruptions in our production process.**

Our revenue is dependent on the continued operation of our production facilities. Our production process is subject to risks beyond our control including, amongst others, fire, breakdown, failure or substandard performance of our equipment, power shortage, labour strikes, natural disasters and any interruption in our operations as a result of any failure to comply with all applicable laws, regulations and standards in the PRC. Frequent or prolonged occurrence of any of the aforesaid events may have a material adverse effect on our business, financial condition and results of operations.



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**We may not be able to adequately protect our intellectual property rights or may inadvertently infringe upon third party intellectual property rights.**

We rely on a combination of registration and contractual rights to protect our intellectual property rights. For further details of our intellectual property rights, please see “Further Information about the Business of our Company — 9. Intellectual property rights of our Group” in Appendix VI to this document. In addition to registration of our intellectual property rights, we have taken other appropriate measures such as signing of non-disclosure and confidentiality agreements to protect our intellectual property rights. There is no assurance that any of the above measures will be sufficient to prevent any misappropriation of our intellectual property. In the event that any third party infringes our intellectual property rights, we may face considerable difficulties and time consuming and costly litigation in order to enforce our intellectual property rights. If we are not able to effectively protect our intellectual property rights, our business, financial condition and results of operations could be adversely affected.

Similarly, there is no assurance that we will not be involved in intellectual property disputes. It is possible that we may inadvertently infringe the intellectual property rights of others and face liabilities for such infringements during the course of our business. We may, in the future, receive allegations from third parties asserting the infringement of their intellectual property rights in relation to our business and operations. Actions brought against us for infringement of third party intellectual property rights may adversely affect our reputation and business operations. In the event of an infringement claim, we may be required to spend significant resources to defend and/or to develop a non-infringing alternative and/or to obtain appropriate licences. We may not be successful in developing the alternative or obtaining the licences on reasonable terms, or at all. Any litigation, including frivolous litigation, can also result in significant costs and diversion of resources and may adversely affect our business, financial condition and results of operations.

**We are subject to foreign exchange risks.**

Our domestic sales and purchases and operating expenses are denominated in RMB whereas our overseas sales and purchases are mainly denominated in U.S. dollars. For the years ended 31 December 2009, 2010 and 2011, approximately 14.35%, 22.24% and 11.73% of the revenue generated by our Group during the respective period were denominated in US dollars, whereas the remaining percentage thereof was denominated in RMB. In addition, most of our core weaving machineries and equipment were imported from overseas. Accordingly, we are required to make payments in US\$, Euro, Japanese Yen or other foreign currencies, particularly when we undertake major purchases of machineries and equipment. Our foreign currency exchange risk arises mainly from a mismatch between the currency of our sales, purchases, operating expense, purchase of imported machines and equipment, and bank loans denominated in foreign currencies. To the extent that our sales, purchases, operating expenses and purchase of imported machines and equipment from overseas countries are not denominated in the same currency, and to the extent that there are timing differences between invoicing, payment and collections, we will be exposed to foreign currency exchange gains and losses arising from transactions in currencies other than RMB. Our exposure to foreign exchange fluctuations and movements in the exchange

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## **RISK FACTORS**

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rate of RMB may adversely affect our financial condition and results of operations. We recorded foreign exchange loss of approximately RMB10.60 million for the year ended 31 December 2010.

Currently, we do not have any hedging policy with respect to our foreign exchange exposure. In view of the nature of our business, foreign exchange risks will continue to be an integral aspect of our risk profile in the future. We will continue to monitor our foreign exchange exposure in the future and will consider hedging any material foreign exchange exposure should the need arise.

**The preferential tax treatment we currently enjoy may be changed or discontinued.**

The PRC government provides tax incentive schemes to foreign-owned enterprises. Under PRC tax laws, a WFOE is entitled to a two-year income tax exemption period commencing from the first profit making year and a 50% reduction in EIT for the next three years. One of our PRC operating subsidiaries, Huiyin Textile, fulfills the requirements to receive preferential EIT treatments. Huiyin Textile started making profits in the year ended 31 December 2008. As a result, Huiyin Textile was entitled to EIT exemption for the period from 1 January 2008 to 31 December 2009 and a 50% reduction in EIT from 2010 to 2012. Starting from 1 January 2013, Huiyin Textile will be subject to the uniform tax rate of 25% after our tax benefits expire on 31 December 2012.

In light of the above taxation treatment, during the years ended 31 December 2009, 2010 and 2011, the effective tax rate of our Group was approximately 3.67%, 19.88% and 13.71% respectively. The increase in effective tax rate for the year ended 31 December 2010 compared to the year ended 31 December 2009 was mainly due to (a) a change in the applicable tax rate of Huiyin Textile as mentioned above; and (b) the deferred tax of approximately RMB10.02 million.

For the period from 26 September 2010 to 25 September 2013, Yinshilai Textile is granted the status of a “High and New Technology Enterprise” and, according to the applicable PRC laws and regulations, will be entitled to the reduced EIT rate of 15% after obtaining yearly consent from the local tax authorities. Yinshilai Textile is in the process of applying for the consent to the aforesaid tax reduction from local tax authorities.

There is no assurance that the PRC policies on preferential tax treatments and/or supporting textile industry will not change or that the current preferential tax treatments we enjoy or will be entitled to enjoy will not be cancelled. If such change and cancellation occur, the resulting increase in our tax liability or reduction in the amount of subsidies we receive would have an adverse effect on our net profits and cash flow.

**We may be deemed a PRC resident enterprise under the New EIT Law and be subject to the PRC taxation on our worldwide income.**

The New EIT Law was promulgated by the National People’s Congress on 16 March 2007 and became effective on 1 January 2008. The new law imposes a uniform income tax rate of 25% on both domestic and foreign invested enterprises. It also contemplates various transition periods for existing preferential tax treatments. According to the “Notice of the

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## **RISK FACTORS**

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State Council on the Implementation of the Transitional Preferential Policies in respect of Enterprise Income Tax” 《(國務院關於實施企業所得稅過渡優惠政策的通知)》 (“**Notice**”) promulgated by the PRC State Council and effective from 26 December 2007, enterprises entitled to preferential tax treatments of lower taxation prior to the New EIT law came into effect must gradually transit to the uniform tax rate of 25% within five years from 1 January 2008. Enterprises entitled to preferential tax treatment of tax reduction such as “two-years exempt and three-years halved” prior to the New EIT law came into effect are able to continue to enjoy the relevant preferential treatments after the implementation of the New EIT Law until they expire.

Under the New EIT Law, our Company and non-PRC subsidiaries may be classified as a “resident enterprise” of the PRC. Under the New EIT Law, an enterprise established outside the PRC with “de facto management bodies” within the PRC is considered a “resident enterprise”, meaning that it can be treated in a manner similar to a PRC enterprise for enterprise income tax purposes. The implemented rules of the New EIT Law define “de facto management” as “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise. It is unclear how the PRC tax authorities will determine whether an enterprise should be classified as a “resident enterprise”. If the PRC tax authorities determine that our Company is a “resident enterprise” for PRC enterprise income tax purposes, we may be subject to enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In our case, this would mean that income such as interest earned on [ • ] proceeds and other income sourced from outside the PRC would be subject to PRC enterprise income tax at a rate of 25%, in comparison to no taxation in the Cayman Islands. Moreover, if we are considered a PRC “resident enterprise,” the dividends our Company pay in respect to our Shares, and the gain investors of our Company may realise from the transfer of our Shares, would be treated as income derived from sources within the PRC and be subject to PRC withholding tax, which may materially and adversely affect the value of the investment in our Shares.

In addition to the above uncertainties, there can be no assurance that the PRC Government will not amend or revise taxation laws, rules and regulations to impose stricter tax requirements or higher tax rates, or apply the New EIT Law or any subsequent changes in PRC taxation laws, rules or regulations retrospectively. If these changes occur and/or if such changes are applied retrospectively, they might materially affect our business, financial condition and results of operations.

**We may incur additional costs or liquidated damages in the event of product recalls, defects or claims.**

We may encounter disputes with our customers in relation to defects in workmanship, materials used and non-compliance with product specifications. Disputes and claims could result in undue delays in payment by our customers or protracted litigation, which will have a negative impact on our profits and financial position. In addition, we may face negative publicity with respect to our products, and will incur costs if we are required to undertake a

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## **RISK FACTORS**

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massive recall of our products in the event of defects in workmanship, materials used and non-compliance with product specifications. Such additional costs will have an adverse effect on our business, financial condition, results of operations and prospects.

**We may be exposed to credit risks of our customers.**

For the years ended 31 December 2009, 2010 and 2011, our average trade receivables turnover periods were 28 days, 32 days and 23 days. We may have to relax our existing credit policies to enhance our market position when competition intensifies. We also face uncertainties over the timeliness of our customers’ payments and their ability to pay. Although we have in place credit checking policy and during the [ • ], we had not experienced any material difficulties in collecting payments from our customers, there is no assurance that we will always be able to collect our trade debts on a timely basis or at all. Our financial position and results of operation would be adversely affected if the rate of recovery of our trade receivables deteriorates. A material increase in bad and doubtful debts will adversely affect our financial performance.

**Our policies in respect of management of financial risks may not be sufficient and effective.**

Our principal financial instruments comprise trade and other receivables, amounts due from/to related companies, pledged bank deposits, bank balances, trade and other payables, amount due to a shareholder, and bank and other borrowings. The main risks associated with certain of these financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. As at the Latest Practicable Date, we did not hold or issue derivative financial instruments for hedging purposes. Our policies for financial risk management may not be sufficient. Further, there is a lack of hedging tools against financial risks in the PRC. If we fail to maintain effective risk management policies in respect of any of the financial risks in the future, our business, financial condition and results of operation may be materially and adversely affected.

**We have limited insurance coverage.**

We maintain insurance policies covering risks in respect of properties and vehicles and goods in transit. There is no assurance that our insurance coverage would be sufficient to cover all our potential losses. For further details on the insurance policies we maintain, please see “Business — Insurance” in this document. In the event that our insurance policies cannot sufficiently compensate for our losses sustained as a result of damage to items covered or howsoever incurred, we would have to pay for the difference ourselves and our cash flow and liquidity could be adversely affected.

**Investors may experience difficulty in effecting service of legal process and enforcing judgments against us and our management.**

Almost all of our assets are located in the PRC. In addition, most of our Directors and officers reside within the PRC, and their respective assets may also be located within the PRC. It may be difficult to serve process on our Directors and officers in the PRC. In addition, a judgment of a court of another jurisdiction may only be recognized or enforced if the jurisdiction has a treaty with the PRC or as a matter of reciprocity, subject to

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## **RISK FACTORS**

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satisfaction of other requirements. However, the PRC does not have treaties providing for the recognition or enforcement of civil judgments of the courts of the United States or other western countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in the PRC or Hong Kong of judgments of a court in these jurisdictions is subject to uncertainties.

**Investors may experience difficulties in enforcing their shareholder rights as our Company is incorporated in the Cayman Islands, and Cayman Islands laws for protection of minority shareholders may be different from those under the laws of Hong Kong and other jurisdictions.**

Our corporate affairs are governed by, amongst other things, the Memorandum and Articles of Association, Cayman Islands Companies Law and common law of the Cayman Islands. The law of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in Hong Kong and other jurisdictions. The remedies available to the minority Shareholders may be different compared to the laws of Hong Kong or other jurisdictions. For example, the Cayman Islands Companies Law does not contain an express provision which is equivalent to section 168A of the Companies Ordinance which provides a remedy for shareholders who have been unfairly prejudiced by the conduct of the company’s affairs. For further details, please see “Summary of the Constitution of our Company and Cayman Islands Companies Law” in Appendix IV to this document.

**Dividends paid in the past may not be indicative of the amount of future dividend payments or our future 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 our then eligible Shareholders. As advised by our PRC legal advisers, according to the articles of association of Yinshilai Textile and Huiyin Textile and the applicable PRC laws and regulations, the principal procedures for the payment of dividends by Yinshilai Textile and Huiyin Textile to their eligible shareholders are (a) passing of board resolutions by Yinshilai Textile and Huiyin Textile for the declaration of dividends, (b) obtaining relevant taxation certificates from the responsible taxation authorities, and (c) submitting any other documents required by SAFE and the relevant designated remitting banks. Yinshilai Textile and Huiyin Textile had passed relevant board resolutions for the declaration of the special dividends and made applications to the local taxation authorities for the issue of the necessary taxation certificates. The aforesaid dividends were paid to the eligible shareholders after the aforesaid procedure had been completed. We financed the payment of such dividends with our internal resources. Save as disclosed above, no other dividend was paid by our Group to any Shareholder during the [•]. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future. In the future, our dividend payment will be subject to our results of operations, cash flows, financial conditions and future prospects and other factors considered relevant by our Directors. Potential investors should note that the dividend payments in the past should not be used as a reference for the determination of our future dividend policy.



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## **RISK FACTORS**

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### **RISKS RELATING TO THE INDUSTRY**

**We operate in a highly competitive industry and we may lose our market share if we do not compete successfully.**

The fabric manufacturing industry is highly competitive. We compete with large, vertically-integrated fabric and yarn manufacturers and numerous smaller manufacturers. For domestic sales of our products, we mainly face direct competition from major players in the industry in the PRC. For products exported to overseas markets, we face competition from both domestic and foreign manufacturers, which include many companies that are larger in size and have greater financial resources than us.

The principal competitive factors that influence our customers’ purchasing choices include product variety, product quality and price. The importance of these factors is determined by the needs of particular customers and the characteristics of particular products. If our competitors are able to offer more variety of products of comparable quality at lower prices, our sales and market share could be materially and adversely affected. Moreover, an overall decline in demand for our products could exert a downward pressure on our prices and erode our profit margins.

We are exposed to the risk that companies, whether they are smaller, more specialized manufacturers or multinationals with greater financial resources, may enter our market in the future. There may also be consolidation in the industry resulting in larger and integrated players with significantly increased market share. Furthermore, in order to gain market share, our competitors may price their products aggressively, resulting in more intense competition. Increased competition may result in price reduction, reduced margins and loss of market share, any of which could materially and adversely affect our results of operations.

**Import quotas, higher tariffs or other trade barriers imposed by the United States, the European Union or other WTO member nations on the textile industry may have a material adverse impact on our results of operations.**

After the phase-out of the Agreement on Textiles and Clothing (紡織品與服裝協議) as of 1 January 2005, which imposed import quotas on textiles and garments from developing countries, the United States and the European Union imposed import restrictions on textiles from China to reduce the impact of an influx of Chinese textiles imports according to the relevant provisions of the special safeguards on importing textiles from China stipulated under the paragraph 242 of the Report of the Working Party on the Accession of China to the WTO (中國加入世貿組織工作組報告書). The PRC government settled the trade disputes with both the United States and European Union through separate memoranda of understanding that prescribed annual quotas and caps on annual increases of quotas on 21 categories and 10 categories of Chinese textiles imports into the United States and European Union, respectively. The memoranda of understanding entered into between the European Union and China as well as between United States and China had expired on 31 December 2008. The special safeguards on importing textiles from China as provided for under paragraph 242 of the Report of the Working Party on the Accession of China to the WTO also had expired on 31 December 2008.



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## **RISK FACTORS**

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In September 2006, the PRC Ministry of Commerce promulgated the Measures for the Administration of the Export of Textiles (Provisional). Under this system, effective on 18 September 2006, China-based textile manufacturers exporting to countries or regions that have imposed restrictions on Chinese textile exports or entered into bilateral agreements with China regarding temporary arrangements relating to the quantity of their imports of China-made textiles, are required to apply for a licence in order to export the affected categories of textiles products to these markets. The rules apply to the then effective memorandum of understanding entered into between the European Union and China as well as between United States and China.

Under current WTO rules, the United States, the European Union or other WTO member nations may impose import quotas, higher tariffs or other trade barriers on specific categories of textiles from China to prevent domestic market disruptions. If the countries to which we export were to impose quota restrictions or any other forms of trade restrictions such as annual growth limits on imports, technical regulations and standards on imports and environmental protection requirements against textile products from the PRC, our business, financial condition, results of operations and prospects may be adversely affected.

**The demand for our products could be adversely affected by the availability of non-cotton substitutes.**

During the [ • ], a significant proportion of our products are cotton-based products. There are a variety of non-cotton and synthetic materials which can be used as substitutes for cotton in the manufacturing of fabric products. Accordingly, the demand for cotton-based fabric products may be adversely affected by an increase in the demand or ease of availability of non cotton-based substitute products. To reduce our reliance on the sale of cotton-based fabric products, we also offer Fabric Products made with non-cotton fibers, including Tencel and/or new materials and fibers thereby increasing the differentiation of our Fabric Products and broadening our product mix. For details of the sales of our Fabric Products made with Tencel or new material and fiber, please see “Business — Products — Product category by raw materials component” in this document. There is no assurance that we will successfully expand our sale of Fabric Products made with such non-cotton fibers or that the demand for Fabric Products made with such fibers will increase. In the event that there is a decrease in market demand for cotton-based or non cotton-based fabric products, our business, financial condition, results of operations and prospects may be adversely affected.

### **RISKS RELATING TO THE PRC**

**The current global market fluctuations and economic downturn could materially and adversely affect our business, financial condition and results of operations.**

The global capital and credit markets have been experiencing extreme volatility and disruption since 2008. Concerns over inflation, energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market and the state of the residential real estate market in the U.S. and elsewhere have contributed to unprecedented levels of market volatility and weak investor sentiment for the global economy and the capital and consumer markets in the future. These factors, combined with volatile oil prices, declining business

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## **RISK FACTORS**

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activities and consumer confidence and increased unemployment, have precipitated an economic slowdown and a possible prolonged global recession. Recently, the instability of the Greek and other European states’ credit and financial markets has threatened the stability of the European Union’s monetary policies, which may negatively impact the Euro, the members of the European Union, the world economy as well as the global credit and capital markets. These events have led to a slowdown in the Chinese and global economy which is expected to continue in the near future. As a result, consumer demand for our products may significantly decrease, thereby materially and adversely affecting our business, financial condition, results of operations and prospects. Moreover, many banks have been tightening credit, which may increase our financing costs. Banks may also reduce the amount of or discontinue the banking facilities currently available to us. If any of these events occurs, our business, financial condition, results of operations and prospects may be adversely affected which could be material.

**Changes in political and economic policies may have a negative impact on our operations.**

The majority of our assets are located in the PRC. A substantial portion of our revenue is generated from sales in the PRC. Our results of operations and prospects will be affected, to a significant degree, by economic, political and legal developments in the PRC. The economy of the PRC differs from the economies of most developed countries in many respects, including the extent of government involvement in allocation of resources, capital investment, level of development, growth rate and control of foreign exchange.

Historically, the PRC economy has been centrally planned, through a series of economic plans promulgated and implemented by the PRC government. Since 1978, the PRC government has promulgated various reforms of its economic systems. Such reforms have resulted in economic growth for the PRC in the last three decades. However, many of the reforms are unprecedented or experimental, and are expected to be refined and modified from time to time. Other political, economic and social factors may also lead to further readjustment of the reform measures. Moreover, we cannot assure you that the PRC government will continue to pursue economic reforms. A variety of policies and other measures that could be taken by the PRC government to regulate the economy could have a negative impact on our business, including the introduction of measures to control inflation or reduce growth, changes in the rate or method of taxation or the imposition of additional restrictions on currency conversions and remittances abroad. Our business, financial condition, results of operations and prospects may be adversely affected by the PRC government’s political, economic and social policies and regulations or changes in laws, regulations or the interpretation or implementation thereof.

**Introduction of new laws or changes to existing laws by the PRC government may adversely affect our business.**

Our business and operations in the PRC are governed by the legal system of the PRC. The PRC legal system is a codified system with written laws, rules and regulations. The PRC government is still in the process of developing its legal system, so as to meet the needs of investors and to encourage foreign investment. As the PRC economy is developing generally at a faster pace than its legal system, some degree of uncertainty exists in

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## **RISK FACTORS**

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connection with whether and how existing laws and regulations will apply to certain events or circumstances. Some of the laws and regulations, and the interpretation, implementation and enforcement thereof, are still at an experimental stage and are therefore subject to policy changes. Further, prior court decisions may be cited for reference but have limited precedential value. Accordingly, the outcome of dispute resolution may not be as consistent or predictable as in the other more developed jurisdictions. Even after the relevant legislation has been enacted, it may be difficult to obtain swift and equitable enforcement of the laws in the PRC, or to obtain enforcement of a judgment by a court or another jurisdiction. Any introduction of new laws or amendments to existing laws by the PRC government which is detrimental to the business environment in which we operate will adversely affect our profitability.

**PRC foreign exchange control may limit our ability to utilise our revenue effectively and affect our ability to receive dividends and other payments from our PRC subsidiaries.**

Our PRC subsidiaries are subject to the PRC rules and regulations on currency conversion. In the PRC, SAFE and its local branches regulate the conversion of the RMB into foreign currencies. Foreign investment enterprises (“FIEs”) are required to apply to SAFE or its local branches for Foreign Exchange Registration Certificates. With such registration certifications (which need to be inspected annually), FIEs are allowed to open foreign currency accounts including the basic account and capital account after approval of SAFE or its local branches. Currently, conversion within the scope of the basic account (such as remittance of foreign currencies for payment of dividends) does not require the approval of SAFE by complying with certain procedure requirements. However, conversion of currency in the capital account (such as for capital items such as direct investments, loans and securities) still requires the approval of SAFE or its local branches.

We cannot assure you that the PRC regulatory authorities will not impose further restrictions on the convertibility of the RMB. As our subsidiaries in the PRC generate all of our revenue and these revenues are substantially denominated in RMB, any future restrictions on currency conversion may limit our ability to repatriate such revenues for the distribution of dividends to our Shareholders or for funding our other business activities outside the PRC.

**The implementation of the new Employment Contract Law and increase in labour costs in the PRC may adversely affect our business and profitability.**

The new Employment Contract Law became effective on 1 January 2008 in China. It imposes more stringent requirements on employers in relation to entry into fixed term employment contracts, hiring of temporary employees and dismissal of employees. In addition, under the newly promulgated “Regulations on Paid Annual Leave for Employees” (《職工帶薪年休假條例》), which became effective on 1 January 2008, employees who have worked continuously for more than one year are entitled to a paid vacation ranging from 5 to 15 days, depending on the length of the employees’ work time. Employees who waive such vacation time at the request of employers shall be compensated for three times their normal daily salaries for each vacation day being waived. As a result of the new law and regulations, our labour costs may increase. Our Directors cannot assure you that any

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## **RISK FACTORS**

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disputes, work stoppages or strikes will not arise in the future. Increases in our labour costs and future disputes with our employees could adversely affect our business, financial condition and results of operations.

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## FORWARD-LOOKING STATEMENTS

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We have included in this document forward-looking statements. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements.

These forward-looking statements include, without limitation, statements relating to:

- our business prospects;
- our future debt levels and capital needs;
- future developments, trends and conditions of the textile industry in China and the world;
- our strategies, plans, objectives and goals;
- general economic conditions;
- changes to regulatory or operating conditions in the market in which we operate;
- our ability to reduce costs;
- capital market developments;
- the actions and developments of our competitors;
- certain statements in “Financial Information” with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates; and
- other statements in this document that are not historical facts.

In some cases, we use the words “aim”, “anticipate”, “believe”, “continue”, “could”, “estimate”, “expect”, “going forward”, “intend”, “ought to”, “may”, “plan”, “potential”, “predict”, “project”, “seek”, “should”, “will”, “would”, and similar expressions to identify forward-looking statements.

These forward-looking statements are based on current plans and estimates, and apply only as of the date they are made. Our Directors have confirmed that the forward-looking statements contained in this document are made after due and careful consideration and on the basis and assumptions that are fair and reasonable. We undertake no obligation to update or revise any forward-looking statement in light of new information, future events or otherwise. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond our control. We caution you that a number of important factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statement.

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## **FORWARD-LOOKING STATEMENTS**

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Due to these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this document are qualified by reference to this cautionary statement.



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## WAIVERS

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We have sought the following waivers from strict compliance with the relevant provisions of the [ • ]:

### **CONTINUING CONNECTED TRANSACTIONS AND FINANCIAL ASSISTANCE**

Some of our subsidiaries have entered into and are expected to continue certain transactions, which will constitute non-exempt financial assistance provided by us for the benefit of a [ • ] of our Company under the [ • ] upon the [ • ]. Our Company has applied to the [ • ] for a waiver from strict compliance with the requirements regarding the reporting, announcement and independent Shareholder’s approval requirements in respect of such non-exempt financial assistance under Chapter 14A of the [ • ]. The details of such waiver are set out in the section headed “Connected Transactions” of this document.

The [ • ] has granted a waiver from strict compliance with the applicable requirements under the [ • ] as mentioned above and our Company will comply with the relevant requirements of Chapter 14A of the [ • ]. Further details of such waiver are set out in “Connected Transactions” of this document.

### **MANAGEMENT PRESENCE IN HONG KONG**

#### **Waiver from strict compliance with Rule 8.12 of the [ • ]**

An application has been submitted to the [ • ] for a waiver from strict compliance with Rule 8.12 of the [ • ] which requires a new applicant applying for a primary [ • ] on the [ • ] to have a sufficient management presence in Hong Kong. This normally means that at least two of the issuer’s executive directors must be ordinarily resident in Hong Kong. Since the principal business operation and manufacturing facilities of the Group are located in Shandong Province of the PRC, the senior management team of our Group is and will continue to be based in the PRC.

At present, all of our executive and non-executive Directors and two out of three of our independent non-executive Directors are not ordinarily resident in Hong Kong. Further, our Directors consider that it would be practically difficult and not commercially feasible for our Company to appoint an additional Hong Kong resident as executive Director or to relocate any of the existing executive Directors to Hong Kong merely for the purpose of complying with Rule 8.12 of the [ • ]. We do not have, and do not contemplate in the foreseeable future, that we will have sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the [ • ].

In this regard, the [ • ] has granted a waiver to our Company from strict compliance with the requirement under Rule 8.12 of the [ • ]. In this respect, our Company has appointed two authorized representatives pursuant to Rule 3.05 of the [ • ], namely, Mr. LIU Dong, our executive Director, and Ms. CHAN Yin Wah, our company secretary, who will act as our principal channel of communication with the [ • ]. Ms. CHAN Yin Wah is an ordinarily resident in Hong Kong. For details of her professional qualification, please refer to the section headed “Directors, Senior Management and Employees” in this document. Each of the authorized representatives of the Company has confirmed that each of them will be available to meet with the [ • ] in Hong Kong within a reasonable time upon the request

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## WAIVERS

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of the [ • ] and will be readily contactable by telephone, facsimile and electronic means. Each of the authorized representatives will be provided means to contact all Directors promptly at all times as and when the [ • ] wishes to contact the Directors for any matters. Each of them is authorized to communicate on behalf of our Company with the [ • ].

All of our Directors who are not ordinarily resident in Hong Kong have also confirmed that they possess valid travel documents to visit Hong Kong and will be able to meet with the relevant members of the [ • ] in Hong Kong within a reasonable period of time when required. Also, each of the Directors has furnished his mobile phone number, office phone number, e-mail address and fax number to the [ • ] should the [ • ] wish to contact any of the Directors.

In addition, our Company will retain a compliance adviser pursuant to Rule 3A.19 of the [ • ] for the period commencing on the [ • ] and ending on the date on which our Company complies with Rule 13.46 of the [ • ] in respect of the Company’s financial results for the first full financial year after the [ • ] and it will act as an additional channel of communication of the Company with the [ • ].

Furthermore, our Company shall also appoint other professional advisers (including legal advisers and accountants) after the [ • ] to assist our Company in dealing with any questions which may be raised by the [ • ] and to ensure that there will be efficient communication with the [ • ].

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## DIRECTORS AND PARTIES INVOLVED

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### DIRECTORS

| Name | Address | Nationality |
|------|---------|-------------|
|------|---------|-------------|

#### *Executive Directors*

|                   |                                                                                                                                  |         |
|-------------------|----------------------------------------------------------------------------------------------------------------------------------|---------|
| Mr. LIU Dong (劉東) | No. 302, Unit 2, Building No. 1<br>Yinlong Village<br>Yucheng Town<br>Boshan District<br>Zibo City<br>Shandong Province<br>China | Chinese |
|-------------------|----------------------------------------------------------------------------------------------------------------------------------|---------|

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|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| Mr. LIU Zongjun (劉宗君) | No. 701, Unit 6, Building No. 7<br>Xiaxyuan, Century Garden<br>Liangtong Road<br>Zhangdian District<br>Zibo City<br>Shandong Province<br>China | Chinese |
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|-------------------------|----------------------------------------------------------------------------------------------------------------------------------|---------|
| Mr. TIAN Chengjie (田成杰) | No. 402, Unit 1, Building No. 3<br>Yinlong Village<br>Yucheng Town<br>Boshan District<br>Zibo City<br>Shandong Province<br>China | Chinese |
|-------------------------|----------------------------------------------------------------------------------------------------------------------------------|---------|

#### *Non-executive Director*

|                        |                                                       |         |
|------------------------|-------------------------------------------------------|---------|
| Mr. YAN Tangfeng (閆唐鋒) | 39 Jurong East Avenue 1<br>#06-04<br>Singapore 609776 | Chinese |
|------------------------|-------------------------------------------------------|---------|

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## DIRECTORS AND PARTIES INVOLVED

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| Name                                           | Address                                                                                                                | Nationality |
|------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|-------------|
| <i>Independent non-executive<br/>Directors</i> |                                                                                                                        |             |
| Ms. ZHU Beina (朱北娜)                            | Unit 1703<br>Building No. 40<br>Zhongfang Lane<br>Chaoyang District<br>Beijing<br>China                                | Chinese     |
| Mr. ZHU Ping (朱平)                              | No. 602, Unit 1, Building No. 7<br>16 Qingda One Road<br>Shinan District<br>Qingdao City<br>Shandong Province<br>China | Chinese     |
| Mr. LAM Kai Yeung<br>(林繼陽)                     | Flat 9, 16/F<br>Hing Chung Hse<br>Mei Chung Court<br>Tai Wai<br>New Territories<br>Hong Kong                           | Chinese     |

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## **DIRECTORS AND PARTIES INVOLVED**

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### **PARTIES INVOLVED**

**Legal advisers to the Company**

*As to Hong Kong law:*

Li & Partners  
22nd Floor, World-Wide House  
Central, Hong Kong

*As to Cayman Islands law:*

Maples and Calder  
53rd Floor, The Center  
99 Queen’s Road Central  
Hong Kong

*As to PRC law:*

Jingtian & Gongcheng  
34th Floor, Tower 3, China Central Place  
77 Jianguo Road, Chaoyang District  
Beijing, PRC

**Auditors and reporting accountants**

KPMG  
Certified Public Accountants  
8th Floor  
Prince’s Building  
10 Chater Road, Central  
Hong Kong

**Property valuer and consultant**

Jones Lang LaSalle Corporate Appraisal and  
Advisory Limited  
6th Floor, Three Pacific Place  
1 Queen’s Road East  
Hong Kong

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## **CORPORATE INFORMATION**

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|                                                                              |                                                                                                                                                                                                                 |
|------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Registered Office</b>                                                     | P.O. Box 309<br>Ugland House<br>Grand Cayman KY1-1104<br>Cayman Islands                                                                                                                                         |
| <b>Head office, headquarter and principal place of business in the PRC</b>   | Yinlong Village<br>Economic Development Zone<br>Boshan District<br>Zibo City<br>Shandong Province<br>PRC<br><br>Middle Section<br>West Guojing Road<br>Boshan District<br>Zibo City<br>Shandong Province<br>PRC |
| <b>Head office, headquarter and principal place of business in Hong Kong</b> | 3907–08, 39th Floor<br>Hopewell Centre<br>183 Queen’s Road East<br>Wanchai<br>Hong Kong                                                                                                                         |
| <b>Company secretary</b>                                                     | Ms. CHAN Yin Wah, <i>ACS, ACIS, ACCA</i>                                                                                                                                                                        |
| <b>Principal banker</b>                                                      | Bank of China Limited<br>Zibo Boshan Branch<br>63, Center Road, Boshan District<br>Zibo City, Shandong Province<br>PRC                                                                                          |
| <b>Company website address</b>                                               | <a href="http://www.ysltex.com">http://www.ysltex.com</a> *                                                                                                                                                     |

\* *The contents of the website do not form part of this document.*



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## INDUSTRY OVERVIEW

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### CHINA’S TEXTILE INDUSTRY

#### Overview

China’s textile industry is a traditional pillar industry of the national economy. In 2010, the total industry output value of textile industry above the designated size reached approximately RMB4.8 trillion, accounting for approximately 12.1% of China’ GDP for the same year. According to the China National Textile and Apparel Council, in 2010, there were about 55,500 companies above the designated size (as defined by the National Bureau of Statistics of China as companies with core business revenue of RMB5 million)<sup>1</sup> in the textile industry, achieving the manufacturer sales value of approximately RMB4.7 trillion in 2010, up by approximately 27.5% from 2009.

#### Robust domestic demand

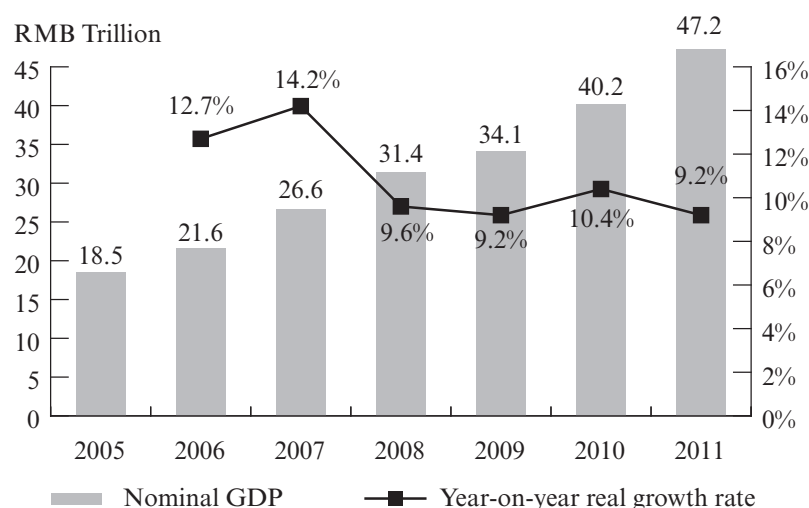
The robust domestic demand is fueled by sustained economic growth. China’s nominal GDP reached approximately RMB39.8 trillion in 2010, which pushed China ahead of Japan and placed China as the second largest economy in the world. The real GDP growth was approximately 10.4% in 2010, higher than that of 2009 when the GDP was crippled by the global financial crisis. In 2011, China’s nominal GDP increased to approximately RMB47.2 trillion, up by approximately 18.6% compared to that of 2010.

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<sup>1</sup> Given the immense size of the textile industry and the business scale of the PRC manufacturers below the designated size is usually very small, the phrase “PRC manufacturers above the designated size” is commonly adopted in the fabric manufacturing industry as a benchmark for measuring the market size and industry output, according to the Euromonitor Report.

## INDUSTRY OVERVIEW

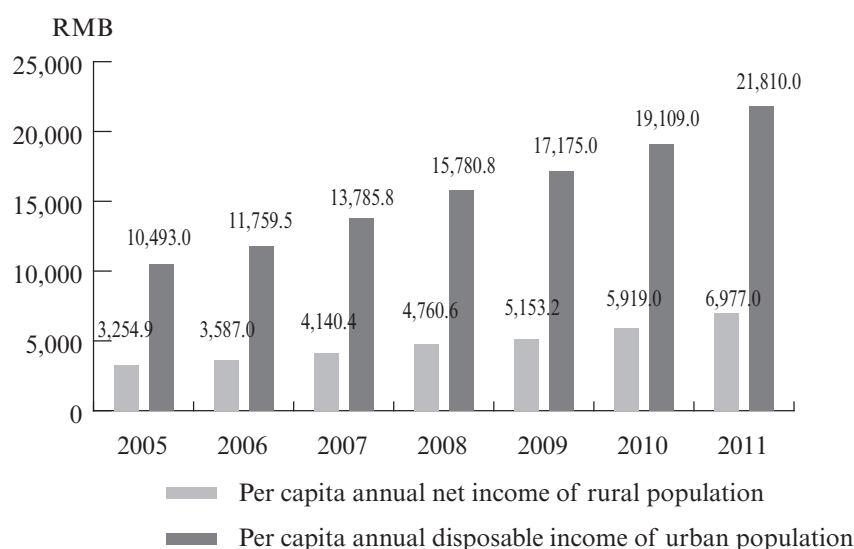
### Nominal GDP and year-on-year real growth rate, 2005–2011



Source: National Bureau of Statistics of China

Benefited by the booming economy, the disposable income of both the rural and urban population recorded an impressive growth in recent years. According to the data from the National Bureau of Statistics of China, per capita annual disposable income of the urban population increased from approximately RMB10,493.0 in 2005 to approximately RMB21,810.0 in 2011, whereas the per capita annual net income of the rural population climbed from approximately RMB3,254.9 in 2005 to approximately RMB6,977.0 in 2011.

### Per capita disposable income of rural population and urban population in China, 2005–2011

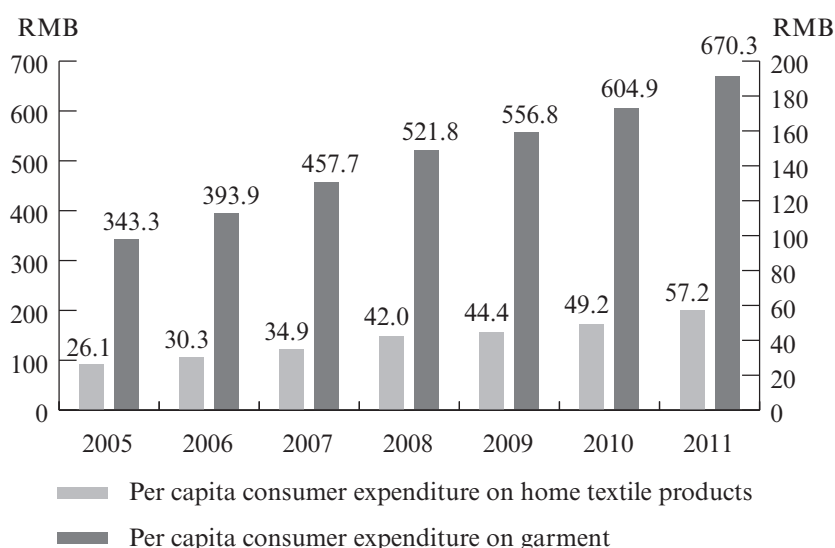


Source: National Bureau of Statistics of China

## INDUSTRY OVERVIEW

With the increasing disposable income, per capita consumer expenditure on garment and home textile products reached approximately RMB670.3 and RMB57.2 in 2011, respectively, representing a CAGR of approximately 11.8% and 14.0%, respectively from 2005.

### Per capita consumer expenditure on garment and home textile products, 2005–2011



Source: Euromonitor

It is anticipated that China’s economy will continue to grow and prosper steadily in the future. In the 12th Five-Year Plan, increasing disposable income of the rural and urban population and speeding up the construction of indemnificatory housing will still be the goal of the policies and regulations made by the Chinese government, which is expected to provide a robust domestic demand for textile products. In addition, increasing urbanization will provide a bigger consumer base to garment and home textile products since urban citizens are their major consumer group.

## INDUSTRY SEGMENTS

China’s textile industry can be categorized, in terms of production chain, into (a) raw material supply; (b) spinning and weaving; (c) printing and dyeing; and (d) finished goods industries. Set out below are the key characteristics of the spinning and weaving industries in which we operate our business and the finished goods industry to which our Fabric Products are sold.

### Spinning and weaving industries

Spinning and weaving industries can be divided into cotton textile, wool textile, silk and bast and linen fiber textile and knitting segments, depending on the raw material used in the production and the weaving methods. From January to November 2010, the PRC

## INDUSTRY OVERVIEW

manufacturers above the designated size in the spinning and weaving industries achieved the total industry output value of approximately RMB1.7 trillion, accounting for approximately 39.1% of total industry output value of the textile industry.

### *Cotton textile segment*

Cotton textile segment is the most important industry segment in the spinning and weaving industries. According to the China National Textile and Apparel Council, the PRC manufacturers above the designated size in the cotton textile industry realized an industry output value of approximately RMB1,153.9 billion from January to November 2010, being the largest industry sector in the spinning and weaving industries, accounting for approximately 69.1% of total industry output value of the spinning and weaving industries.

**Industry output value of each of the industry segments of the spinning and weaving industries, January to November 2010**



*Source: China National Textile and Apparel Council*

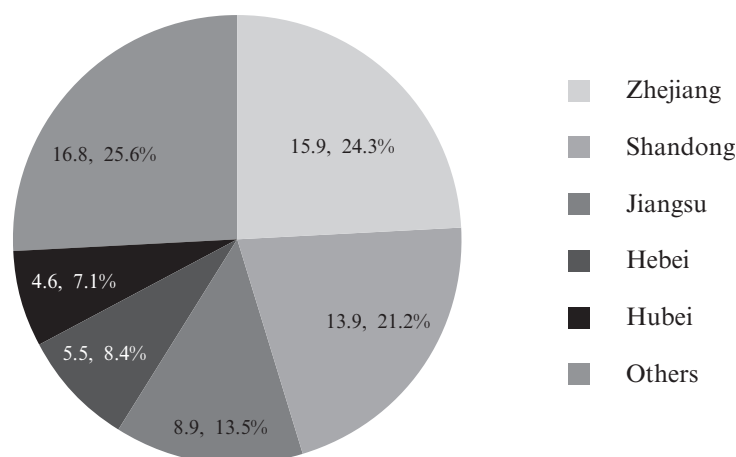
As of November 2010, there were about 12,238 manufacturers above the designated size in China’s cotton textile segment, achieving the industry output value of approximately RMB1,153.9 billion, up by approximately 29.5% from approximately RMB891.0 billion in 2009.

The cotton textile segment can be further divided into yarn production and fabric production sectors. As to the fabric production sector, in 2010, grey fabrics (i.e. fabrics taken directly from the loom without any additional finishing operations such as dyeing or bleaching) is the main industry output and the PRC manufacturers above the designated size produced an aggregate of approximately 65.5 billion meters of grey fabrics.

Zhejiang, Shandong, Jiangsu, Hebei and Hubei were the top five provinces in terms of production volume of grey fabric in 2010. These top five provinces contributed approximately 74.4% of the total output volume of grey fabrics produced by the PRC manufacturers above the designated size in 2010.

## INDUSTRY OVERVIEW

### Top five provinces in terms of grey fabrics production volume, 2010



*Source: China National Textile and Apparel Council*

*Note: Output volume is expressed in billion meters and the figures above refer to the total volume of grey fabrics produced by the PRC manufacturers above the designated size in 2010 in the relevant provinces*

### Finished goods industry

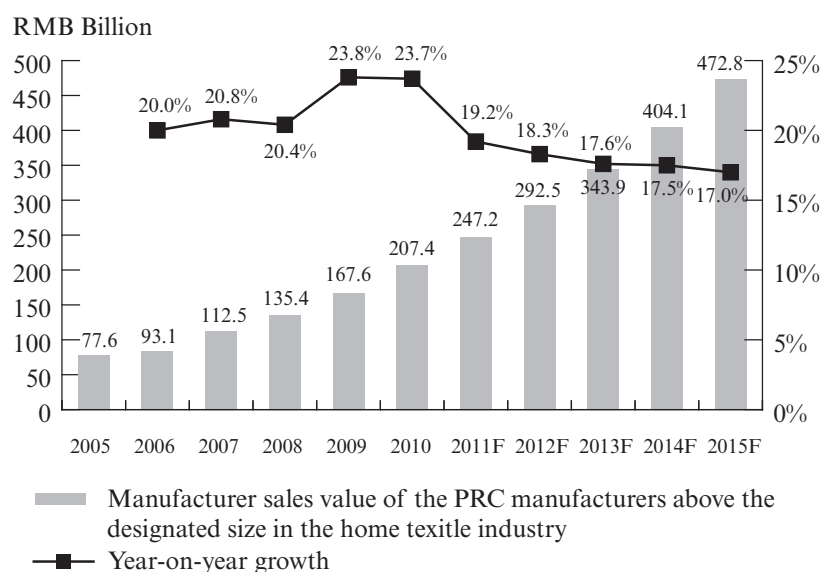
Finished goods industry comprises three segments: home textile, apparel and technical textile.

#### *Home textile*

Home textile is the generic description of a range of textile products for home decoration and home furniture, such as covering for beds and tables, quilts, quilt covers, pillow cases, bed sheets, window curtains, window shades, carpets, cooking accessories, bathrobes, sewing threads, handkerchiefs, etc. According to the data from the National Bureau of Statistics of China, there were about 2,590 home textile manufacturers above the designated size in the PRC in 2010, which altogether contributed to the manufacturer sales value of approximately RMB207.4 billion in 2010, representing a CAGR of approximately 21.73% from RMB77.6 billion in 2005. During the same period, per capita consumer expenditure on home textile products increased from approximately RMB26.1 in 2005 to RMB49.2 in 2010, representing a CAGR of approximately 13.52%. In 2011, per capita consumer expenditure on home textile products increased to approximately RMB57.2, representing a growth of approximately 16.3% from 2010. According to the Euromonitor Report, per capita consumer expenditure on home textile products in China accounted for only 1/10 and 1/15 of that in Japan and USA in 2011, respectively. Accordingly, compared to these developed countries, given the fast-growing economy of China, improving living standard and rapid increase in the spending power of PRC citizens, the PRC's home textile industry has great growth potential.

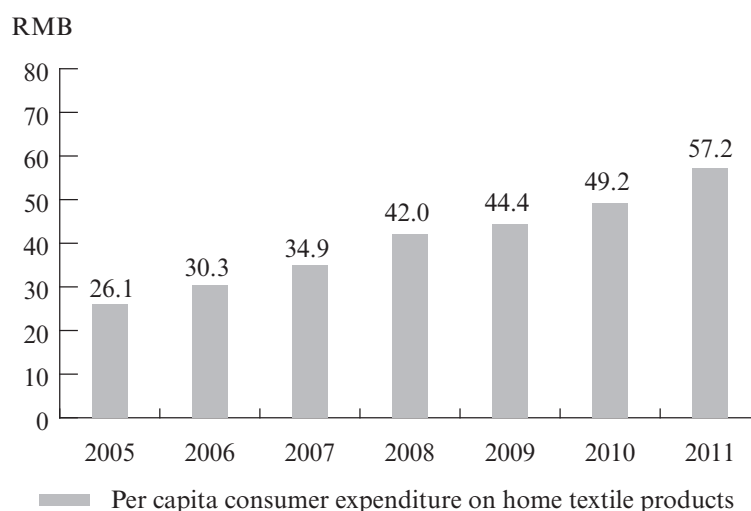
## INDUSTRY OVERVIEW

### Manufacturer sales value of the PRC manufacturers above the designated size in the home textile industry, 2005–2015



Source: National Bureau of Statistics of China  
Euromonitor

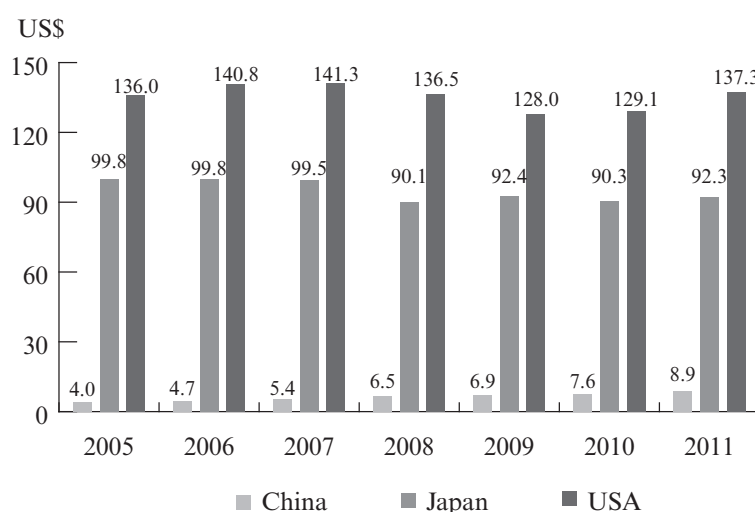
### Per capita consumer expenditure on home textile products in China, 2005–2011



Source: Euromonitor

## INDUSTRY OVERVIEW

### Per capita consumer expenditure on home textile products in China, Japan and USA, 2005–2011



Source: China National Textile and Apparel Council  
Euromonitor

The market prospects of the home textile industry are expected to be very promising in the coming years, and it is anticipated that future demand for high-end home textile products will gradually increase. Please refer to the paragraph headed “Market drivers and constraints” below for further details.

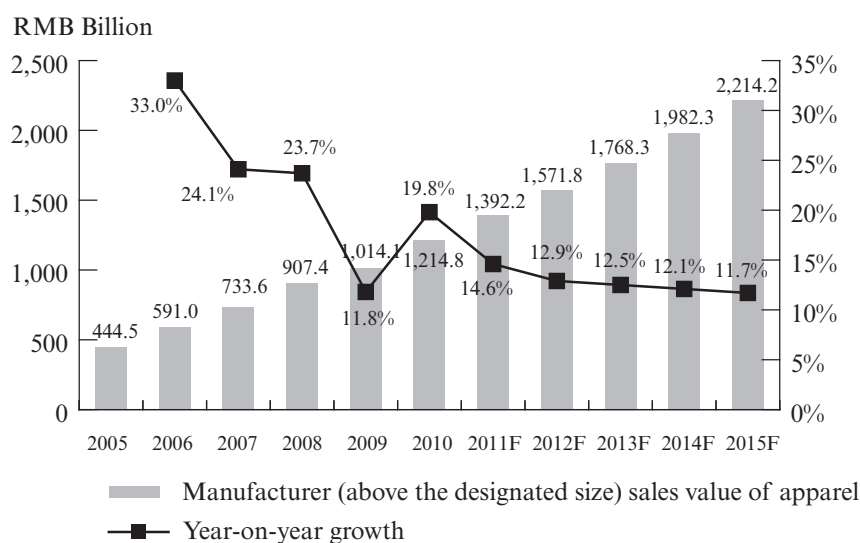
#### *Apparel*

In 2010, approximately 19,143 apparel manufacturers above the designated size in the PRC achieved the manufacturer sales value of approximately RMB1,214.8 billion, increased by approximately 19.8% from approximately RMB1,014.1 billion in 2009. During the same period, per capita consumer expenditure on garment (being one of the segments of the apparel industry) increased to RMB604.9 in 2010, up by approximately 8.6% from 2009. In 2011, per capita consumer expenditure on garment increased to approximately RMB670.3, representing a growth of approximately 10.8% from 2010. With the rising disposable income and change of lifestyle, it is expected by Euromonitor that the manufacturer sales value of apparel will continue to have a double-digit growth rate during the forecast period from 2011 to 2013.



## INDUSTRY OVERVIEW

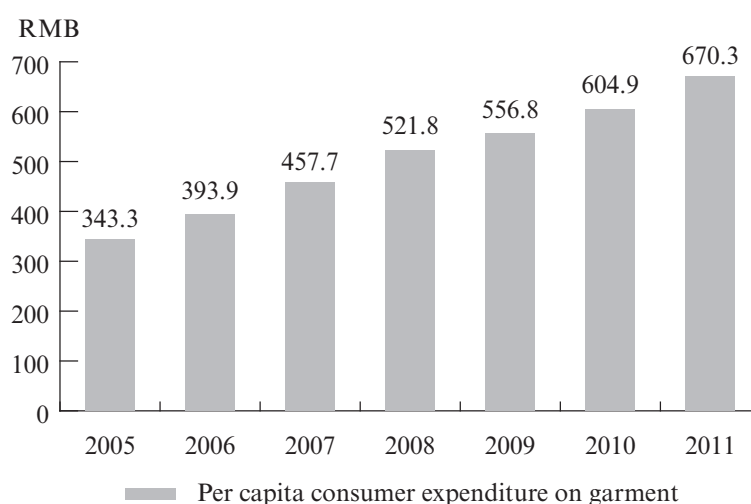
### Manufacturer sales value of the PRC manufacturers above the designated size in the apparel industry, 2005–2015



Source: National Bureau of Statistics of China  
Euromonitor

Note: Apparel manufacturing includes garment manufacturing, manufacturing of shoes made from textile fabrics and caps manufacturing.

### Per capita consumer expenditure on garment, 2005–2011



Source: Euromonitor

Note: Garment is one of the segments of the apparel industries.

## INDUSTRY OVERVIEW

### *Technical textile*

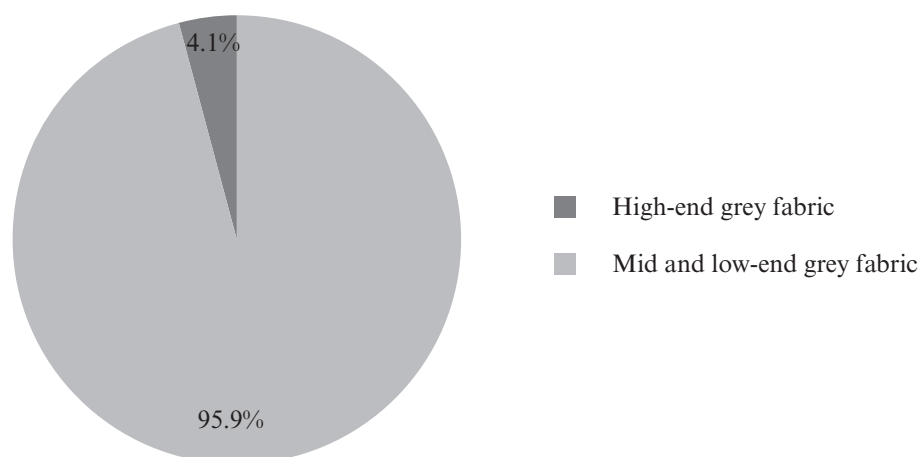
By the end of 2010, there were about 2,500 companies above the designated size in the PRC involved in the production of technical textile, realizing an industry output volume of 8.2 million tonnes valued at over RMB400 billion.

### **HIGH-END GREY FABRICS IN COTTON TEXTILE INDUSTRY SEGMENT**

#### **Overview**

According to the Euromonitor Report, grey fabric sector in the PRC can be generally classified into high-end to mid to low-end grey fabric segments. According to the Euromonitor Report, high-end grey fabrics are generally referred to a class of woven grey fabrics made with combed yarns which are produced from high grade cotton (e.g. first-grade and second-grade local produced cotton or the imported cotton of equivalent grade, organic cotton and pima cotton) and/or new fibers (e.g. Tencel, silk, milk fiber, soybean fiber, linen, etc.). Yarns used to produce high-end grey fabrics shall be high count yarns (with yarn count over 40S) and high-end grey fabrics usually have high thread density (i.e. total number of weft and warp is above 180 in one square inch (equivalent to 709 thread/10cm). According to the Euromonitor, high-end grey fabric sector is a niche market in China compared to other sectors in the cotton textile industry segment, and the production volume of high-end grey fabrics produced by the PRC manufacturers above the designated size represented approximately 4.1% of the total grey fabrics produced in the cotton textile industry segment in 2010.

**Proportion of high-end grey fabrics produced by the PRC manufacturers above the designated size to the total production volume of grey fabrics produced by the PRC manufacturers above the designated size in cotton textile industry, 2010**



Source: Euromonitor

## INDUSTRY OVERVIEW

Compared to ordinary grey fabrics, high-count and high-density grey fabrics have durable, soft, smooth and lustrous characteristics. Due to their distinguishing features mentioned above, high-end grey fabrics can command higher selling price and gross margins. The following table sets out the pricing of bedding products (being one type of home textiles made with the grey fabrics) sold under some of the leading brands in the PRC made with high-count and high-density fabrics.

**Pricing of bedding products under leading brands in China made with high-count and high-density grey fabrics**

| Brand              | Product                                                                                                                             | Price per set<br>(RMB) |
|--------------------|-------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| Luolai (羅萊)        | Cotton jacquard bedding set (a bed sheet, a quilt cover, two pillow cases), for bed with 1.5m width, 60s, density: 300              | 2,120                  |
| Lovo               | Bedding set using fabric made with combed yarns which are made from long stapled cotton, 60s; density: 305; for bed with 1.8m width | 2,469                  |
| Shuixing<br>(水星家紡) | Cotton dobby and printing bedding set, 40s, density: 205; for bed with 1.8m width                                                   | 2,345                  |
| Shuixing<br>(水星家紡) | Bedding set using fabric made with yarns which are made from long stapled cotton, 60s; density: 305; for bed with 1.8m width        | 1,970                  |
| Shuixing<br>(水星家紡) | Tencel Jacquard bedding set; 60s; density: 210; for bed with 1.8m width                                                             | 3,500                  |
| Fuanna<br>(富安娜)    | Mercerized cotton jacquard bedding set; for bed with 1.8m width                                                                     | 4,980                  |

*Source: Euromonitor*

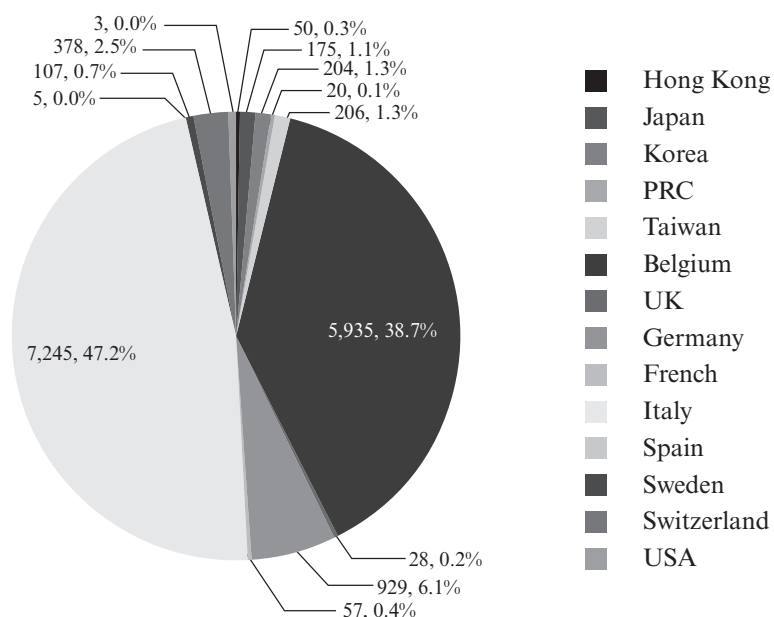
According to the Euromonitor Report, the average selling price of ordinary bedding set which is not produced from high-count and high-density grey fabrics is usually below RMB600. For bedding set producing from high-count and high-density grey fabrics, their average selling price is usually above RMB1,500.

### Machineries

Imported rapier looms and air-jet looms are the major looms for producing high-end grey fabrics. According to China Customs, 15,342 sets rapier looms and 56,414 sets air-jet looms were imported from other countries during the period from 2005 to 2010. Belgium and Italy were the two largest exporting countries of rapier looms to China in 2010. Approximately 85.9% of the imported rapier looms were sourced from these two countries during the period from 2005 to 2010. Picanol from Belgium and Itema from Italy are two leading global suppliers of rapier looms. Japan was the largest exporting countries of air-jet looms to China with 83.5% of the imported air-jet looms coming from this country during the period from 2005 to 2010. Tsudakoma is the largest supplier of air-jet looms in Japan.

## INDUSTRY OVERVIEW

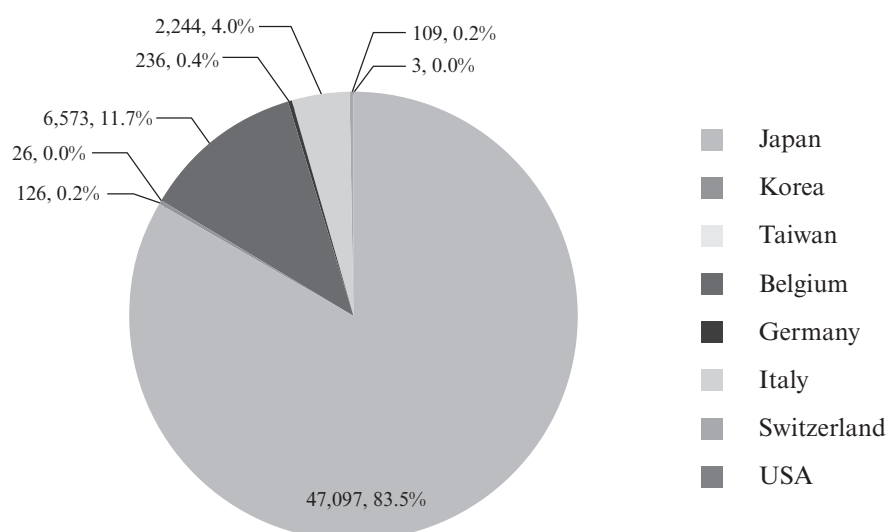
### Total number of imported rapier looms by countries during 2005 to 2010



Source: China Customs

Note: Imported rapier looms include rapier looms which can produce grey fabrics with width over 30cm

### Total number of imported air-jet looms by countries during 2005 to 2010



Source: China Customs

Note: Imported air-jet looms include air-jet looms which can produce grey fabrics with width over 30cm

## INDUSTRY OVERVIEW

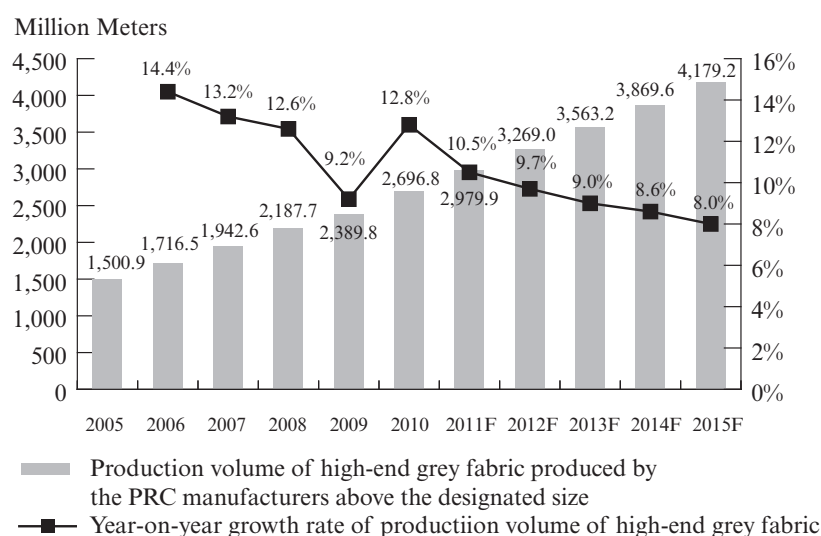
According to Euromonitor, compared to shuttle weaving looms, rapier looms and air-jet looms bear the advantages of high production performance and causing smaller damage to the yarns during fabric production. Compared to water jet looms, rapier looms and air-jet looms are capable of producing greater variety of grey fabrics as the types of yarns that can be processed by water jet looms are mainly chemical fiber yarns. Cotton yarns are generally not suitable for processing by water jet looms due to the shrinking feature of cotton, thereby reducing the range of fabrics which can be woven on water jet looms. Compared to local produced rapier looms and air-jet looms, imported looms generally have longer life span, higher production performance and are capable of producing higher quality grey fabrics.

To produce jacquard fabrics, the loom is equipped with specialised device called jacquard machine. Stäubli and Bonas are two leading brands of electronic jacquard machines in the global as well as China markets. According to the Euromonitor Report, in 2010, there were around 1,200 sets Stäubli and Bonas electronic jacquard machines used by the PRC grey fabric manufacturers to produce jacquard grey fabrics, with Stäubli having the largest market share in terms of number of machines.

### High-end grey fabrics market in the PRC

During the period from 2005 to 2010, the production volume of high-end grey fabrics produced by the PRC manufacturers above the designated size increased from approximately 1.5 billion meters to approximately 2.7 billion meters, representing a CAGR of approximately 12.5%. In 2010, the manufacturer sales value of high-end grey fabric produced by the PRC manufacturers above the designated size reached approximately RMB40.8 billion, grew by approximately 46.6% from 2009 due to the price hike of cotton as a result of the decrease in production and supply of cotton in 2010.

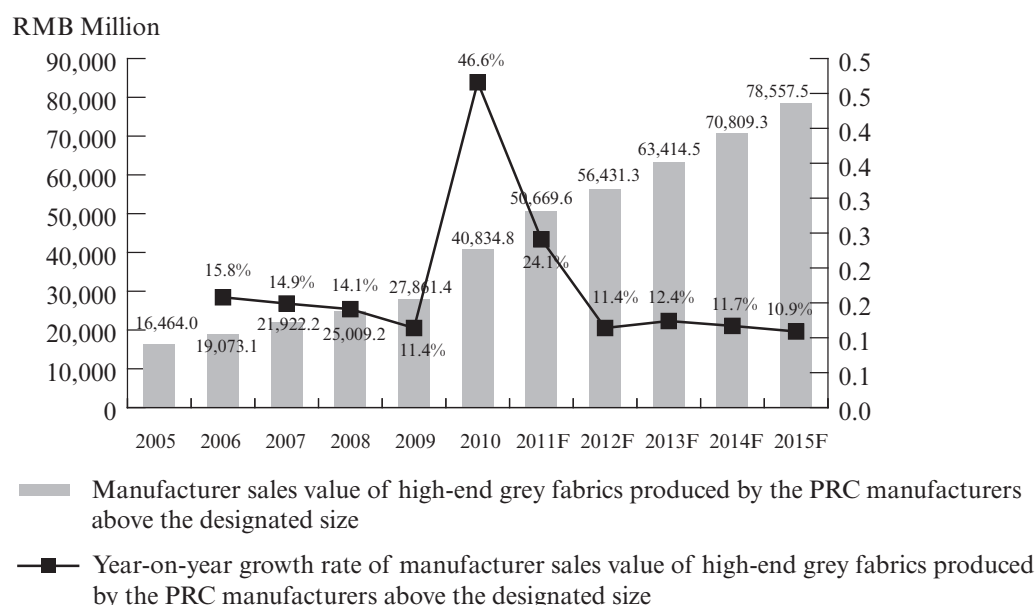
#### Production volume of high-end grey fabrics produced by the PRC manufacturers above the designated size, 2005–2015



Source: Euromonitor

## INDUSTRY OVERVIEW

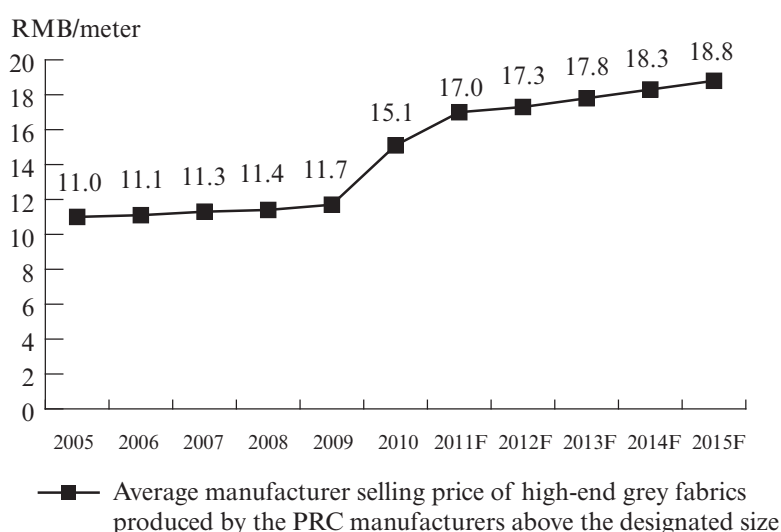
### Manufacturer sales value of high-end grey fabrics produced by the PRC manufacturers above the designated size, 2005–2015



Source: Euromonitor

According to the Euromonitor, unit price of high-end grey fabric increased by approximately 30% in 2010, leading to a rapid increase in the manufacturer sales value of high-end grey fabrics in that year.

### Average manufacturer selling price of high-end grey fabrics produced by the PRC manufacturers above the designated size, 2005–2015



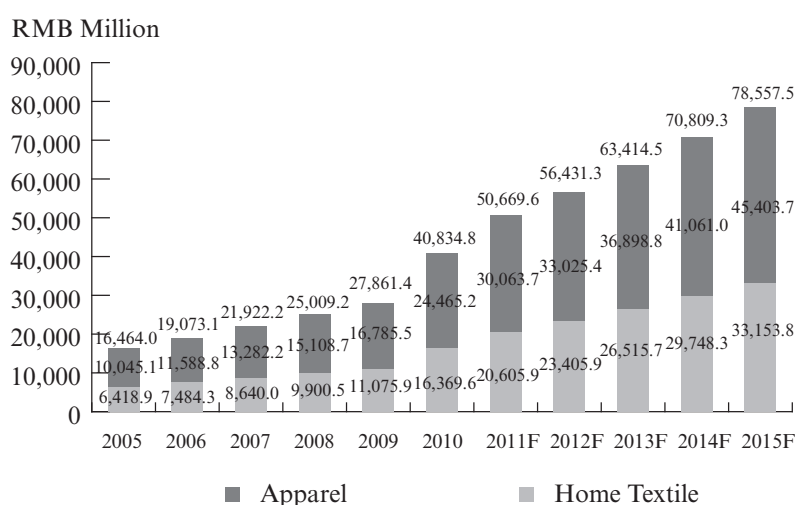
Source: Euromonitor

## INDUSTRY OVERVIEW

### Increasing demand for high-end grey fabrics in the home textile industry

The demand for high-end grey fabrics in the home textile industry has been increasing in recent years due to the increasing consumers’ requirements on the quality and branding of home furnishing with the improvement of life quality and the booming growth of high-end hotels. In 2010, the manufacturer sales value of high-end grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry increased from approximately RMB6,418.9 million in 2005 to approximately RMB16,369.6 million, representing a CAGR of approximately 20.6%. Meanwhile, the manufacturer sales value of high-end grey fabrics produced by the PRC manufacturers above the designated size for use in the apparel industry grew steadily from RMB10,045.1 million in 2005 to approximately RMB24,465.2 million in 2010, representing a CAGR of approximately 19.5%.

### Manufacturer sales value of high-end grey fabrics produced by the PRC manufacturers above the designated size for use in home textile industry versus apparel industry, 2005-2015



Source: Euromonitor

### High-end cotton grey fabrics dominate the high-end grey fabric market

Due to its softness, strong moisture absorbency, breathability, good anti-static performance and ease of dyeing, cotton is widely used by fabric manufacturers to produce high-end grey fabrics. In 2010, the production volume of high-end cotton grey fabrics produced by the PRC manufacturers above the designated size reached approximately 2.5 billion meters, accounting for approximately 92.4% of total production volume of high-end grey fabrics produced by the PRC manufacturers above the designated size, and the manufacturer sales value of high-end cotton grey fabrics produced by the PRC manufacturers above the designated size reached approximately RMB35.3 billion, accounting for approximately 86.4% of the total manufacturer sales value of high-end grey fabrics produced by the PRC manufacturers above the designated size.



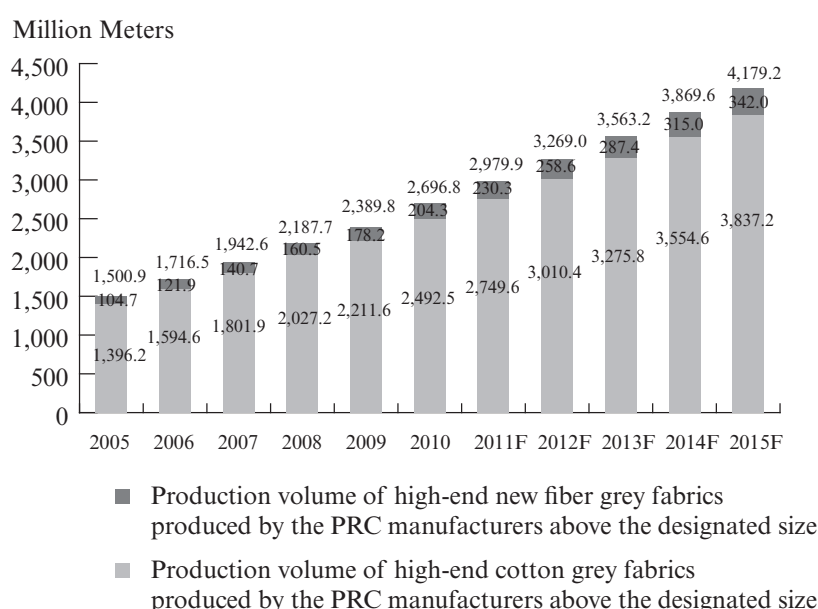
## INDUSTRY OVERVIEW

### Stronger growth momentum for high-end new fiber grey fabrics

New fibers, with their natural and green origin, unique functions such as anti-bacterial function of bamboo fiber and anti-ultraviolet function of silk fiber, are commonly used by manufacturers to produce high-end grey fabrics. In most cases, high-end new fiber grey fabrics are produced by blending cotton with new fibers, or interweaved by cotton yarns and new fiber yarns, in order to produce a piece of fabric possessing the functional characteristics of cotton and new fibers.

In 2010, the production volume of new fiber grey fabrics produced by the PRC manufacturers above the designated size reached approximately 204.3 million meters, accounting for approximately 7.6% of total production volume of high-end grey fabrics produced by the PRC manufacturers above the designated size. According to the Euromonitor Report, due to their distinguishing functional features, higher-added value and the promotion of government policies (such as the 2011 version of Guiding Catalog for Adjustment in Structure of Industries (產業結構調整指導目錄 (2011年本)) which encouraged the use of new and recyclable materials such as bamboo and linen to produce new fibers by utilizing green and environmental friendly technology and equipment), by 2015, share of production volume of new fiber grey fabrics produced by the PRC manufacturers above the designated size is expected to increase to approximately 8.2%, and share of manufacturer sales value of new fiber grey fabrics produced by the PRC manufacturers above the designated size will increase to approximately 14.8%, up from approximately 13.6% in 2010.

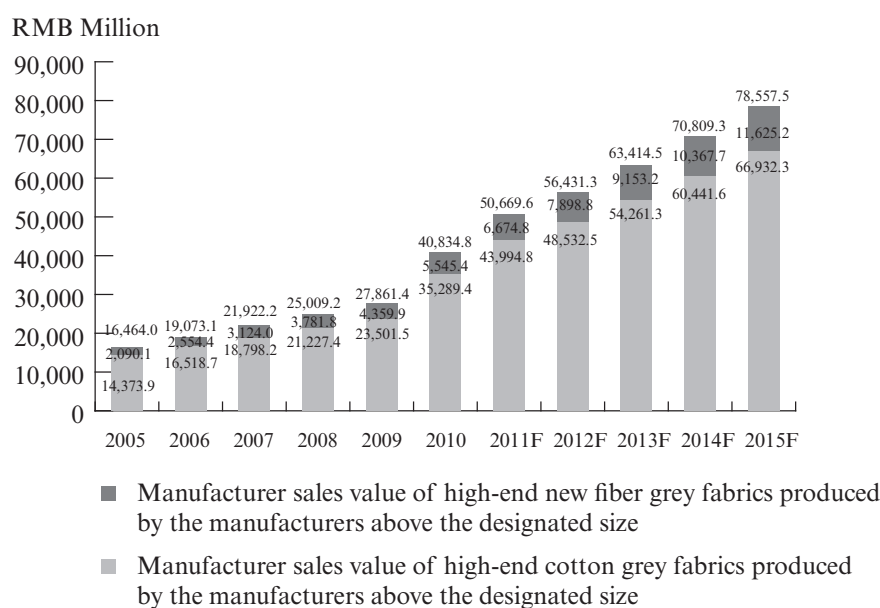
### Production volume of high-end cotton grey fabrics versus high-end new fiber grey fabrics produced by the PRC manufacturers above the designated size, 2005–2015



Source: Euromonitor

## INDUSTRY OVERVIEW

### Manufacturer sales value of high-end cotton grey fabrics versus high-end new fiber grey fabrics produced by the manufacturers above the designated size, 2005–2015



Source: Euromonitor

## HIGH-END JACQUARD AND DOBBY GREY FABRIC MARKET IN THE PRC

According to the Euromonitor Report, grey fabrics can be classified, by their weaving constructions, into jacquard fabrics, dobby fabrics and other fabrics such as plain weave fabrics and twill weave fabrics, etc. Jacquard fabric is a type of woven grey fabrics and has patterns with intricately woven raised designs such as brocade, damask, and matelasse, woven by specialised jacquard loom and equipment. The key difference of this type of fabric from other fabrics is that the figures and patterns are woven into the fabric instead of printing on it. According to the Euromonitor, due to its complicated woven design process and stringent production requirement, and the high quality and rich combination of raw materials used in their production, jacquard fabrics are commonly viewed as belonging to the class of high-end grey fabric and are mainly used as raw materials for manufacturing high-end home textile products such as the high-end bedding products, curtains and sofa covers.

Dobby fabric refers to woven grey fabrics with geometric woven patterns produced by the selective control of groups of yarns on the dobby looms. Dobby weaving machines raise or lower the warp threads during the weaving process to create patterns such as stripes, checks and designs. Dobby fabrics have more complicated woven patterns than plain weave fabrics, but such woven patterns are not as intricate as jacquard fabrics. Dobby fabrics are widely used in the production of bedding products and apparel such as fashion garment.

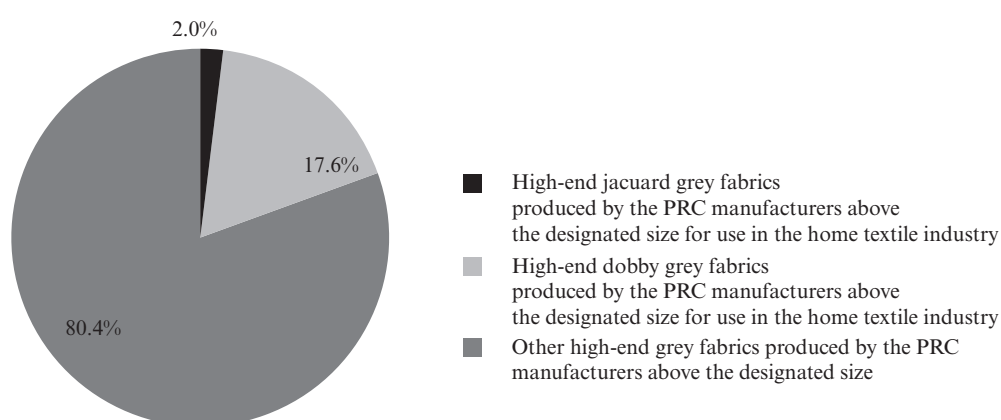
## INDUSTRY OVERVIEW

### High-end jacquard grey fabrics

In 2010, the PRC manufacturers above the designated size altogether produced approximately 34 million meters of high-end jacquard grey fabrics, growing at a CAGR of approximately 14.3% during the period from 2005 to 2010. High-end jacquard grey fabric and high-end dobby grey fabric market is a niche market segment in the high-end grey fabrics market. In terms of the production volume, in 2010, the high-end jacquard grey fabrics and high-end dobby grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry amounted to approximately 442.1 million metres, representing approximately 16.39% and 0.67% of the total high-end grey fabrics and the total grey fabrics produced by the PRC manufacturers above the designated size in that year. In terms of the manufacturer sales value, in 2010, the high-end jacquard grey fabrics and high-end dobby grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry amounted to approximately RMB8,000.4 million, representing approximately 19.59% of the total manufacturer sales value of high-end grey fabrics produced by the PRC manufacturers above the designated size.

Due to the fabric width of the high-end jacquard grey fabrics which makes them suitable for manufacturing a range of home textile products, most of the high-end jacquard grey fabrics produced are used in the home textile industry. According to the Euromonitor Report, the manufacturer sales value of high-end jacquard grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry represented approximately 95.1% of the total manufacturer sales value of high-end jacquard grey fabrics produced by the PRC manufacturers above the designated size. Further, the average manufacturer selling price of high-end jacquard grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry was approximately 21.9% higher than that in the apparel industry.

**Proportion of the manufacturer sales value of high-end jacquard and dobby grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry to the total manufacturer sales value of high-end grey fabrics produced by the PRC manufacturers above the designated size, 2010**

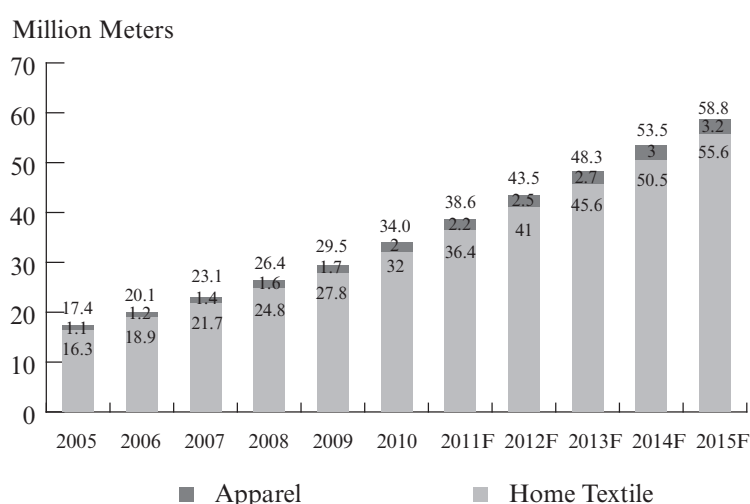


Source: Euromonitor

## INDUSTRY OVERVIEW

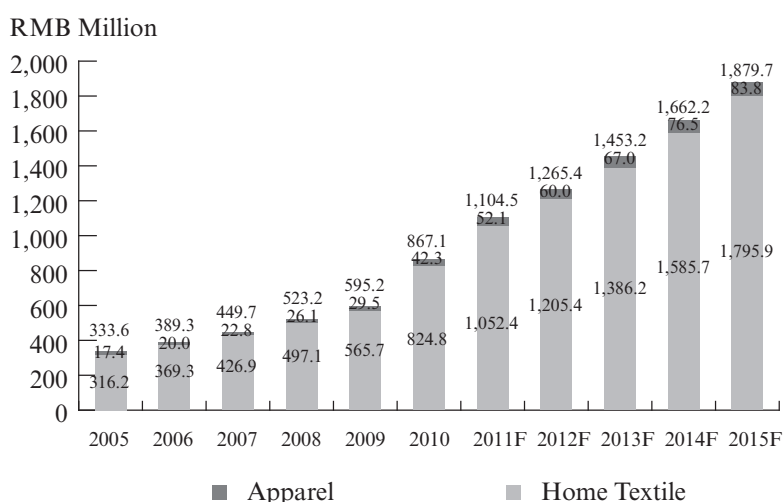
Due to stronger demand for home textile products made with high-end jacquard fabrics (e.g. bedding products, curtains), it is expected that high-end jacquard grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry will post stronger growth potential than in the apparel industry. According to the Euromonitor Report, the proportion of high-end jacquard grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry is expected to expand to approximately 95.5% in terms of manufacturer sales value by 2015.

### Volume of high-end jacquard grey fabrics produced by the PRC manufacturers above the designated size for use in the apparel industry versus home textile industry, 2005–2015



Source: Euromonitor

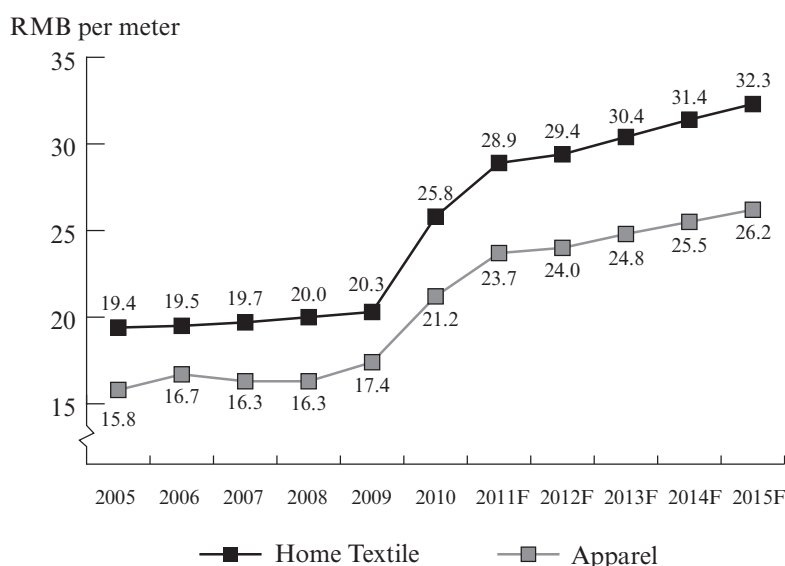
### Manufacturer sales value of high-end jacquard grey fabrics produced by the PRC manufacturers above the designated size for use in the apparel industry versus home textile industry, 2005–2015



## INDUSTRY OVERVIEW

Driven by the rapid increase in production cost and increasing popularity of high-end grey fabrics contributed largely by the rising living standard and spending power in the PRC, the average manufacturer selling price of high-end jacquard grey fabrics produced by the PRC manufacturers above the designated size for use in apparel and home textile industries both demonstrate an upward trend. According to the Euromonitor Report, the average manufacturer selling price of high-end jacquard grey fabrics produced by the PRC manufacturers above the designated size for use in the apparel industry and home textile industry increased from approximately RMB15.8 per meter and RMB19.4 per meter respectively in 2005 to approximately RMB21.2 per meter and RMB25.8 per meter respectively in 2010, up by approximately 34.2% and 33.0%, respectively. According to Euromonitor, given that the price of raw materials, labour cost and market demand will continue to increase in the future due to blooming economy in China, this rising trend is expected to continue.

**Average manufacturer selling price of high-end jacquard grey fabrics produced by the PRC manufacturers above the designated size for use in the apparel industry versus home textile Industry, 2005–2015**



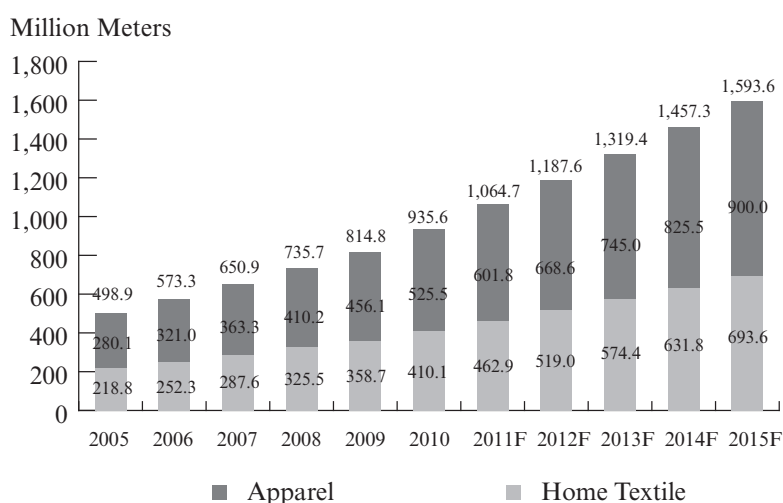
Source: Euromonitor

## INDUSTRY OVERVIEW

### High-end dobby grey fabrics

In 2010, the PRC manufacturers above the designated size produced approximately 935.6 million meters of high-end dobby grey fabrics, growing at a CAGR of approximately 13.4% during the period from 2005 to 2010. Approximately 43.8% of high-end dobby grey fabrics output was produced by the PRC manufacturers above the designated size for use in the home textile industry and approximately 56.2% for use in the apparel industry in 2010. In terms of the manufacturer sales value, the proportion of high-end dobby grey fabrics produced for use in the home textile industry accounted for approximately 48.5% of the total manufacturer sales value of high-end dobby grey fabrics produced by the PRC manufacturers above the designated size in 2010.

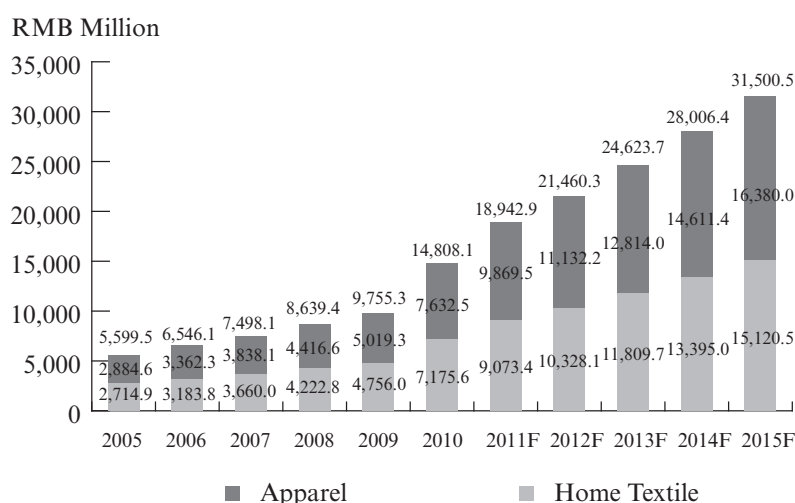
### Volume of high-end dobby grey fabrics produced by the PRC manufacturers above the designated size for use in the apparel industry versus home textile industry, 2005–2015



Source: Euromonitor

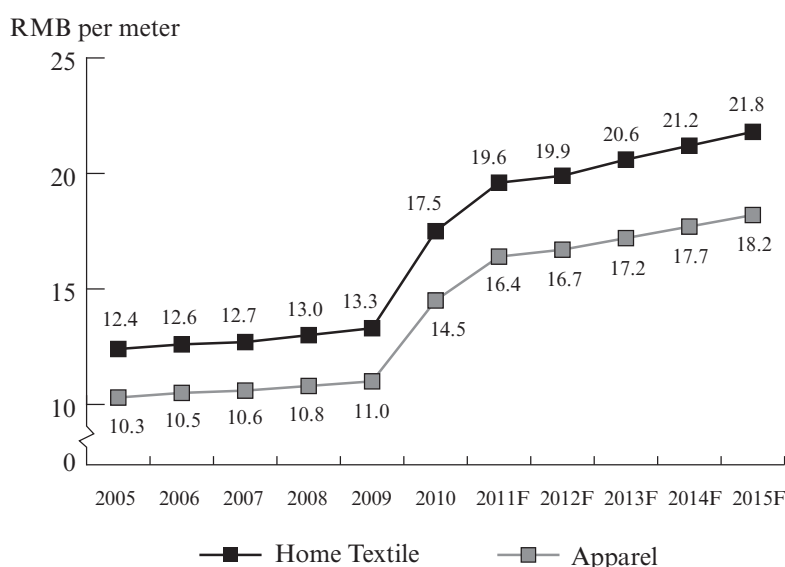
## INDUSTRY OVERVIEW

### Manufacturer sales value of high-end dobby grey fabrics produced by the PRC manufacturers above the designated size for use in the apparel industry versus home textile industry, 2005–2015



According to the Euromonitor Report, in 2010, the average manufacturer selling price of high-end dobby grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry was approximately RMB17.5 per meter, which was approximately 20.7% higher than that in the apparel industry, and is expected to continue to increase due to the combined driving force of the increasing production cost and market demand created by the sustained economic development in China.

### Average manufacturer selling price of high-end dobby grey fabrics produced by the PRC manufacturers above the designated size for use in the apparel industry versus home textile industry, 2005-2015



Source: Euromonitor



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## INDUSTRY OVERVIEW

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### COMPETITIVE LANDSCAPE

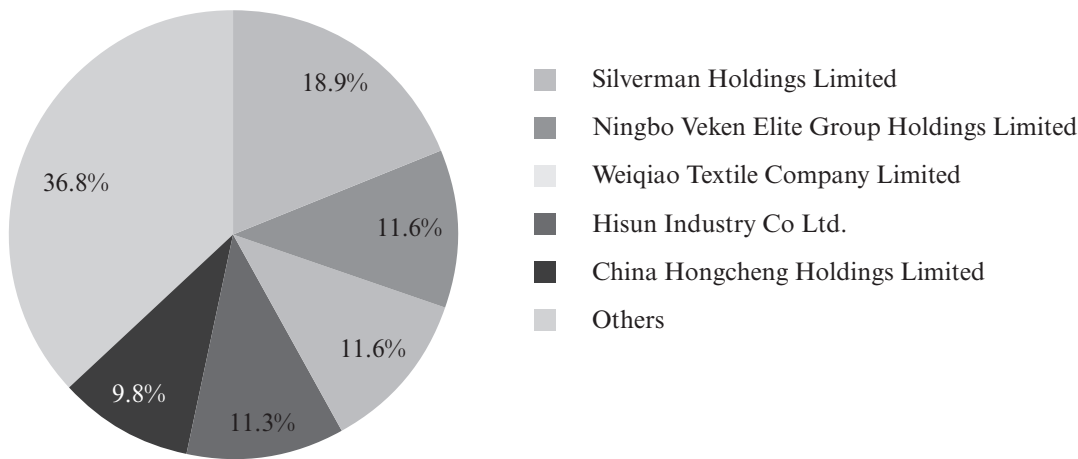
#### Overview

The high-end home textile jacquard grey fabric market in China is much more consolidated when compared to China’s textile industry as a whole due to higher entry barrier as a result of its higher capital requirement and know-how required to operate advanced machineries. According to the Euromonitor Report, the top five companies in high-end home textile jacquard grey fabric market accounted for approximately 63.2% of the total manufacturer sales value of high-end jacquard grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry in 2010.

Within the high-end home textile jacquard fabric market, our Group (comprising Yinshilai Textile and Huiyin Textile) was ranked as the largest high-end home textile jacquard fabric manufacturer in the PRC with the market share of approximately 18.9% of the total manufacturer sales value of the high-end jacquard grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry in 2010, followed by Ningbo Veken Elite Group Holdings Limited and Weiqiao Textile Company, both with a market share of approximately 11.6%. Hisun Industry Co Ltd. and China Hongcheng Holdings Co Ltd are ranked as 4th and 5th, respectively.

INDUSTRY OVERVIEW

Top five manufacturers of high-end home textile jacquard fabrics in terms of manufacturer sales value in 2010



Source: Euromonitor

Note: The manufacturer sales value of high-end jacquard fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry represents approximately 5.04% and 2.02% of the total manufacturer sales value of high-end grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry and all kinds of high-end grey fabrics produced by the PRC manufacturers above the designated size in 2010, respectively

Due to higher capital requirement, there are only few grey fabric manufacturers which are equipped with over 100 sets of jacquard machines in the cotton textile industry. According to the Euromonitor Report, as of June 2011, only our Group, Ningbo Veken Elite Group Holdings Limited and Hisun Industry Co Ltd. have been equipped with over 100 sets of jacquard machines.

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## INDUSTRY OVERVIEW

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### Number of jacquard machines of top 5 manufacturers, as of June, 2011

| Company Name                              | Number of jacquard machines for<br>producing grey fabrics |
|-------------------------------------------|-----------------------------------------------------------|
| Silverman Holdings Limited                | 256                                                       |
| Ningbo Veken Elite Group Holdings Limited | 226                                                       |
| Weiqiao Textile Company Limited           | 85                                                        |
| Hisun Industry Co Ltd.                    | 100                                                       |
| China Hongcheng Holdings Limited          | 72                                                        |

*Source: Euromonitor*

The table below sets forth the brief information of the top five manufacturers in the high-end home textile jacquard grey fabric market of the PRC, in terms of manufacturer sales value, for year 2010:

| Company Name                              | Location of<br>Headquarter  | Principal Businesses                                                            | Location of Production<br>Bases                                                                                                                                                              |
|-------------------------------------------|-----------------------------|---------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Silverman Holdings Limited                | Zibo, Shandong Province     | Manufacturing of high-end jacquard and dobby grey fabrics                       | A production base located in Zibo, Shandong Province                                                                                                                                         |
| Ningbo Veken Elite Group Holdings Limited | Ningbo, Zhejiang Province   | Home textile products manufacturing, weaving, knitting, yarn production, dyeing | Five textile production bases located in Beilun District, Zhenhai District, Ningbo, Zhejiang Province; Zhenjiang Jiangsu Province; Huai'an, Jiangsu Province and Jiujiang, Jiangxi Province. |
| Weiqiao Textile Company Limited           | Zou Ping, Shandong Province | Manufacturing of cotton yarn, grey fabrics and denim                            | Four production bases located in Shandong Province                                                                                                                                           |
| Hisun Industry Co Ltd                     | Zhoushan, Zhejiang Province | Manufacturing of cotton yarn, grey fabrics and bedding products                 | A production base located in Zhoushan, Zhejiang Province                                                                                                                                     |
| China Hongcheng Holdings Limited          | Zouping, Shandong Province  | Manufacturing of grey fabric and bedding products                               | Two production bases both located in Zouping, Shandong Province                                                                                                                              |

## INDUSTRY OVERVIEW

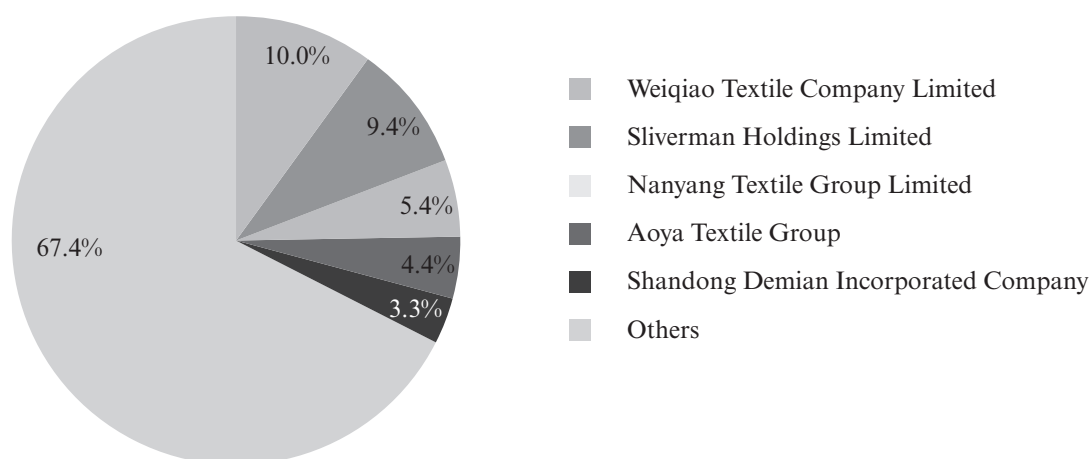
In high-end home textile dobby grey fabric market segment, Weiqiao Textile Company Limited, our Group (comprising Yinshilai Textile and Huiyin Textile) and Nanyang Textile Group Limited were ranked as the top three companies with the market share in terms of manufacturer sales value of high-end dobby grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry of approximately 10.0%, 9.4% and 5.4% in 2010, respectively. The top five companies in high-end home textile dobby grey fabric market contributed to approximately 32.6% of the total manufacturer sales value of high-end dobby fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry, indicating a more fragmented market than high-end home textile jacquard fabrics market as a result of lower capital investment and technical requirements resulting in a larger number of industry players carrying on the manufacturing of dobby fabrics business.

The table below sets forth the brief information of the top five manufacturers in the high-end home textile dobby grey fabric market of the PRC, in terms of manufacturer sales value, for year 2010:

| <b>Company Name</b>                  | <b>Location of Headquarter</b> | <b>Principal Businesses</b>                                                           | <b>Location of Production Bases</b>                      |
|--------------------------------------|--------------------------------|---------------------------------------------------------------------------------------|----------------------------------------------------------|
| Weiqiao Textile Company Limited      | Zou Ping, Shandong Province    | Manufacturing of cotton yarn, grey fabrics and denim                                  | Four production bases located in Shandong Province       |
| Silverman Holdings Limited           | Zibo, Shandong Province        | Manufacturing of high-end jacquard and dobby grey fabrics                             | A production base located in Zibo, Shandong Province     |
| Nanyang Textile Group Limited        | Nanyang, Henan Province        | Manufacturing of yarns and grey fabrics                                               | A production base located in Nanyang, Henan Province     |
| Aoya Textile Group Limited           | Guangrao, Shandong Province    | Manufacturing of yarns, grey fabrics and bedding products                             | A production base located in Guangrao, Shandong Province |
| Shandong Demian Incorporated Company | Dezhou, Shandong Province      | Manufacturing of yarns, grey fabrics, knitting products, bedding products and apparel | A production base located in Dezhou, Shandong Province   |

## INDUSTRY OVERVIEW

### Top five manufacturers of high-end home textile dobby fabric in terms of manufacturer sales value in 2010



Source: Euromonitor

*Note: The manufacturer sales value of high-end dobby fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry represents approximately 43.83% and 17.57% of the total manufacturer sales value of high-end grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry and all kinds of high-end grey fabrics produced by the PRC manufacturers above the designated size in 2010, respectively*

## MARKET DRIVERS AND CONSTRAINTS

### Market drivers

- Chinese young consumers are increasingly in pursuit of life quality

Due to rapid economic development in China, consumers in China born after 1980s have been enjoying comparatively higher standards of living and spending power with stronger brand consciousness. As an important kind of soft furnishing, these consumers pay increasing attention to the quality, functions and designs of home textile products. Thus, they are willing to pay more to purchase branded products for their reputations and designs. At present, many young consumers born after 1980s have married and formed new families, further driving the demand for high-end home textile products which in turn, driving the growth of the demand for high-end grey fabrics.

With the improvement of life quality, Chinese people concern more about outlook than ever before. In terms of apparel consumption, there is a conceptual shift from the primary concern of durability to the modern day concerns of fashion, individuality, comfort, etc. Under this trend, apparel manufacturers tend to use more high-end fabrics to upgrade their products in order to appeal to modern consumers which also increase the demand for high-end grey fabrics.

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## INDUSTRY OVERVIEW

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- *Booming hotel market boost up the demand for high-end home textile products*

With the sustained economic development and booming travel industry, more hotels will be opened to meet the growing needs of businessmen and travellers which will boost the demand for high-end home textile products, and in turn, drive the development of the high-end grey fabrics market. According to the data from the National Tourism Administration of the PRC, the number of star-rated hotels increased from 11,828 in 2005 to 13,552 in 2011, providing a strong consumer base for high-end home textile products which are commonly produced with high-end grey fabrics.

- *Government policies promote the development of high-end grey fabrics market*

The “Outline for Science & Technology Progress of Textile Industry in the 12th Five-Year Plan (紡織工業「十二五」科技進步綱要)” published by China National Textile and Apparel Council in late 2010 encouraged the textile manufacturers in China to adopt more advanced spinning and weaving technology in order to increase productivity and produce more high margin products such as functional fabrics and new fiber fabrics. Underpinned by government stimulation, the pace to upgrade the management, production facilities and technology in China’s textile industry is expected to accelerate during the 12th five-year period from 2011 to 2015.

The 2011 version of Guiding Catalog for Adjustment in Structure of Industries (產業結構調整指導目錄(2011年本)) also encourages the textile manufacturers in China to use new and recyclable materials such as bamboo and linen to produce new fibers, utilize green and environmental technology and equipment, and also use more advanced equipment to produce high-end textile products such as high count and high thread density jacquard and dobby fabrics. According to the “Notice of Opinions on Accelerating Industrial Restructuring and Upgrading in Textile Industry” (《關於加快紡織行業結構調整促進產業升級若干意見的通知》) jointly promulgated by ten ministries and commissions of the State Council on 29 June 2006, government authorities should provide supports for textile projects which fall within the “Encouraged Category” of the Guiding Catalogue for Adjustment in the Structure of Industries. As advised by our PRC legal advisers, subject to the discretion of the relevant authority and the applicable laws and regulations, such supports range from promulgating implementation policies in favour of the application of new textile materials, provision of tax incentives, facilitating the financing of qualified textile enterprises as well as other governmental supports. Under the government’s promotion, high-end grey fabric market is expected to expand rapidly in the future.

### Constraints

- *High inflation may affect Chinese people’s purchasing power, constraining the growth in demand for high-end products*

China’s economy experienced mild inflation since mid of 2010. By June 2011, the CPI has surpassed 6%, which was the highest within the recent three years. High inflation will weaken the purchasing power of consumers in China. If high inflation continues, people’s consumption will trade down, affecting the development of high-end products including high-end apparel and textile products.

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## INDUSTRY OVERVIEW

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- *Heavy investment and requirement on knowledge of the operation of weaving machines set high barriers to new entrants, affecting the growth potential of high-end grey fabrics industry*

According to the Euromonitor Report, the production of high-end grey fabrics (especially high-end jacquard grey fabrics) has higher technical requirements on the weaving machineries and equipment compared to the production of ordinary fabrics and that they are normally manufactured by imported rapier looms and air-jet looms which require advanced know-how in their operations. Further, prices of imported rapier looms and air-jet looms are relatively higher. These factors will impose high capital requirement on the existing manufacturers whenever they decide to increase their production capacity, and also pose significant barriers to entry for new manufacturers, which altogether affect the pace of future growth of high-end grey fabric industry.

- *Soaring labour cost push up the production cost of high-end grey fabrics*

With the booming economy, labour cost is accelerating during the historic period. According to the Euromonitor Report, the wage per hour in the manufacturing industry in China increased from approximately RMB8.5 in 2005 to approximately RMB18.5 in 2011. Increasing labour cost will squeeze the profit of the manufacturers, hindering the growth potential of high-end grey fabrics market. In addition, manufacturers in China are experiencing shortage in labour supply which will also have adverse impact on the development of high-end grey fabric industry.

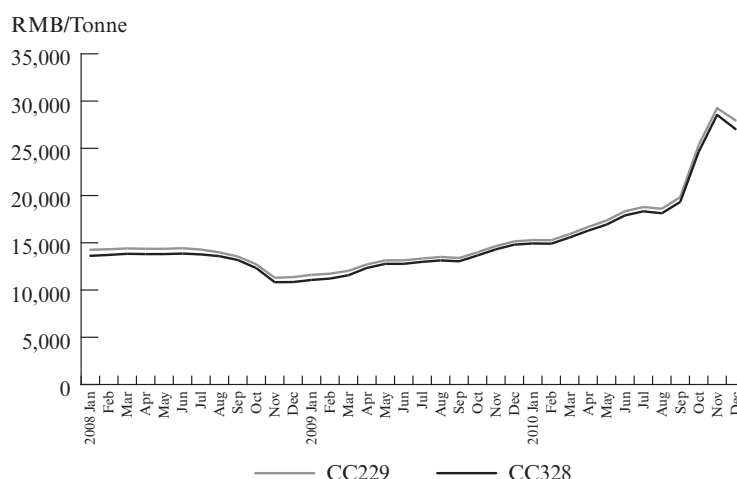
- *Shortage of raw materials may impose heavy pressure on the production cost of high-end grey fabrics*

High-end grey fabrics have pretty high requirement on the raw materials. If raw materials such as high-grade cotton are in shortage, price of high-grade cotton and other high-grade non-cotton based raw materials such as Tencel will soar up, which will increase the production cost of high-end grey fabrics, and even reduce the manufacturers' profit margins. Due to the shortage and falling quality of cotton supplies as a result of bad weather of major cotton production regions in 2009, cotton prices have shown an upward trend since 2009. According to the data from the China Cotton Association, the average price of 229 grade cotton and 328 grade cotton increased by approximately 50.9% and 51.6% in 2010, respectively.



## INDUSTRY OVERVIEW

### Price of cotton-CC Index 328 and CC Index 229, 2008–2010

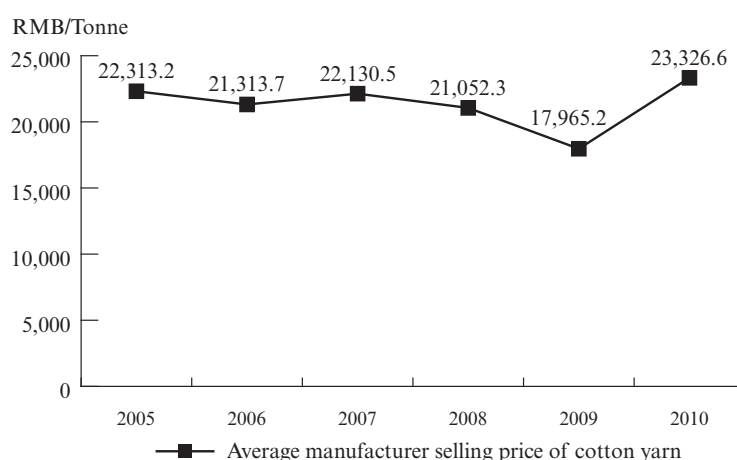


Source: China Cotton Association

*Note: CC Index is the abbreviation of “China Cotton Index” which is calculated from the prices at which cotton is offered to textile manufacturers. CC Index is published by the China Cotton Association at 9 am on every workday. According to level of maturity, colour and quality of ginning, cotton is divided into 7 grades from 1st to 7th. The 3rd grade is the standard grade and grades above 3rd grade, namely 1st grade and 2nd grade, are the high grades. CC index reflects both the grade and the length of fibers of cotton. For instance, CC Index 328 means price index of cotton at 3rd grade with length of its fibers between 28.0mm to 28.9mm. CC index 229 means the price index of a high-grade cotton which is at 2nd grade with length of its fibers between 29.0mm to 29.9mm.*

The price hike of cotton boosts the price of cotton yarns as cotton is the major raw material for cotton yarns. According to the Euromonitor Report, the average manufacturer selling price of cotton yarn increased by approximately 29.8% to approximately RMB23,326.6 per tonne in 2010.

### Average manufacturer selling price of cotton yarn, 2005–2010



Source: Euromonitor

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## INDUSTRY OVERVIEW

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### SOURCES OF INFORMATION

#### **Euromonitor**

In connection with the [ • ], we have engaged Euromonitor to conduct detailed market analysis of and provide a research report on the home textile and high-end grey fabric markets in China with focus on high-end jacquard grey fabric and dobby grey fabric segments in the PRC. Established in 1972, Euromonitor is a global research organisation with staff and field-based analysts in over 80 countries worldwide researching and tracking FMCG, industrial, service and B2B markets and remains independent and privately owned. Euromonitor has been actively researching in the PRC for over 15 years.

The aggregate contractual amount for the Euromonitor Report and services provided by Euromonitor is US\$55,000, the payment of which was not contingent upon our successful [ • ] or on any of the results obtained from the Euromonitor Report. The Euromonitor Report dated June 2012 consists of, among others, historical data for the period from 2005 to 2010, and forecasts for the period from 2011 to 2015.

#### *Research methodology*

Euromonitor primarily undertook top-down central research with bottom-up intelligence to present a more comprehensive and accurate picture of the home textile and high-end grey fabric markets in China. Euromonitor’s research and analysis were mainly based on the following sources: (a) authority statistics, reports and/or databases (e.g. China National Statistics Yearbook); (b) trade associations and other semi-official sources, such as China National Textile and Apparel Council; (c) independent analysts’ and research group’s reports; (d) background information obtained from competitive company profiles, and where relevant, sources such as annual reports and accounts (if available) published by major manufacturers in the industry; and (e) other secondary sources available in Euromonitor’s database.

Euromonitor also conducted qualitative and quantitative based trade interviews. To generate an industry consensus and provide perspective on the market size and growth of the high-end grey fabrics market, Euromonitor conducted trade interviews with multiple organizations such as trade associations, raw material suppliers, high-end grey fabric manufacturers and finished goods manufacturers such as home textile manufacturers.

#### *Data validation, integrity assessment and projection*

A reliable data set and valid conclusions are reached by independently building segment consensus. Euromonitor used multiple secondary and primary sources to validate the data and information collected with no reliance on any single-source. Furthermore, a test of each respondent’s information and views against those of others is applied to ensure reliability and to eliminate bias from various sources. Specifically for ensuring forecasting accuracy, Euromonitor adopted its standard practice of both quantitative as well as qualitative forecasting in terms of the market size, growth trends, etc, on the basis of a

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## INDUSTRY OVERVIEW

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comprehensive and in-depth review of the market development history, and a cross check with established government/industry figures, trade interviews, and statistical analysis tools where possible.

### **China National Textile and Apparel Council**

China National Textile and Apparel Council (中國紡織工業協會) is a national industry organisation authorised by the PRC government providing business consultation, constructing of market intelligence system and facilitating market development for the textile industry in the PRC.

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## **HISTORY, REORGANIZATION AND GROUP STRUCTURE**

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### **BUSINESS DEVELOPMENT**

#### **OUR HISTORY**

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

#### **IMPORTANT MILESTONES**

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

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

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## **HISTORY, REORGANIZATION AND GROUP STRUCTURE**

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

### **CORPORATE DEVELOPMENT**

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

#### **Yinshilai Textile**

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

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

## HISTORY, REORGANIZATION AND GROUP STRUCTURE

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

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

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

<sup>1</sup> As trustee for and on behalf of Mr. LIU Dong.

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

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## **HISTORY, REORGANIZATION AND GROUP STRUCTURE**

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

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

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

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

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

### **Huiyin Textile**

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



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## **HISTORY, REORGANIZATION AND GROUP STRUCTURE**

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

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

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

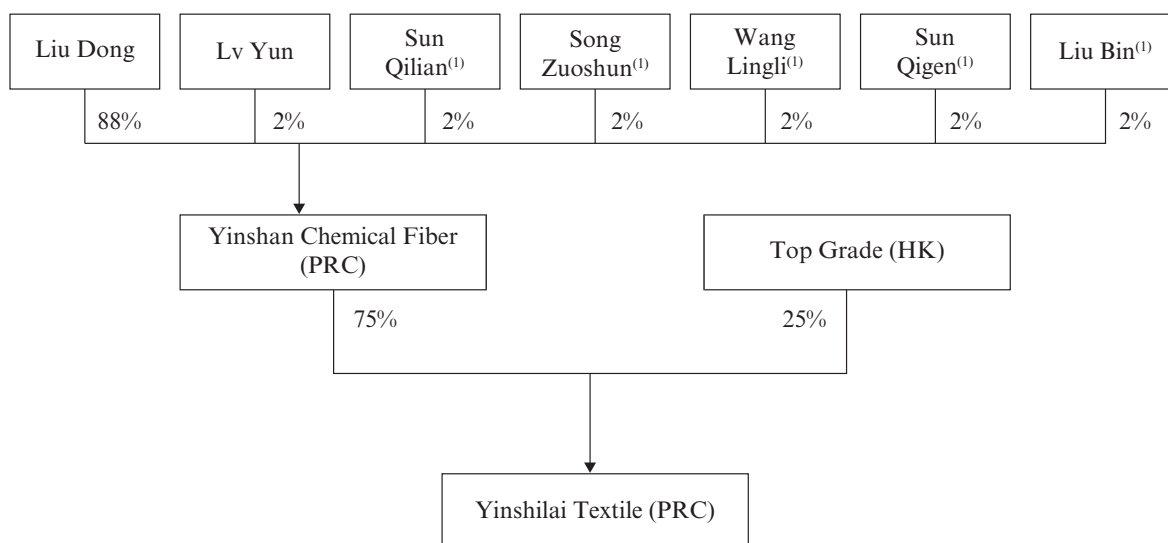
Our PRC legal advisers have advised that there was no legal restriction on the duration of the trust arrangement for Mr. LIU to hold the equity interest of Tianrui Investment in his own name, and given that the trust agreements are made based on the true will of the parties and do not violate any applicable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

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

## HISTORY, REORGANIZATION AND GROUP STRUCTURE

### REORGANIZATION

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

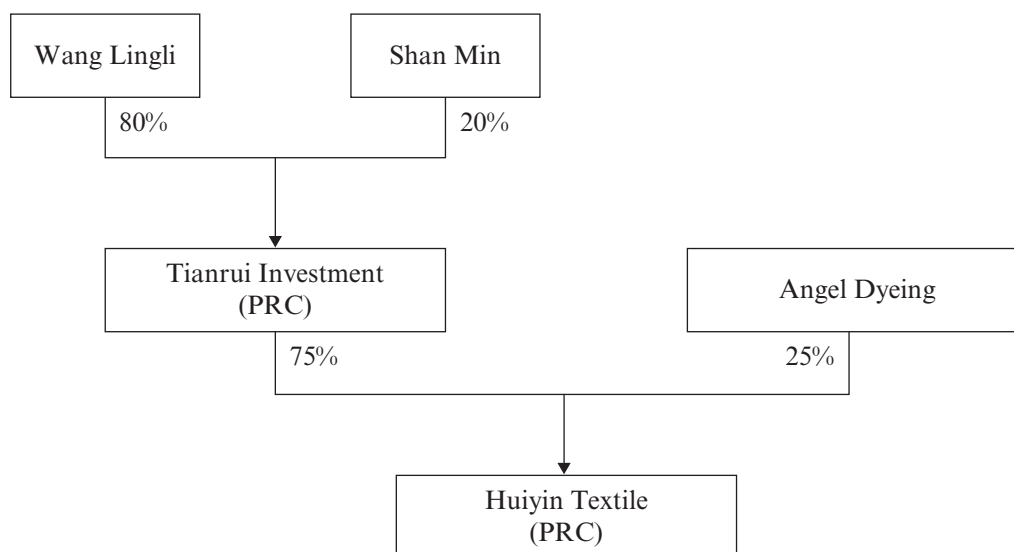


*Note:*

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

## HISTORY, REORGANIZATION AND GROUP STRUCTURE

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



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

### Establishment of offshore shareholding structure

#### Excel Orient

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

#### Power Fit and Swift Power

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

#### Our Company

On 24 February 2010, our Company was incorporated in the Cayman Islands as an exempted company with an authorized share capital of US\$50,000 divided into 50,000 shares having a par value of US\$1.00 each. On the same date, one share with par value of

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## **HISTORY, REORGANIZATION AND GROUP STRUCTURE**

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US\$1.00 was allotted and issued as fully paid at par to Offshore Incorporations (Cayman) Limited, the subscriber, which was then transferred to Excel Orient. Upon completion of the said share transfer, our Company was owned as to 100% by Excel Orient.

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

### **HK YSL and HK Huiyin**

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

### **Restructuring of our PRC operating subsidiaries**

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

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

## HISTORY, REORGANIZATION AND GROUP STRUCTURE

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

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

### Transfer of equity interest from Excel Orient to Sunlion and Solemnity

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

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

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

#### Notes:

- Including the sum of HK\$27,550,000, HK\$30,000,000, HK\$20,890,000, HK\$20,160,000, HK\$30,000,000, HK\$31,000,000 and HK\$400,000 paid on 26 August 2010, 27 September 2010, 19 November 2010, 16 February 2011, 18 March 2011, 30 March 2011 and 17 August 2011, respectively.
- Including the sum of HK\$40,000,000, HK\$5,400,000, HK\$52,780,000 and HK\$17,920,000 paid on 23 August 2010, 25 August 2010, 26 August 2010 and 27 August 2010, respectively.
- The outstanding sum owed to Excel Orient by our Group (including but not limited to the Shareholder’s Loan after deducting the repaid amount) was waived pursuant to a deed of waiver dated 14 March 2012 between our Company and Excel Orient. No additional Shares will be issued as a result of the waiver of the repayment of the outstanding amount owed to Excel Orient.

## HISTORY, REORGANIZATION AND GROUP STRUCTURE

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

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

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

*Notes:*

1. Pursuant to the supplemental deed dated 12 July 2011 between Excel Orient, Mr. LIU Dong, Sunlion and Mr. YAN Tangfeng, the parties agreed and acknowledged that (i) Excel Orient’s obligation to transfer 7.23% equity interest to Sunlion was satisfied by way of completion of the transfer of 723 Shares on 19 June 2011, and (ii) the relevant Loan Agreement was terminated and superseded by the Deed of Loan and that all obligations and liabilities of Mr. LIU Dong and Mr. YAN Tangfeng (both of whom were not parties to the Deed of Loan) under the Loan Agreement were terminated as at the date of the Deed of Loan.
2. Pursuant to the supplemental deed dated 12 July 2011 between Excel Orient, Mr. LIU Dong, Solemnity and Mr. SIU Wun Lung, the parties agreed and acknowledged that (i) Excel Orient’s obligation to transfer 6.19% equity interest to Solemnity was satisfied by way of completion of the transfer of 619 Shares on 19 June 2011, and (ii) the relevant Loan Agreement was terminated and superseded by the Deed of Loan and that all obligations and liabilities of Mr. LIU Dong and Mr. SIU Wun Lung (both of whom were not parties to the Deed of Loan) under the Loan Agreement were terminated as at the date of the Deed of Loan. Pursuant to the second supplemental deed dated 18 August 2011, it was acknowledged and rectified that the total amount of loan provided by Mr. SIU Wun Lung to Mr. LIU Dong was HK\$116,100,000 instead of HK\$120,000,000 as previously agreed under the relevant Loan Agreement.



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## HISTORY, REORGANIZATION AND GROUP STRUCTURE

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

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

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

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

In February 2010, we engaged Sinolion Investment and Management Consultancy (Shandong) Co., Ltd. (中獅投資管理諮詢(山東)有限公司) (a limited company incorporated in the PRC) (“**Sinolion Investment**”) as our adviser to prepare for us and assist us in the [ • ] for matters involving internal coordination within the Company, including (i) to provide administrative support and assistance to us in facilitating the completion of due diligence exercise by the professional parties, (ii) to assist us in finalizing the plan for the Reorganization, (iii) to offer suggestion and recommendation of professional parties for the [ • ], and which fall outside the scope of any regulated activity which requires a licence under the [ • ] and/or any service that is to be provided by a [ • ] to a [ • ] applicant under the [ • ], for the reason that our Directors believe that the engagement of Sinolion Investment

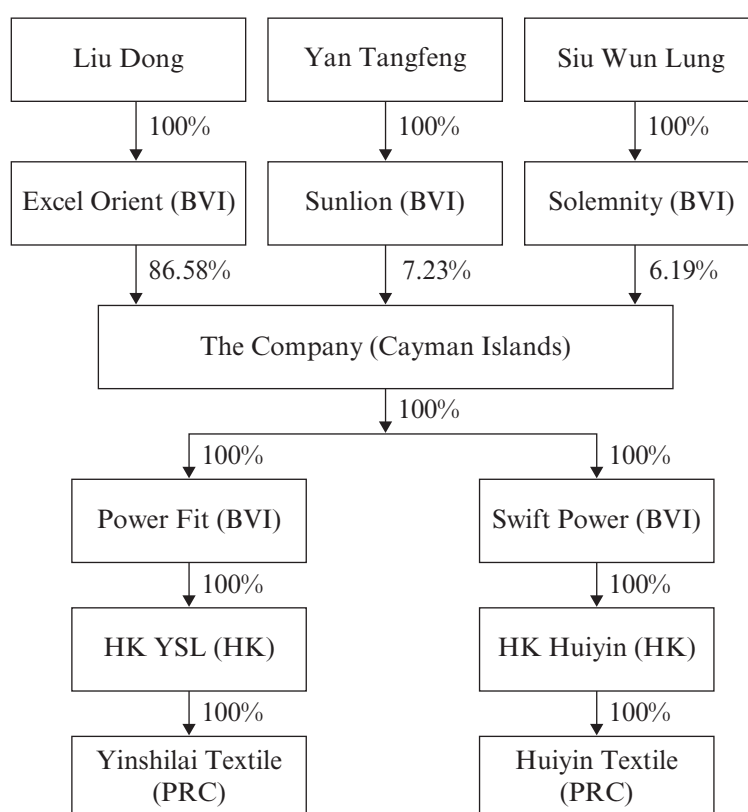


## HISTORY, REORGANIZATION AND GROUP STRUCTURE

would minimise the diversion of the attention of the management of our Group from our business which is rapidly growing. Service charge for the total sum of RMB600,000 was fully settled in 2010 and 2011.

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

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



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## HISTORY, REORGANIZATION AND GROUP STRUCTURE

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### M&A RULES

According to the Rules on the Acquisition of Domestic Enterprises by Foreign Investors (the “**Circular 10**”) 《關於外國投資者併購境內企業的規定》 which were promulgated by MOFCOM, the State-owned Assets Supervision and Administration Commission, the CSRC, the SAT, the SAIC and the SAFE and became effective on 8 September 2006, where a domestic company, enterprise or natural person intends to takeover its/his/her affiliated domestic company in the name of an offshore company which it/he/she lawfully established or controls, the takeover shall be subject to the examination and approval of the MOFCOM; and where a domestic natural person holds equity interest in a domestic company through an offshore special purpose company, the overseas [ • ] of that special purpose company shall be subject to approval by the CSRC. Yinshilai Textile was established on 1 December 1999 as a sino-foreign enterprise, which owned necessary assets to conduct its business within the approved business scope, and Yinshilai Textile was changed to a wholly foreign owned enterprise on 16 April 2010. According to the agreement entered into between Yinshilai Textile and Yinlong Industrial for Yinlong Assets Acquisition dated 1 April 2011, Yinshilai Textile acquired from Yinlong Industrial approximately 90,000 spindles and other spinning machineries and supporting equipment (the “**Acquired Assets**”) on 31 December 2010, and such acquisition was completed on the same date. As advised by our Group’s PRC legal advisers, on the basis that (i) Yinshilai Textile has been established as a foreign invested enterprise and in operation with its own assets before the occurrence of Yinlong Assets Acquisition; and (ii) the Acquired Assets did not constitute material assets compared to the total assets of Yinshilai Textile as at 31 December 2010, Circular 10 does not apply to the Yinlong Assets Acquisition.

### CIRCULAR 75

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

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## **HISTORY, REORGANIZATION AND GROUP STRUCTURE**

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Our PRC legal advisers have conducted consultation with the Zibo sub-branch of SAFE as well as Shandong branch of SAFE which are the appropriate authorities and confirmed that Mr. YAN Tangfeng, who is a Singapore permanent resident holding PRC passport, and Mr. SIU Wun Lung, who is a Hong Kong permanent resident, both of whom being the relevant beneficial Shareholders of the Company, had submitted their separate applications for foreign exchange registration of offshore investment at the Zibo sub-branch of SAFE on 10 August 2011, and the officers have indicated that Mr. YAN Tangfeng and Mr. SIU Wun Lung do not fall into the registration category ascribed in the Circular 75. Based on the foregoing, our PRC legal advisers are of the view that Mr. YAN and Mr. SIU do not have to take further action to complete the foreign exchange registration as they are not categorized within the registration scope required by the Circular 75 and no penalties will be imposed on our Company due to such non-registration.

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## BUSINESS

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### BUSINESS OVERVIEW

We are one of the leading fabric manufacturers in the high-end<sup>1</sup> home textile fabric industry of the PRC principally engaged in the design, manufacturing and sale of high-end Fabric Products. Our principal products can be broadly divided, by their weaving constructions, into two categories, namely, jacquard fabrics and dobby fabrics. Our Fabric Products are mainly made with high-end yarns (which are made from high grade cotton, organic cotton, Egyptian cotton and pima cotton), Tencel and/or new materials and fibers (such as milk fiber, soybean fiber, corn/bamboo blended fiber, wool and linen, etc.), and are manufactured by advanced air-jet looms and rapier looms, some of which have been equipped with electronic jacquard machines. Our dobby fabrics are suitable for manufacturing a broad range of quality home textile products such as bed-linen as well as apparel textile products such as garment, whereas our jacquard fabrics are primarily used for manufacturing high-end home textile products such as high-end bed-linen for hotel guest rooms, as far as our Directors are aware. Further, we are committed to product innovations and developments to expand our product offerings and improve our product quality with a view to catering to the ever changing market demand and customers’ preference. For the year ended 31 December 2011, the Fabric Products that we have designed and/or produced for our customers were over 7,000 varieties as classified in terms of woven designs, raw materials used and fabric specifications.

The high-end home textile fabric market in the PRC in which we carry on business is a niche market and a segment of the high-end grey fabric market<sup>2</sup>. The entire grey fabric market of the PRC is substantial. According to the Euromonitor Report, in 2010, approximately 65.5 billion meters of grey fabrics were produced by the PRC manufacturers above the designated size<sup>3</sup> in the cotton textile industry in the PRC in which high-end grey fabrics as well as high-end home textile jacquard fabrics and high-end home textile dobby fabrics accounted for approximately 4.1% and 0.67%, respectively of the total grey fabrics produced. In terms of the manufacturer sales value, in 2010, high-end grey fabrics produced by the PRC manufacturers above the designated size reached approximately RMB40,834.8

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

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

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

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## BUSINESS

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

### *Our principal products*

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

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

### *Our customers*

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

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

### *Our machines and equipment*

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

### *Vertical integration of yarn and fabric productions*

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

### *Our production base*

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



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

### *Our financial performance*

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

The following table sets out our revenue by product and service category and the percentage contribution by each category to our total revenue during the [ • ]:

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

*Note:*

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



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### COMPETITIVE STRENGTHS

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

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

*We are well-recognized in the industry*

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

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

*We have stringent quality control*

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

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### *We have established customer base*

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

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

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

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

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

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

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for use in the home textile industry increased from approximately RMB3,031.1 million in 2005 to approximately RMB8,000.4 million in 2010, representing a CAGR of approximately 21.42%.

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

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

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

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

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

*Strong product development capability*

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

*Collaboration with external institutions enhances our research and development strength*

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

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

### *Our achievements in product research and development*

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

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

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

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

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



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

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

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

**We have an experienced, stable and energetic management team.**

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

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### BUSINESS STRATEGIES

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

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

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

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

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

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



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

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

### **Strengthening our brand building efforts for our products.**

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

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

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

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

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

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

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

For further details of our future plans [ • ], please refer to the section headed “Future Plans” of this document.

### EXPANSION PLANS

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

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

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

## BUSINESS

### PRODUCTS

The following table sets forth the breakdown of our revenue by product and service category and geographical segments during the [ • ]:

#### Product category and geographical segments

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

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## BUSINESS

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### **Fabric Products**

We are principally engaged in the design, manufacturing and sale of high-end<sup>1</sup> Fabric Products. Our Fabric Products are generally used by our customers as raw materials for manufacturing a range of home and apparel textile products, with manufacturing high-end home textile products being our products’ principal application, as far as our Directors are aware. Our principal products can be broadly divided, by their weaving constructions, into two categories, namely, jacquard fabrics and dobby fabrics.

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

#### *Jacquard fabrics*

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

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

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

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

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

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

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### Jacquard fabrics by major raw materials

### Descriptions

#### *Tencel and new materials and fibers*

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

#### *Notes:*

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



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

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



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



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



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



“Mi Qing” (迷情)



“Yao Rao” (妖嬈)



“Lan Man Zhi Hua”  
(爛漫之花)



“Xin Xiang Ying”  
(心相映)



“An Xiang Fu Dong”  
(暗香浮動)



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## BUSINESS

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### *Dobby fabrics*

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

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

| <b>Dobby fabrics by major raw materials</b> | <b>Descriptions</b>                                                                                                                                                |
|---------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Pure cotton</i>                          |                                                                                                                                                                    |
| CM60SX60S 173X101 (1078T/10CM)              | : Pure cotton dobby fabric with yarn counts of 60S (warp) and 60S (weft) and thread density of approximately 274T/square inch (equivalent to 1,078 threads/10cm)   |
| CM80SX80S 200X183 (1507T/10CM)              | : Pure cotton dobby fabric with yarn counts of 80S (warp) and 80S (weft) and thread density of 383T/square inch, approximately equivalent to 1,507 threads/10cm    |
| CM100SX100S 230X190 (1653T/10CM)            | : Pure cotton dobby fabric with yarn counts of 100S (warp) and 100S (weft) and thread density of approximately 420T/square inch (equivalent to 1,653 threads/10cm) |
| CM100SX100S 230X230 (1811/10CM)             | : Pure cotton dobby fabric with yarn counts of 100S (warp) and 100S (weft) and thread density of approximately 460T/square inch (equivalent to 1,811 threads/10cm) |

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### **Dobby fabrics by major raw materials**

### **Descriptions**

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

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### Dobby fabrics by major raw materials

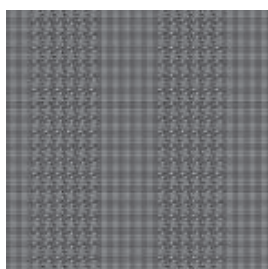
### Descriptions

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

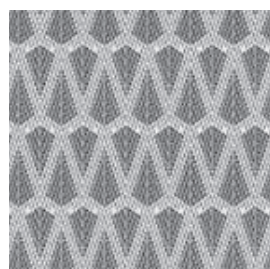
: Dobby fabric with both warp and weft of bamboo/cotton 60/40 blended yarn with warp yarn counts of 60S and weft yarn counts of 40S, thread density of approximately 289T/square inch (equivalent to 1,137 threads/10cm)

*Notes:*

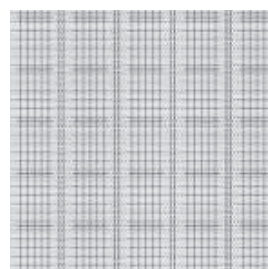
- (a) “CM” is an abbreviation of “Combed”.
- (b) “JC” is an abbreviation of “Combed cotton yarn”.
- (c) “T” is an abbreviation of “thread” which is used to express the thread density.
- (d) A thread of yarn can be made up of more than one type of raw materials, i.e. it is fiber-blended. For example,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



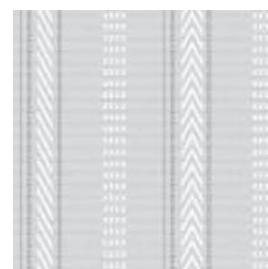
Our doobby design “Lang man xing cheng” (浪漫星程) which we received award certificate in The 23rd Fabric China Appraisal Entry Enterprise — 2011 Spring/Summer in 2010



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



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



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

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### Properties of our Fabric Products

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

Set out below is the breakdown of our revenue by products made with different major raw materials during the [ • ]:

### Product category by raw materials component

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

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

#### *Pure cotton fabrics*

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

#### *Tencel and/or new materials and fiber fabrics*

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

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

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

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

### Yarns

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

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

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



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

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

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

### **Others**

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

### **Processing services**

In addition to the manufacturing and sale of Fabric Products in accordance with the purchase orders placed by our customers, we also undertake to provide processing services for certain customers who would like to capitalise on our advanced weaving facilities and our capability of offering high quality Fabric Products, and exercise control over the source and type of raw materials used by us in the fabric weaving process. Under such arrangement, our customers supply the raw materials to us for manufacturing fabric products designated by them and we will be paid a processing fee by our customers in consideration of the provision of such processing services by us. For the years ended 31 December 2009, 2010 and 2011, the processing fee received



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from the provision of processing services by us amounted to approximately RMB11.35 million, RMB31.05 million and RMB27.74 million, representing approximately 2.14%, 4.01% and 2.99%, respectively, of our total revenue.

### **SALES AND MARKETING**

#### **Our markets**

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

#### **Sales**

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

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

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

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

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

### Marketing

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

#### *Direct marketing activities*

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

#### *Participation in exhibitions and trade fairs and organising site visits*

We have participated in various domestic or international exhibitions and trade fairs such as 18th International Istanbul Home Textiles Exhibitions (第18屆土耳其國際家紡展) in Turkey, Texworld USA, International Apparel Sourcing Show and Home Textiles

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Sourcing Expo in the United States in 2011, Heimtextil Frankfurt (法蘭克福家用紡織品展覽會) in Germany in 2011, and East China Fair (華東進出口商品交易會) and China Import and Export Fair (中國進出口商品交易會) (previously known as Canton Fair (廣交會)) in the PRC in 2008 and 2009 respectively. We took these opportunities to keep abreast of any development in the textile industry and market trend, promote our products and brand, and meet potential customers.

### *Promotion and advertisements*

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

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

### **Our Customers**

During the [ • ], we have manufactured Fabric Products and/or provided processing services for over 1,200 customers. Our customers are mainly domestic and overseas manufacturers of finished home and apparel textile products, processing factories (such as dyeing and printing factories who then sell the products after processing to finished textile product manufacturers as far as our Directors are aware), exporters and fabric traders. We maintain close and stable business relationship with our customers. Of our about 320 customers comprising over 270 domestic customers and 50 export sale customers for the year ended 31 December 2011, a majority of them had more than three years business relationship with us. Some of our customers are well-known home or apparel textile manufacturers in China. For example, we supply our Fabric Products to Jiangsu Golden Sun Textile Co., Ltd. (江蘇金太陽紡織科技有限公司), Nantong Zhan Qun Textile Co., Ltd. (南通展群紡織有限公司), Jiangyin Hong Liu Bedsheet Co., Ltd. (江陰市紅柳被單廠有限公司), Lu Thai Textile Co., Limited (魯泰紡織股份有限公司), (a company listed on Shenzhen Stock Exchange), Fuanna Bedding and Furnishing Company Limited (深圳市富安娜家居用品股份有限公司) (a company listed on Shenzhen Stock Exchange), Shanghai Shuixing Home Textile Limited (上海水星家用紡織品有限公司) and Luolai Home Textile Co., Ltd. (羅萊家紡股份有限公司) (a company listed on Shenzhen Stock Exchange). These companies are principally engaged in the manufacturing and sale of high-end finished home textile products. Our Directors have confirmed that none of our customers are distributors since

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our products are sold to them in accordance with their purchase or processing orders placed with us and they resell our products (or products manufactured by us pursuant to the processing order) under their name to their customers for their own account.

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

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

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

### Logistics

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

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### **After sales services**

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

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

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

### **PRICING AND PAYMENT TERMS**

#### **Pricing and customer policy**

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

#### **Payment terms with customers**

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



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

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

### PROCUREMENT

#### Raw materials

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

##### *Cotton yarns*

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

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

##### *Tencel yarns and fibers and new materials and fibers*

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

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

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

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### *Cotton*

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

### *Sizing agent*

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

### **Our Suppliers**

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

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

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



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

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

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

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

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

Our Directors have confirmed that, since 21 April 2011, Yinlong Industrial has been an [ • ]. For further details regarding the change in shareholding of Yinlong Industrial during the [ • ], please see “Our Relationship with Controlling Shareholders — Relationship with Yinlong Industrial — Change in shareholding in Yinlong Industrial” in this document.

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

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

### **Inventory management**

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

Except for cotton, we generally keep raw material supply for 20 to 120 days depending on the orders from our customers and the prevailing market conditions. On the other hand, since the market price of cotton is relatively volatile when compared with other raw materials, to maintain a continued production cycle, we have a policy of maintaining cotton inventory for at least 90 days and may maintain a higher level of inventory when we perceive that there is an upward trend of cotton price in the future. The level of our cotton

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

## **PRODUCTION**

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

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

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### Production facilities

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

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

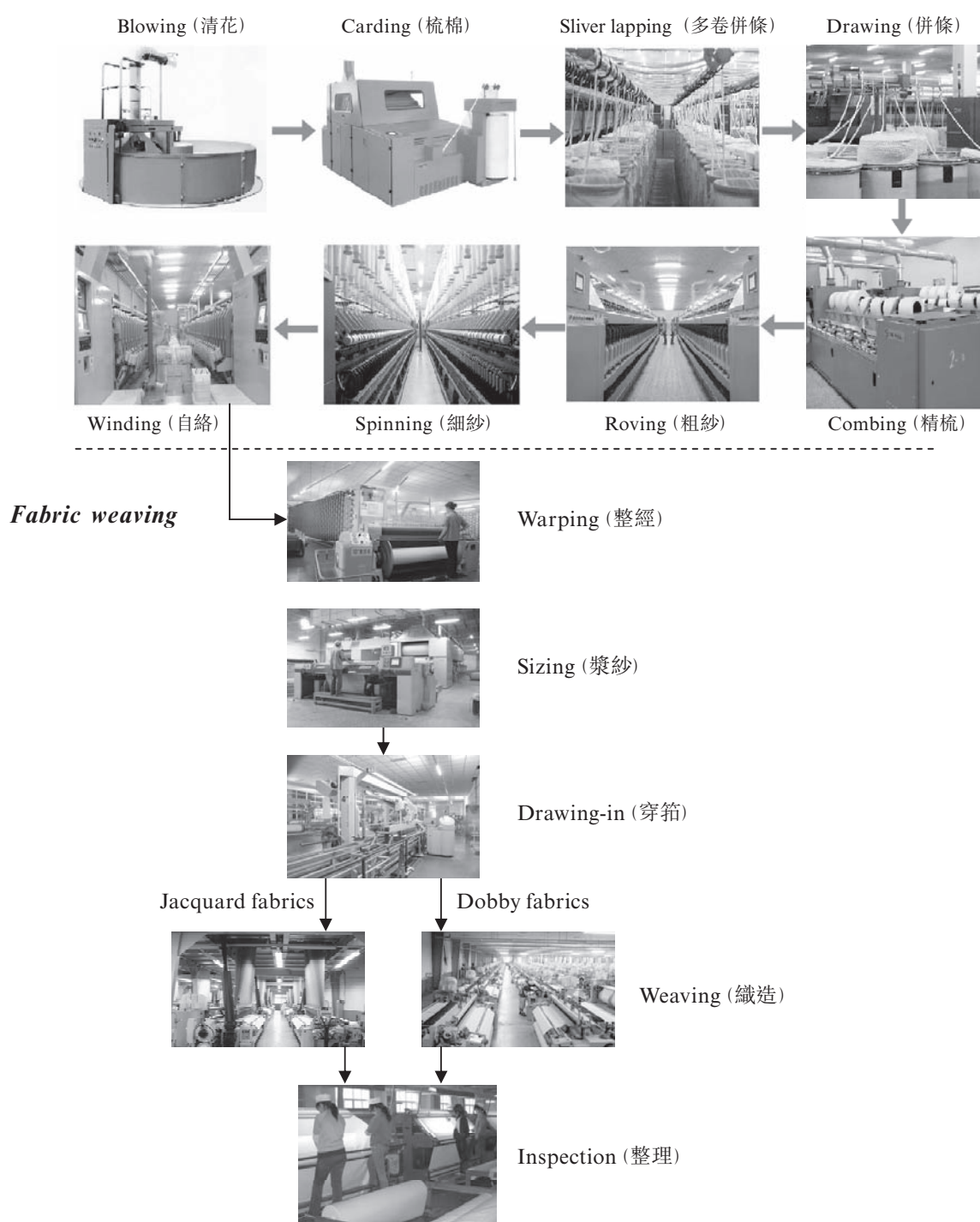
Our Directors have confirmed that, subject to the introduction of more advanced models or technology, generally, the life span for our production machineries and equipment is around 8 to 15 years. For our facilities for general applications such as electrical appliances and vehicle, they normally have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

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### Production process

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

#### *Cotton yarn spinning*





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### *Cotton yarn spinning*

#### *Blowing (清花)*

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

#### *Carding (梳棉)*

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

#### *Sliver lapping (多卷併條)*

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

#### *Drawing (併條)*

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

#### *Combing (精梳) (for combed cotton yarn only)*

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

#### *Roving (粗紗)*

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

#### *Spinning (細紗)*

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

#### *Winding (自絡)*

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

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### *Fabric weaving*

#### *Warping (整經)*

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

#### *Sizing (漿紗)*

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

#### *Drawing-in (穿筘)*

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

#### *Weaving (織造)*

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

#### *Inspection (整理)*

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



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### Production capacities and utilization rates

#### *Fabric Products*

We set out below the production capacity and utilization rate for the production of our Fabric Products during the [ • ].

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

(1) The designed production capacity is derived based on the following bases and assumptions:

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

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

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

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

### ***Yarns***

Production capacity of yarn is largely determined by the number of spindles. We set out below the utilization rate for the production of our yarns during the [ • ].

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

#### *Notes:*

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

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

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

### Fuel and utilities

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

#### *Steam*

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

Pursuant to the steam supply agreement with Yinlong Industrial dated 7 October 2011 (the “**Steam Supply Agreement**”), (a) for the period from 1 January 2011 to 31 December 2014, Yinlong Industrial agreed to supply steam to Yinshilai Textile in accordance with the quality and quantity standards specified therein; (b) pricing for the steam supply is to be fixed by mutual agreement of the parties on a half yearly basis and is determined by reference to the prevailing market price of coal for the production of steam, subject to adjustment at the expiration of each six-month period; (c) the fee for the provision of steam will be payable by us to Yinlong Industrial on a monthly basis and shall be settled within 10 days from the beginning of the month in respect of the steam supplied in the preceding month; and (d) before the parties have agreed to the pricing, Yinlong Industrial is not permitted to suspend the steam supply without prior notice to us. Our Directors have

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

### *Electricity*

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

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

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year ended 31 December 2011, the amount received by our Group from Yinlong Industrial for the aforementioned purpose amounted to approximately RMB3.48 million. As Yinlong Industrial is no longer under the control of Mr. LIU Dong and his [ • ] and has become an [ • ] since 21 April 2011, Yinshilai Textile has applied for and already completed the procedures with the relevant power supply company for the separation of accounts from our Group for the utilities used by Yinlong Industrial, and has terminated the aforementioned arrangement with Yinlong Industrial since 1 November 2011.

### **QUALITY CONTROL**

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

#### **Purchase of raw materials**

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

#### **Production**

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

For our Fabric Products, we have adopted the PRC standard of GB/T 406-2008 and international standard of American’s Four Points System as quality benchmarks for the inspection of the fabric construction, strength, width, density, defects and packaging of our Fabric Products. For cotton yarns, we apply PRC standard of GB/T398-2008 as our quality benchmark. GB/T398-2008 is a PRC standard for quality of original-coloured cotton yarn products. According to the letter issued by China Cotton Textile Association (中國棉紡織行

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業協會) in May 2007, we had participated in the review and revision of GB/T 406-2008 and GB/T398-2008 standards. We have also adopted a set of quality inspection system for jacquard and dobby fabrics such as the quality standard entitled “original-coloured fabric product” (Q/0300ZHY) formulated by us in January 2011, which demonstrated our experience and expertise in fabric productions and quality control. The same set of quality control measures also applies to the processing services provided by us to our customers.

### **Inventory storage**

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

### **Machinery and equipment management**

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

### **Sales**

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

### **Staff quality awareness and reward and penalty system**

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

We have obtained several accreditations for our quality control system. For example, we were accredited with GB/T19001-2008 (idt ISO 9001:2000) certifications in respect of the conformity of quality management system in 2011, which is valid until 2014. In 2007, we received Certificate for Product Exemption from Quality Surveillance Inspection (產品質量免檢證書) issued by Central Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) in respect of our pure cotton fabrics



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for use in apparel textile with effect from December 2007 to December 2010 which demonstrated the recognition of the quality of our products. Details of our Group’s accreditations and certificates relating to our quality control are set out in the sub-section headed “Awards and Accreditations” below.

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

## RESEARCH AND DEVELOPMENT

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

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

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



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intend to recruit more talented fabric designers and enhance training to our design personnel such as organising secondment programs with research institutions or universities to exchange innovative idea and strengthen our fabric design capability. In 2010, we organised a national jacquard fabric design contest with China National Textile and Apparel Council (中國紡織工業協會), Shandong Zibo City Textile Industry Association (山東省淄博市紡織工業協會) and a local media to gather innovative designs, increase the publicity of our jacquard fabrics, boost our corporate image and attract design talents.

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

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

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

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

## COMPETITION

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

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### INTELLECTUAL PROPERTY RIGHTS

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

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

### AWARDS AND ACCREDITATIONS

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

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

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

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

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



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

### PROPERTIES

#### Owned properties

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

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

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



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### **Leased properties**

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

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

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

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## **BUSINESS**

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

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

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

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

As of the Latest Practicable Date, our Group has paid an upfront payment of RMB2 million to the local government of Boshan district, Shandong province, the PRC for the purpose of the proposed acquisition of land with a total site area of 234 mu (equivalent to approximately 156,000 sq. m) from the said local government. We intend to acquire such piece of land primarily for expansion of our production facilities in several stages. Our Group expects to acquire a piece of land with a total site area of 120 mu (equivalent to approximately 80,000 sq.m) prior to the fourth quarter of 2013. (Please refer to the section headed “Business — Expansion Plans” for more details). Based on the letter of confirmation from the local government, the disposal of the said piece of land by the said local government will be through the process of tender, auction or listing-for-bidding in accordance with the applicable laws and regulations of the PRC and accordingly, the acquisition price is not known yet. The Company confirms that no transaction relating to such piece of land was completed within the two preceding years. However, there is no assurance that we will succeed in such tender, auction or listing for acquiring such land. As confirmed by our PRC Legal Advisers with the support of the aforesaid letter of confirmation, our Group has no binding obligation to acquire such land until our Group is successful in our bid through the process of tender, auction or listing-for-bidding and has signed the bid confirmation as the acquirer of the said piece of land, unless otherwise agreed among relevant parties. In this connection, if we are not successful in our bid for the acquisition of such land or we decide not to proceed with the acquisition of such land, we may demand for refund of RMB2 million having been paid by our Group or bid for another piece of land for housing the additional production facilities.

## **INSURANCE**

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

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

## **ENVIRONMENTAL PROTECTION**

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

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

According to the confirmation letter issued by the Boshan Environmental Protection Branch Bureau of Zibo City, Shandong Province (山東省淄博市環境保護局博山環保分局) on 25 April 2012, since their respective date of incorporation up to 15 April 2011, each of Yinshilai Textile and Huiyin Textile, being our PRC subsidiaries engaged in manufacturing operations, has complied with the requirements of national and local environmental protection laws and regulations, and there were no circumstances which may result in the violation of the relevant environmental protection policies and regulations by Yinshilai Textile or Huiyin Textile. Both Yinshilai Textile and Huiyin Textile have obtained the temporary sewage discharge permits since January 2011. We obtained the temporary sewage discharge permits with the validity period from December 2011 to February 2012, and such permits were renewed on 23 February 2012 with the validity period from March 2012 to June 2012. Based on the confirmation letter issued by Zibo Environmental Protection Bureau (淄博市環境保護局) and inquiries with Environmental Protection Bureau of Shandong Province which are the competent governmental authorities, as the allocation plan of total permitted pollution from 2011 to 2015 for Shandong Province has not yet been promulgated, it is the normal practice for Zibo Environmental Protection Bureau to grant temporary permits to local entities at the request of such entities until such allocation plan has been promulgated, and there is no universally applied sewage discharge permit system within Shandong Province, local authorities are entitled to take appropriate measures to supervise total pollution discharge quantities within their jurisdiction. As at the Latest Practicable Date, we were in the course of applying for renewal of our sewage discharge permits which will expire at the end of June 2012, and as advised by our PRC legal advisers, subject to any further revision and amendments to the presently applicable PRC laws and regulations, there is no foreseeable legal impediment for us to renew the sewage discharge permits if Yinshilai Textile and Huiyin Textile comply with the then applicable PRC laws and regulations. Our PRC legal advisers have further confirmed that we have obtained all permits and licences required under applicable environmental protection laws and regulations in China and that we have complied with applicable environmental laws and regulations in all material respects.

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

During the [•], our costs for compliance with applicable environmental rules and regulations were approximately RMB300,000, RMB300,000 and RMB1,600,000 respectively. These costs comprised primarily expenses and charges associated with sewage treatment and fees paid to the governmental authority in respect of the relevant environmental rules and regulations in the PRC. The increase in such expenditure for the

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year ended 31 December 2011 was attributable to the purchase and installation of additional sewage treatment facilities to enhance our Group’s sewage treatment capability and higher operational expenses of such facilities. Since we do not produce a large amount of waste during the production process, our Directors do not anticipate that there will be a substantial amount of expenses that we may incur in the near future for environment compliance matters.

### **LEGAL PROCEEDINGS**

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

### **REGULATORY COMPLIANCE**

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

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

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### MEASURES TO STRENGTHEN CORPORATE GOVERNANCE PROCEDURES

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

#### Incidents

#### Prevention measures

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

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

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

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

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

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

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

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



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### Incidents

### Prevention measures

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

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

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

#### **(a) Establish legal compliance department**

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

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

#### **(b) Provide training to employees**

In addition, specialized training programs have been provided for all Directors and staff members who will be involved in the legal and compliance issues of our Company to raise their awareness on the importance of internal legal compliance and to strengthen their risk management skills. In the PRC laws training session, our PRC legal advisers provided training to our Directors and staff members who will be involved in the legal and compliance issues of our Company covering (i) all major PRC laws and regulations in relation to corporate governance, property, social insurance and housing fund, and (ii) case studies based on historical incidents that took place within our Group. In the Hong Kong laws and [ • ] training session, our legal advisers provided training to our Directors covering

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relevant topics such as (i) corporate governance under the Companies Ordinance, (ii) director’s responsibilities, (iii) price sensitive information disclosure requirements, and (iv) notifiable transactions.

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

**(c) Consult external professional advisers**

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

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

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### DIRECTORS

Our Board comprises seven Directors, including one non-executive Director and three independent non-executive Directors.

The following table presents certain information in respect of our Directors.

| Name                    | Age | Position                                                        | Date of appointment |
|-------------------------|-----|-----------------------------------------------------------------|---------------------|
| Mr. LIU Dong (劉東)       | 44  | Chairman, an executive Director and the Chief Executive Officer | 24 February 2010    |
| Mr. LIU Zongjun (劉宗君)   | 41  | Executive Director and the Vice President of Administration     | 26 June 2012        |
| Mr. TIAN Chengjie (田成杰) | 43  | Executive Director and secretary to the Board                   | 26 June 2012        |
| Mr. YAN Tangfeng (閆唐鋒)  | 42  | Non-executive Director                                          | 26 June 2012        |
| Ms. ZHU Beina (朱北娜)     | 54  | Independent non-executive Director                              | 26 June 2012        |
| Mr. ZHU Ping (朱平)       | 54  | Independent non-executive Director                              | 26 June 2012        |
| Mr. LAM Kai Yeung (林繼陽) | 42  | Independent non-executive Director                              | 26 June 2012        |

### Executive Directors

**Mr. LIU Dong (劉東)**, aged 44, is the Chairman, an executive Director and the Chief Executive Officer of our Company appointed on 24 February 2010, and one of our Controlling Shareholders. Mr. LIU has been with our Group since the acquisition of the equity interest of Yinshilai Textile by Yinshan Chemical Fiber in June 2005. Mr. Liu is currently the legal representative and a director of Yinshilai Textile and was firstly appointed to such posts in September 2005. Mr. LIU was appointed as a Director of our Company on 24 February 2010. He is also a director of each subsidiary of our Group (except Huiyin Textile). He is primarily responsible for overall business development, strategic planning and business development of our Group. Mr. LIU has accumulated 15 years of experience in the textile industry in the PRC which can be traced back to 1996 when he was appointed as the general manager of Zibo Wanjie Fiber Co., Ltd. (淄博萬杰纖維有限公司) (an [•]) as at the Latest Practicable Date which was principally engaged in the business of manufacturing and sales of chemical fiber products when our Directors were its

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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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employees, as confirmed by our Directors). Mr. LIU had served as a deputy general manager of Zibo Wanjie Group Co., Ltd. (淄博萬杰集團有限公司), and subsequently as a director and general manager (between December 1998 and December 2001) and the chairman of the board of director (between December 2001 and November 2004) of Wanjie High-Tech. Mr. LIU studied in College of Textile Engineering of Shandong (山東紡織工學院) majoring in management and subsequently obtained a master of business administration degree from the Chinese Academy of Social Science in November 1998.

Mr. LIU was recognized as “Model Worker of the Textile Industry of the PRC” (全國紡織工業勞動模範) by the Ministry of Personnel of the PRC (中華人民共和國人事部) and China National Textile and Apparel Council (中國紡織工業協會) in 2006, “Outstanding Entrepreneur of the Zibo Municipality for the year 2006” (2006年度淄博市優秀企業家), “Outstanding Entrepreneur of the Zibo Municipality for the year 2008” (2008年度淄博市優秀企業家) and “Outstanding Entrepreneur of the Zibo Municipality for the year 2009” (2009年度淄博市優秀企業家) by the Zibo Municipal Committee of the Chinese Communist Party (中共淄博市委) and the People’s Government of Zibo Municipality (淄博市人民政府) in 2007 and 2010, respectively, “Star Entrepreneur of the Zibo Municipality for the year 2010” (2010淄博市明星企業家) by the Zibo Municipal Committee of the Chinese Communist Party (中共淄博市委) and the People’s Government of Zibo Municipality (淄博市人民政府) in 2011, “Outstanding Entrepreneur of the Shandong Province” (山東省優秀企業家) by Shandong Enterprise Confederation (山東省企業聯合會), Shandong Entrepreneur Association (山東省企業家協會), Shandong Industrial and Economics Confederation (山東省工業經濟聯合會) and Shandong Quality Association (山東省質量協會) in 2011, “Award for Outstanding Entrepreneurs of the Textile Industry of the Shandong Province” (山東省紡織企業家創業獎) by the Shandong Textile Industry Office (山東省紡織工業辦公室) and the Shandong Textile Enterprise Management Association (山東紡織企業管理協會) in 2007, one of the “Twelve Batch of Outstanding Young Entrepreneurs of the Zibo Municipality” (第十二屆淄博市傑出青年企業家) by the Zibo Municipal Committee of the Communist Youth League (共青團淄博市委), Zibo Municipal Economy and Trade Committee (淄博市經濟貿易委員會), the Zibo Municipal Administration for Industry and Commerce (淄博市工商行政管理局), the Zibo Municipal Department of Environmental Protection (淄博市環境保護局), the Zibo Municipal Association of Entrepreneur (淄博市企業家協會) and the Zibo Municipal Association of Young Entrepreneur (淄博市青年企業家協會) in 2007, “Outstanding Persons of the Textile Brand Culture Development of the PRC for the year 2010” (2010中國紡織品牌文化建設傑出人物) by China National Textile and Apparel Council (中國紡織工業協會) and the Chinese Association for Textile Enterprises Culture Construction (中國紡織企業文化建設協會) in 2010, and “Boshan Star Entrepreneur for the year 2008” (2008年度博山區明星企業家), “Boshan Star Entrepreneur for the year 2010” (2010年度博山區明星企業家) and “Boshan Star Entrepreneur for the year 2011” (2011年度博山區明星企業家) by the Boshan District Committee of the Chinese Communist Party (中共博山區委) and the People’s Government of Boshan District (博山區人民政府) in 2009 and 2011, respectively. Mr. LIU is a representative of the Fourteenth People’s Congress of Zibo City (淄博市第十四屆人民代表大會).

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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**Mr. LIU Zongjun (劉宗君)**, aged 41, is an executive Director appointed on 26 June 2012 and our Vice President of Administration. He joined our Group as assistant to the chairman of the board of directors, deputy general manager of Yinshilai Textile and manager of the human resources department since April 2010. Mr. LIU was appointed as a director of Huiyin Textile in March 2012.

Mr. LIU is experienced in administrative management and has accumulated 15 years of experience in the textile industry. Between July 1993 and June 1994, Mr. LIU worked in the Shanghai office of Weifang Economic and Trade Centre (濰坊經濟貿易中心) governed by the Shandong Weifang Municipality Economic Committee (山東濰坊市經濟委員會). Between September 1994 and October 2004, Mr. LIU worked with Wanjie Group Co., Ltd. and held a series of positions including the role of executive in foreign economy and trade department of the Shanghai office, assistant to the general manager of Zibo Wanjie Fiber Co., Ltd. (淄博萬杰纖維有限公司) and assistant to the general manager and human resources manager of Wanjie High-Tech. Between October 2004 and April 2010, Mr. LIU served as general manager of Tianhao.

Mr. LIU graduated from Shanghai Textile College (上海紡織高等專科學校) in July 1993, majoring in textile material chemical processing. He also obtained a bachelor degree in Chinese literature from Shandong University of Technology (山東理工大學) in January 2007.

**Mr. TIAN Chengjie (田成杰)**, aged 43, is an executive Director appointed on 26 June 2012 and secretary to the Board. Mr. Tian has been a deputy general manager of Yinshilai Textile in March 2005. In May 2006, he was also appointed as a deputy general manager and a director of Huiyin Textile. He is primarily responsible for administration, planning and human resources of our Group. Mr. TIAN has accumulated more than 17 years of experience in the textile industry in the PRC. Mr. TIAN had worked with Zibo Wanjie Fiber Co., Ltd. (淄博萬杰纖維有限公司) since December 1993 and held a series of positions including the role of workshop manager, the head of the spinning department, the head of the quality control department, the head of the enterprise administration department, and an assistant to the general manager, and subsequently with Zibo Wanjie Group Co., Ltd. (淄博萬杰集團有限公司) serving as the head of the enterprise administration department. Between December 1996 and November 2004, Mr. TIAN held a series of positions including the role of director and supervisor of Wanjie High-Tech. Mr. TIAN graduated from the College of Textile Engineering of Shandong (山東紡織工學院) in July 1990 majoring in chemical fiber studies and obtained a master of business administration degree from the Guanghua School of Management of the Peking University (北京大學光華管理學院) in May 2004.

Mr. TIAN was awarded the second prize of the “Modern and Innovative and Excellent Application of Enterprises Management of the Shandong Province Award” (山東省企業管理現代化創新及優秀應用二等獎) by the Modern and Innovative Contribution of Enterprises Management of the Shandong Province Award Committee (山東省企業管理現代化創新成果評審委員會) in December 2010.



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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### Non-executive Director

**Mr. YAN Tangfeng (閆唐鋒)**, aged 42, is our non-executive Director appointed on 26 June 2012. Mr. YAN is the sole director and sole shareholder of Sunlion. He has been the chief executive officer of Sinolion Investment Pte. Ltd., responsible for the management of investments and overall management of business operations since September 2007. Mr. Yan started his career as a teacher and secretary of the faculty’s Party Committee in Shandong Industrial University (山東工業大學) (which combined with Shandong University in 2001) between July 1994 and April 2003. From April 2003 to September 2007, Mr. YAN worked in ICH Capital Pte. Ltd. as vice president and was subsequently promoted to senior vice president, responsible for investment management. Mr. YAN is also an executive director of Sinolion Investment Holdings Limited since July 2007, and a director of China Albetter Technology Holdings Pte. Ltd. since August 2008. Mr. YAN graduated from Shandong Industrial University (山東工業大學) (which combined with Shandong University in 2001) with a bachelor degree in engineering in July 1994.

Mr. YAN is currently a controlling shareholder, a non-executive director and the chairman of Shengli Oil & Gas Pipe Holdings Limited (勝利油氣管道控股有限公司) (stock code: 1080), a company listed on the [ • ], and has since 3 July 2009 been appointed to their board.

Mr. YAN’s appointment will be subject to our Articles of Association.

### Independent non-executive Directors

**Ms. ZHU Beina (朱北娜)**, aged 54, is an independent non-executive director appointed on 26 June 2012. Ms. ZHU is the president of China Cotton Textile Association (中國棉紡織行業協會). Ms. ZHU graduated from the East China Institute of Textile Science and Technology (華東紡織工學院) in July 1983 with a bachelor degree majoring in textile engineering. Since September 1998, Ms. ZHU worked at the China Cotton Textile Association (中國棉紡織行業協會) and held a series of positions including the role of deputy secretary-general, secretary-general, vice president and president successively, and obtained the qualification of senior engineer and professorate senior engineer.

Ms. ZHU has been appointed as an independent non-executive director of Shanghai Worldbest Industry Development Co., Ltd. (上海華源企業發展股份有限公司), a company listed on the Shanghai [ • ] (stock code: 600757), between December 2006 and February 2011, and Henan Xinye Textile Co., Ltd. (河南新野紡織股份有限公司), a company listed on the Shenzhen [ • ] (stock code: 002087), since September 2009, respectively.

Ms. ZHU was awarded the first prize and the second prize of the “Science and Technology Award” (科學技術獎) by the China National Textile & Apparel Council (中國紡織工業協會) in October 2006 and October 2008, respectively.



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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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**Mr. ZHU Ping (朱平)**, aged 54, is an independent non-executive director appointed on 26 June 2012. Mr. ZHU obtained a doctor degree majoring in textile chemistry and dyeing and finishing engineering from Donghua University (東華大學) (previously known as the China Textile University (中國紡織大學)) in March 1999 and post-doctoral qualification from the University of Georgia in January 2000, respectively.

Mr. ZHU is currently holding a number of posts in educational and professional institutions in relation to textile manufacturing. He is currently a distinguished visiting professor under the scheme of “Chutian Scholar” (楚天學者) of the Department of Education of the Hubei Province, and the dean of the faculty of chemistry and chemical engineering, a supervisor of doctor degree and a distinguished visiting professor under the scheme of “Sunshine Scholar” (陽光學者) of the Wuhan Textile University (武漢紡織大學), respectively. He is also a supervisor of doctor degree of the Huazhong University of Science and Technology (華科技大學), and Qingdao University (青島大學), a committee member of the “Supervising Committee on Professional Education of Light Chemical Engineering” (教育部輕化工程專業教學指導委員會), and a “State Council Expert for Special Allowance” (國務院特殊政府津貼專家). Since March 2008, he has held various posts with the Wuhan Textile University including the dean of the faculty of textile and material and the director of the “Key Laboratory of the Ministry of Education” (教育部重點實驗室).

Mr. ZHU was an associate professor and director of the teaching and research office on dyeing and finishing in the College of Textile Engineering of Shandong (山東紡織工學院) between June 1982 and May 1994, a professor, supervisor of master degree and deputy director of the department of chemical engineering of the college of textiles & fashion of the Qingdao University (青島大學) from May 1994 to January 1999 and from January 2000 to January 2001, a professor, supervisor of doctor degree and the vice dean of the college of chemistry, chemical engineering and environment of the Qingdao University between June 2002 and March 2008, respectively.

Mr. ZHU was awarded the first prize (in April 2007) and the second prize in (November 2005 and April 2008) of the “Scientific Technology Award of the Shandong Province” (山東省科學技術獎) by the People’s Government of the Shandong Province, respectively, the second prize (in October 2000) and third prize (in December 1996 and December 1997) of the “Scientific and Technological Advancement of the Shandong Province” (山東省科學技術進步獎) award by the Scientific and Technological Advancement of the Shandong Province Committee (山東省科學技術進步獎評審委員會), respectively, the “Shandong Provincial Education Committee Certificate for Scientific and Technological Advancement” (山東省教育委員會科學技術進步獎勵證書) by the Shandong Provincial Education Committee (山東省教育委員會) in December 1997, and the third prize (in March 1996) and second prize (in December 1997) of the “Scientific and Technological Advancement of Qingdao Municipal Award” (青島市科學技術進步獎) by the Scientific and Technological Advancement of the Qingdao Municipal Committee (青島市科學技術進步獎評審委員會), respectively.

**Mr. LAM Kai Yeung (林繼陽)**, aged 42, is an independent non-executive Director appointed on 26 June 2012. Mr. LAM is a fellow of the Association of Chartered Certified Accountants (英國特許公認會計師公會) and a fellow of the Hong Kong Institute of

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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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Certified Public Accountants (香港會計師公會). Mr. LAM obtained a bachelor degree of accounting from Xiamen University (廈門大學) in July 1990 and a master degree in business administration from Oxford Brookes University in the United Kingdom in July 2010. Mr. LAM has been an independent non-executive director of Northeast Tiger Pharmaceutical Company Limited (東北虎藥業股份有限公司) (stock code: 8197), a company listed on the Growth Enterprise Market of the [ • ], since 7 August 2008. He has also been the company secretary and qualified accountant of Hunan Nonferrous Metals Corporation Limited (湖南有色金屬股份有限公司) (stock code: 2626), a company listed on the [ • ], since 13 July 2006, and is also the chief financial officer of one of its subsidiaries.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of the Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the [ • ], as at the Latest Practicable Date.

### **SENIOR MANAGEMENT**

**Ms. SUN Hongchun (孫紅春)**, aged 48, is our Vice President of Production and Technology. Ms. SUN served as a general manager of Yinshilai Textile since March 2005, primarily responsible for the implementation of enterprise routine management and business plan. Ms. SUN was appointed as a director of Yinshilai Textile in September 2005. Ms. SUN has accumulated 21 years of experience in the textile industry which can be traced back to 1990, including serving as a factory supervisor, head of production technology department of Zibo Wanjie Group Co., Ltd. (淄博萬杰集團有限公司), deputy factory supervisor, deputy general manager of Zibo Wanjie Fiber Co., Ltd. (淄博萬杰纖維有限公司) and general manager of Wanjie Knitting Company (萬杰織造公司). Ms. SUN was recognized as the “Model Worker of the Textile Industry of the PRC” (全國紡織工業勞動模範) by the Ministry of Human Resources and Social Security (人力資源和社會保障部) and China Textile and Apparel Council (中國紡織工業協會) in 2010, the “Outstanding Manager of the Shandong Province for the year 2010” (2010年度山東省優秀經營管理者) by the Shandong Economic and Information Technology Committee (山東省經濟和信息化委員會), the second prize of the “Modern Innovation and Excellent Application of Enterprises Management of the Shandong Province Award” (山東省企業管理現代化創新及優秀應用成果二等獎) by the Modern and Innovative Contribution of Enterprises Management of the Shandong Province Award Committee (山東省企業管理現代化創新成果評審委員會) in December 2010, and “the Honour of Excellent Innovative Leader of the Boshan District” (博山區優秀創新帶頭人榮譽) by the Peoples’s Government of Boshan District (博山區人民政府). Ms. SUN has also participated in a chemical fiber technology development project which was recognized as a “Spark Program Achievement at the National Level” (國家級星火計劃科技成果) by the Science and Technology Commission of Shandong Province (山東省科學技術委員會) in December 1993.

Ms. SUN graduated from the College of Textile Engineering of Shandong (山東紡織工學院) with a bachelor degree majoring in textile engineering in June 1990.

Ms. SUN is the spouse of Mr. LV Ruichuan (a consultant of our Company).

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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**Mr. SONG Shuli (宋樹利)**, aged 36, has been our Chief Financial Officer since July 2011 and is responsible for our Group’s financial and accounting functions, and overseeing the financial reporting and accounting functions. Mr. SONG obtained a bachelor degree in laws from the Shandong Normal University (山東師範大學) in December 2009. Mr. SONG was qualified as a certified tax adviser, a qualified property valuer and a qualified accountant in China in September 2005, September 2005 and October 2005, respectively. Mr. SONG worked in a number of professional accounting firms in China prior to joining our Group.

**Mr. GONG Jianpei (龔建培)**, aged 50, joined our Group in August 2011 when he was appointed as our chief designer on a part-time basis. His duties include conducting market research and analysis as to textile products, assisting us in new products design and development, providing training to the staff in our research and development and product design department, and assisting us in the planning of design competition and headhunting.

Mr. GONG is experienced in textile fabric design. He was awarded the first-class theses award by the National Textile Design Competition And Theory Seminar (2001全國紡織品設計大賽暨理論研討會) in 2001, a silver prize in the “Fourth National Interior Design Competition” (全國第四屆室內設計大賽) by China Interior Decoration Association (中國室內裝飾協會) in 2002, a silver prize for his thesis in the “Chinese International Household Textile Design Competition” (中國國際家用紡織品設計大賽) by China Home Textile Association (中國家用紡織品行業協會), The Sub-Council of Textile Industry, CCPIT (中國國際貿易促進委員會紡織行業分會), Messe Frankfurt (HK) Ltd (法蘭克福展覽(香港)有限公司), and The People’s Government of Hianing, Zhejiang Province (浙江省海寧市人民政府) in 2003, an award of excellence for his thesis in the Chinese Fashion Colour Association (中國流行色協會) in December 2003, the “First Prize Teaching Achievement Award” (教學成就一等獎) by the Nanjing Art Institute (南京藝術學院) in 2004, and the “Second Prize Achievement Award for Undergraduates Teaching in Jiangsu Province for 2004” (2004年江蘇省高等教育教學成果獎二等獎) by the Education Department of Jiangsu Province (江蘇省教育廳) in 2005, respectively.

Mr. GONG is currently holding a number of posts in professional institutes in relation to design and textile. He is also a qualified designer of the Designer Chapter of the Chinese Household Textile Association (中國家紡協會設計師分會), a specialist of the Textile & Garment Chamber of Commerce, All-China Association of Industry & Commerce (中華全國工商業聯合會紡織服裝業商會), a councilor of the International Natural Dyeing Association (國際自然染色協會), and a councilor of the Chinese Fashion Colour Association (中國流行色協會).

**Ms. SUN Qiaoyun (孫巧雲)**, aged 42, is our Financial Controller. Ms. SUN joined our Group as the financial controller of Yinshilai Textile in November 2004 and was appointed as a director of Yinshilai Textile in March 2006. Ms. SUN has accumulated 20 years of experience in finance and management which can be traced back to 1991 when she served as the manager of the finance department of Zibo Wanjie Fiber Co., Ltd. (淄博萬杰纖維有限公司).

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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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Ms. SUN undertook a part-time course at the Party School of Shandong Provincial Party Committee of China Communist Party (中共山東省委黨校) and obtained a bachelor degree in economic management in December 2004.

Ms. SUN submitted one of the statutory filings in the 2005 Filings (as defined in section headed “Connected Transactions — Exempt continuing connected transactions” in this document) at the local SAIC office. As confirmed by Ms. SUN, she has no knowledge of the forged signatures in the said statutory filings and the background in relation thereto at the time of making of the submission, and save as the above, she has no involvement in the making of the forged signatures in 2003 Filings (as defined in section headed “Connected Transactions — Exempt continuing connected transactions” in this document) and 2005 Filings.

Except as disclosed above, each of our Directors and our senior management members has confirmed that he or she has not held any directorship in other listed public companies or major appointments in the three years preceding the Latest Practicable Date.

### **COMPANY SECRETARY**

**Ms. CHAN Yin Wah (陳燕華)**, aged 36, is an associate director of a corporate services provider company. She has over 10 years of professional experience in handling corporate secretarial, compliance and share registry matters for listed companies in Hong Kong. She has worked as a senior manager of a corporate service firm and was a company secretary of company listed on the [ • ]. Ms. CHAN obtained a bachelor degree in economics from the University of Hong Kong in December 1997 and a master degree in professional accounting from the Hong Kong Polytechnic University in November 2002. She is an associate of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She is also a member of the Association of Chartered Certified Accountants in the United Kingdom. Ms. CHAN was appointed as our company secretary on 1 September 2011. Ms. CHAN has been the company secretary of Zhengye International Holdings Company Limited (正業國際控股有限公司) (stock code: 3363), a company listed on the [ • ], since 21 December 2011 and the company secretary of CCID Consulting Company Limited (賽迪顧問股份有限公司) (Stock Code: 8235), a company listed on the GEM Board since 28 March 2012. Ms. CHAN is not an employee of our Company and she can contact Mr. Tian Chengjie, our executive Director, in relation to any corporate secretarial matters.

### **DIRECTORS’ AND SENIOR MANAGEMENT’S REMUNERATION**

In each of the three years ended 31 December 2011, the total remuneration (comprising fees, salaries and allowances, discretionary bonuses and pension scheme contribution) and benefits in kind of our Directors was approximately RMB283,000, RMB853,000 and RMB929,000, respectively, and the total remuneration of the five highest-paid individuals (including two, two and three Directors, respectively) was approximately RMB549,000, RMB1,507,000 and RMB1,423,000, respectively. Further information on the remuneration of each of our Directors during the [ • ] is set out in Notes 6 and 7 to the Accountants’ Report set out in Appendix I to this document.



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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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During the [ • ], no remuneration was paid to our Directors as an inducement to join or upon joining our Group. No compensation was paid to, or receivable by, our Directors or past Directors during the [ • ] for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the [ • ].

Under the current arrangements, our Directors will be entitled to receive remuneration from our Group which, for the year ended 31 December 2012, is expected to be approximately RMB1.6 million, excluding the discretionary bonus payable to our Directors.

During the [ • ], no remuneration was paid to any of the five highest paid individuals of our Group as an inducement to join or upon joining our Group. No compensation was paid to or receivable by such individuals during the [ • ] for the loss of any office in connection with the management of the affairs of any member of our Group.

Except as disclosed above, no other amounts have been paid or were payable by us to our Directors and members of our senior management for each of the three years ended 31 December 2011.

We will determine the remuneration of our Directors on the basis of their experience, performance, duties and market conditions.

### STAFF

The number of staff members who had signed labour contracts with our Group during the [ • ] was 960 as at 31 December 2009, 855 as at 31 December 2010 and 573 as at 31 December 2011. The following table set out the breakdown of our staff members by departments as at 31 December 2010 and 31 December 2011:

| <b>Department</b>                           | <b>As at<br/>31 December<br/>2010<br/><i>No. of staff<br/>members</i></b> | <b>As at<br/>31 December<br/>2011<br/><i>No. of staff<br/>members</i></b> |
|---------------------------------------------|---------------------------------------------------------------------------|---------------------------------------------------------------------------|
| Sales and marketing                         | 32                                                                        | 39                                                                        |
| Sourcing and procurement                    | 4                                                                         | 7                                                                         |
| Production                                  | 920                                                                       | 1,862                                                                     |
| Research and development and product design | 79                                                                        | 47                                                                        |
| Management, administration and accounting   | <u>100</u>                                                                | <u>186</u>                                                                |
| <b>Total</b>                                | <u><u>1,135</u></u>                                                       | <u><u>2,141</u></u>                                                       |

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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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The significant increase in staff members from 1,135 as at 31 December 2010 to 2,141 as at 31 December 2011 was primarily due to the acquisition of spinning machines and equipment under the Yinlong Assets Acquisition on 31 December 2010 and the acquisition of a total of 128 sets of new jacquard looms since the fourth quarter of 2010. As a result, we increased our labour force to operate these newly acquired production facilities.

As the domestic economy prospers, it becomes increasingly costly for manufacturing enterprises which do not possess up-to-date information of the labour market and the specialised personnel to directly engage in advertising job vacancies and recruitment of suitable employees, and it would be for the benefit of our Group to outsource the employee recruitment exercise through arrangement with specialised labour despatching agencies.

As at 31 December 2011, we had signed labour contracts with 573 out of our 2,141 full-time staff members while the remaining 1,568 staff members were dispatched by Zibo Kangye pursuant to the relevant labour sourcing agreements with Zibo Kangye. The Group did not have labour sourcing arrangement with Zibo Kangye until April 2011. The labour sourcing agreements entered into with Zibo Kangye dated 13 March 2011 provide for, amongst others, (a) the responsibility of Zibo Kangye to recruit competent staff for us and arrange for pre-job training; (b) the number, positions and qualifications of the workers to be despatched by Zibo Kangye; (c) working time and vacations to be provided to such workers; (d) payment of salaries to such workers; (e) social insurances and housing fund contributions; (f) labour protection and safety provisions; and (g) termination. Further, under such agreements, for a term of three years, (a) Zibo Kangye will be responsible for the payment of salaries and social insurances (exclusive of work-related injury insurance) for the despatched workers which will be reimbursed by our Group; (b) our Group will be responsible for the work-related injury insurance contributions for such despatched workers; and (c) our Group agreed to pay to Zibo Kangye a monthly fee of RMB55 per despatched worker as well as the salaries of despatched workers which are agreed between us and Zibo Kangye. The despatching fee is based on the prevailing fair market price and pursuant to such agreements, the salaries of despatched workers should equate with the workers of the same position employed by our Group and should not be lower than the minimum wages of Zibo City. As advised by our PRC legal advisers, such arrangement complies with all applicable labour laws and regulations in the PRC, and according to the Labour Contract Law and the labour sourcing agreements entered into between each of Yinshilai Textile and Huiyin Textile and Zibo Kangye, Zibo Kangye is the responsible party for the contribution of the social insurances (exclusive of work-related injury insurance) and housing funds of these 1,568 workers, the expenses of which will be reimbursed by us in accordance with the labour sourcing agreements. Although Zibo Kangye is the employer of the despatched employees, if Zibo Kangye fails to comply with the relevant rules and regulations and is in breach of the labour contracts signed with such despatched employees which results in harmful consequences to such despatched employees, Yinshilai Textile and Huiyin Textile may be held jointly liable with Zibo Kangye. However, Yinshilai Textile and Huiyin Textile are entitled to claim against Zibo Kangye for compensation of their losses pursuant to the terms of the relevant labour sourcing agreements.



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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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### **OUR RELATIONSHIP WITH STAFF**

We recognize the importance of a good relationship with our employees. We have not experienced any significant problems with our employees or disruption to our operations due to labour disputes, nor have we experienced any difficulties in the recruitment (which is now partly outsourced to Zibo Kangye) and retention of experienced staff. Our Directors believe that we have a good working relationship with our employees.

### **SOCIAL INSURANCES AND HOUSING FUND**

Our operating subsidiaries in China, namely, Yinshilai Textile and Huiyin Textile, are required to make social insurances and housing fund contributions for the benefit of its own employees under the PRC law and regulations. In addition, each of Yinshilai Textile and Huiyin Textile is required to make work-related injury insurance contributions for the workforce sourced from Zibo Kangye pursuant to the labour sourcing agreements with Zibo Kangye. Due to the differences in local regulations, inconsistent implementation by local authorities in the PRC, high mobility of rural population and different levels of acceptance of the social insurances and housing fund systems by employees, each of Yinshilai Textile and Huiyin Textile did not make social insurances and housing fund contributions in full for its employee during the [ • ]. Our Directors have confirmed that each of Yinshilai Textile and Huiyin Textile has made the relevant work-related injury insurance contributions for its workforce sourced from Zibo Kangye since June 2011.

As at 31 December 2011, the aggregate outstanding amount for social insurances contributions for Yinshilai Textile and Huiyin Textile’s own employees was approximately RMB9,631,518.94. Each of Yinshilai Textile and Huiyin Textile completed the registration process with the relevant social insurances authorities at the end of June and August 2010 respectively and has commenced to make social insurances contributions in respect of some of its eligible employees who agreed to participate in the social insurance scheme since then. Since April 2011, each of Yinshilai Textile and Huiyin Textile has made social insurances contributions for all of its eligible employees. As at 31 December 2011, the aggregate outstanding amount for housing fund contribution for Yinshilai Textile and Huiyin Textile’s own employees was approximately RMB2,407,062.5. Each of Yinshilai Textile and Huiyin Textile has completed the requisite registration and opened requisite housing fund accounts with the relevant housing authorities in accordance with the relevant laws and regulations, and has commenced payments of housing fund contributions for all eligible employees since May 2011.

According to the relevant PRC laws and regulations, enterprises which have not paid the social insurances contributions or have not contributed to social insurances payments on behalf of employees according to the relevant rules will be required to pay such amounts by the relevant labour insurance administrative departments or tax authorities within a required period. If the payment is not made within the required period, in addition to payment of the outstanding amount, a late charge calculated at 0.2% per day of the outstanding amount will be charged from the date of the default payment. Meanwhile, enterprises which do not make requisite registration or complete procedures to open relevant accounts to make housing fund contributions for their employees will be ordered

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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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by the housing fund management centre to make such payment or complete such procedures within a required period. If the payment has not been made or the necessary procedures have not been completed within the required period, enterprises will be subject to a penalty of not less than RMB10,000 and not more than RMB50,000. If any employee of an enterprise not having paid the social insurances contributions or housing fund contribution in full succeeds in a labour dispute against such enterprise with respect to the outstanding contributions and/or fund, such enterprise may be required to make such outstanding contributions.

Up to the Latest Practicable Date, each of Yinshilai Textile and Huiyin Textile has not received any complaint from its employees for lack of contributions for social insurances and housing fund. Neither Yinshilai Textile nor Huiyin Textile has received any notice or legal documents from the regulatory authorities of social insurances and housing fund requesting contributions for the relevant insurances or fund. To minimize our regulatory exposure to the non-contribution to the relevant insurances and fund, we have received letters of confirmation from Boshan Human Resources and Social Security Bureau of Zibo dated 10 August 2011 and 13 June 2012 and made inquiries with Zibo Housing Fund Management Centre in June 2011 and June 2012 respectively that we will not be requested by them to make the outstanding contributions and will not be subject to any penalties for previous non-contributions. As advised by our PRC legal advisers, Boshan Human Resources and Social Security Bureau of Zibo and Zibo Housing Fund Management Centre are the competent government authorities in making the relevant opinion.

In the event that we are found to be liable for previous non-contributions of social insurances and housing fund, we may be ordered by the relevant authorities to make the outstanding contributions and be subject to penalties imposed by the relevant authorities. In that case, we will make the outstanding social insurances and housing fund contributions as required, and the late payment penalties will not apply according to the relevant laws and regulations. Our Controlling Shareholders have agreed to indemnify us against all losses suffered or incurred by us as a result of or in connection with the social insurances, housing fund and work-related injury contributions due or payable for employees of our Group that any member of our Group has failed to make prior to [ • ]. In addition, Yinshilai Textile and Huiyin Textile undertake to comply with the applicable laws and regulations to make relevant contributions in the future.

We have a specific unit under our management department to deal with human resources affairs. Our human resources personnel are responsible for ensuring compliance with the relevant social insurances and housing fund laws and regulations. They collect payroll information of our employees and calculate the amounts of social insurances and housing fund contributions to be paid on a timely basis, and from time to time liaise with the relevant local authorities to assess our compliance situation as well as update our Group with the local regulations and requirements applicable to us. There is no provision entitling us to use forfeited contributions (by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions) for reducing the existing level of contributions.

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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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### **EMPLOYEE TRAINING**

With the aim to encourage our employees to continuously develop themselves by further education, we provide our employees in our management team, production team, sales and marketing team and research and development team with in-house or external training relevant to their current roles or anticipated tasks in our Group. We value our employees as our assets in which we invest our resources in order for them to make a greater contribution to our success.

### **STAFF REMUNERATION**

We determine our staff’s remuneration based on factors such as qualifications, performance, years of experience and industry practices. Our staff costs (including Directors’ and senior management’s emoluments) for each of the three years ended 31 December 2011 were approximately RMB32,677,000, RMB37,043,000 and RMB63,368,000, respectively.

### **AUDIT COMMITTEE**

Our Company established an audit committee on 26 June 2012 with its written terms of reference in compliance with the [•]. The primary duties of the audit committee are to review and supervise our financial reporting process and internal control system, nominate and monitor external auditors and to provide advice and comments to the Board.

Our audit committee consists of three members, being Ms. ZHU Beina, Mr. ZHU Ping and Mr. LAM Kai Yeung. Mr. LAM Kai Yeung currently serves as the chairman of our audit committee.

### **REMUNERATION COMMITTEE**

Our Company established a remuneration committee on 26 June 2012 with its written terms of reference in compliance with the code provisions of the Code on Corporate Governance Practices set out in appendix 14 to the [•]. The primary duties of the remuneration committee are to evaluate the performance and make recommendations to the Board on the remuneration packages of individual executive Directors and senior management.

Our remuneration committee consists of three members, being Ms. ZHU Beina, Mr. ZHU Ping and Mr. LIU Dong. Mr. ZHU Ping currently serves as the chairman of our remuneration committee.

### **NOMINATION COMMITTEE**

Our Company established a nomination committee on 26 June 2012 with its written terms of reference by reference to the code provisions of the Code on Corporate Governance Practices set out in appendix 14 to the [•]. The primary duties of the nomination committee are to make recommendations to our Board regarding candidates to fill vacancies on our Board and/or in senior management.

**THIS WEB PROOF INFORMATION PACK IS IN DRAFT FORM.** The information contained herein is incomplete and subject to change and it must be read in conjunction with the section headed “Warning” on the cover page of this Web Proof Information Pack.

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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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Our nomination committee consists of three members, being Ms. ZHU Beina, Mr. ZHU Ping and Mr. LIU Dong. Ms. ZHU Beina currently serves as the chairman of our nomination committee.

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## SUBSTANTIAL SHAREHOLDERS

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[ • ]

So far as the Directors are aware, immediately following the completion of the [ • ] and the [ • ] (but without taking into account Shares which may be taken up or acquired under the [ • ] and any Shares which may be issued pursuant to the exercise of the [ • ] and the options which may be granted under the [ • ]), the following persons will have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company under provisions of Divisions 2 and 3 of Part XV of the [ • ], or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of members of our Group other than the Company:

| <b>Name of shareholder</b> | <b>Name of Group member/[ • ] corporation</b> | <b>Capacity/nature of interest</b>   | <b>Number and class of securities</b><br><i>(Note 1)</i> | <b>Approximate percentage of shareholding</b> |
|----------------------------|-----------------------------------------------|--------------------------------------|----------------------------------------------------------|-----------------------------------------------|
| Excel Orient               | Our Company                                   | Beneficial owner                     | [ • ] Shares (L)                                         | [ • ]%                                        |
| Mr. LIU Dong               | Our Company                                   | Interest of a controlled corporation | [ • ] Shares (L)                                         | [ • ]%                                        |
| Ms. WANG Lingli            | Our Company                                   | Family Interest                      | [ • ] Shares (L)                                         | [ • ]%                                        |
| Sunlion                    | Our Company                                   | Beneficial owner                     | [ • ] Shares (L)                                         | [ • ]%                                        |
| Mr. YAN Tangfeng           | Our Company                                   | Interest of a controlled corporation | [ • ] Shares (L)                                         | [ • ]%                                        |
| Ms. YANG Chun              | Our Company                                   | Family Interest                      | [ • ] Shares (L)                                         | [ • ]%                                        |

*Notes:*

1. The letter “L” denotes the person’s long position in the shares of our Company or the relevant Group member.

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## **SUBSTANTIAL SHAREHOLDERS**

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For details of our Directors’ interests in Shares immediately following the completion of the [ • ], please refer to the paragraph headed “Further Information about Directors and Shareholders — 11. Directors” in Appendix VI to this document.

Save as disclosed herein, our Directors are not aware of any persons (who are not Directors or chief executive of our Company) who will, immediately following completion of the [ • ] and the [ • ] (but without taking into account Shares which may be taken up or acquired under the [ • ] and any Shares which may be issued pursuant to the exercise of the [ • ] and the options which may be granted under the [ • ]), have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company under provisions of Divisions 2 and 3 of Part XV of the [ • ], or will be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of members of our Group other than the Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.



## OUR RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

### OUR RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Immediately after completion of the [ • ], Excel Orient which is beneficially owned by Mr. LIU Dong will effectively hold 69.20% of the total issued share capital of our Company (assuming the [ • ] are not exercised).

Apart from the equity interest in our Company and members of our Group, as at the Latest Practicable Date, Mr. LIU Dong and his spouse, Ms. WANG Lingli, held interests in certain companies with equity interest of less than 5% or being dormant, and in the following companies:

| Name of companies      | Place of establishment | Principal business                                                                                                                                                                                 | Percentage of interest held by Mr. LIU Dong, Ms. WANG Lingli and their [ • ] | Managerial position held by Mr. LIU Dong and Ms. WANG Lingli |
|------------------------|------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|--------------------------------------------------------------|
| Yinshan Chemical Fiber | China                  | Production activities ceased in 2005. Previous principal business includes manufacture and sale of chemical fabrics and staple fiber which were mainly used as raw materials for toy manufacturing | Mr. LIU Dong: 98%<br>(Note 1)                                                | Nil                                                          |
| Tianrui Investment     | China                  | Investment holding of 100% equity interest in Tianhao                                                                                                                                              | Mr. LIU Dong: 100%<br>(Note 2)                                               | Nil                                                          |
| Tianhao                | China                  | Dyeing and finishing of textile products                                                                                                                                                           | Tianrui Investment: 75%                                                      | Nil                                                          |

*Note 1:* Mr. LIU Dong (through himself and his trustees) held 98% equity interest in Yinshan Chemical Fiber. For details, please refer to the paragraph headed “Yinshilai Textile” in the section headed “History, Reorganization and Group Structure” in this document.

*Note 2:* Mr. LIU Dong (through his trustees, Ms. WANG Lingli (his spouse) and Ms. SHAN Min (the mother of Ms. WANG Lingli)) held 100% equity interest in Tianrui Investment. For details, please refer to the paragraph headed “Huiyin Textile” in the section headed “History, Reorganization and Group Structure” in this document.

As confirmed by our Directors, Yinshan Chemical Fiber ceased production activities in 2005 because its business was not profitable due to shrinking market and difficulties in the sourcing of raw materials. Prior to cessation of production activities, the products of Yinshan Chemical Fiber were mainly used as raw materials for toy manufacturing and could not be used as raw materials for textile manufacturing. The major customers of Yinshan Chemical Fiber were toy and clothing manufacturers in Shandong Province and our Group and Yinshan Chemical Fiber had no common customers. Mr. LIU Dong advised that he intends to use Yinshan Chemical Fiber as an investment vehicle in businesses which are not related to the textile industry.

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## **OUR RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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Mr. LIU Dong advised that Tianhao is currently the only investment of Tianrui Investment. Tianhao is engaged in the business of dyeing and finishing of fabric products, which is not the business currently undertaken or planned to be undertaken by our Group and will not cover Fabric Products. The principal business of our Group is the design, manufacturing and sale of Fabric Products and the production of yarns, which will be used as our raw materials. The major customers of Tianhao are chemical fiber textile products manufacturer. As confirmed by our Directors, our Group and Tianhao have no common customers and no competition due to the aforesaid reasons.

In view of the above, our Directors are of the view that there are clear delineations between our principal businesses and the businesses of the above companies owned by the Controlling Shareholders.

None of our Directors, our Controlling Shareholders or their respective [ • ] are engaged in any business that, directly or indirectly, competes or may compete with the business of our Group.

### **Non-compete undertakings**

Each of the Controlling Shareholders (being Excel Orient and Mr. LIU Dong) has entered into the deed of non-competition in favor of our Company, pursuant to which each of the Controlling Shareholders has jointly and severally undertaken unconditionally and irrevocably, subject to the exceptions mentioned below, that he/it will not, and would procure that neither his/its [ • ] nor companies controlled by any of them (other than our Group) will not, directly or indirectly, carry on, participate, or be interested in or engaged in or acquire or hold, any activity or business which competes or is likely to compete directly or indirectly with our Group’s business as set out in this document or any business contemplated to be carried on by our Group, from time to time in the PRC and/or any other jurisdiction(s) in which our Group carries on business (“**Restricted Activity**”).

The aforesaid undertakings do not apply to the holding of or interests in shares or other securities in any company which conducts or is engaged in any Restricted Activity, provided that, in the case of such shares, they are listed on a recognized stock exchange and:

- (a) the total number of the shares held by the Controlling Shareholders or their [ • ] does not amount to more than 5% of the issued shares of the company; and
- (b) the Controlling Shareholders or their [ • ] are not entitled to appoint a majority of the directors or management of that company.

Each of the Controlling Shareholders has represented and warranted that, as of the date of the deed of non-competition, neither he/it nor any of his/its [ • ] is currently interested, involved or engaged, directly or indirectly, in (whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) the Restricted Activity (otherwise than through the Group) or is otherwise engaged in any business which is in competition or potential competition with those of our Group.

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## **OUR RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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Each of the Controlling Shareholders has jointly and severally undertaken unconditionally and irrevocably to procure that any business investment or other commercial opportunity relating to the business of our Group (the “**New Opportunity**”) identified by or offered to the Controlling Shareholders and/or any of their [ • ] (other than members of the Group) (the “**Offeror**”) is first referred to our Company in the following manner:

- (a) the Controlling Shareholders are required to, and shall procure their [ • ] (other than members of our Group) to, refer, or procure the referral of, the New Opportunity to our Company, and shall give written notice to our Company of any New Opportunity, which contains all information reasonably necessary for our Company to consider whether (i) the New Opportunity would constitute competition with its core business and/or any other new business which our Group may undertake at the relevant time, and (ii) it is in the interest of our Group to pursue the New Opportunity, including but not limited to the nature of the New Opportunity and the details of the investment or acquisition costs (the “**Offer Notice**”); and
- (b) the Offeror will be entitled to pursue the New Opportunity only if (i) the Offeror has received a written notice from our Company declining the New Opportunity and confirming that the New Opportunity would not constitute competition with its core business, or (ii) the Offeror has not received the notice from our Company within ten Business Days from the receipt of the Offer Notice by our Company. If there is a material change in the terms and conditions of the New Opportunity pursued by the Offeror, the Offeror will refer the New Opportunity as so revised to our Company in the manner as set out above.

Upon receipt of the Offer Notice, our Company shall seek opinions and decisions from a committee of the Board consisting Directors who do not have a material interest in the matter as to whether (a) such New Opportunity would constitute competition with our Company’s core business, and (b) it is in the interest of our Company and its shareholders as a whole to pursue the New Opportunity.

The non-competition undertakings and the rights and obligations thereunder are subject to and conditional upon the [ • ] becoming unconditional as specified under the section headed “Structure and Conditions of the [ • ]” in this document.

The obligation of the Controlling Shareholders under the deed of non-competition will remain in effect until:

- (a) the date on which the Shares cease to be listed on the [ • ]; or
- (b) the date on which the Controlling Shareholders and their [ • ] cease to own 5% or more of the then issued share capital of our Company directly or indirectly, whichever occurs first.

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## **OUR RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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Each of the Controlling Shareholders has jointly and severally undertaken unconditionally and irrevocably to our Company that he would, during the term of the deed of non-competition indemnify and keep indemnified our Company and our Group against any loss suffered by our Company or our Group (as relevant) arising out of any breach of an of his/its undertaking under the deed of non-competition.

The Controlling Shareholders will make an annual declaration on compliance with their undertakings under the deed of non-competition in our annual reports. The independent non-executive Directors will review, at least on an annual basis, the compliance of the Controlling Shareholders with the deed of non-competition. We will make disclosures in our annual reports or by way of announcements regarding the review conducted by the independent non-executive Directors relating to such compliance with and enforcement of the deed of non-competition including, among others, any new business opportunity turned down by our Company under the deed of non-competition and the basis thereon.

### **Independence of management, financing and operation**

Having considered the following factors, our Directors are satisfied that our Group operationally and financially independent from the Controlling Shareholders and their [ • ]:

Non-competition — although there are certain businesses owned by the Controlling Shareholders as mentioned above in this section, none of the Controlling Shareholders or our Directors has any interest in a business which competes or is likely to compete, either directly or indirectly, with our Group’s business. In addition, each of the Controlling Shareholders has given a non-competition undertaking in favor of us. For details, please refer to the section headed “Our Relationship with Controlling Shareholders — Non-compete undertakings” in this document.

Management independence — Our Board comprises three executive Directors, one non-executive Director and three independent non-executive Directors. Despite the interest of the Controlling Shareholders in certain businesses outside the Group, we consider that our Board will function independently from the Controlling Shareholders because:

- (a) each Director is aware of his fiduciary duties as a Director of our Company which requires, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his interest;
- (b) in the event that there is a potential conflict of interest arising out of any transaction or arrangement to be entered into between our Company or any member of our Group and any of our Directors or his/her respective [ • ], the interested Director(s) shall fully and fairly disclose his/her interest and shall abstain from voting at the relevant board meetings of our Company in respect of such transactions or arrangement; and

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## **OUR RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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- (c) our Board comprises seven Directors and three of them are independent non-executive Directors, which represent more than one-third of the members of the Board. This is in line with current corporate governance practice in Hong Kong.

Financial independence — Our Group has an independent financial system and makes financial decisions according to its own business needs. Approximately RMB56.9 million, RMB372.1 million and RMB176.63 million were owed by the Group to Mr. LIU Dong (our Controlling Shareholder), Ms. SUN Qilian (Mr. LIU Dong’s mother), Excel Orient, Yinshan Chemical Fiber, Tianhao, Yinlong Industrial and Mr. LV Ruichuan (a consultant of our Company) as at 31 December 2009, 2010 and 2011, respectively. All of the outstanding sums owed to them have been or will be settled prior to the [•]. During the [•], various related parties provided guarantees to secure bank loans for our Group, the particulars of which are set out under Note 27 to the Accountants’ Report in Appendix I to this document. All the guarantees have been or will be released by the banks prior to the [•]. In the circumstances, we believe we are capable of obtaining financing from third parties without reliance on the Controlling Shareholders. For further details of the related party transactions during the [•], please refer to Note 27 to the Accountants’ Report set out in Appendix I to this document. During the [•], we have provided certain guarantees to our related parties, the particulars of which are set out under Note 27 to the Accountants’ Report in Appendix I to this document, and held joint and several liability pursuant to the Endorsed Mediation Agreement as defined in the paragraph headed “Financial Assistance Provided by the Company for the Benefit of a [•]” in the section headed “Connected Transactions” in this document. All the guarantees provided by us have been or will be released prior to the [•]. For details of the arrangement in relation to the Endorsed Mediation Agreement, please refer to the paragraph headed “Financial Assistance Provided by the Company for the Benefit of a [•]” in the section headed “Connected Transactions” in this document.

Operational independence — Our Group has an independent work force to carry out our operation and has not shared its operation team with the Controlling Shareholders’ businesses outside our Group. Although during the [•], there have been certain transactions between us and our related parties, details of which are set out in Note 27 in the Accountant’s Report and the paragraph headed “Relationship with Yinlong Industrial” below, our Directors have confirmed that these related party transactions were conducted on normal commercial terms. Save as disclosed in the section headed “Connected Transactions”, none of the historical related party transactions with the [•] as defined in the [•] are expected to continue after the [•].

### **RELATIONSHIP WITH YINLONG INDUSTRIAL**

#### **Information of Yinlong Industrial**

During the [•], Mr. LIU Dong and his [•] controlled Yinlong Industrial, which conducted certain transactions with our Group.

Yinlong Industrial was incorporated in the PRC on 10 October 1999. It is currently principally engaged in the manufacturing and sales of different yarn products and utility supply. Yinlong Industrial was our largest suppliers for the years ended 31 December 2009



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## **OUR RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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and 2010 and we sourced yarns from and entered into processing arrangement with them during the [ • ]. Whilst we were its largest customer, Yinlong Industrial did not supply their yarn products or provide processing services to us on an exclusive basis, and a small quantity of their yarn products was sold to other third party customers (e.g. fabric manufacturers) during the [ • ]. Other transactions between Yinlong Industrial and our Group during the [ • ] include the sale of finished products, ancillary items and provision of ancillary services to Yinlong Industrial, the leasing of our property with the gross floor area of 16,302.81 sq.m situate at Yinlong Village, Economic Development Zone, Boshan District, Zibo City, Shandong Province, China to Yinlong Industrial (which was terminated on 31 December 2010) and the supply of steam by Yinlong Industrial to our Group, which were recorded as related party transactions during the [ • ]. For further details of the related party transactions during the [ • ], please refer to Note 27 to the Accountants’ Report in Appendix I to this document, and the paragraphs headed “Vertical integration of yarn and fabric productions”, “Our Suppliers” and “Fuel and utilities” in the section headed “Business” in this document.

### **Yinlong Assets Acquisition**

On 31 December 2010, we completed the Yinlong Assets Acquisition under which we acquired from Yinlong Industrial approximately 90,000 spindles and other spinning machineries and supporting equipment at the total consideration of RMB28,100,984.67. The consideration in the sum of RMB28,100,984.67 is equal to the value of the subject assets assessed by an independent asset valuer on 31 October 2010, less an amount equivalent to the 2-month depreciation value which represents the depreciation of the subject assets between the date of valuation and the date of handover of the subject assets on 31 December 2010. On 1 April 2011, we and Yinlong Industrial reduced the agreement for the Yinlong Assets Acquisition to writing.

We decided not to acquire the entire equity interest of Yinlong Industrial to form part of our Group after taking into account the following factors:

- (a) we are principally engaged in the production of Fabric Products made with high-end cotton yarns, Tencel and/or new materials and fibers. Most of the machines and equipment not having been acquired by us under Yinlong Assets Acquisition (the “**Excluded Machines**”) were specifically designed for the production of chemical fibers or were only suitable for the production of coarse-count yarns which were not required by us, whereas some of the Excluded Machines (including twisting machines and doubling machines) which were suitable for further processing of yarns were retained by Yinlong Industrial so that they would still be able to provide yarn processing services for its customers. Thus, any proposed acquisition of the Excluded Machines or the entire equity interest in Yinlong Industrial at that time would not be in line with our Group’s principal product line or desired by Yinlong Industrial; and
- (b) the principal business focus of our Group has been the design, manufacturing and sale of Fabric Products whereas the principal business of Yinlong Industrial has been the sale and distribution of yarns. We did not have any intention at the time



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## **OUR RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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of Yinlong Assets Acquisition to engage in a new line of yarn selling business. Thus, we only acquired those machines and equipment which were expected to complement our principal business.

In view of the above, our Directors considered that it would be in the commercial interest of our Group not to acquire the Excluded Machines or the entire equity interest of Yinlong Industrial under the Yinlong Assets Acquisition. Our Directors are also of the view that the Yinlong Assets Acquisition will benefit our Group for the reasons that consistency in the quality of yarn supplies and proximity of supplies can be ensured.

Following the completion of the Yinlong Assets Acquisition, to the best of our Directors’ knowledge, Yinlong Industrial retained various spinning machines and equipment specifically designed for the production of chemical fibers or coarse-count yarns or for further processing of yarns, and was principally engaged in the sale and distribution of yarns and utility supply business. Our Directors have confirmed that, after 31 December 2010, in consideration of the close business relationship with Yinlong Industrial, the availability of inventory of high quality yarns maintained by Yinlong Industrial (produced before completion of Yinlong Assets Acquisition) which were required by our Group and the production requirement of our Group, we continued to procure yarns and accessory products, require further yarn processing (such as twisting, doubling and rewinding of yarns for the purpose of forming certain functional properties for the yarns such as twisted yarns as opposed to the supply of cotton for yarn production), and purchased steam from Yinlong Industrial, at a comparable price level with other suppliers or processing agent, but the scale of transactions between our Group and Yinlong Industrial had been reduced substantially. For the year ended 31 December 2011, our Group’s purchase of yarns from Yinlong Industrial (comprising the costs of procurement of yarns and further yarn processing) amounted to approximately RMB15.38 million, representing approximately 3.19% of the total purchases of our Group, in which the aforesaid purchase of inventory of high quality yarns maintained by Yinlong Industrial (produced before completion of the Yinlong Assets Acquisition) amounted to approximately RMB13.24 million, representing approximately 2.75% of the total purchases of our Group during that period.

The Directors have confirmed that, in contemplation of the fact that the principal products of Yinlong Industrial will no longer be in line with our Group’s strategies to produce high-end Fabric Products, there was also no specific need from our Group’s customers which required our Group to seek further yarn processing from external processing agent and that our Group could procure yarns and accessory products from other external suppliers, since July 2011, our Group has ceased to have, and our Directors do not expect to have in the foreseeable future, any transaction (including procurement of yarns and accessory products and further processing agreement) with Yinlong Industrial after taking into account the above considerations and current business plan, except for the purchase of steam from Yinlong Industrial which will continue after [ • ]. For further details of the supply of steam by Yinlong Industrial to our Group, please refer to “Business — Production — Fuel and utilities” in this document.

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## **OUR RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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### **Change in shareholding in Yinlong Industrial**

Upon conclusion of the Proceedings (as defined in the paragraph headed “Financial Assistance Provided by the Company for the Benefit of a [ • ]” in the section headed “Connected Transactions” in this document) and as agreed by the then shareholders of Yinlong Industrial, since 27 June 2008, the equity interest of Yinlong Industrial was owned as to 21.96%, 49.55%, 28.05% and 0.44% by Mr. LIU Dong, Ms. SUN Qilian (the mother of Mr. LIU Dong), Mr. LV Ruichuan (a consultant of our Company) and an [ • ], respectively. On 29 October 2010, Mr. LIU Dong disposed of his entire equity interest in Yinlong Industrial to Ms. SUN Qilian at the total consideration of RMB11,197,384 which was determined by reference to the capital contribution made by Mr. LIU Dong to Yinlong Industrial. On the same date, Mr. LV Ruichuan disposed of his entire equity interest in Yinlong Industrial to Ms. LV Yun (the sister of Mr. LV Ruichuan) at the total consideration of RMB14,307,644 which was determined by reference to the capital contribution made by Mr. LV Ruichuan to Yinlong Industrial. In view of the expanding business and business strategy of our Group and taking into account the business scale and focus of Yinlong Industrial, Mr. LIU Dong and Mr. LV Ruichuan decided to dispose of their equity interests in Yinlong Industrial in order to become more focused on the management and business development of Yinshilai Textile and Huiyin Textile and divest their responsibility in Yinlong Industrial. For such purpose, Mr. LIU Dong and Mr. LV Ruichuan approached their respective [ • ], Ms. SUN Qilian and Ms. LV Yun, who were willing to take up their respective equity interest in Yinlong Industrial then. Mr. LIU Dong and Mr. LV Ruichuan did not spend a lot of effort in identifying other prospective purchasers who were [ • ] since interested purchasers for their equity interest were readily available at that time. Since the completion of the aforementioned transfers, Mr. LIU Dong and Mr. LV Ruichuan have ceased to hold any position in, and have not been involved in the management of, Yinlong Industrial, and the equity interest in Yinlong Industrial was held as to 71.51%, 28.05% and 0.44% by Ms. SUN Qilian, Ms. LV Yun and an [ • ], respectively. On 21 April 2011, each of Ms. SUN Qilian and Ms. LV Yun disposed of her entire equity interest in Yinlong Industrial to an [ • ] for a consideration of RMB36,467,622 and RMB14,307,644, respectively, which were determined by reference to the capital contribution made by each of them to, and the net asset value of, Yinlong Industrial assessed by an independent asset valuer as at 31 December 2010 and Mr. LIU Dong and his [ • ] ceased to be in management and control of Yinlong Industrial on the same day. Our Directors have confirmed that, since 21 April 2011, Yinlong Industrial has been an [ • ].

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## CONNECTED TRANSACTIONS

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### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following transactions have been carried out by our Group and the [•] during the [•] and are expected to be continued and constitute non-exempt continuing connected transaction following the [•]. These transactions will constitute continuing connected transactions and financial assistance provided by our Company for the benefit of a [•] which are subject to the reporting, announcement and independent shareholders’ approval requirements set out in Chapter 14A of the [•] upon the [•].

### FINANCIAL ASSISTANCE PROVIDED BY THE COMPANY FOR THE BENEFIT OF A [•]

[•]

Under the [•], as at the Latest Practicable Date, Mr. LIU Dong and Yinshan Chemical Fiber are [•] of our Company for the reason that Mr. LIU Dong is a Director and a Controlling Shareholder and that he (by himself and through his trustees) held 98% of the equity interest in Yinshan Chemical Fiber.

#### Background

In June 2006, the then shareholders of Yinlong Industrial, based on the SAIC records, comprised Mr. LIU Yanjiang (the uncle of Mr. LIU Dong), Ms. SUN Qilian (the mother of Mr. LIU Dong), Mr. LV Ruichuan (a consultant of our Company and the husband of Ms. SUN Hongchun who is a member of our senior management) and two other private investors who are [•]. The above five shareholders held 17.08%, 28.43%, 15.03%, 39.22% and 0.24% of the then equity interest of Yinlong Industrial, respectively.

There was a dispute among the shareholders of Yinlong Industrial and legal proceedings were initiated by Ms. SUN Qilian against Yinlong Industrial and other shareholders (the “**Proceedings**”) in the People’s Court of Zibo New And High Technology Exploring Zone (the “**Jurisdiction Court**”).

In the Proceedings, it was claimed by Ms. SUN Qilian that there were shortfalls of actual capital contribution made by Mr. LIU Yanjiang and another shareholder (who is an [•] holding the then 39.22% equity interest of Yinlong Industrial) from the capital contribution under SAIC records. Our Directors have confirmed that Ms. SUN Qilian, Mr. LV Ruichuan and another shareholder (who is an [•] holding the then 0.24% equity interest of Yinlong Industrial) have come to an agreement to pay up the aforesaid outstanding contribution but failed to reach such consensus with Mr. LIU Yanjiang.

Even though no complaint was initiated by Ms. SUN Qilian against Mr. LV Ruichuan and another shareholder (an [•] holding 0.24% of then equity interest of Yinlong Industrial) that they have failed to pay up their respective capital contribution pursuant to SAIC records, they were named as defendants together with Mr. LIU Yanjiang at Ms. SUN Qilian’s discretion in light of the relevant PRC civil litigation procedures. Upon further clarification of the PRC civil litigation procedures with the Jurisdiction Court, the shareholders of Yinlong Industrial were subsequently named as third parties instead of

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## CONNECTED TRANSACTIONS

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defendants to the Proceedings while Yinlong Industrial was named as the defendant in accordance with the PRC civil litigation procedures for the application for verification of the shareholding structure of Yinlong Industrial and an order requiring the shareholders to pay up the outstanding capital contributions. Our PRC legal advisers are of the view that, the Jurisdiction Court is entitled to adjudicate the procedural and substantive aspects of a case at its sole discretion.

As advised by Mr. LIU Dong, he subsequently participated in the settlement negotiation with his mother, Ms. SUN Qilian, and other parties and came up with a settlement arrangement so that he would acquire all the interest (in terms of equity interest and shareholders’ loan) of Mr. LIU Yanjiang (together with his wife, Ms. LIU Hongrui) in Yinlong Industrial as well as Yinshan Chemical Fiber (owned by Mr. LIU Yanjiang as to 2%) and Yinshilai Textile (owned by Yinshan Chemical Fiber as to 75%) so as to have a full and final settlement of all disputes and eliminate all potential future disputes with the relevant parties in order to achieve long term stability in terms of corporate image and business operation of these companies, which were believed to be crucial to their continuing development and future success. A mediation agreement was finally reached on 29 April 2008 (the “**Mediation Agreement**”).

### **The Mediation Agreement**

The parties to the Mediation Agreement included Mr. LIU Dong, Mr. LIU Yanjiang, Ms. LIU Hongrui, Yinlong Industrial, Yinshilai Textile and Yinshan Chemical Fiber. Ms. LIU Hongrui was the spouse of Mr. LIU Yanjiang and had been a shareholder of Yinlong Industrial, therefore, even though she was not the then registered shareholder of Yinlong Industrial, she was also included as a party with a view to avoiding and eliminating all potential issues which might be raised by her in respect of (i) any outstanding loan owed to her (either previously advanced by herself directly or indirectly through Mr. LIU Yanjiang) from Yinlong Industrial, Yinshan Chemical Fiber and Yinshilai Textile, or (ii) any undistributed dividends which should be payable to her as a past shareholder. As confirmed by our Directors, Mr. LIU Yanjiang and Ms. LIU Hongrui requested to include Yinshilai Textile and Yinshan Chemical Fiber as parties to the Mediation Agreement and to be held jointly and severally liable for the liabilities set out therein in order to secure due payment of the settlement sums in case Mr. LIU Dong fails to comply with the payment schedule (as elaborated below).

As advised by our PRC legal advisers, the Mediation Agreement was subsequently endorsed by the Jurisdiction Court under a civil mediation agreement (民事調解書) (the “**Civil Mediation Agreement**”) and the Civil Mediation Agreement is legally binding on all parties involved in the Proceedings and the parties are entitled to apply for an court order for enforcement if any other party fails to perform the obligations under the Civil Mediation Agreement.

The [ • ] has discussed with Mr. LIU Dong on the background of the Proceedings, the Mediation Agreement and the Civil Mediation Agreement together with the legal advisers, and has conducted independent litigation search in the PRC against the relevant parties, including Mr. LIU Dong and Mr. LV Ruichuan. On the basis of the background and

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## CONNECTED TRANSACTIONS

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information of the Proceedings, the Mediation Agreement and the Civil Mediation Agreement provided to it, including and in consideration of, in particular, the Outstanding Settlement Arrangement as described below, the [ • ] has not identified any information which will render it to cast doubt on the suitability of Mr. LIU Dong as a Director by virtue of the Proceedings and the related transactions.

Pursuant to the settlement terms of the Civil Mediation Agreement, in consideration of the transfer of all equity interest held by Mr. LIU Yanjiang and Ms. LIU Hongrui in Yinlong Industrial, Yinshilai Textile and Yinshan Chemical Fiber and as the compensation to Mr. LIU Yanjiang and Ms. LIU Hongrui for their interest in and any loan made to the aforementioned companies, Mr. LIU Dong agreed to pay Mr. LIU Yanjiang and Ms. LIU Hongrui RMB5,000,000 before 19 May 2008 and RMB 5,000,000 before 3 June 2008, and Mr. LIU Dong, Yinlong Industrial, Yinshilai Textile and Yinshan Chemical Fiber agreed to be jointly and severally liable to Mr. LIU Yanjiang and Ms. LIU Hongrui for the remaining balance of RMB45,000,000 divided into 9 instalments of RMB5,000,000 each payable half-yearly. As advised by our PRC legal advisers and based on the terms of the Mediation Agreement, the settlement sum was payable to Mr. LIU Yanjiang and Ms. LIU Hongrui (who are married couple) jointly and collectively.

As confirmed by our Directors, in order to avoid future potential disputes, the settlement was reached on the basis that Mr. LIU Yanjiang would have an one-off exit from Yinlong Industrial, Yinshan Chemical Fiber and Yinshilai Textile, and the following factors were taken into account in determining the settlement amount:

- (i) actual contribution purported to have been made by Mr. LIU Yanjiang to Yinlong Industrial under the claim in the Proceedings,
- (ii) the then 2% equity interest in Yinshan Chemical Fiber in respect of capital contribution in the sum of RMB100,000,
- (iii) profits made by Yinlong Industrial and Yinshan Chemical Fiber to which Mr. LIU Yanjiang was entitled and not yet distributed,
- (iv) the net amount due to Mr. LIU Yanjiang from Yinlong Industrial, Yinshan Chemical Fiber and Yinshilai Textile being outstanding loan advanced by Mr. LIU Yanjiang for their operations historically plus interest,
- (v) the then proportional net asset value of Yinshilai Textile as at December 2007 attributable to the equity interest indirectly held by Mr. LIU Yanjiang through his 2% equity interest in Yinshan Chemical Fiber, which owned 75% equity interest in Yinshilai Textile at that time, in the sum of approximately RMB3.5 million.

These factors were taken into consideration by Mr. LIU Dong and he considered the settlement sum of RMB55 million acceptable on the grounds that (i) such settlement sum would be paid by way of instalments over a long period of time up to the end of 2012 from the date of settlement, and (ii) it would provide an one-off settlement of the then outstanding disputes and eliminate all possible potential future disputes between the parties



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## CONNECTED TRANSACTIONS

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with an aim to achieve long-term stability both internally and externally in terms of the corporate image and business operation of these companies which were crucial to their continuing development and future success.

As confirmed by our Directors, the first 7 instalments up to 31 December 2011 for the aggregate sum of RMB35,000,000 had been duly paid by Mr. LIU Dong pursuant to the Civil Mediation Agreement. The People’s Court of Zibo New And High Technology Exploring Zone also confirmed that the instalments had been duly paid. The remaining two instalments for the aggregate sum of RMB10,000,000 (the “**Outstanding Settlement Amount**”) are to be paid on or before 30 June 2012 and 31 December 2012, respectively.

### **Outstanding Settlement Arrangement**

On 25 June 2012, Mr. LIU Dong remitted the Outstanding Settlement Amount to the designated bank account of the Jurisdiction Court on a non-refundable basis and irrevocably agreed and undertook to Yinlong Industrial, Yinshan Chemical Fiber and Yinshilai Textile that he would be primarily liable for all liabilities and obligations to Mr. LIU Yanjiang and Ms. LIU Hongrui under the Civil Mediation Agreement. As confirmed by the Jurisdiction Court, since Mr. LIU Dong had irrevocably paid to it the Outstanding Settlement Amount on a non-refundable basis, it will not release the Outstanding Settlement Amount to Mr. LIU Dong’s creditors or his [ • ] creditors in any circumstance and will only pay such amount in full directly to Mr. LIU Yanjiang and Ms. LIU Hongrui pursuant to the payment schedule under the Civil Mediation Agreement, and accordingly, all obligations and liabilities of Yinshilai Textile under the Civil Mediation Agreement had been discharged and released (the “**Outstanding Settlement Arrangement**”). Having considered that (i) the Outstanding Settlement Amount has been paid in full into the designated bank account of the Jurisdiction Court which will proceed to pay such amount to Mr. LIU Yanjiang and Ms. LIU Hongrui pursuant to the payment schedule under the Civil Mediation Agreement as confirmed by the Jurisdiction Court in a confirmation letter dated 25 June 2012, and (ii) the joint liability of Yinshilai Textile under the Civil Mediation Agreement is to be discharged by way of cash payment of the Outstanding Settlement Amount to Mr. LIU Yanjiang and Ms. LIU Hongrui, our PRC legal advisers advised that, on the basis that the Jurisdiction Court, which is the competent authority in making the relevant confirmation, will have paid the Outstanding Settlement Amount to Mr. LIU Yanjiang and Ms. LIU Hongrui in full pursuant to the payment schedule under the Civil Mediation Agreement, the joint obligations and liabilities of Yinshilai Textile under the Civil Mediation Agreement can be deemed as having been discharged and released in substance.

As at the Latest Practicable Date, the Outstanding Settlement Amount had been deposited at the designated bank account of the Jurisdiction Court and the disposal thereof was at its absolute discretion. There is no assurance that, if Mr. LIU Dong becomes insolvent, any of his creditors will not be able to successfully file a claim for seizing the assets of Mr. LIU Dong, including the money of Mr. LIU Dong deposited at the Jurisdiction Court, to the extent that those money has not yet been paid to Mr. LIU Yanjiang and Ms. LIU Hongrui, in satisfaction of the debt owed to them. If any of these



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## CONNECTED TRANSACTIONS

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events occurs, Yinshilai Textile will be jointly and severally liable with Mr. LIU Dong, Yinlong Industrial and Yinshan Chemical Fiber to the payment of the Outstanding Settlement Amount.

Our PRC legal advisers have advised that, based on the aforementioned confirmation given by the Jurisdiction Court, the risk that the Jurisdiction Court in exercising its discretion will release the Outstanding Settlement Amount to person other than Mr. LIU Yanjiang and Ms. LIU Hongrui is remote.

### *Historical transaction value*

For each of the years ended 31 December 2009, 2010 and 2011, Mr. LIU Dong has duly paid the respective instalments pursuant to the Civil Mediation Agreement and the amount of the financial assistance provided by Yinshilai Textile (owed jointly and severally with Mr. LIU Dong, Yinlong Industrial and Yinshan Chemical Fiber) to Mr. LIU Dong to secure his payment obligations under the Civil Mediation Agreement to Mr. LIU Yanjiang and Ms. LIU Hongrui amounted to RMB35,000,000, RMB25,000,000 and RMB15,000,000, respectively.

### *Annual caps*

The first instalment of RMB5,000,000 of the Outstanding Settlement Amount is expected to be settled on or before 30 June 2012 pursuant to the Civil Mediation Agreement. For the year ending 31 December 2012, in case where Mr. LIU Dong fails to perform his payment obligations under the Civil Mediation Agreement, the maximum amount as may be payable by us under the Civil Mediation Agreement and the Outstanding Settlement Arrangement will be no more than RMB10,000,000. The proposed annual cap is RMB10,000,000 which is the outstanding sum owed to Mr. LIU Yanjiang and Ms. LIU Hongrui as at the Latest Practicable Date.

### *[ • ] implications*

Yinshilai Textile’s entering into of the Civil Mediation Agreement and being jointly and severally liable for the Outstanding Settlement Amount (the “**Relevant Financial Assistance**”) constitutes non-exempt financial assistance under Rule 14A.63 of the [ • ] and are subject to the reporting, announcement and independent Shareholders’ approval requirements under Chapter 14A of the [ • ].

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## CONNECTED TRANSACTIONS

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### *Confirmation from our Directors*

Our Directors, including independent non-executive Directors, consider that the Relevant Financial Assistance together with the Outstanding Settlement Arrangement and the Outstanding Settlement Amount are fair and reasonable and in the interests of the Shareholders and our Company as a whole for the following reasons:

- (i) the Civil Mediation Agreement would provide an one-off settlement of the then outstanding disputes and eliminate all possible potential future disputes between the parties with an aim to achieve long term stability both internally and externally in terms of the corporate image and business operation of these companies which were crucial to their continuing development and future success;
- (ii) it has been acknowledged and confirmed that since Mr. LIU Dong was entitled to all equity interest held by Mr. LIU Yanjiang and Ms. LIU Hongrui in Yinlong Industrial, Yinshan Chemical Fiber and Yinshilai Textile and benefited from the settlement of the dispute through the Civil Mediation Agreement, he should be primarily liable for all liabilities in relation to the Outstanding Settlement Amount; and
- (iii) the Outstanding Settlement Arrangement, once executed, will eliminate the potential liabilities arising from the failure of Mr. LIU Dong to settle the Outstanding Settlement Amount which might result in a claim against our Company under Yinshilai Textile’s joint and several liability as to the Outstanding Settlement Amount under the Civil Mediation Agreement,

notwithstanding that the Relevant Financial Assistance has not been entered into on normal commercial terms.

### *Waiver Sought*

We have applied for and have obtained an exemption from the [ • ] from complying with the announcement and independent Shareholders’ approval requirements under Rules 14A.63 of the [ • ].

In the event that we enter into any new transactions or agreements with any [ • ] in the future, our Company will comply with the relevant provisions of Chapter 14A of the [ • ]. In addition, if the Relevant Financial Assistance shall continue after the expiry of the current waiver and/or if the transaction amount contemplated under the Relevant Financial Assistance shall exceed the cap amount for the year ending 31 December 2012, our Company will comply with the relevant provisions of Chapter 14A of the [ • ] in respect of the reporting, announcement and independent Shareholders’ approval requirements. Our Group will re-comply with all relevant requirements under Chapter 14A of the [ • ] upon the expiry of the one-year waiver period.

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## CONNECTED TRANSACTIONS

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The [ • ] is of the view that the Relevant Financial Assistance, the Outstanding Settlement Amount and the transactions contemplated thereunder are fair and reasonable and in the interests of the Shareholders and our Company as a whole notwithstanding that the Relevant Financial Assistance has not been entered into on normal commercial terms.

### EXEMPT CONTINUING CONNECTED TRANSACTION

On 19 June 2012, our Company entered into a consultancy agreement with Mr. LV Ruichuan (“**Mr. LV**”) (呂瑞川), a former employee of the Company, pursuant to which we appointed Mr. LV as our consultant at an annual fee of RMB100,000 renewable every three years. Mr. LV was a director of our wholly-owned subsidiary, Huiyin Textile, until March 2012. Accordingly, Mr. LV is a [ • ] of our Company as defined under the [ • ].

Mr. LV’s duties would be related to gathering and analyzing market and industry data and giving advice to us in relation to our marketing and customers service policies, giving advice to us in relation to our raw material sourcing and selection of raw material suppliers, as well as providing general advice in respect of sales and marketing.

Mr. LV was appointed as a director of Huiyin Textile since May 2006 and a general manager of Huiyin Textile since December 2007, primarily responsible for enterprise daily management and implementation of business plan, until March 2012. Mr. LV is experienced in the area of marketing and has accumulated 15 years of experience in the textile industry which can be traced back to 1996 when he worked with Zibo Wanjie Fiber Co., Ltd. (淄博萬杰纖維有限公司) as a deputy general manager. Mr. LV has also been appointed as an assistant to the general manager being responsible for the sale of chemical fiber in November 2004 in Wanjie High-Tech. Mr. LV was recognized as “Top Sales” (銷售狀元) of Boshan District twice. Mr. LV obtained a bachelor degree majoring in economic management from the Shandong College of Engineering (山東工程學院) in December 2001.

There were administrative decisions (博工商企處字(2007)第34號) issued against Yinlong Industrial by Boshan Branch of Zibo Bureau of Industry and Commerce (淄博市工商行政管理局博山分局) on 1 March 2007 (the “**Decisions**”). According to the Decisions, Yinlong Industrial was fined and penalised for committing certain irregularities identified in four sets of the statutory filings made by it on 25 January 2003 (the “**2003 Filings**”), 14 October 2005, 24 October 2005 and 7 November 2005 (“**2005 Filings**”), respectively. These irregularities related to, amongst others, the discrepancy in the actual capital contributions and the registered capital in the record of local SAIC in 2003 Filings, and the making of forged signatures on the local SAIC registration materials submitted in 2003 Filings and 2005 Filings.

The 2003 Filings were made at the time when Mr. LV was neither a shareholder nor a director or legal representative of Yinlong Industrial. According to the Decisions and 2005 Filings, Mr. LV was appointed and then resigned as the legal representative and executive director of Yinlong Industrial (the “**Relevant Appointment and Resignation**”) on 14 October 2005 and 24 October 2005, respectively, and there were three transfers of certain equity interests in Yinlong Industrial between Mr. LV, Mr. LIU Yanjiang and other shareholders of Yinlong Industrial (the “**Relevant Transfers**”). Pursuant to the Decisions, the signatures of the relevant parties (including Mr. LV’s signature) on the registration materials,

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## CONNECTED TRANSACTIONS

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shareholders’ resolutions and transfer documents submitted in the 2005 Filings which reported such changes were ruled by the Boshan Branch of Zibo Bureau of Industry and Commerce as forged.

As confirmed by Mr. LV, he did not participate in or procure these irregularities (including the making of forged signatures on the documents as stated in the Decisions), he had not signed any document on behalf of Yinlong Industrial when he was its legal representative in 2005, and was also not aware of the Relevant Appointment and Resignation and Relevant Transfers until he had been so informed after the making of each of the 2005 Filings.

The Directors confirm that, to the best of their knowledge, other than Mr. LV, none of the other Directors, senior management members or employees of our Group was a party in the corporate changes in the 2003 Filings and 2005 Filings and that none of our Directors, senior management or employees was involved in the making of the forged signatories referred to in the Decisions.

Mr. LV is the spouse of Ms. SUN Hongchun (a member of our senior management).

The Directors confirm that the appointment of Mr. LV as our consultant is on normal commercial terms. The fee payable to Mr. LV will fall within the de-minimis exemption under Rule 14A.33(3) of the [•] and is therefore exempted from the reporting, announcement and independent shareholders’ approval requirements under the [•]. Each of the Directors (including the independent non-executive Directors) has undertaken to the Company and the [•] that they will procure that the affairs and management of the Company shall not be directly and indirectly influenced by Mr. LV in any manner. In the event that the undertakings of the Directors are not fulfilled or breached, each of the Directors might face consequence from the parties they have made the undertakings including litigation or other action. The Directors shall indemnify the Company for any damage or loss for the breach of the undertakings.

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## SHARE CAPITAL

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### AUTHORIZED AND ISSUE SHARE CAPITAL

The following is a description of the authorized and issued share capital immediately following completion of the [ • ] and the [ • ]:

US\$

**Authorized Share Capital:**

|                |                         |             |
|----------------|-------------------------|-------------|
| 10,000,000,000 | Shares of US\$0.01 each | 100,000,000 |
|----------------|-------------------------|-------------|

**Shares issued and to be issued, fully paid or credited as fully paid:**

|           |                                              |        |
|-----------|----------------------------------------------|--------|
| 1,000,000 | Shares in issue at the date of this document | 10,000 |
|-----------|----------------------------------------------|--------|

[ • ]

Our Company has conditionally adopted the [ • ] on 26 June 2012. Under the [ • ], the eligible participants of the scheme, including directors, full-time employees of and advisers and consultants to our Company or our subsidiaries may be granted options which entitle them to subscribe for Shares, when aggregated with options granted under any other scheme, representing initially not more than 10% of the Shares in issue on the [ • ]. Further details of the rules of the [ • ] are set out in the paragraph headed “Other Information — 14. [ • ]” in Appendix VI to this document.

### ISSUING MANDATE

Our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value not exceeding the sum of (a) 20% of the aggregate nominal value of the share capital of our Company in issue as enlarged by the [ • ] and the [ • ] (but excluding any Shares which may be issued pursuant to the [ • ]); and (b) the aggregate nominal value of the share capital of our Company which may be repurchased by our Company under the [ • ].

Our Directors may, in addition to the Shares which they are authorized to issue under the Issuing Mandate, allot, issue and deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription rights attaching to any warrants or convertible securities of our Company, scrip dividends or similar arrangements or the exercise of options granted under the [ • ]. The aggregate nominal value of the Shares which our Directors are authorized to allot and issue under this Issuing Mandate will not be reduced by the allotment and issue of such Shares.

This Issuing Mandate will expire:

- (i) at the conclusion of our Company’s next annual general meeting; or
- (ii) upon the expiry of the period within which our Company is required by any applicable law or the Articles of Association to hold its next annual general meeting; or

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## SHARE CAPITAL

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- (iii) when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting; whichever occurs first.

For further details of the Issuing Mandate, see the paragraph headed “Further Information about our Company — 3. Resolutions in writing of our Shareholders passed on 26 June 2012” in Appendix VI to this document.

### [ • ]

Our Directors have been granted a general unconditional mandate to exercise all of the powers of our Company to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue, as enlarged by the [ • ] and the [ • ] (but excluding any Share of the Company which may be issued pursuant to the [ • ]).

This [ • ] relates only to repurchases made on the [ • ] or on any other [ • ] on which the Shares are listed (and which is recognized by the [ • ] and the [ • ] for this purpose), and which are made in accordance with all applicable laws and the requirements of the [ • ]. Further information required by the [ • ] to be included in this document regarding the repurchase of Shares is set out in the paragraph headed “Further Information about our Company — 7. Securities [ • ]” in Appendix VI to this document.

This [ • ] will expire:

- (i) at the conclusion of our Company’s next annual general meeting; or
- (ii) upon the expiry of the period within which our Company is required by any applicable law or the Articles of Association to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of the Shareholders in general meeting; whichever occurs first.



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## FINANCIAL INFORMATION

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*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 document. 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 document.*

### 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 (“Mr. Liu”) prior to and after the Reorganization. The control is not transitional and, consequently, there was a continuation of the risks and benefits to Mr. Liu. 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 Mr. Liu’s perspective.

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

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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.

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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<br>RMB'000            | %      | Turnover<br>RMB'000 | %      | Turnover<br>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<br>RMB'000            | %      | Turnover<br>RMB'000 | %      | Turnover<br>RMB'000 | %      |
| Pure cotton                                        | 330,827                        | 78.68  | 332,724             | 57.90  | 297,876             | 46.46  |
| Tencel or new material and fiber fabrics<br>(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<br>RMB'000            | %      | Turnover<br>RMB'000 | %      | Turnover<br>RMB'000 | %      |
| Pure cotton                                        | 48,229                         | 49.51  | 55,226              | 41.55  | 123,622             | 52.86  |
| Tencel or new material and fiber fabrics<br>(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 interwoven with cotton yarns or other fibers.

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- *Gross profit*

|                  | For the year ended 31 December |        |              |        |              |        |
|------------------|--------------------------------|--------|--------------|--------|--------------|--------|
|                  | 2009                           |        | 2010         |        | 2011         |        |
|                  | Gross profit                   |        | Gross profit |        | Gross profit |        |
|                  | Gross profit                   | margin | Gross profit | margin | 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 [ • ]. For each of the years ended 31 December 2009, 2010 and 2011, turnover from doobby 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 [ • ] 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 doobby fabrics and jacquard fabrics were made from pure cotton during the [ • ]. Approximately 78.68%, 57.90% and 46.46% of total volume of doobby 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 doobby 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.

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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             | %              | Raw materials cost | %              | Raw materials cost | %              |
|              | (RMB'000)                      |                | (RMB'000)          |                | (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        | <u>337,909</u>                 | <u>100.00%</u> | <u>500,339</u>     | <u>100.00%</u> | <u>481,274</u>     | <u>100.00%</u> |

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 [•], 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.

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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 continued 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                | 0.96%    |
| Cotton (tonne) | 10,736                         | 16,163                | 50.55%   | 21,748                | 34.55%   |



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### *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 | Percentage    |               | Percentage    |               | Percentage    |               |
|---------------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                             | Decrease in   | reduction in  | Decrease in   | reduction in  | Decrease in   | reduction in  |
|                                             | profit before | profit before | profit before | profit before | profit before | profit before |
|                                             | taxation      | taxation      | taxation      | taxation      | taxation      | taxation      |
|                                             | FY2009        |               | FY2010        |               | FY2011        |               |
|                                             | (RMB          |               | (RMB          |               | (RMB          |               |
|                                             | in million)   |               | in million)   |               | 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 | Percentage    |               | Percentage    |               | Percentage    |               |
|----------------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                              | Decrease in   | reduction in  | Decrease in   | reduction in  | Decrease in   | reduction in  |
|                                              | profit before | profit before | profit before | profit before | profit before | profit before |
|                                              | taxation      | taxation      | taxation      | taxation      | taxation      | taxation      |
|                                              | FY2009        |               | FY2010        |               | FY2011        |               |
|                                              | (RMB          |               | (RMB          |               | (RMB          |               |
|                                              | in million)   |               | in million)   |               | 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 [ • ] 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.

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### CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations as included in this document 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 document, 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.

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### **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.

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### 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.

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### 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.

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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.



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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.

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### **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.

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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.

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## FINANCIAL INFORMATION

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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.

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## FINANCIAL INFORMATION

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### RESULTS OF OPERATIONS

The following table summarises the consolidated income statements data from the Financial Statements during the [ • ], details of which are set out in the Accountants’ Report in Appendix I to this document.

|                                                                      | <b>For the year ended 31 December</b> |                |                |
|----------------------------------------------------------------------|---------------------------------------|----------------|----------------|
|                                                                      | <b>2009</b>                           | <b>2010</b>    | <b>2011</b>    |
|                                                                      | <i>RMB'000</i>                        | <i>RMB'000</i> | <i>RMB'000</i> |
| <b>Revenue</b>                                                       | 529,708                               | 773,767        | 927,774        |
| Cost of sales                                                        | (456,669)                             | (595,949)      | (697,670)      |
| <b>Gross profit</b>                                                  | 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)       |
| <b>Profit from operations</b>                                        | 50,041                                | 153,168        | 192,982        |
| Finance income                                                       | 9,958                                 | 5,097          | 20,007         |
| Finance costs                                                        | (17,649)                              | (26,509)       | (25,103)       |
| <b>Profit before taxation</b>                                        | 42,350                                | 131,756        | 187,886        |
| Income tax                                                           | (1,555)                               | (26,197)       | (25,760)       |
| <b>Profit for the year</b>                                           | <u>40,795</u>                         | <u>105,559</u> | <u>162,126</u> |
| <b>Profit attributable to equity<br/>shareholders of our Company</b> | <u>30,406</u>                         | <u>100,291</u> | <u>162,126</u> |

## FINANCIAL INFORMATION

### 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<br><i>RMB'000</i>     | % of<br>turnover | Turnover<br><i>RMB'000</i> | % of<br>turnover | Turnover<br><i>RMB'000</i> | % of<br>turnover |
| <b>Turnover</b>     |                                |                  |                            |                  |                            |                  |
| 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%            |
| <b>Sub-total</b>    | <u>518,356</u>                 | <u>97.86%</u>    | <u>742,718</u>             | <u>95.99%</u>    | <u>900,038</u>             | <u>97.01%</u>    |
| Processing services | <u>11,352</u>                  | <u>2.14%</u>     | <u>31,049</u>              | <u>4.01%</u>     | <u>27,736</u>              | <u>2.99%</u>     |
| <b>Total</b>        | <u>529,708</u>                 | <u>100.00%</u>   | <u>773,767</u>             | <u>100.00%</u>   | <u>927,774</u>             | <u>100.00%</u>   |

#### 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<br><i>(kilometers)</i> | Average<br>selling price<br><i>(RMB/m)</i> | Sales volume<br><i>(kilometers)</i> | Average<br>selling price<br><i>(RMB/m)</i> | Sales volume<br><i>(kilometers)</i> | Average<br>price<br><i>(RMB/m)</i> |
| 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 [ • ], 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 [ • ] 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 km for the year ended 31 December 2009 to approximately 5,532 km for the year ended 31 December 2010 and then increased to approximately 9,663 km 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.



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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 m for FY2009 to approximately 38,758,000 m for FY2010, and decreased to approximately 38,118,000 m for FY2011. This was due to changes in product categories and mix over the years and that the dobby fabrics 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 [ • ]. 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.

## FINANCIAL INFORMATION

### 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           |                                 |
|                            | <i>RMB'000</i>                 | <i>% of total cost of sales</i> | <i>RMB'000</i> | <i>% of total cost of sales</i> | <i>RMB'000</i> | <i>% of total cost of sales</i> |
| <b>Raw materials:</b>      |                                |                                 |                |                                 |                |                                 |
| 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%                           |
| <b>Sub-total</b>           | <b>305,647</b>                 | <b>66.93%</b>                   | <b>425,808</b> | <b>71.45%</b>                   | <b>536,721</b> | <b>76.93%</b>                   |
| 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%                           |
| <b>Sub-total</b>           | <b>151,022</b>                 | <b>33.07%</b>                   | <b>170,141</b> | <b>28.55%</b>                   | <b>160,949</b> | <b>23.07%</b>                   |
| <b>Total</b>               | <b>456,669</b>                 | <b>100.00%</b>                  | <b>595,949</b> | <b>100.00%</b>                  | <b>697,670</b> | <b>100.00%</b>                  |

- *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                          |                   |
|                  | <i>Gross profit (RMB'000)</i>  | <i>margin (%)</i> | <i>Gross profit (RMB'000)</i> | <i>margin (%)</i> | <i>Gross profit (RMB'000)</i> | <i>margin (%)</i> |
| 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             |
| <b>Total</b>     | <b>71,195</b>                  |                   | <b>167,873</b>                |                   | <b>222,366</b>                |                   |

### 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.

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### 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           |                                |
|                            | <i>RMB'000</i>                 | <i>% of distribution costs</i> | <i>RMB'000</i> | <i>% of distribution costs</i> | <i>RMB'000</i> | <i>% of distribution costs</i> |
| 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%                         |
| <b>Total</b>               | <b>10,124</b>                  | <b>100.00%</b>                 | <b>10,957</b>  | <b>100.00%</b>                 | <b>11,795</b>  | <b>100.00%</b>                 |

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.

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### 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           |                                     |
|                               | <i>RMB'000</i>                 | <i>% of administrative expenses</i> | <i>RMB'000</i> | <i>% of administrative expenses</i> | <i>RMB'000</i> | <i>% of administrative expenses</i> |
| 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%                              |
| <b>Total</b>                  | <b>12,750</b>                  | <b>100.00%</b>                      | <b>16,070</b>  | <b>100.00%</b>                      | <b>30,665</b>  | <b>100.00%</b>                      |

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.

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## FINANCIAL INFORMATION

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### 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 [•], our Group was not subject to any corporate income tax in Hong Kong, the Cayman Islands and the BVI.

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Set out below is the reconciliation of our Group’s income tax expenses and payment made during the [ • ]:

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

*Notes:*

1. Non-deductible expenses mainly include [ • ] 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.



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### *Effective tax rate*

During the [ • ], 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 38,118km for FY2011 from that of approximately 38,758km 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 5,532km for FY2010 to approximately 9,663km for FY2011 and increase in average selling price from approximately RMB24.03 per meter for FY2010 to approximately RMB24.20 per meter for FY2011.

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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 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 document.

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### *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.

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### *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, 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 km from approximately 45,497 km. 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 km for FY2010 from approximately 5,251 km 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.

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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.



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### *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



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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 [ • ], 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

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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 document.

Upon the completion of the [ • ], 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 [ • ]. Our Directors are of the opinion that our Company will have available sufficient working capital for the present requirements, which is for at least the next 12 months from the date of this document.

During the [ • ], 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:

|                                                                  | <b>For the year ended<br/>31 December</b> |                      |                       |
|------------------------------------------------------------------|-------------------------------------------|----------------------|-----------------------|
|                                                                  | <b>2009</b>                               | <b>2010</b>          | <b>2011</b>           |
|                                                                  | <i>RMB'000</i>                            | <i>RMB'000</i>       | <i>RMB'000</i>        |
| 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           | <u>95,378</u>                             | <u>(24,959)</u>      | <u>(129,463)</u>      |
| Net increase in cash and cash equivalents                        | 32,458                                    | 12,922               | 61,963                |
| Cash and cash equivalents at the beginning of the financial year | <u>22,885</u>                             | <u>55,343</u>        | <u>68,265</u>         |
| Cash and cash equivalents at the end of the financial year       | <u><u>55,343</u></u>                      | <u><u>68,265</u></u> | <u><u>130,228</u></u> |

### *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

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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.

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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.

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### 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<br>30 April             |
|----------------------------------------------|-------------------|------------------|------------------|-------------------------------|
|                                              | 2009              | 2010             | 2011             | 2012                          |
|                                              | <i>RMB'000</i>    | <i>RMB'000</i>   | <i>RMB'000</i>   | <i>RMB'000</i><br>(unaudited) |
| <b>CURRENT ASSETS</b>                        |                   |                  |                  |                               |
| 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                    | <u>55,343</u>     | <u>68,265</u>    | <u>130,228</u>   | <u>80,465</u>                 |
|                                              | <u>501,141</u>    | <u>612,806</u>   | <u>541,235</u>   | <u>485,894</u>                |
| <b>CURRENT LIABILITIES</b>                   |                   |                  |                  |                               |
| 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                             | <u>1,183</u>      | <u>5,691</u>     | <u>8,261</u>     | <u>4,421</u>                  |
|                                              | <u>457,050</u>    | <u>872,709</u>   | <u>682,912</u>   | <u>430,726</u>                |
| <b>NET CURRENT ASSETS/<br/>(LIABILITIES)</b> | <u>44,091</u>     | <u>(259,903)</u> | <u>(141,677)</u> | <u>55,168</u>                 |

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 amounts due to a related party, Excel Orient, of approximately RMB146.63 million was 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.

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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 [ • ], our Directors and the [ • ] 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 document.

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



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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:

|                                                  | <b>For the year ended 31 December</b> |             |             |
|--------------------------------------------------|---------------------------------------|-------------|-------------|
|                                                  | <b>2009</b>                           | <b>2010</b> | <b>2011</b> |
| Trade receivables turnover (days) <sup>(1)</sup> | 28                                    | 32          | 23          |
| Trade payables turnover (days) <sup>(2)</sup>    | 61                                    | 54          | 27          |
| Inventory turnover (days) <sup>(3)</sup>         | 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

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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 [ • ], 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):

|                             | <b>As at 31 December</b> |                |                |
|-----------------------------|--------------------------|----------------|----------------|
|                             | <b>2009</b>              | <b>2010</b>    | <b>2011</b>    |
|                             | <i>RMB'000</i>           | <i>RMB'000</i> | <i>RMB'000</i> |
| 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      | <u>3,294</u>             | <u>141</u>     | <u>335</u>     |
|                             | <u>40,573</u>            | <u>68,410</u>  | <u>58,860</u>  |

### *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 shorten payment period and increase in the amount of prepayment to raw material suppliers so as to obtain more discounts on or lower the purchase prices 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.

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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 aging analysis of our trade payables:

|                                         | <b>As at 31 December</b> |                |                |
|-----------------------------------------|--------------------------|----------------|----------------|
|                                         | <b>2009</b>              | <b>2010</b>    | <b>2011</b>    |
|                                         | <i>RMB'000</i>           | <i>RMB'000</i> | <i>RMB'000</i> |
| 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 | <u>718</u>               | <u>1,648</u>   | <u>481</u>     |
|                                         | <u>76,042</u>            | <u>87,901</u>  | <u>50,864</u>  |

### *Inventory*

|                  | <b>As at 31 December</b> |                |                |
|------------------|--------------------------|----------------|----------------|
|                  | <b>2009</b>              | <b>2010</b>    | <b>2011</b>    |
|                  | <i>RMB'000</i>           | <i>RMB'000</i> | <i>RMB'000</i> |
| 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      | <u>695</u>               | <u>1,177</u>   | <u>1,456</u>   |
|                  | <u>101,272</u>           | <u>170,504</u> | <u>100,789</u> |

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

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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           |
|                                     | <i>RMB'000</i>    | <i>RMB'000</i> | <i>RMB'000</i> |
| 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          | —              |
|                                     | <u>77,084</u>     | <u>404,446</u> | <u>219,204</u> |

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 [ • ] 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 [ • ].

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### Capital expenditures

Our capital expenditures during the [ • ] 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:

|                          | <b>For the year ended 31 December</b> |                |                |
|--------------------------|---------------------------------------|----------------|----------------|
|                          | <b>2009</b>                           | <b>2010</b>    | <b>2011</b>    |
|                          | <i>RMB'000</i>                        | <i>RMB'000</i> | <i>RMB'000</i> |
| 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         |
|                          | <u>6,163</u>                          | <u>116,288</u> | <u>53,330</u>  |

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 [ • ], 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 [ • ]” in this document.

### 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 [ • ], we have sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this document.

Save as disclosed in this document, 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 [ • ]” in this document.

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### 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           |
|                | <i>RMB'000</i>    | <i>RMB'000</i> | <i>RMB'000</i> |
| 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           |
|                                 | <i>RMB'000</i>    | <i>RMB'000</i> | <i>RMB'000</i> |
| Within 1 year                   | 302,741           | 345,889        | 373,189        |
| After 1 year but within 2 years | 20,000            | 10,000         | —              |
| <b>Total bank loans</b>         | <b>322,741</b>    | <b>355,889</b> | <b>373,189</b> |
| 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.



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

|                                 | <b>As at 31 December</b> |                |
|---------------------------------|--------------------------|----------------|
|                                 | <b>2010</b>              | <b>2011</b>    |
|                                 | <i>RMB'000</i>           | <i>RMB'000</i> |
| 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                   | —              |
|                                 | <u>74,662</u>            | <u>46,124</u>  |

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:

|                                              | <b>As at 31 December</b>       |                 |                                |                |                                |                 |
|----------------------------------------------|--------------------------------|-----------------|--------------------------------|----------------|--------------------------------|-----------------|
|                                              | <b>2009</b>                    |                 | <b>2010</b>                    |                | <b>2011</b>                    |                 |
|                                              | <b>Effective interest rate</b> |                 | <b>Effective interest rate</b> |                | <b>Effective interest rate</b> |                 |
|                                              | %                              | <i>RMB'000</i>  | %                              | <i>RMB'000</i> | %                              | <i>RMB'000</i>  |
| <b>Net fixed rate borrowings:</b>            |                                |                 |                                |                |                                |                 |
| 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)       |
|                                              |                                | <u>76,842</u>   |                                | <u>103,983</u> |                                | <u>143,815</u>  |
| <b>Variable rate borrowings:</b>             |                                |                 |                                |                |                                |                 |
| 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)       |
|                                              |                                | <u>(54,816)</u> |                                | <u>2,219</u>   |                                | <u>(43,051)</u> |
| <b>Total net interest-bearing borrowings</b> |                                | <u>22,026</u>   |                                | <u>106,202</u> |                                | <u>100,764</u>  |

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

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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 Endorsed Mediation Agreement entered between Mr. Liu 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 [ • ]. 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 unguaranteed. Save as the fund raising exercise under the [ • ], 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 <sup>(Note)</sup> | 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

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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 [ • ].

### **Contingent liabilities**

Under the Endorsed Mediation Agreement entered during the year ended 31 December 2008, which is related to a dispute among shareholders of Yinlong Industrial, including Mr. Liu, 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 in relation to the Endorsed 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 [ • ].

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 [ • ].

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.

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### 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<br>related party | Nature of transactions                             | For the year ended 31 December |                |                |
|--------------------------|----------------------------------------------------|--------------------------------|----------------|----------------|
|                          |                                                    | 2009                           | 2010           | 2011           |
|                          |                                                    | <i>RMB'000</i>                 | <i>RMB'000</i> | <i>RMB'000</i> |
| 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          |
|                          |                                                    |                                |                |                |

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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 (“Mr. Lv”)                                               |      | 499               | 751     | —       |
| — Ms. Sun Hongchun (“Ms. Sun”)                                             |      | —                 | 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                                                                   |      | 17,842            | —       | —       |
| — Ms. Sun                                                                  |      | 5,700             | —       | —       |
| — Mr. Tian                                                                 |      | 513               | —       | —       |
| Personal guarantees provided to our Group in respect of banking facilities |      |                   |         |         |
| — Mr. Liu                                                                  |      | 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                                                                  | (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 [ • ] of our Company’s shares on the [ • ].
- (ii) Mr. Liu has paid RMB10,000,000 in relation to a mediation settlement, which a subsidiary of our Group is jointly and severally liable under the Endorsed Mediation Agreement, subsequent to 31 December 2011 into the bank account of the the Jurisdiction Court which will make payment of remaining mediation settlement.

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The Directors consider that the related party transactions during the [ • ] 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 [ • ] 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/<br>(decrease)<br>in basis<br>points | Effect on<br>profit for<br>the year<br>and<br>retained<br>earnings<br><i>RMB'000</i> | Increase/<br>(decrease)<br>in basis<br>points | Effect on<br>profit for<br>the year<br>and<br>retained<br>earnings<br><i>RMB'000</i> | Increase/<br>(decrease)<br>in basis<br>points | Effect on<br>profit for<br>the period<br>and<br>retained<br>earnings<br><i>RMB'000</i> |
| Interest rate | 50<br>(50)                                    | 257<br>(257)                                                                         | 50<br>(50)                                    | (9)<br>9                                                                             | 50<br>(50)                                    | 181<br>(181)                                                                           |

During the [ • ], our Group has entered into an interest rate swap contract (“Interest Rate Swap Contract”) dated 5 March 2008 with one of our principal bank 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.



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### 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 States 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<br>RMB'000                                       | USD<br>RMB'000 | JPY<br>RMB'000 | Euros<br>RMB'000 | USD<br>RMB'000 | JPY<br>RMB'000 | HKD<br>RMB'000 | Euros<br>RMB'000 | USD<br>RMB'000 | JPY<br>RMB'000 | HKD<br>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.

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

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## FINANCIAL INFORMATION

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During the [•], 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 document. 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 [•], 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 document.

### **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.

## FINANCIAL INFORMATION

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

| <b>As at 31 December 2009</b>                                          |                                           |                                                        |                                                     |                |                            |
|------------------------------------------------------------------------|-------------------------------------------|--------------------------------------------------------|-----------------------------------------------------|----------------|----------------------------|
| <b>Contractual undiscounted cash outflow</b>                           |                                           |                                                        |                                                     |                |                            |
|                                                                        | <b>Within<br/>1 year or on<br/>demand</b> | <b>More than<br/>1 year<br/>but within<br/>2 years</b> | <b>More than<br/>2 years<br/>within<br/>5 years</b> | <b>Total</b>   | <b>Carrying<br/>amount</b> |
|                                                                        | <i>RMB'000</i>                            | <i>RMB'000</i>                                         | <i>RMB'000</i>                                      | <i>RMB'000</i> | <i>RMB'000</i>             |
| Bank loans                                                             | 316,775                                   | 21,080                                                 | —                                                   | 337,855        | 322,741                    |
| Trade creditors, bills payable, other<br>creditors and accrued charges | 107,732                                   | —                                                      | —                                                   | 107,732        | 107,732                    |
| Amounts due to related parties                                         | 32,363                                    | —                                                      | —                                                   | 32,363         | 32,363                     |
|                                                                        | <u>456,870</u>                            | <u>21,080</u>                                          | <u>—</u>                                            | <u>477,950</u> | <u>462,836</u>             |
| Financial guarantees issued:<br>Maximum amount guaranteed              | <u>88,000</u>                             | <u>10,000</u>                                          | <u>10,000</u>                                       | <u>108,000</u> | <u>698</u>                 |
| <b>As at 31 December 2010</b>                                          |                                           |                                                        |                                                     |                |                            |
| <b>Contractual undiscounted cash outflow</b>                           |                                           |                                                        |                                                     |                |                            |
|                                                                        | <b>Within<br/>1 year or on<br/>demand</b> | <b>More than<br/>1 year<br/>but within<br/>2 years</b> | <b>More than<br/>2 years<br/>within<br/>5 years</b> | <b>Total</b>   | <b>Carrying<br/>amount</b> |
|                                                                        | <i>RMB'000</i>                            | <i>RMB'000</i>                                         | <i>RMB'000</i>                                      | <i>RMB'000</i> | <i>RMB'000</i>             |
| Bank loans                                                             | 353,473                                   | 10,539                                                 | —                                                   | 364,012        | 355,889                    |
| Trade creditors, bills payable, other<br>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                    |
|                                                                        | <u>854,825</u>                            | <u>42,735</u>                                          | <u>16,098</u>                                       | <u>913,658</u> | <u>899,707</u>             |
| Financial guarantees issued:<br>Maximum amount guaranteed              | <u>88,000</u>                             | <u>10,000</u>                                          | <u>—</u>                                            | <u>98,000</u>  | <u>1,329</u>               |

**THIS WEB PROOF INFORMATION PACK IS IN DRAFT FORM.** The information contained herein is incomplete and subject to change and it must be read in conjunction with the section headed “Warning” on the cover page of this Web Proof Information Pack.

## FINANCIAL INFORMATION

|                                                                        | As at 31 December 2011                |                                              |                                           |         |                    |
|------------------------------------------------------------------------|---------------------------------------|----------------------------------------------|-------------------------------------------|---------|--------------------|
|                                                                        | Contractual undiscounted cash outflow |                                              |                                           |         |                    |
|                                                                        | Within<br>1 year or<br>on demand      | More than<br>1 year<br>but within<br>2 years | More than<br>2 years<br>within<br>5 years | Total   | Carrying<br>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<br>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:<br>Maximum amount guaranteed              | 10,000                                | —                                            | —                                         | 10,000  | —                  |

### DISCLOSURE REQUIRED UNDER THE [ • ]

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 [ • ].

### 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. Save for the above, no dividend had been paid or declared by our Group to any Shareholder during the [ • ].

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.

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## FINANCIAL INFORMATION

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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 [ • ] 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.

### PROPERTY INTERESTS

For the purpose of the [ • ], 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 document.

A reconciliation of our Group’s property interest and the valuation of such property interest as required under Rule 5.07 of the [ • ] is set forth below:

|                                                                            | <i>RMB’000</i>       |
|----------------------------------------------------------------------------|----------------------|
| 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                                                                  | <u>—</u>             |
| Net book value of property interests as of 30 April 2012 (unaudited)       | 69,005               |
| Valuation surplus as of 30 April 2012                                      | <u>21,031</u>        |
| Valuation as of 30 April 2012 per Valuation Report set out in Appendix III | <u><u>90,036</u></u> |

### NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this document 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 document.

### 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

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## **FINANCIAL INFORMATION**

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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 strive to maintain our profit margins by further enhancing our product structure and mix, and production efficiency.



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## **FUTURE PLANS**

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### **FUTURE PLANS**

Going forward, our vision is to continue to solidify and enhance our leading position in the high-end home textile fabric market in the PRC. To achieve this goal, we plan to pursue the following strategies set out in the section entitled “Business — Business Strategies”.

- Expanding and upgrading our production facilities to capture growth opportunities and enhance our market share;
- Expanding our product mix by enhancing our research and development capabilities;
- Strengthening our brand building efforts for our products; and
- Seeking strategic investments and/or cooperative alliances with a view to securing our raw material supplies and capturing other potential market opportunities as they arise.

Our Directors consider that there was a significant growth in China’s economy, consumption power and the high-end fabric market in the past few years and such growing trend is expected to continue in the near future (as outlined in the Euromonitor Report). As such, our Directors believe that the demand for our Group’s products which are strategically focused on high-end home textile fabric market in the PRC is expected to continue to expand. To meet such growing demand as well as to strengthen our Group’s market position and increase our market share, expand our product portfolio and in consideration of the utilization rates of our Group’s production facilities, our Company decides to implement the expansion plans which will mainly focus on expanding and upgrading our Group’s production facilities for our Fabric Products, and increasing our product varieties.

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## APPENDIX I

## ACCOUNTANTS’ REPORT

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*The following is the text of a report, prepared for the purpose of incorporation in this document, received from the Company’s reporting accountants, KPMG, Certified Public Accountants, Hong Kong.*



8th Floor  
Prince’s Building  
10 Chater Road  
Central  
Hong Kong

[ • ]

The Directors  
Silverman Holdings Limited

[ • ]

Dear Sirs,

### INTRODUCTION

We set out below our report on the financial information relating to Silverman Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) including the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group, for each of the years ended 31 December 2009, 2010 and 2011 (the “Relevant Period”), and the consolidated statements of financial position of the Group as at 31 December 2009, 2010 and 2011, together with the explanatory notes thereto (the “Financial Information”), for inclusion in the document of the Company dated [ • ] (the “Document”).

The Company was formerly known as Silverman Tech Holdings Limited and was incorporated in the Cayman Islands on 24 February 2010 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation completed on 16 April 2010 (the “Reorganisation”) as detailed in the section headed “History, Reorganization and Group Structure” in the Document, the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company, Power Fit Ltd. and Swift Power Ltd. as they either have not carried on any business since the date of incorporation or are investment holding companies and not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation.

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## **APPENDIX I**

## **ACCOUNTANTS’ REPORT**

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All companies now comprising the Group have adopted 31 December as their financial year end date. Details of the companies comprising the Group that are subject to audit during the Relevant Period and the names of the respective auditors are set out in note 31 of Section C. The statutory financial statements of these companies were prepared in accordance with Hong Kong Financial Reporting Standards or the relevant accounting rules and regulations applicable to the enterprises in the People’s Republic of China (the “PRC”).

The directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Period in accordance with the basis of preparation set out in Section A below and the accounting policies set out in Section C below (the “Underlying Financial Statements”). The Underlying Financial Statements for each of the years ended 31 December 2009, 2010 and 2011 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements, with no adjustments made thereon, and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS**

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”), the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

### **BASIS OF OPINION**

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline “Prospectus and the Reporting Accountant” (Statement 3.340) issued by the HKICPA.

We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 31 December 2011.

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**APPENDIX I****ACCOUNTANTS’ REPORT**

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**OPINION**

In our opinion, for the purpose of this report, the Financial Information, on the basis of preparation set out in Section A below, gives a true and fair view of the Group’s consolidated results and cash flows for the Relevant Period, and the state of affairs of the Group as at 31 December 2009, 2010 and 2011 and the state of affairs of the Company as at 31 December 2010 and 2011.

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## **APPENDIX I**

## **ACCOUNTANTS’ REPORT**

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### **A BASIS OF PREPARATION**

The Company was incorporated in the Cayman Islands on 24 February 2010. Pursuant to a group reorganisation completed on 16 April 2010, the Company became the holding company of companies now comprising the Group. The companies that took part in the Reorganisation were controlled by Mr. Liu Dong (“Mr. Liu”) prior to and after the Reorganisation. The control is not transitional and, consequently, there was a continuation of the risks and benefits to Mr. Liu. Therefore, the Reorganisation is considered as a business combination of entities under common control. The Financial Information has been prepared using the principles of merger accounting as if the companies now comprising the 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 Mr. Liu’s perspective.

The consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group for the Relevant Period as set out in Section B of this report include the results of operations of the companies now comprising the 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 the Group as at 31 December 2009, 2010 and 2011 as set out in Section B of this report have been prepared to present the state of affairs of the Group as at the respective dates as if the Reorganisation 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.

## APPENDIX I

## ACCOUNTANTS’ REPORT

As at the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies, or if incorporated/established outside Hong Kong have substantially the same characteristics as a Hong Kong private company, particulars of which are set out below:

| <u>Name of company</u>                                    | <u>Place and date of incorporation/<br/>establishment</u> | <u>Issued and fully<br/>paid share<br/>capital/<br/>registered<br/>capital</u> | <u>Attributable equity<br/>interest held by<br/>the Company</u> |                 | <u>Principal activities</u>                 |
|-----------------------------------------------------------|-----------------------------------------------------------|--------------------------------------------------------------------------------|-----------------------------------------------------------------|-----------------|---------------------------------------------|
|                                                           |                                                           |                                                                                | <u>Direct</u>                                                   | <u>Indirect</u> |                                             |
| Power Fit Ltd.                                            | The British Virgin Islands (the “BVI”),<br>8 January 2010 | USD1                                                                           | 100%                                                            | —               | Investment holding                          |
| Swift Power Ltd.                                          | The BVI,<br>8 January 2010                                | USD1                                                                           | 100%                                                            | —               | Investment holding                          |
| YSL (HK) Ltd.<br>銀仕來(香港)有限公司                              | Hong Kong,<br>1 March 2010                                | HKD1                                                                           | —                                                               | 100%            | Investment holding                          |
| Huiyin (HK) Ltd.<br>匯銀(香港)有限公司                            | Hong Kong,<br>1 March 2010                                | HKD1                                                                           | —                                                               | 100%            | Investment holding                          |
| Zibo Yinshilai Textile Co., Ltd.<br>淄博銀仕來紡織有限公司<br>(Note) | The PRC,<br>1 December 1999                               | USD12,400,000                                                                  | —                                                               | 100%            | Manufacturing and sales of textile products |
| Zibo Huiyin Textile Co., Ltd.<br>淄博匯銀紡織有限公司 (Note)        | The PRC,<br>9 June 2006                                   | USD10,400,000                                                                  | —                                                               | 100%            | Manufacturing and sales of textile products |

*Note:* The English translation of the names is for reference only. The official names of these entities are in Chinese.



## **APPENDIX I**

## **ACCOUNTANTS’ REPORT**

### **B FINANCIAL INFORMATION**

#### **1 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

|                                                           | <i>Section C</i> | <b>Year ended 31 December</b> |                  |                  |
|-----------------------------------------------------------|------------------|-------------------------------|------------------|------------------|
|                                                           | <i>Note</i>      | <b>2009</b>                   | <b>2010</b>      | <b>2011</b>      |
|                                                           |                  | <i>RMB'000</i>                | <i>RMB'000</i>   | <i>RMB'000</i>   |
| <b>Turnover</b>                                           | 2                | 529,708                       | 773,767          | 927,774          |
| Cost of sales                                             |                  | <u>(456,669)</u>              | <u>(595,949)</u> | <u>(697,670)</u> |
| <b>Gross profit</b>                                       |                  | 73,039                        | 177,818          | 230,104          |
| Other revenue                                             | 3                | 2,524                         | 2,524            | –                |
| Other net (losses)/gains                                  | 3                | (2,648)                       | (147)            | 5,338            |
| Distribution costs                                        |                  | (10,124)                      | (10,957)         | (11,795)         |
| Administrative expenses                                   |                  | <u>(12,750)</u>               | <u>(16,070)</u>  | <u>(30,665)</u>  |
| <b>Profit from operations</b>                             |                  | 50,041                        | 153,168          | 192,982          |
| Finance income                                            | 4(a)             | 9,958                         | 5,097            | 20,007           |
| Finance costs                                             | 4(a)             | <u>(17,649)</u>               | <u>(26,509)</u>  | <u>(25,103)</u>  |
| <b>Profit before taxation</b>                             | 4                | 42,350                        | 131,756          | 187,886          |
| Income tax                                                | 5                | <u>(1,555)</u>                | <u>(26,197)</u>  | <u>(25,760)</u>  |
| <b>Profit and total comprehensive income for the year</b> |                  | <u>40,795</u>                 | <u>105,559</u>   | <u>162,126</u>   |
| <b>Attributable to:</b>                                   |                  |                               |                  |                  |
| Equity shareholders of the Company                        |                  | 30,406                        | 100,291          | 162,126          |
| Non-controlling interests                                 |                  | <u>10,389</u>                 | <u>5,268</u>     | <u>–</u>         |
| <b>Profit and total comprehensive income for the year</b> |                  | <u>40,795</u>                 | <u>105,559</u>   | <u>162,126</u>   |

The accompanying notes form part of the Financial Information.

## APPENDIX I

## ACCOUNTANTS’ REPORT

### 2 CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

|                                                      | <i>Section C<br/>Note</i> | <b>As at 31 December</b> |                  |                  |
|------------------------------------------------------|---------------------------|--------------------------|------------------|------------------|
|                                                      |                           | <b>2009</b>              | <b>2010</b>      | <b>2011</b>      |
|                                                      |                           | <i>RMB'000</i>           | <i>RMB'000</i>   | <i>RMB'000</i>   |
| <b>Non-current assets</b>                            |                           |                          |                  |                  |
| Fixed assets                                         | 11                        |                          |                  |                  |
| — Property, plant and equipment                      |                           | 333,829                  | 405,018          | 402,023          |
| — Interests in leasehold land under operating leases |                           | <u>9,383</u>             | <u>9,185</u>     | <u>8,987</u>     |
|                                                      |                           | 343,212                  | 414,203          | 411,010          |
| Intangible assets                                    | 12                        | 60                       | 119              | 130              |
| Goodwill                                             | 13                        | 6,394                    | 6,394            | 6,394            |
| Investments in equity securities                     | 14                        | <u>1,000</u>             | <u>1,000</u>     | <u>1,000</u>     |
|                                                      |                           | <u>350,666</u>           | <u>421,716</u>   | <u>418,534</u>   |
| <b>Current assets</b>                                |                           |                          |                  |                  |
| Inventories                                          | 15                        | 101,272                  | 170,504          | 100,789          |
| Trade and other receivables                          | 16                        | 98,627                   | 117,469          | 121,838          |
| Pledged bank deposits                                | 17                        | 245,899                  | 256,568          | 188,380          |
| Cash and cash equivalents                            | 18                        | <u>55,343</u>            | <u>68,265</u>    | <u>130,228</u>   |
|                                                      |                           | <u>501,141</u>           | <u>612,806</u>   | <u>541,235</u>   |
| <b>Current liabilities</b>                           |                           |                          |                  |                  |
| Trade and other payables                             | 19                        | 153,126                  | 492,347          | 270,068          |
| Bank loans                                           | 20                        | 302,741                  | 345,889          | 373,189          |
| Obligations under finance leases                     | 21                        | —                        | 28,782           | 31,394           |
| Current taxation                                     | 22                        | <u>1,183</u>             | <u>5,691</u>     | <u>8,261</u>     |
|                                                      |                           | <u>457,050</u>           | <u>872,709</u>   | <u>682,912</u>   |
| <b>Net current assets/(liabilities)</b>              |                           | <u>44,091</u>            | <u>(259,903)</u> | <u>(141,677)</u> |
| <b>Total assets less current liabilities</b>         |                           | <u>394,757</u>           | <u>161,813</u>   | <u>276,857</u>   |

The accompanying notes from part of the Financial Information.

## APPENDIX I

## ACCOUNTANTS’ REPORT

### 2 CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

|                                                                        | <i>Section C<br/>Note</i> | <b>As at 31 December</b> |                |                |
|------------------------------------------------------------------------|---------------------------|--------------------------|----------------|----------------|
|                                                                        |                           | <b>2009</b>              | <b>2010</b>    | <b>2011</b>    |
|                                                                        |                           | <i>RMB'000</i>           | <i>RMB'000</i> | <i>RMB'000</i> |
| <b>Non-current liabilities</b>                                         |                           |                          |                |                |
| Bank loans                                                             | 20                        | 20,000                   | 10,000         | —              |
| Obligations under finance leases                                       | 21                        | —                        | 45,880         | 14,730         |
| Deferred tax liabilities                                               | 22                        | —                        | 10,024         | 4,024          |
|                                                                        |                           | <u>20,000</u>            | <u>65,904</u>  | <u>18,754</u>  |
| <b>Net assets</b>                                                      |                           | <u>374,757</u>           | <u>95,909</u>  | <u>258,103</u> |
| <b>Capital and reserves</b>                                            |                           |                          |                |                |
| Capital                                                                | 23                        | 138,046                  | —              | 68             |
| Reserves                                                               | 23                        | <u>140,710</u>           | <u>95,909</u>  | <u>258,035</u> |
| <b>Total equity attributable to equity shareholders of the Company</b> |                           | 278,756                  | 95,909         | 258,103        |
| <b>Non-controlling interests</b>                                       |                           | <u>96,001</u>            | <u>—</u>       | <u>—</u>       |
| <b>Total equity</b>                                                    |                           | <u>374,757</u>           | <u>95,909</u>  | <u>258,103</u> |

The accompanying notes form part of the Financial Information.

## APPENDIX I

## ACCOUNTANTS’ REPORT

### 3 CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

|                                                      | Attributable to equity shareholders of the Company |                     |                     |                     |                |                |                |                |
|------------------------------------------------------|----------------------------------------------------|---------------------|---------------------|---------------------|----------------|----------------|----------------|----------------|
|                                                      | Statutory                                          |                     |                     |                     |                |                | Non-           |                |
|                                                      | Capital                                            | Capital             | surplus             | Other reserve       | Retained       | Total          | controlling    | Total equity   |
|                                                      | reserve                                            | reserve             | reserve             |                     | earnings       |                | interests      |                |
|                                                      | <i>RMB'000</i>                                     | <i>RMB'000</i>      | <i>RMB'000</i>      | <i>RMB'000</i>      | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
|                                                      | <i>(Note 23(a))</i>                                | <i>(Note 23(b))</i> | <i>(Note 23(b))</i> | <i>(Note 23(b))</i> |                |                |                |                |
| Balance at 1 January 2009                            | 138,046                                            | (909)               | 15,037              | 8,457               | 87,719         | 248,350        | 85,612         | 333,962        |
| Profit for the year                                  | —                                                  | —                   | —                   | —                   | 30,406         | 30,406         | 10,389         | 40,795         |
| Total comprehensive income                           | —                                                  | —                   | —                   | —                   | 30,406         | 30,406         | 10,389         | 40,795         |
| Appropriation to statutory reserve                   | —                                                  | —                   | 2,920               | —                   | (2,920)        | —              | —              | —              |
| Balance at 31 December 2009 and at 1 January 2010    | 138,046                                            | (909)               | 17,957              | 8,457               | 115,205        | 278,756        | 96,001         | 374,757        |
| Profit for the year                                  | —                                                  | —                   | —                   | —                   | 100,291        | 100,291        | 5,268          | 105,559        |
| Total comprehensive income                           | —                                                  | —                   | —                   | —                   | 100,291        | 100,291        | 5,268          | 105,559        |
| Dividends declared in respect of the previous years  | —                                                  | —                   | —                   | —                   | (109,258)      | (109,258)      | (38,839)       | (148,097)      |
| Deemed distributions arising from the Reorganisation | (138,046)                                          | —                   | —                   | (37,034)            | —              | (175,080)      | —              | (175,080)      |
| Acquisition of non-controlling interests             | —                                                  | —                   | —                   | 1,200               | —              | 1,200          | (62,430)       | (61,230)       |
| Appropriation to statutory reserve                   | —                                                  | —                   | 10,611              | —                   | (10,611)       | —              | —              | —              |
| Balance at 31 December 2010 and at 1 January 2011    | —                                                  | (909)               | 28,568              | (27,377)            | 95,627         | 95,909         | —              | 95,909         |
| Profit for the year                                  | —                                                  | —                   | —                   | —                   | 162,126        | 162,126        | —              | 162,126        |
| Total comprehensive income                           | —                                                  | —                   | —                   | —                   | 162,126        | 162,126        | —              | 162,126        |
| Issue of shares                                      | 68                                                 | —                   | —                   | —                   | —              | 68             | —              | 68             |
| Appropriation to statutory reserve                   | —                                                  | —                   | 15,253              | —                   | (15,253)       | —              | —              | —              |
| Balance at 31 December 2011                          | 68                                                 | (909)               | 43,821              | (27,377)            | 242,500        | 258,103        | —              | 258,103        |

The accompanying notes form part of the Financial Information.

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## ACCOUNTANTS’ REPORT

### 4 CONSOLIDATED CASH FLOW STATEMENTS

|                                                                                                      | <i>Section C<br/>Note</i> | <b>Year ended 31 December</b> |                 |                 |
|------------------------------------------------------------------------------------------------------|---------------------------|-------------------------------|-----------------|-----------------|
|                                                                                                      |                           | <b>2009</b>                   | <b>2010</b>     | <b>2011</b>     |
|                                                                                                      |                           | <i>RMB'000</i>                | <i>RMB'000</i>  | <i>RMB'000</i>  |
| <b>Operating activities</b>                                                                          |                           |                               |                 |                 |
| Profit before taxation                                                                               |                           | 42,350                        | 131,756         | 187,886         |
| Adjustments for:                                                                                     |                           |                               |                 |                 |
| Depreciation                                                                                         | 4(c)                      | 44,659                        | 45,099          | 55,836          |
| Amortisation                                                                                         | 4(c)                      | 199                           | 212             | 257             |
| Interest income                                                                                      | 4(a)                      | (6,633)                       | (5,097)         | (7,873)         |
| Finance costs                                                                                        | 4(a)                      | 16,696                        | 14,011          | 24,333          |
| Net loss/(gain) on sale of property,<br>plant and equipment                                          | 3                         | <u>24</u>                     | <u>—</u>        | <u>(300)</u>    |
|                                                                                                      |                           | 97,295                        | 185,981         | 260,139         |
| <b>Changes in working capital</b>                                                                    |                           |                               |                 |                 |
| (Increase)/decrease in inventories                                                                   |                           | (10,642)                      | (69,232)        | 69,715          |
| Decrease/(increase) in trade and other<br>receivables                                                |                           | 23,452                        | (53,262)        | 23,609          |
| Increase/(decrease) in trade and other<br>payables                                                   |                           | 32,272                        | 74,400          | (128,618)       |
| (Increase)/decrease in guarantee<br>deposits for issuance of commercial<br>bills and bank acceptance |                           | <u>(96,689)</u>               | <u>51,590</u>   | <u>77,934</u>   |
| <b>Cash generated from operations</b>                                                                |                           | 45,688                        | 189,477         | 302,779         |
| Income tax paid                                                                                      | 22                        | <u>(1,321)</u>                | <u>(11,665)</u> | <u>(29,190)</u> |
| <b>Net cash generated from operating<br/>activities</b>                                              |                           | <u>44,367</u>                 | <u>177,812</u>  | <u>273,589</u>  |

The accompanying notes form part of the Financial Information.

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## ACCOUNTANTS’ REPORT

### 4 CONSOLIDATED CASH FLOW STATEMENTS (CONTINUED)

|                                                                        | <i>Section C<br/>Note</i> | <b>Year ended 31 December</b> |                  |                  |
|------------------------------------------------------------------------|---------------------------|-------------------------------|------------------|------------------|
|                                                                        |                           | <b>2009</b>                   | <b>2010</b>      | <b>2011</b>      |
|                                                                        |                           | <i>RMB'000</i>                | <i>RMB'000</i>   | <i>RMB'000</i>   |
| <b>Investing activities</b>                                            |                           |                               |                  |                  |
| Capital expenditures                                                   |                           | (50,753)                      | (82,769)         | (81,079)         |
| Proceeds from sale of property, plant and equipment                    |                           | 593                           | —                | 789              |
| Payment for interest rate swaps                                        |                           | (1,088)                       | —                | —                |
| Increase in guarantee deposits for bank loans                          |                           | (62,672)                      | (62,259)         | (9,746)          |
| Interest received                                                      |                           | <u>6,633</u>                  | <u>5,097</u>     | <u>7,873</u>     |
| <b>Net cash used in investing activities</b>                           |                           | <u>(107,287)</u>              | <u>(139,931)</u> | <u>(82,163)</u>  |
| <b>Financing activities</b>                                            |                           |                               |                  |                  |
| Proceeds from share issuance                                           |                           | —                             | —                | 68               |
| Proceeds from bank and other loans                                     |                           | 441,112                       | 455,866          | 373,189          |
| Repayment of bank and other loans                                      |                           | (329,038)                     | (348,056)        | (384,427)        |
| Advances from holding company                                          |                           | —                             | 165,462          | 61,792           |
| Repayment to holding company                                           |                           | —                             | —                | (50,621)         |
| Borrowing costs paid                                                   |                           | (16,696)                      | (17,587)         | (25,701)         |
| Deemed distribution to the then equity holders upon the Reorganisation |                           | —                             | (108,341)        | (66,739)         |
| Payments for acquisition of non-controlling interests                  |                           | —                             | (61,230)         | —                |
| Dividends paid to equity holders                                       |                           | <u>—</u>                      | <u>(111,073)</u> | <u>(37,024)</u>  |
| <b>Net cash generated from/(used in) financing activities</b>          |                           | <u>95,378</u>                 | <u>(24,959)</u>  | <u>(129,463)</u> |
| <b>Net increase in cash and cash equivalents</b>                       |                           | 32,458                        | 12,922           | 61,963           |
| Cash and cash equivalents at 1 January                                 |                           | <u>22,885</u>                 | <u>55,343</u>    | <u>68,265</u>    |
| <b>Cash and cash equivalents at 31 December</b>                        |                           | <u>55,343</u>                 | <u>68,265</u>    | <u>130,228</u>   |

The accompanying notes form part of the Financial Information.



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## **APPENDIX I**

## **ACCOUNTANTS’ REPORT**

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### **C NOTES TO THE FINANCIAL INFORMATION**

#### **1 Significant accounting policies**

##### ***(a) Statement of compliance***

The Financial Information set out in this report has been prepared in accordance with IFRSs, which collective term includes International Accounting Standards and related interpretations issued by the IASB. Further details of the significant accounting policies adopted are set out in the remainder of this Section C.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised IFRSs to the extent that they are applicable to the Group to the Relevant Period, except for any new standards or interpretations that are not yet effective for the accounting period beginning 1 January 2011. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning 1 January 2011 are set out in note 32.

This Financial Information also complies with the disclosure requirement of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rule.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

##### ***(b) Basis of preparation and presentation***

The Financial Information comprises the Company and its subsidiaries, and has been prepared using the merger basis of accounting as if the Group had always been in existence as further explained in Section A.

##### ***(c) Basis of measurement and use of estimates and judgment***

The functional currency of the Company is United States Dollar (“USD”). The Financial Information is presented in Renminbi (“RMB”), rounded to the nearest thousand, which is the functional currency of the Group’s major operating entities. The Financial Information has been prepared on the historical cost basis, except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- derivative financial instruments; and
- financial guarantees issued.

The preparation of the Financial Information in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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Judgments made by management in the application of IFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in Note 29.

***(d) Subsidiaries and non-controlling interests, associates and jointly controlled entities***

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account.

The financial information of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases. Merger accounting is adopted for common control combinations in which all of the combining entities are ultimately controlled by the same controlling party both before and after the business combination and that control is not transitory.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Change in the Group’s interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within the consolidated equity to reflect the change in relative interests, but no gain or loss is recognised.

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating decisions. A jointly controlled entity is an entity which operates under a contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity. An investment in an associate or a jointly controlled entity is accounted for in the Financial Information under the equity method.

***(e) Goodwill***

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group’s previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree’s identifiable assets and liabilities measured as at the acquisition date.

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When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(k)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

***(f) Other investments in equity securities***

The Group’s policies for investments in equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 1(t).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(k)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 1(t) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 1(s). When these investments are derecognised or impaired (see note 1(k)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

***(g) Derivative financial instruments***

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

***(h) Property, plant and equipment***

Property, plant and equipment, except for construction in progress, are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 1(k)).

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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 production overheads and borrowing costs (see note 1(v)).

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 as follows:

- buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.
- machinery and equipment 5–10 years
- office equipment 3–5 years
- motor vehicles 3–5 years

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 recognised in profit or loss on the date of retirement or disposal.

Construction in progress represents property, plant and equipment under construction and machinery and equipment under installation and testing. Construction in progress is stated in the statement of financial position at cost less impairment losses (see note 1(k)). The cost includes cost of construction, cost of purchased plant and equipment and other direct costs plus borrowing costs which include interest charges and exchange differences arising from foreign currency borrowings used to finance these projects during the construction period, to the extent that these are regarded as an adjustment to borrowing costs (see note 1(v)).

Construction in progress is not depreciated until such time as the assets are completed and substantially ready for their intended use.

### ***(i) Intangible assets (other than goodwill)***

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(v)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(k)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(k)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

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Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets’ estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

|                         |            |
|-------------------------|------------|
| — trademarks and patent | 5–10 years |
| — computer software     | 5 years    |

Both the period and method of amortisation are reviewed annually.

### *(j) Leased assets*

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the 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 the Group*

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

#### *(ii) Assets acquired under finance leases*

Where the 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 the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(k). 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 the 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 assets. 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.

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### *(k) 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 the 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 reorganisation;
- 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 recognised 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 recognised, 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 recognised 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 the 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

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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 date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- interests in leasehold land under operating leases;
- 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 recognised 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 recognised 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 recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.



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### ***(l) Inventories***

Inventories are carried at the lower of cost and net realisable 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 realisable 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 recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### ***(m) Trade and other receivables***

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(k)), 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.

### ***(n) Interest-bearing borrowings***

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

### ***(o) Trade and other payables***

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1 (s)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### ***(p) Cash and cash equivalents***

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

### ***(q) Employee benefits***

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

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### *(r) 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 recognised in profit or loss except to the extent that they relate to business combinations, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised 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 utilised, are recognised. 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 utilised.

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, the 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 recognised is measured based on the expected manner of realisation 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 utilised. 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 the 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, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

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- (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 realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

**(s) *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 the 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 recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group’s policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(s)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

**(ii) *Other provisions and contingent liabilities***

Provisions are recognised for other liabilities of uncertain timing or amount when the 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.

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### ***(t) 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 the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

#### ***(i) Sale of goods***

Revenue is recognised 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 recognised 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.

#### ***(iv) Dividends***

- Dividend income from unlisted investments is recognised when the shareholder’s right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

#### ***(v) Interest income***

Interest income is recognised as it accrues using the effective interest method.

### ***(u) Translation of foreign currencies***

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations outside the PRC are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Renminbi at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

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On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

**(v) *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 capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation 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. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

**(w) *Related parties***

- (a) A person, or a close member of that person’s family, is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or the Group’s parent.
- (b) An entity is related to the Group if any of the following conditions applies:
  - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

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### (x) Segment reporting

Operating segments, and the amount of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group’s most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group’s various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purpose unless the segments have similar characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customer, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

No segment information is presented as the Group is principally engaged in one operating segment which is the manufacturing and sale of textile products.

### 2 Turnover

The principal activities of the Group are the manufacturing and sales of textile products.

Turnover represents the sales value of goods supplied to customers and service income (net of sales tax, value-added tax and discounts). The amount of each significant category of revenue recognised in turnover during the Relevant Period is as follows:

|                            | Year ended 31 December |                |                |
|----------------------------|------------------------|----------------|----------------|
|                            | 2009                   | 2010           | 2011           |
|                            | RMB'000                | RMB'000        | RMB'000        |
| Sales of textile products: |                        |                |                |
| — Dobby grey fabrics       | 420,491                | 574,649        | 641,160        |
| — Jacquard grey fabrics    | 97,415                 | 132,925        | 233,868        |
| — Others                   | 450                    | 35,144         | 25,010         |
|                            | 518,356                | 742,718        | 900,038        |
| Processing services income | 11,352                 | 31,049         | 27,736         |
|                            | <u>529,708</u>         | <u>773,767</u> | <u>927,774</u> |

The following is an analysis of the Group’s revenue by geographical markets:

|          | Year ended 31 December |                |                |
|----------|------------------------|----------------|----------------|
|          | 2009                   | 2010           | 2011           |
|          | RMB'000                | RMB'000        | RMB'000        |
| The PRC  | 453,699                | 601,681        | 818,904        |
| Overseas | 76,009                 | 172,086        | 108,870        |
|          | <u>529,708</u>         | <u>773,767</u> | <u>927,774</u> |

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The Group’s customer base is diversified and includes two customers with whom transactions have exceeded 10% of the Group’s revenue for the year ended 31 December 2011. During the year ended 31 December 2011, revenue from sales of textile products to each of such customers amounted to approximately RMB113,896,000 and RMB94,543,000 respectively. No individual customer had transactions exceeded 10% of the Group’s revenue for the years ended 31 December 2009 and 2010. Details of concentrations of credit risk are set out in note 24(a).

### 3 Other revenue and net (losses)/gains

|                                                          | Year ended 31 December |              |              |
|----------------------------------------------------------|------------------------|--------------|--------------|
|                                                          | 2009                   | 2010         | 2011         |
|                                                          | RMB’000                | RMB’000      | RMB’000      |
| <b>Other revenue</b>                                     |                        |              |              |
| Rentals receivable from operating leases                 | 2,524                  | 2,524        | —            |
|                                                          | <u>2,524</u>           | <u>2,524</u> | <u>—</u>     |
|                                                          |                        |              |              |
|                                                          | Year ended 31 December |              |              |
|                                                          | 2009                   | 2010         | 2011         |
|                                                          | RMB’000                | RMB’000      | RMB’000      |
| <b>Other net (losses)/gains</b>                          |                        |              |              |
| Net gain on sale of scrap materials                      | —                      | —            | 1,587        |
| Net (loss)/gain on sale of property, plant and equipment | (24)                   | —            | 300          |
| Net loss on interest rate swaps                          | (2,403)                | —            | —            |
| Net loss on forward exchange contracts                   | (148)                  | (131)        | (520)        |
| Financial guarantee issued                               | 430                    | (631)        | 1,329        |
| Others                                                   | (503)                  | 615          | 2,642        |
|                                                          | <u>(2,648)</u>         | <u>(147)</u> | <u>5,338</u> |

### 4 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

#### (a) Finance income and finance costs

|                                                                                               | Year ended 31 December |                |                 |
|-----------------------------------------------------------------------------------------------|------------------------|----------------|-----------------|
|                                                                                               | 2009                   | 2010           | 2011            |
|                                                                                               | RMB’000                | RMB’000        | RMB’000         |
| <b>Finance income</b>                                                                         |                        |                |                 |
| Interest income on bank deposits                                                              | (6,633)                | (5,097)        | (7,873)         |
| Foreign exchange gain arising on settlement or translation of foreign currency monetary items | (3,325)                | —              | (12,134)        |
|                                                                                               | <u>(9,958)</u>         | <u>(5,097)</u> | <u>(20,007)</u> |



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|                                                                                               | Year ended 31 December |               |               |
|-----------------------------------------------------------------------------------------------|------------------------|---------------|---------------|
|                                                                                               | 2009                   | 2010          | 2011          |
|                                                                                               | RMB'000                | RMB'000       | RMB'000       |
| <b>Finance costs</b>                                                                          |                        |               |               |
| Interest on bank advances and other borrowings wholly repayable within five years             | 16,696                 | 14,918        | 23,293        |
| Less: interest capitalised into property, plant and equipment*                                | —                      | (3,576)       | (1,368)       |
| Interest expenses                                                                             | 16,696                 | 11,342        | 21,925        |
| Finance charges on obligations under finance leases                                           | —                      | 2,669         | 2,408         |
| Foreign exchange loss arising on settlement or translation of foreign currency monetary items | —                      | 10,598        | —             |
| Other finance charges                                                                         | 953                    | 1,900         | 770           |
|                                                                                               | <u>17,649</u>          | <u>26,509</u> | <u>25,103</u> |

\* The interests have been capitalised at rates of 5.4–5.8% and 5.8–5.9% per annum during the year ended 31 December 2010 and 2011 respectively.

(b) *Staff costs*

|                                                       | Year ended 31 December |               |               |
|-------------------------------------------------------|------------------------|---------------|---------------|
|                                                       | 2009                   | 2010          | 2011          |
|                                                       | RMB'000                | RMB'000       | RMB'000       |
| Salaries, wages and other benefits                    | 32,304                 | 36,013        | 61,043        |
| Contributions to defined contribution retirement plan | 373                    | 1,030         | 2,325         |
|                                                       | <u>32,677</u>          | <u>37,043</u> | <u>63,368</u> |

Pursuant to the relevant labor rules and regulations in the PRC, the Group participates in defined contribution retirement schemes (the “Schemes”) organised by the relevant local authorities whereby the Group is required to make contributions to the Schemes at certain percentages of the eligible employees’ salaries for the years ended 31 December 2009, 2010 and 2011. The relevant local government authorities are responsible for the entire pension obligations payable to retired employees. The Group has no other material obligation for the payment of pension benefits associated with the Schemes beyond the annual contributions described above.

(c) *Other items*

|                        | Year ended 31 December |                |                |
|------------------------|------------------------|----------------|----------------|
|                        | 2009                   | 2010           | 2011           |
|                        | RMB'000                | RMB'000        | RMB'000        |
| Depreciation           | 44,659                 | 45,099         | 55,836         |
| Amortisation           |                        |                |                |
| — leasehold land       | 197                    | 198            | 198            |
| — intangible assets    | 2                      | 14             | 59             |
| Auditors’ remuneration | 25                     | 4              | 47             |
| Cost of inventories    | <u>446,554</u>         | <u>569,660</u> | <u>674,500</u> |

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### 5 Income tax

- (a) Taxation in the consolidated statements of comprehensive income represents:

|                                                   | Year ended 31 December |               |               |
|---------------------------------------------------|------------------------|---------------|---------------|
|                                                   | 2009                   | 2010          | 2011          |
|                                                   | RMB'000                | RMB'000       | RMB'000       |
| <b>Current tax — PRC Enterprise Income Tax</b>    |                        |               |               |
| Provision for the year                            | 1,884                  | 16,173        | 31,760        |
| <b>Deferred tax</b>                               |                        |               |               |
| Origination and reversal of temporary differences | (329)                  | 10,024        | (6,000)       |
|                                                   | <u>1,555</u>           | <u>26,197</u> | <u>25,760</u> |

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in those jurisdictions.
- (ii) The Group’s Hong Kong subsidiaries, being investment holding companies, do not derive income subject to Hong Kong Profits Tax. For the Relevant Period, Hong Kong Profits Tax rate is 16.5%. The payments of dividends by the subsidiaries incorporated in Hong Kong are not subject to withholding tax.
- (iii) Prior to 1 January 2008, the Group’s PRC entities, being production-type foreign investment enterprises, were each 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 Fifth Plenary of the Tenth National People’s Congress passed 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. The New Tax Law and its relevant regulations grandfather the 2+3 tax holidays and require such tax holiday to begin on 1 January 2008 should it be not started earlier. Zibo Yinshilai Textile Co., Ltd. started its 2+3 tax holiday in 2006. Accordingly, it is subject to income tax at 12.5% from 2009 to 2010. During the year ended 31 December 2011, Zibo Yinshilai Textile Co., Ltd. was granted the status of a “High and New Technology Enterprise” and, accordingly, entitles to preferential PRC Enterprise Income Tax rate of 15% from 2011 onwards. Zibo Huiyin Textile Co., Ltd. started its 2+3 tax holiday in 2008. 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.

- (iv) According to the New Tax Law and its implementation rules, dividends receivable by non-PRC resident corporate investors from PRC-residents are subject to withholding tax at 10%, unless reduced by tax treaties or arrangements, for profit earned since 1 January 2008. YSL (HK) Ltd. and Huiyin (HK) Ltd. were established during 2010 and would be subject to PRC dividend withholding tax on dividends receivables from their PRC subsidiaries. Profit for 2009 was distributed to the then shareholders during 2010 which had no income tax implication to the Group.

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(b) Reconciliation between income tax expense and accounting profit at applicable tax rates:

|                                                                                                                          | 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                                                                                        | 149                    | 307      | 1,007    |
| Effect of entities not subject to income tax                                                                             | —                      | (694)    | (1,583)  |
| PRC dividend withholding tax                                                                                             | —                      | 10,024   | —        |
| Income tax expense                                                                                                       | 1,555                  | 26,197   | 25,760   |

### 6 Directors’ remuneration

Details of the directors’ remuneration are as follows:

|                            | Year ended 31 December 2009 |                                           |                       |                                 |         |
|----------------------------|-----------------------------|-------------------------------------------|-----------------------|---------------------------------|---------|
|                            | Directors’ fees             | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total   |
|                            | RMB'000                     | RMB'000                                   | RMB'000               | RMB'000                         | RMB'000 |
| <i>Executive directors</i> |                             |                                           |                       |                                 |         |
| Liu Dong                   | —                           | 194                                       | —                     | 3                               | 197     |
| Liu Zongjun                | —                           | —                                         | —                     | —                               | —       |
| Tian Chengjie              | —                           | 75                                        | —                     | 11                              | 86      |
|                            | —                           | 269                                       | —                     | 14                              | 283     |

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| Year ended 31 December 2010 |                    |                                                    |                          |                                       |         |
|-----------------------------|--------------------|----------------------------------------------------|--------------------------|---------------------------------------|---------|
|                             | Directors’<br>fees | Salaries,<br>allowances<br>and benefits<br>in kind | Discretionary<br>bonuses | Retirement<br>scheme<br>contributions | Total   |
|                             | RMB’000            | RMB’000                                            | RMB’000                  | RMB’000                               | RMB’000 |
| <i>Executive directors</i>  |                    |                                                    |                          |                                       |         |
| Liu Dong                    | —                  | 194                                                | 294                      | 4                                     | 492     |
| Liu Zongjun                 | —                  | 86                                                 | 75                       | 6                                     | 167     |
| Tian Chengjie               | —                  | 75                                                 | 110                      | 9                                     | 194     |
|                             | —                  | 355                                                | 479                      | 19                                    | 853     |
| Year ended 31 December 2011 |                    |                                                    |                          |                                       |         |
|                             | Directors’<br>fees | Salaries,<br>allowances<br>and benefits<br>in kind | Discretionary<br>bonuses | Retirement<br>scheme<br>contributions | Total   |
|                             | RMB’000            | RMB’000                                            | RMB’000                  | RMB’000                               | RMB’000 |
| <i>Executive director</i>   |                    |                                                    |                          |                                       |         |
| Liu Dong                    | —                  | 335                                                | 180                      | 4                                     | 519     |
| Liu Zongjun                 | —                  | 168                                                | 30                       | 8                                     | 206     |
| Tian Chengjie               | —                  | 135                                                | 60                       | 9                                     | 204     |
|                             | —                  | 638                                                | 270                      | 21                                    | 929     |

- (i) During the Relevant Period, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 7 below as an inducement to join or upon joining the Group or as compensation for loss of office.
- (ii) No directors of the Company waived or agreed to waive any remuneration during the Relevant Period.
- (iii) The Company did not have any share option scheme for the purchase of ordinary shares in the Company during the Relevant Period.

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### 7 Individuals with highest emoluments

Of the five individuals with the highest emoluments, two, two and three were directors whose remuneration is disclosed in note 6 for each of the years ended 31 December 2009, 2010 and 2011.

The aggregates of the emoluments in respect of the remaining individuals for the years ended 31 December 2009, 2010 and 2011 are as follows:

|                                 | <b>Year ended 31 December</b> |                |                |
|---------------------------------|-------------------------------|----------------|----------------|
|                                 | <b>2009</b>                   | <b>2010</b>    | <b>2011</b>    |
|                                 | <i>RMB'000</i>                | <i>RMB'000</i> | <i>RMB'000</i> |
| Salaries and other emoluments   | 257                           | 257            | 346            |
| Discretionary bonuses           | —                             | 386            | 140            |
| Retirement scheme contributions | 9                             | 11             | 8              |
|                                 | <u>266</u>                    | <u>654</u>     | <u>494</u>     |

The emoluments of the three, three and two individuals with the highest emoluments for the years ended 31 December 2009, 2010 and 2011 are within the following band:

|                         | <b>Year ended 31 December</b> |                    |                    |
|-------------------------|-------------------------------|--------------------|--------------------|
|                         | <b>2009</b>                   | <b>2010</b>        | <b>2011</b>        |
|                         | <i>number of</i>              | <i>number of</i>   | <i>number of</i>   |
|                         | <i>individuals</i>            | <i>individuals</i> | <i>individuals</i> |
| HKD Nil to HKD1,000,000 | <u>3</u>                      | <u>3</u>           | <u>2</u>           |

### 8 Earnings per share

Earnings per share information is not presented as its inclusion for the purpose of this report is not considered meaningful due to the Reorganisation and the preparation of the results of the Group for the Relevant Period on a consolidated basis as disclosed in Section A.

### 9 Dividends

No dividend has been paid or declared by the Company since its incorporation.

Dividends for the Relevant Period represent dividends declared by Zibo Yinshilai Textile Co., Ltd. and Zibo Huiyin Textile Co., Ltd. to their then shareholders before they became subsidiaries of the Company.

(a) Dividends attributable to the year:

|                                                          | <b>Year ended 31 December</b> |                |                |
|----------------------------------------------------------|-------------------------------|----------------|----------------|
|                                                          | <b>2009</b>                   | <b>2010</b>    | <b>2011</b>    |
|                                                          | <i>RMB'000</i>                | <i>RMB'000</i> | <i>RMB'000</i> |
| Dividends proposed after the end of the reporting period | <u>148,097</u>                | <u>—</u>       | <u>—</u>       |

The final dividends proposed after the end of the reporting period have not been recognised as liabilities in the statement of financial position.

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- (b) Dividends attributable to the previous financial year, paid during the year:

|                                                                                           | <b>Year ended 31 December</b> |                |                |
|-------------------------------------------------------------------------------------------|-------------------------------|----------------|----------------|
|                                                                                           | <b>2009</b>                   | <b>2010</b>    | <b>2011</b>    |
|                                                                                           | <i>RMB'000</i>                | <i>RMB'000</i> | <i>RMB'000</i> |
| Dividends in respect of the previous financial year,<br>approved and paid during the year | <u>—</u>                      | <u>111,073</u> | <u>37,024</u>  |

The rate of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of the Financial Information.

The directors consider that the dividend payments made during the Relevant Period are not indicative of the future dividend policy of the Group.

### 10 Segment reporting

No segment information is presented during the Relevant Period as the Group is principally engaged in one operating segment which is the manufacturing and sale of textile products. The Group operates in the PRC and its major assets are located in the PRC.

Additional information about customer base and revenue by geographical markets of the Group has been disclosed in note 2.

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### 11 Fixed assets

|                                                   | Buildings | Machinery and equipment | Office equipment | Motor vehicles | Construction in progress | Sub-total | Interests in leasehold land under operating leases | Total     |
|---------------------------------------------------|-----------|-------------------------|------------------|----------------|--------------------------|-----------|----------------------------------------------------|-----------|
|                                                   | RMB'000   | RMB'000                 | RMB'000          | RMB'000        | RMB'000                  | RMB'000   | RMB'000                                            | RMB'000   |
| <b>Cost:</b>                                      |           |                         |                  |                |                          |           |                                                    |           |
| At 1 January 2009                                 | 54,419    | 433,736                 | 7,706            | 5,278          | 2,584                    | 503,723   | 9,892                                              | 513,615   |
| Additions                                         | —         | 5,506                   | 145              | 512            | —                        | 6,163     | —                                                  | 6,163     |
| Transfer from construction in progress            | 2,069     | 355                     | —                | —              | (2,424)                  | —         | —                                                  | —         |
| Disposals                                         | —         | —                       | (2)              | (1,547)        | —                        | (1,549)   | —                                                  | (1,549)   |
| At 31 December 2009                               | 56,488    | 439,597                 | 7,849            | 4,243          | 160                      | 508,337   | 9,892                                              | 518,229   |
| At 1 January 2010                                 | 56,488    | 439,597                 | 7,849            | 4,243          | 160                      | 508,337   | 9,892                                              | 518,229   |
| Additions                                         | 137       | 28,101                  | 390              | 3,382          | 84,278                   | 116,288   | —                                                  | 116,288   |
| Transfer from construction in progress            | 1,884     | 27                      | —                | —              | (1,911)                  | —         | —                                                  | —         |
| At 31 December 2010                               | 58,509    | 467,725                 | 8,239            | 7,625          | 82,527                   | 624,625   | 9,892                                              | 634,517   |
| At 1 January 2011                                 | 58,509    | 467,725                 | 8,239            | 7,625          | 82,527                   | 624,625   | 9,892                                              | 634,517   |
| Additions                                         | 656       | 7,205                   | 421              | 1,260          | 43,788                   | 53,330    | —                                                  | 53,330    |
| Transfer from construction in progress            | 10,499    | 112,198                 | —                | —              | (122,697)                | —         | —                                                  | —         |
| Disposals                                         | —         | (643)                   | —                | —              | —                        | (643)     | —                                                  | (643)     |
| At 31 December 2011                               | 69,664    | 586,485                 | 8,660            | 8,885          | 3,618                    | 677,312   | 9,892                                              | 687,204   |
| <b>Accumulated depreciation and amortisation:</b> |           |                         |                  |                |                          |           |                                                    |           |
| At 1 January 2009                                 | (5,184)   | (119,615)               | (4,275)          | (1,707)        | —                        | (130,781) | (312)                                              | (131,093) |
| Charge for the year                               | (2,670)   | (39,733)                | (1,364)          | (892)          | —                        | (44,659)  | (197)                                              | (44,856)  |
| Written back on disposals                         | —         | —                       | 1                | 931            | —                        | 932       | —                                                  | 932       |
| At 31 December 2009                               | (7,854)   | (159,348)               | (5,638)          | (1,668)        | —                        | (174,508) | (509)                                              | (175,017) |
| At 1 January 2010                                 | (7,854)   | (159,348)               | (5,638)          | (1,668)        | —                        | (174,508) | (509)                                              | (175,017) |
| Charge for the year                               | (2,378)   | (40,517)                | (1,250)          | (954)          | —                        | (45,099)  | (198)                                              | (45,297)  |
| At 31 December 2010                               | (10,232)  | (199,865)               | (6,888)          | (2,622)        | —                        | (219,607) | (707)                                              | (220,314) |
| At 1 January 2011                                 | (10,232)  | (199,865)               | (6,888)          | (2,622)        | —                        | (219,607) | (707)                                              | (220,314) |
| Charge for the year                               | (2,774)   | (50,185)                | (1,238)          | (1,639)        | —                        | (55,836)  | (198)                                              | (56,034)  |
| Written back on disposals                         | —         | 154                     | —                | —              | —                        | 154       | —                                                  | 154       |
| At 31 December 2011                               | (13,006)  | (249,896)               | (8,126)          | (4,261)        | —                        | (275,289) | (905)                                              | (276,194) |
| <b>Net book value:</b>                            |           |                         |                  |                |                          |           |                                                    |           |
| At 31 December 2011                               | 56,658    | 336,589                 | 534              | 4,624          | 3,618                    | 402,023   | 8,987                                              | 411,010   |
| At 31 December 2010                               | 48,277    | 267,860                 | 1,351            | 5,003          | 82,527                   | 405,018   | 9,185                                              | 414,203   |
| At 31 December 2009                               | 48,634    | 280,249                 | 2,211            | 2,575          | 160                      | 333,829   | 9,383                                              | 343,212   |



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- (a) The analysis of net book value of properties is as follow:

|                                                                         | As at 31 December |         |         |
|-------------------------------------------------------------------------|-------------------|---------|---------|
|                                                                         | 2009              | 2010    | 2011    |
|                                                                         | RMB'000           | RMB'000 | RMB'000 |
| Properties held in the PRC                                              |                   |         |         |
| — medium-term leases                                                    | 58,177            | 65,520  | 69,263  |
| Representing:                                                           |                   |         |         |
| — Buildings                                                             | 48,634            | 48,277  | 56,658  |
| — Construction in progress                                              | 160               | 8,058   | 3,618   |
| — Interest in leasehold land held for<br>own use under operating leases | 9,383             | 9,185   | 8,987   |

- (b) Fixed assets with aggregate net book value of RMB184,488,000, RMB62,796,000 and RMB79,833,000 are pledged to secure certain bank loans of the Group totalling RMB155,900,000, RMB89,908,000 and RMB89,844,000 as at 31 December 2009, 2010 and 2011 respectively.
- (c) As at 31 December 2009, 2010 and 2011, the ownership certificates for buildings with net book value of RMB48,634,000, RMB48,277,000 and RMB2,403,000 respectively have not been obtained.
- (d) During the year ended 31 December 2010, the Group entered into a sale and lease back agreement under finance leases which expires in 2013 on its machinery and equipment with net book value of RMB118,467,000. At the end of the lease term, the Group has the option to purchase the leased machinery and equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rental. As at 31 December 2010 and 2011, the net book value of machinery and equipment held under the finance leases of the Group was RMB105,462,000 and RMB83,166,000 respectively.
- (e) *Fixed assets leased out under operating leases*

The Group leased out a portion of leasehold land and buildings and a number of items of machinery under operating leases, which were terminated on 31 December 2010, during the years ended 31 December 2009 and 2010. The leases typically run for an initial period of 1 year, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

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### 12 Intangible assets

|                                  | <b>Trademarks<br/>and patent</b> | <b>Computer<br/>software</b> | <b>Total</b>   |
|----------------------------------|----------------------------------|------------------------------|----------------|
|                                  | <i>RMB'000</i>                   | <i>RMB'000</i>               | <i>RMB'000</i> |
| <b>Cost:</b>                     |                                  |                              |                |
| At 1 January 2009                | —                                | 8                            | 8              |
| Additions                        | <u>—</u>                         | <u>56</u>                    | <u>56</u>      |
| At 31 December 2009              | <u>—</u>                         | <u>64</u>                    | <u>64</u>      |
| At 1 January 2010                | —                                | 64                           | 64             |
| Additions                        | <u>50</u>                        | <u>23</u>                    | <u>73</u>      |
| At 31 December 2010              | <u>50</u>                        | <u>87</u>                    | <u>137</u>     |
| At 1 January 2011                | 50                               | 87                           | 137            |
| Additions                        | <u>—</u>                         | <u>70</u>                    | <u>70</u>      |
| At 31 December 2011              | <u>50</u>                        | <u>157</u>                   | <u>207</u>     |
| <b>Accumulated amortisation:</b> |                                  |                              |                |
| At 1 January 2009                | —                                | (2)                          | (2)            |
| Charge for the year              | <u>—</u>                         | <u>(2)</u>                   | <u>(2)</u>     |
| At 31 December 2009              | <u>—</u>                         | <u>(4)</u>                   | <u>(4)</u>     |
| At 1 January 2010                | —                                | (4)                          | (4)            |
| Charge for the year              | <u>(6)</u>                       | <u>(8)</u>                   | <u>(14)</u>    |
| At 31 December 2010              | <u>(6)</u>                       | <u>(12)</u>                  | <u>(18)</u>    |
| At 1 January 2011                | (6)                              | (12)                         | (18)           |
| Charge for the year              | <u>(17)</u>                      | <u>(42)</u>                  | <u>(59)</u>    |
| At 31 December 2011              | <u>(23)</u>                      | <u>(54)</u>                  | <u>(77)</u>    |
| <b>Net book value:</b>           |                                  |                              |                |
| At 31 December 2011              | <u>27</u>                        | <u>103</u>                   | <u>130</u>     |
| At 31 December 2010              | <u>44</u>                        | <u>75</u>                    | <u>119</u>     |
| At 31 December 2009              | <u>—</u>                         | <u>60</u>                    | <u>60</u>      |

*Note:* The amortisation charges of intangible assets during the Relevant Period are included in the administrative expenses in the consolidated income statements.

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### 13 Goodwill

|                              | As at 31 December |                |                |
|------------------------------|-------------------|----------------|----------------|
|                              | 2009              | 2010           | 2011           |
|                              | <i>RMB’000</i>    | <i>RMB’000</i> | <i>RMB’000</i> |
| <b>Cost:</b>                 |                   |                |                |
| At 1 January and 31 December | <u>6,394</u>      | <u>6,394</u>   | <u>6,394</u>   |

The Group’s cash-generating units (“CGU”) to which the goodwill is allocated is Zibo Yinshilai Textile Co., Ltd.

The Group has performed annual impairment tests for goodwill by comparing the recoverable amounts of the CGU containing goodwill to the carrying amount as at 31 December 2009, 2010 and 2011. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The following discount rates, which are pre-tax and reflect specific risks relating to the CGU, are used in discounting the projected cash flows.

|               | As at 31 December |            |            |
|---------------|-------------------|------------|------------|
|               | 2009              | 2010       | 2011       |
|               | <i>11%</i>        | <i>10%</i> | <i>11%</i> |
| Discount rate | <u>11%</u>        | <u>10%</u> | <u>11%</u> |

The recoverable amounts of the CGU exceeded its carrying amount and the directors considered that there was no impairment of goodwill as at 31 December 2009, 2010 and 2011.

### 14 Investments in equity securities

|                   | As at 31 December |                |                |
|-------------------|-------------------|----------------|----------------|
|                   | 2009              | 2010           | 2011           |
|                   | <i>RMB’000</i>    | <i>RMB’000</i> | <i>RMB’000</i> |
| Unlisted, at cost | <u>1,000</u>      | <u>1,000</u>   | <u>1,000</u>   |

The investments in unlisted equity securities do not have a quoted market price in an active market. Quoted prices in active market for similar investments or observable market data as significant inputs for valuation techniques are also not available. Therefore, the unlisted equity securities are stated at cost less impairment loss, if any, in the Financial Information.

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### 15 Inventories

Inventories in the statements of financial position comprise:

|                  | 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          |
|                  | <u>101,272</u>    | <u>170,504</u> | <u>100,789</u> |

### 16 Trade and other receivables

|                                             | Note        | As at 31 December |                |                |
|---------------------------------------------|-------------|-------------------|----------------|----------------|
|                                             |             | 2009              | 2010           | 2011           |
|                                             |             | RMB'000           | RMB'000        | RMB'000        |
| Trade debtors and bills receivable          | (a) (b) (c) | 40,573            | 68,410         | 58,860         |
| Deposits, prepayments and other receivables | (d)         | 32,223            | 47,124         | 62,978         |
| Amounts due from related parties            | (e)         | <u>25,831</u>     | <u>1,935</u>   | <u>—</u>       |
|                                             |             | <u>98,627</u>     | <u>117,469</u> | <u>121,838</u> |

All of the trade and other receivables are expected to be recovered or recognised as expense within one year as at 31 December 2009, 2010 and 2011.

#### (a) Ageing analysis

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as at the end of the reporting period.

|                             | As at 31 December |               |               |
|-----------------------------|-------------------|---------------|---------------|
|                             | 2009              | 2010          | 2011          |
|                             | RMB'000           | RMB'000       | RMB'000       |
| Current                     | 36,900            | 67,302        | 56,621        |
| Less than 3 months past due | 379               | 967           | 1,904         |
| 3 to 6 months past due      | <u>3,294</u>      | <u>141</u>    | <u>335</u>    |
| Amounts past due            | <u>3,673</u>      | <u>1,108</u>  | <u>2,239</u>  |
|                             | <u>40,573</u>     | <u>68,410</u> | <u>58,860</u> |

Trade debtors and bills receivable are due within 1 to 6 months from the date of billing. Further details on the Group’s credit policy are set out in Note 24(a).

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### *(b) Impairment of trade debtors and bills receivable*

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 1(k)(i)).

As at 31 December 2009, 2010 and 2011, the Group does not have trade debtors and bills receivable which were individually determined to be impaired.

### *(c) Trade debtors and bills receivable that are not impaired*

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

|                               | As at 31 December |               |               |
|-------------------------------|-------------------|---------------|---------------|
|                               | 2009              | 2010          | 2011          |
|                               | RMB'000           | RMB'000       | RMB'000       |
| Neither past due nor impaired | 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           |
|                               | <u>40,573</u>     | <u>68,410</u> | <u>58,860</u> |

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

### *(d) Deposits, prepayments and other receivables*

|                                                    | As at 31 December |               |               |
|----------------------------------------------------|-------------------|---------------|---------------|
|                                                    | 2009              | 2010          | 2011          |
|                                                    | RMB'000           | RMB'000       | RMB'000       |
| Prepayments relating to purchases of raw materials | 7,717             | 16,582        | 42,786        |
| Prepayments relating to purchases of fixed assets  | 6,782             | 463           | 340           |
| Deferred expenses                                  | 790               | 529           | 845           |
| Value-added tax deductible                         | 4,223             | 18,544        | —             |
| Other receivables                                  | <u>12,711</u>     | <u>11,006</u> | <u>19,007</u> |
|                                                    | <u>32,223</u>     | <u>47,124</u> | <u>62,978</u> |

### *(e) Amounts due from related parties*

The amounts due from related parties are unsecured, interest-free and repayable on demand.

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### 17 Pledged bank deposits

Pledged deposits can be analysed as follows:

|                                                                         | <i>Note</i> | As at 31 December |                |                |
|-------------------------------------------------------------------------|-------------|-------------------|----------------|----------------|
|                                                                         |             | 2009              | 2010           | 2011           |
|                                                                         |             | <i>RMB'000</i>    | <i>RMB'000</i> | <i>RMB'000</i> |
| Guarantee deposits for issuance of commercial bills and bank acceptance |             | 143,607           | 92,017         | 14,083         |
| Guarantee deposits for bank loans                                       | (a)         | 102,292           | 164,551        | 174,297        |
|                                                                         |             | <u>245,899</u>    | <u>256,568</u> | <u>188,380</u> |

- (a) The bank deposits, which are denominated in RMB, are pledged to secure certain foreign currency bank loans of the Group totalling RMB101,931,000, RMB161,981,000 and RMB154,545,000 as at 31 December 2009, 2010 and 2011 respectively.

### 18 Cash and cash equivalents

|                           |  | As at 31 December |                |                |
|---------------------------|--|-------------------|----------------|----------------|
|                           |  | 2009              | 2010           | 2011           |
|                           |  | <i>RMB'000</i>    | <i>RMB'000</i> | <i>RMB'000</i> |
| Bank deposits             |  | 54,816            | 67,781         | 130,169        |
| Cash in hand              |  | 527               | 484            | 59             |
| Cash and cash equivalents |  | <u>55,343</u>     | <u>68,265</u>  | <u>130,228</u> |

As at 31 December 2009, 2010 and 2011, cash and cash equivalents of RMB26,453,000, RMB54,894,000 and RMB128,750,000 are denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

### 19 Trade and other payables

|                                                  | <i>Note</i> | As at 31 December |                |                |
|--------------------------------------------------|-------------|-------------------|----------------|----------------|
|                                                  |             | 2009              | 2010           | 2011           |
|                                                  |             | <i>RMB'000</i>    | <i>RMB'000</i> | <i>RMB'000</i> |
| Trade creditors and bills payable                | (a)         | 76,042            | 87,901         | 50,864         |
| Receipts in advance                              |             | 12,185            | 21,583         | 11,436         |
| Other creditors and accrued charges              | (b)         | 31,690            | 17,194         | 30,337         |
| Dividends payable                                |             | —                 | 37,024         | —              |
| Amounts due to related parties                   | (c)         | 32,363            | 327,037        | 176,633        |
| Financial liabilities measured at amortised cost |             | 152,280           | 490,739        | 269,270        |
| Derivative financial instruments:                |             |                   |                |                |
| — foreign exchange contracts                     |             | 148               | 279            | 798            |
| Financial guarantees issued                      |             | 698               | 1,329          | —              |
|                                                  |             | <u>153,126</u>    | <u>492,347</u> | <u>270,068</u> |

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

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### (a) Ageing analysis

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the end of the reporting period:

|                                         | 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           |
|                                         | <u>76,042</u>     | <u>87,901</u> | <u>50,864</u> |

### (b) Other creditors and accrued charges

|                                                | As at 31 December |               |               |
|------------------------------------------------|-------------------|---------------|---------------|
|                                                | 2009              | 2010          | 2011          |
|                                                | RMB'000           | RMB'000       | RMB'000       |
| Accrued charges                                | 7,413             | 6,494         | 16,130        |
| Payables relating to purchases of fixed assets | 8,004             | 3,600         | 2,531         |
| Other payables                                 | <u>16,273</u>     | <u>7,100</u>  | <u>11,676</u> |
|                                                | <u>31,690</u>     | <u>17,194</u> | <u>30,337</u> |

### (c) Amounts due to related parties

Included in the amounts due to related parties are advances from Excel Orient Ltd. amounted to RMB165,462,000 and RMB176,633,000 as at 31 December 2010 and 2011 respectively. The advances are unsecured, interest-free and repayable on or before 23 November 2015. The Group repaid RMB30 million to Excel Orient Ltd. subsequent to 31 December 2011 and Excel Orient Ltd. waived the remaining balance on 14 March 2012.

The other amounts due to related parties are unsecured, interest-free and repayable on demand.

## 20 Bank loans

As at 31 December 2009, 2010 and 2011, the bank loans were repayable as follows:

|                                 | 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 | <u>20,000</u>     | <u>10,000</u>  | <u>—</u>       |
|                                 | <u>322,741</u>    | <u>355,889</u> | <u>373,189</u> |



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As at 31 December 2009, 2010 and 2011, the bank loans were secured/guaranteed as follows:

|                            | <i>Note</i> | <b>As at 31 December</b> |                |                |
|----------------------------|-------------|--------------------------|----------------|----------------|
|                            |             | <b>2009</b>              | <b>2010</b>    | <b>2011</b>    |
|                            |             | <i>RMB'000</i>           | <i>RMB'000</i> | <i>RMB'000</i> |
| Bank loans                 |             |                          |                |                |
| — secured and guaranteed   | (a)         | 125,900                  | 89,908         | —              |
| — secured                  | (a)         | 131,931                  | 161,981        | 244,389        |
| — unsecured but guaranteed |             | 64,910                   | 74,000         | —              |
| — unsecured                |             | —                        | 30,000         | 128,800        |
|                            |             | <u>322,741</u>           | <u>355,889</u> | <u>373,189</u> |

- (a) As at 31 December 2009, 2010 and 2011, the bank loans were secured by certain assets of the Group as set out below.

|                         | <b>As at 31 December</b> |                |                |
|-------------------------|--------------------------|----------------|----------------|
|                         | <b>2009</b>              | <b>2010</b>    | <b>2011</b>    |
|                         | <i>RMB'000</i>           | <i>RMB'000</i> | <i>RMB'000</i> |
| Machinery and equipment | 184,488                  | 62,796         | 79,833         |
| Pledged bank deposits   | <u>102,292</u>           | <u>164,551</u> | <u>174,297</u> |
|                         | <u>286,780</u>           | <u>227,347</u> | <u>254,130</u> |

- (b) Details of the Group’s interest rate risk are set out in note 24(c).

### 21 Obligations under finance leases

As at 31 December 2010 and 2011, the Group had obligations under finance leases repayable as follows:

|                                      | <b>As at 31 December 2010</b>                      |                                     | <b>As at 31 December 2011</b>                      |                                     |
|--------------------------------------|----------------------------------------------------|-------------------------------------|----------------------------------------------------|-------------------------------------|
|                                      | <b>Present value of the minimum lease payments</b> | <b>Total minimum lease payments</b> | <b>Present value of the minimum lease payments</b> | <b>Total minimum lease payments</b> |
|                                      | <i>RMB'000</i>                                     | <i>RMB'000</i>                      | <i>RMB'000</i>                                     | <i>RMB'000</i>                      |
| Within 1 year                        | 28,782                                             | 32,196                              | 31,394                                             | 32,394                              |
| After 1 year but within 2 years      | 30,132                                             | 32,196                              | 14,730                                             | 16,197                              |
| After 2 years but within 5 years     | <u>15,748</u>                                      | <u>16,098</u>                       | —                                                  | —                                   |
|                                      | <u>45,880</u>                                      | <u>48,294</u>                       | <u>14,730</u>                                      | <u>16,197</u>                       |
|                                      | <u>74,662</u>                                      | 80,490                              | <u>46,124</u>                                      | 48,591                              |
| Less: total future interest expenses |                                                    | <u>(5,828)</u>                      |                                                    | <u>(2,467)</u>                      |
| Present value of lease obligations   |                                                    | <u>74,662</u>                       |                                                    | <u>46,124</u>                       |

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### 22 Income tax in the consolidated statements of financial position

- (a) Current taxation in the consolidated statements of financial position represents:

|                                                      | As at 31 December |              |              |
|------------------------------------------------------|-------------------|--------------|--------------|
|                                                      | 2009              | 2010         | 2011         |
|                                                      | RMB'000           | RMB'000      | RMB'000      |
| At 1 January                                         | 620               | 1,183        | 5,691        |
| Provision for PRC Enterprise Income Tax for the year | 1,884             | 16,173       | 31,760       |
| Tax paid                                             | (1,321)           | (11,665)     | (29,190)     |
| At 31 December                                       | <u>1,183</u>      | <u>5,691</u> | <u>8,261</u> |

- (b) Deferred tax liabilities recognised:

- (i) The components of deferred tax liabilities recognised in the consolidated statements of financial position and the movements during the Relevant Period are as follows:

| Deferred tax arising from: | PRC dividend withholding tax | Derivative financial instruments | Total        |
|----------------------------|------------------------------|----------------------------------|--------------|
|                            | RMB'000                      | RMB'000                          | RMB'000      |
| At 1 January 2009          | —                            | 329                              | 329          |
| Credited to profit or loss | —                            | (329)                            | (329)        |
| At 31 December 2009        | —                            | —                                | —            |
| At 1 January 2010          | —                            | —                                | —            |
| Charged to profit or loss  | 10,024                       | —                                | 10,024       |
| At 31 December 2010        | 10,024                       | —                                | 10,024       |
| At 1 January 2011          | 10,024                       | —                                | 10,024       |
| Credited to profit or loss | (6,000)                      | —                                | (6,000)      |
| At 31 December 2011        | <u>4,024</u>                 | <u>—</u>                         | <u>4,024</u> |

- (ii) *Deferred tax liabilities not recognised*

As at 31 December 2011, temporary difference relating to profit earned by the Company’s PRC subsidiaries amounted to RMB137,278,000 for which no deferred tax liability was recognised in respect of the PRC dividend withholding tax at 10% that would be payable on the distribution of these profits as the Company has no plan to distribute them in the foreseeable future.

Pursuant to the New Tax Law and its implementation rules, distribution of statutory surplus reserve upon liquidation shall be treated as dividend income which is subject to PRC dividend withholding tax at 10% or less if reduced tax treaties or arrangements. As at 31 December 2009, 2010 and 2011, temporary differences relating to the statutory surplus reserve of the Company’s PRC subsidiaries amounted to RMB3,908,000, RMB14,519,000 and RMB29,772,000, respectively. No deferred tax liabilities were recognised as at 31 December 2009, 2010 and 2011 as the Company has no plan to liquidate these subsidiaries in the foreseeable future.

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### 23 Capital and reserves

#### (a) Capital

- (i) For the purpose of this Financial Information, the capital in the consolidated statements of financial position as at 31 December 2009 represents an aggregate amount of the Group’s share of paid-in capital of the companies comprising the Group.

The Company was incorporated on 24 February 2010 with an authorised share capital of USD50,000 divided into 50,000 shares of USD1.00 each. On the same date, one share of USD1.00 was allotted and issued as fully paid at par.

The Company allotted and issued 9,999 shares of USD1.00 each to Excel Orient Ltd. on 18 June 2011.

Upon the completion of the Reorganisation on 16 April 2010, the Company became the holding company of the Group. The capital in the consolidated statements of financial position as at 31 December 2010 and 2011 represents the share capital of the Company.

- (ii) During the year ended 31 December 2010, YSL (HK) Ltd. acquired 75% equity interest in Zibo Yinshilai Textile Co., Ltd. from Zibo Boshan Yinshan Chemical Fiber Co., Ltd., which is controlled by Mr. Liu, for a cash consideration of RMB110,000,000. 98% of the consideration amounting to RMB107,800,000, which is attributable to Mr. Liu’s beneficial interests in Zibo Boshan Yinshan Chemical Fiber Co., Ltd., was deemed as a distribution to Mr. Liu. The remaining 2% of the consideration amounting to RMB2,200,000 represents the consideration paid for the acquisition of part of the non-controlling interests of Zibo Yinshilai Textile Co., Ltd.

During the year ended 31 December 2010, Huiyin (HK) Ltd. acquired 75% equity interest in Zibo Huiyin Textile Co., Ltd. from Zibo Tianrui Investment Co., Ltd., which is controlled by Mr. Liu, for a cash consideration of RMB67,280,000. The consideration was deemed as a distribution to Mr. Liu.

- (iii) During the year ended 31 December 2010, YSL (HK) Ltd. acquired 25% equity interest in Zibo Yinshilai Textile Co., Ltd. from Top Grade Holdings Ltd. for a cash consideration of RMB36,600,000. Upon completion of the transfer, the Group’s equity interest in Zibo Yinshilai Textile Co., Ltd. increased from 75% to 100%.

During the year ended 31 December 2010, Huiyin (HK) Ltd. acquired 25% equity interest in Zibo Huiyin Textile Co., Ltd. from Angel Dyeing & Finishing Co., Ltd. for a cash consideration of RMB22,430,000. Upon completion of the transfer, the Group’s equity interest in Zibo Huiyin Textile Co., Ltd. increased from 75% to 100%.

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### *(b) Nature and purpose of reserves*

#### *(i) Capital reserve*

The capital reserve represents exchange difference arising on capital injections.

#### *(ii) Statutory surplus reserve*

Pursuant to the Articles of Association of the Company’s subsidiaries in the PRC, appropriations to statutory surplus reserve were made at a certain percentage of after-tax profit (after offsetting prior year losses) determined in accordance with the accounting rules and regulations of the PRC until such reserve reaches 50% of the registered capital of each relevant PRC subsidiary. The statutory surplus reserve can be utilised to offset accumulated losses or to increase capital of the subsidiaries and is non-distributable other than in liquidation.

#### *(iii) Other reserve*

The other reserve represents:

- the difference between the net assets value of subsidiaries acquired and the consideration paid;
- the difference between the nominal value of Zibo Yinshilai Textile Co., Ltd.’s paid-in capital acquired from Zibo Boshan Yinshan Chemical Fiber Co., Ltd. and the consideration paid;
- the difference between the nominal value of Zibo Huiyin Textile Co., Ltd.’s paid-in capital acquired from Zibo Tianrui Investment Co., Ltd. and the considerations paid; and
- the difference between the net asset value of non-controlling interests acquired and the consideration paid.

### *(c) Distributability of reserves*

The Company was incorporated on 24 February 2010 and has not carried on any business since the date of its incorporation. Accordingly, there was no reserve available for distribution to equity shareholders of the Company, as calculated under the Companies Law of the Cayman Islands and the Company’s Articles of Association, as at 31 December 2009, 2010 and 2011.

### *(d) Capital management*

The Group’s primary objectives when managing capital are to safeguard the Group’s ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

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### 24 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group’s business.

The Group’s exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

#### *(a) Credit risk*

The Group’s credit risk is primarily attributable to bank deposits, and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Cash is deposited with financial institutions with sound credit ratings and the Group has exposure limit to any single financial institution. Given their high credit ratings, management does not expect any of these financial institutions will fail to meet their obligations.

Individual 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. Trade receivables are due within 30 to 180 days from the date of billing. Debtors with balances that are past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group’s exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate. The Group has no concentrations of credit risk in view of its large number customers. The Group did not record significant bad debts losses during the Relevant Period.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, in the statement of financial position after deducting any impairment allowance. Except for the financial guarantees given by the Group as set out in note 26, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 26.

Further quantitative disclosures in respect of the Group’s exposure to credit risk arising from trade and other receivables are set out in note 16.

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### (b) Liquidity risk

The Group has to maintain a suitable level of liquidity to finance the daily operation, capital expenditure and repayment of borrowings. The Group’s policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants.

To ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the maturities profile of the Group’s financial liabilities at the end of each reporting period:

| As at 31 December 2009                                                 |                                                                    |                                                                 |                             |                |                                          |
|------------------------------------------------------------------------|--------------------------------------------------------------------|-----------------------------------------------------------------|-----------------------------|----------------|------------------------------------------|
| Contractual undiscounted cash outflow                                  |                                                                    |                                                                 |                             |                | Carrying<br>amount<br><br><i>RMB'000</i> |
| Within<br>1 year or<br>on demand<br><br><i>RMB'000</i>                 | More than<br>1 year<br>but within<br>2 years<br><br><i>RMB'000</i> | More than<br>2 years<br>within<br>5 years<br><br><i>RMB'000</i> | Total<br><br><i>RMB'000</i> |                |                                          |
| Bank loans                                                             | 316,775                                                            | 21,080                                                          | —                           | 337,855        |                                          |
| Trade creditors, bills payable, other creditors<br>and accrued charges | 107,732                                                            | —                                                               | —                           | 107,732        |                                          |
| Amounts due to related parties                                         | 32,363                                                             | —                                                               | —                           | 32,363         |                                          |
|                                                                        | <u>456,870</u>                                                     | <u>21,080</u>                                                   | <u>—</u>                    | <u>477,950</u> | <u>462,836</u>                           |
| Financial guarantees issued:<br>Maximum amount guaranteed              | <u>88,000</u>                                                      | <u>10,000</u>                                                   | <u>10,000</u>               | <u>108,000</u> | <u>698</u>                               |
| As at 31 December 2010                                                 |                                                                    |                                                                 |                             |                |                                          |
| Contractual undiscounted cash outflow                                  |                                                                    |                                                                 |                             |                | Carrying<br>amount<br><br><i>RMB'000</i> |
| Within<br>1 year or<br>on demand<br><br><i>RMB'000</i>                 | More than<br>1 year<br>but within<br>2 years<br><br><i>RMB'000</i> | More than<br>2 years<br>within<br>5 years<br><br><i>RMB'000</i> | Total<br><br><i>RMB'000</i> |                |                                          |
| Bank loans                                                             | 353,473                                                            | 10,539                                                          | —                           | 364,012        |                                          |
| Trade creditors, bills payable, other creditors<br>and accrued charges | 105,095                                                            | —                                                               | —                           | 105,095        |                                          |
| Dividend payable                                                       | 37,024                                                             | —                                                               | —                           | 37,024         |                                          |
| Obligations under finance lease                                        | 32,196                                                             | 32,196                                                          | 16,098                      | 80,490         |                                          |
| Amounts due to related companies                                       | 327,037                                                            | —                                                               | —                           | 327,037        |                                          |
|                                                                        | <u>854,825</u>                                                     | <u>42,735</u>                                                   | <u>16,098</u>               | <u>913,658</u> | <u>899,707</u>                           |
| Financial guarantees issued:<br>Maximum amount guaranteed              | <u>88,000</u>                                                      | <u>10,000</u>                                                   | <u>—</u>                    | <u>98,000</u>  | <u>1,329</u>                             |

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|                                                                        | As at 31 December 2011                |                                              |                                           |         |                    |
|------------------------------------------------------------------------|---------------------------------------|----------------------------------------------|-------------------------------------------|---------|--------------------|
|                                                                        | Contractual undiscounted cash outflow |                                              |                                           |         |                    |
|                                                                        | Within<br>1 year or<br>on demand      | More than<br>1 year<br>but within<br>2 years | More than<br>2 years<br>within<br>5 years | Total   | Carrying<br>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<br>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  | —                  |

### (c) Interest rate risk

The Group’s interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group’s interest rate profile as monitored by management is set out in (i) below.

#### (i) Interest rate profile

The following table details the interest rate profile of the Group’s net borrowings (being interest-bearing financial liabilities less pledged bank deposits and bank deposits) at the end of the reporting period.

|                                       | As at 31 December |                  |               |                  |               |                  |
|---------------------------------------|-------------------|------------------|---------------|------------------|---------------|------------------|
|                                       | 2009              |                  | 2010          |                  | 2011          |                  |
|                                       | Effective         |                  | Effective     |                  | Effective     |                  |
|                                       | interest rate     |                  | interest rate |                  | interest rate |                  |
|                                       | %                 | RMB’000          | %             | RMB’000          | %             | RMB’000          |
| <b>Net fixed rate borrowings:</b>     |                   |                  |               |                  |               |                  |
| Obligations under finance lease       | —%                | —                | 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%          | <u>(225,899)</u> | 1.9–2.8%      | <u>(236,568)</u> | 2.0–3.5%      | <u>(188,380)</u> |
|                                       |                   | <u>76,842</u>    |               | <u>103,983</u>   |               | <u>143,815</u>   |
| <b>Variable rate borrowings:</b>      |                   |                  |               |                  |               |                  |
| 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%              | <u>(20,000)</u>  | 0.4–0.7%      | <u>(20,000)</u>  | —%            | —                |
| Less: bank deposits                   | 0.4%              | <u>(54,816)</u>  | 0.4–0.7%      | <u>(67,781)</u>  | 0.4–0.5%      | <u>(130,169)</u> |
|                                       |                   | <u>(54,816)</u>  |               | <u>2,219</u>     |               | <u>(43,051)</u>  |
| Total net interest-bearing borrowings |                   | <u>22,026</u>    |               | <u>106,202</u>   |               | <u>100,764</u>   |



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### (ii) Sensitivity analysis

The Group does not account for any fixed rated borrowings at fair value through profit or loss. Therefore a change in interest rate at the reporting date would not affect profit or loss.

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

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

### (d) Currency risk

The 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, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Euros, United States dollars, Japanese Yen and Hong Kong dollars. At present, the Group has no hedging policy with respect to its foreign exchange exposure.

The following table details the 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 the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of non-PRC companies comprising the Group into the Group’s presentation currency are excluded.

|                                                                  | Exposure to foreign currencies (expressed in Renminbi) |                |                |                |                  |                |                |                |                  |                |                |                |
|------------------------------------------------------------------|--------------------------------------------------------|----------------|----------------|----------------|------------------|----------------|----------------|----------------|------------------|----------------|----------------|----------------|
|                                                                  | As at 31 December                                      |                |                |                |                  |                |                |                |                  |                |                |                |
|                                                                  | 2009                                                   |                |                |                | 2010             |                |                |                | 2011             |                |                |                |
|                                                                  | Euros<br>RMB’000                                       | USD<br>RMB’000 | JPY<br>RMB’000 | HKD<br>RMB’000 | Euros<br>RMB’000 | USD<br>RMB’000 | JPY<br>RMB’000 | HKD<br>RMB’000 | Euros<br>RMB’000 | USD<br>RMB’000 | JPY<br>RMB’000 | HKD<br>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<br>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<br>exchange contracts                | —                                                      | 19,056         | —              | —              | 6,988            | 15,285         | —              | —              | 7,899            | 3,955          | —              | —              |
| Net exposure arising from<br>recognised assets and liabilities   | —                                                      | (10,792)       | (58,671)       | —              | 15,813           | 13,658         | (146,643)      | (165,462)      | 40               | (32,958)       | (124,158)      | (176,187)      |

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The following table indicates the instantaneous change in the Group’s profit for the year (and retained earnings) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

|                       | As at 31 December                                          |                                                                                   |                                                            |                                                                                   |                                                            |                                                                                     |
|-----------------------|------------------------------------------------------------|-----------------------------------------------------------------------------------|------------------------------------------------------------|-----------------------------------------------------------------------------------|------------------------------------------------------------|-------------------------------------------------------------------------------------|
|                       | 2009                                                       |                                                                                   | 2010                                                       |                                                                                   | 2011                                                       |                                                                                     |
|                       | Increase/<br>(decrease) in<br>foreign<br>exchange<br>rates | Effect on<br>profit for the<br>year and<br>retained<br>earnings<br><i>RMB’000</i> | Increase/<br>(decrease) in<br>foreign<br>exchange<br>rates | Effect on<br>profit for the<br>year and<br>retained<br>earnings<br><i>RMB’000</i> | Increase/<br>(decrease) in<br>foreign<br>exchange<br>rates | Effect on<br>profit for the<br>period and<br>retained<br>earnings<br><i>RMB’000</i> |
| Euros                 | 10%<br>(10%)                                               | —<br>—                                                                            | 10%<br>(10%)                                               | 1,384<br>(1,384)                                                                  | 10%<br>(10%)                                               | 3<br>(3)                                                                            |
| United States Dollars | 5%<br>(5%)                                                 | (472)<br>472                                                                      | 5%<br>(5%)                                                 | 598<br>(598)                                                                      | 5%<br>(5%)                                                 | (1,401)<br>1,401                                                                    |
| Japanese Yen          | 10%<br>(10%)                                               | (5,868)<br>5,868                                                                  | 10%<br>(10%)                                               | (12,832)<br>12,832                                                                | 10%<br>(10%)                                               | (10,853)<br>10,853                                                                  |
| Hong Kong Dollar      | 5%<br>(5%)                                                 | —<br>—                                                                            | 5%<br>(5%)                                                 | (8,273)<br>8,273                                                                  | 5%<br>(5%)                                                 | (8,809)<br>8,809                                                                    |

**(e) Fair values**

**(i) Financial instruments carried at fair value**

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in IFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

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| As at 31 December 2009            |         |         |         |
|-----------------------------------|---------|---------|---------|
| Level 1                           | Level 2 | Level 3 | Total   |
| RMB'000                           | RMB'000 | RMB'000 | RMB'000 |
| <b>Liabilities</b>                |         |         |         |
| Derivative financial instruments: |         |         |         |
| — Forward exchange contracts      | —       | 148     | —       |
|                                   |         |         | 148     |
| As at 31 December 2010            |         |         |         |
| Level 1                           | Level 2 | Level 3 | Total   |
| RMB'000                           | RMB'000 | RMB'000 | RMB'000 |
| <b>Liabilities</b>                |         |         |         |
| Derivative financial instruments: |         |         |         |
| — Forward exchange contracts      | —       | 279     | —       |
|                                   |         |         | 279     |
| As at 31 December 2011            |         |         |         |
| Level 1                           | Level 2 | Level 3 | Total   |
| RMB'000                           | RMB'000 | RMB'000 | RMB'000 |
| <b>Liabilities</b>                |         |         |         |
| Derivative financial instruments: |         |         |         |
| — Forward exchange contracts      | —       | 798     | —       |
|                                   |         |         | 798     |

During the years ended 31 December 2009, 2010 and 2011, there were no significant transfers between instruments in Level 1 and Level 2.

(ii) *Fair values of financial instruments carried at other than fair value*

The carrying amounts of the Group’s financial instruments carried at amortised cost are not materially different from their fair values as at 31 December 2009, 2010 and 2011.

### 25 Commitments

Capital commitments outstanding at 31 December 2009, 2010 and 2011 not provided for in the Financial Information were as follows:

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

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### **26 Contingent liabilities**

Under a mediation agreement entered during the year ended 31 December 2008, which is related to a dispute among shareholders of Zibo Yinlong Industrial Co., Ltd., including Mr. Liu, a subsidiary of the Group agreed to be jointly and severally liable to a portion of the mediation settlement totaling RMB45,000,000. As at 31 December 2009, 2010 and 2011, the outstanding mediation settlement amounted to RMB30,000,000, RMB20,000,000 and RMB10,000,000 respectively. Based on legal advice, the directors do not consider it probable that a claim will be made against the Group under the guarantee as at 31 December 2009, 2010 and 2011. The maximum liability of the Group at 31 December 2009, 2010 and 2011 under the guarantee issued is RMB30,000,000, RMB20,000,000 and RMB10,000,000 respectively.

As at 31 December 2009, 2010 and 2011, the Group has issued single 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 the Group under any of the guarantees. The maximum liability of the Group at 31 December 2009, 2010 and 2011 under the single guarantees issued is the outstanding amount of the loans of the related companies of RMB30,000,000, RMB50,000,000 and RMB Nil respectively.

As at 31 December 2009, 2010 and 2011, the Group has issued single guarantees in respect of loans made by banks to unrelated parties. As at 31 December 2009, 2010 and 2011, the directors do not consider it probable that a claim will be made against the Group under any of the guarantees. The maximum liability of the Group at 31 December 2009, 2010 and 2011 under the single guarantees issued is the outstanding amount of the loans of the unrelated parties of RMB48,000,000, RMB28,000,000 and RMB Nil respectively.

Deferred income in respect of the single guarantees issued is disclosed in note 19. The Group has not recognised any deferred income in respect of the joint and several guarantee as its fair value cannot be reliably measured using observable market data and its transaction price was RMB Nil.

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### 27 Material related party transactions

During the Relevant Period, transactions with the following parties are considered to be related party transactions:

| Name of party                                                                                            | Relationship with the Group                                                                                         |
|----------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| Mr. Liu Dong (“Mr. Liu”)                                                                                 | Director and ultimate controlling party of the Company                                                              |
| Mr. Lv Ruichuan (“Mr. Lv”) ( <i>Note 1</i> )                                                             | Senior management of the Company                                                                                    |
| Ms. Sun Hongchun (“Ms. Sun”)                                                                             | Senior management of the Company                                                                                    |
| Mr. Tian Chengjie (“Mr. Tian”)                                                                           | Director of the Company                                                                                             |
| Excel Orient Ltd. (“Excel Orient”)                                                                       | Immediate holding company                                                                                           |
| Zibo Boshan Yinshan Chemical Fiber Co., Ltd. (“Yinshan Chemical Fiber”) (淄博博山銀杉化纖有限公司) ( <i>Note 2</i> ) | Immediate holding company of Zibo Yinshilai Textile Co., Ltd. prior to the Reorganisation and controlled by Mr. Liu |
| Zibo Tianrui Investment Co., Ltd. (“Tianrui Investment”) (淄博天瑞投資有限公司) ( <i>Note 2</i> )                  | Immediate holding company of Zibo Huiyin Textile Co., Ltd. prior to the Reorganisation and controlled by Mr. Liu    |
| Zibo Tianhao Dyeing & Textiling Co., Ltd. (“Tianhao”) (淄博天浩織染有限公司) ( <i>Note 2</i> )                     | Controlled by Mr. Liu                                                                                               |
| Zibo Yinlong Industrial Co., Ltd. (“Yinlong Industrial”) (淄博銀龍實業有限公司) ( <i>Note 2 &amp; 3</i> )          | Controlled by Mr. Liu                                                                                               |

*Note 1:* Mr. Lv ceased to be a member of the senior management and was appointed as a consultant of the Company subsequent to 31 December 2011.

*Note 2:* The English translation of the names is for reference only. The official names of these entities are in Chinese.

*Note 3:* Yinlong Industrial ceased to be a related party of the Group after Mr. Liu transferred its interest in Yinlong Industrial to third parties during the year ended 31 December 2011.

The Group has entered into the following material related party transactions during the Relevant Period:

#### (a) Transactions with related parties

|                                                   | Year ended 31 December |         |         |
|---------------------------------------------------|------------------------|---------|---------|
|                                                   | 2009                   | 2010    | 2011    |
|                                                   | RMB’000                | RMB’000 | RMB’000 |
| Purchases of goods                                |                        |         |         |
| — Yinlong Industrial                              | 71,033                 | 104,177 | 7,483   |
| — Others                                          | 1,412                  | 118     | 4       |
| Purchases of processing service                   |                        |         |         |
| — Yinlong Industrial                              | 28,086                 | 26,832  | 889     |
| — Others                                          | 113                    | 51      | —       |
| Purchases of electricity and steam power          |                        |         |         |
| — Yinlong Industrial                              | 8,561                  | 11,885  | 1,629   |
| Sales of goods                                    |                        |         |         |
| — Yinlong Industrial                              | 79                     | 693     | —       |
| — Others                                          | 1,388                  | 30      | —       |
| Provision of electricity to Yinlong Industrial    | —                      | —       | 1,074   |
| Rental income from Yinlong Industrial             | 2,524                  | 2,524   | —       |
| Purchases of fixed assets from Yinlong Industrial | —                      | 28,101  | —       |

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The directors have confirmed that Yinlong Industrial ceased to be a related party after Mr. Liu transferred its interest in Yinlong Industrial to third parties during the year ended 31 December 2011. The above transactions with other related parties will not be continued upon listing of the Company’s shares on HKSE. In the opinion of the directors, the above related party transactions were conducted on normal commercial terms and in the ordinary and usual course of the Group’s business.

### (b) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors as disclosed in note 6 and certain of the highest paid employees as disclosed in note 7, is as follows:

|                              | Year ended 31 December |         |         |
|------------------------------|------------------------|---------|---------|
|                              | 2009                   | 2010    | 2011    |
|                              | RMB’000                | RMB’000 | RMB’000 |
| Short-term employee benefits | 526                    | 1,477   | 1,667   |
| Post-employment benefits     | 23                     | 30      | 33      |
|                              | 549                    | 1,507   | 1,700   |

Total remuneration is disclosed in “staff costs” (see note 4(b)).

### (c) Balances with related parties

As at 31 December 2009, 2010 and 2011, the Group had the following balances with related parties:

|                                                   | As at 31 December |         |         |
|---------------------------------------------------|-------------------|---------|---------|
|                                                   | 2009              | 2010    | 2011    |
|                                                   | RMB’000           | RMB’000 | RMB’000 |
| Amounts due from related parties<br>(note (i,ii)) |                   |         |         |
| — Tianhao                                         | —                 | —       | —       |
| — Yinshan Chemical Fiber                          | 12,580            | —       | —       |
| — Tianrui Investment                              | 12,455            | —       | —       |
| — Mr. Lv (note (iii))                             | 499               | 751     | —       |
| — Ms. Sun (note (iv))                             | —                 | 582     | —       |
| — Mr. Tian (note (v))                             | 297               | 602     | —       |
| Trade creditors (note (ii))                       |                   |         |         |
| — Yinlong Industrial                              | 24,570            | 45,066  | —       |
| Amounts due to related parties<br>(note (ii))     |                   |         |         |
| — Excel Orient                                    | —                 | 165,462 | 176,633 |
| — Tianhao                                         | 8,308             | 94,837  | —       |
| — Yinshan Chemical Fiber                          | —                 | 66,739  | —       |
| — Mr. Liu                                         | 17,842            | —       | —       |
| — Mr. Lv                                          | 5,700             | —       | —       |
| — Ms. Sun                                         | 513               | —       | —       |

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- (i) No provisions for bad or doubtful debts have been made in respect of the above amounts due from related parties.
- (ii) The amount due to Excel Orient as at 31 December 2010 and 2011 represents mainly cash advances to the Group to finance the Reorganisation and the acquisition of non-controlling interests.

The amount due to Excel Orient is unsecured, interest-free and repayable on or before 23 November 2015. The Group repaid RMB30 million to Excel Orient and Excel Orient waived the remaining balance subsequent to 31 December 2011. The waived amount of RMB147 million was credited directly to equity as a capital contribution.

The amount due to Yinshan Chemical Fiber as at 31 December 2010 represents the outstanding consideration for acquisition of the equity interests in Zibo Yinshilai Textile Co., Ltd.

The amounts due to other related parties represent mainly cash advances to the Group to finance the Group’s operation.

The amount due to Yinshan Chemical Fiber and the amounts due to other related parties are unsecured, interest-free and repayable on demand.

The directors have confirmed that Yinlong Industrial ceased to be a related party after Mr. Liu transferred its interest in Yinlong Industrial to third parties during the year ended 31 December 2011 and the balances with all related parties have been settled prior to the listing of the Company’s shares on HKSE.

- (iii) In respect of the amount due from Mr. Lv, the maximum balance outstanding during the years ended 31 December 2009, 2010 and 2011 are RMB699,000, RMB751,000 and RMB904, 000 respectively.
- (iv) In respect of the amount due from Ms. Sun, the maximum balance outstanding during the years ended 31 December 2009, 2010 and 2011 are RMB Nil, RMB582,000 and RMB782,000 respectively.
- (v) In respect of the amount due from Mr. Tian, the maximum balance outstanding during the years ended 31 December 2009, 2010 and 2011 are RMB447,000, RMB602,000 and RMB602,000 respectively.

*(d) Personal guarantees provided to the Group in respect of banking facilities*

|         | As at 31 December |         |         |
|---------|-------------------|---------|---------|
|         | 2009              | 2010    | 2011    |
|         | RMB'000           | RMB'000 | RMB'000 |
| Mr. Liu | 58,000            | 30,000  | —       |
| Mr. Lv  | —                 | 14,000  | —       |

The directors have confirmed that all guarantees issued by related parties have been released by the creditor banks prior to the listing of the Company’s shares on HKSE.



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*(e) Corporate guarantees provided to the Group for banking facilities*

|                    | As at 31 December |         |         |
|--------------------|-------------------|---------|---------|
|                    | 2009              | 2010    | 2011    |
|                    | RMB'000           | RMB'000 | RMB'000 |
| Yinlong Industrial | 142,810           | 149,908 | —       |
| Tianhao            | 107,900           | 103,908 | —       |

The directors have confirmed that all guarantees issued by related parties have been released by the creditor banks prior to the listing of the Company’s shares on HKSE.

*(f) Guarantees provided to related parties*

|                             | As at 31 December |         |         |
|-----------------------------|-------------------|---------|---------|
|                             | 2009              | 2010    | 2011    |
|                             | RMB'000           | RMB'000 | RMB'000 |
| Mr. Liu ( <i>note (i)</i> ) | 30,000            | 20,000  | 10,000  |
| Yinlong Industrial          | 30,000            | 30,000  | —       |
| Tianhao                     | —                 | 20,000  | —       |

- (i) The directors have confirmed that Mr. Liu will remit RMB10,000,000 into the designated bank account of jurisdiction court for the payment of outstanding mediation settlement (see note 26), prior to the listing of the Company’s shares on HKSE.
- (ii) The directors have confirmed that all other guarantees provided to related parties have been released prior to the listing of the Company’s shares on HKSE.

### 28 Immediate and ultimate controlling parties

As at 31 December 2011, the directors consider the immediate controlling party of the Group to be Excel Orient Ltd., which is incorporated in the British Virgin Islands, and the ultimate controlling party of the Company to be Mr. Liu.

### 29 Accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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 the Financial Information. The significant accounting policies are set out in Note 1. Key sources of estimation uncertainty in the preparation of the Financial Information are as follows:

*(a) Impairment of non-current assets*

If circumstances indicate that the carrying value of a non-current asset may not be recoverable, the asset may be considered “impaired”, and an impairment loss may be recognised in profit or loss. The carrying amounts of non-current assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable and goodwill is tested for impairment at least annually. When such a decline has occurred, the carrying amount is reduced to the recoverable amount.

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The recoverable amount is the greater of the fair value less costs to sell and value in use. It is difficult to precisely estimate fair value because quoted market prices for the Group’s assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which require significant judgement relating to items such as the level of sales volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume and amount of operating costs.

*(b) Depreciation and amortisation*

Fixed assets are depreciated/amortised on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the fixed assets regularly in order to determine the amount of depreciation and amortisation expense to be recorded during any reporting period. The useful lives are based on the Group’s historical experience with similar assets taking into account anticipated technological changes. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

*(c) Impairment of trade and other receivables*

The Group evaluates whether there is any objective evidence that trade receivables are impaired, and estimates allowances for doubtful debts as a result of the inability of the debtors to make required payments. The Group bases the estimates on the aging of the trade and other receivables balance, credit-worthiness of the debtors and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

*(d) Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. These estimates could change significantly as a result of changes in customer preferences and competitor actions. Management reassesses these estimates at the end of each reporting period.

*(e) Taxation*

The Group files income taxes, including PRC dividend withholding tax, with a number of tax authorities. Judgement is required in determining the provision for taxation. There are many transactions and calculations for which the ultimate tax determinations are uncertain during the ordinary course of business, where the final tax outcomes of these matters are different from the amounts originally recorded, the differences may impact the current income tax and deferred income tax provisions in the period in which the final tax outcomes become available.

*(f) Going concern basis*

The Financial Information has been prepared assuming the Group will continue as a going concern notwithstanding the net current liabilities of the Group as at 31 December 2011. The directors are of the opinion that, based on the detailed review of the working capital forecast of the Group for the year ending 31 December 2012 and of the anticipated ability of the Group to obtain continued bank financing to finance its operation, the Group will have necessary liquid funds to finance its working capital and capital expenditure requirements.

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## ACCOUNTANTS’ REPORT

### 30 Statements of financial position of the Company

The particulars of the statements of financial position of the Company as at 31 December 2010 and 2011 are set out below:

|                                         |             | As at<br>31 December<br>2010 | As at<br>31 December<br>2011 |
|-----------------------------------------|-------------|------------------------------|------------------------------|
|                                         | <i>Note</i> | <i>RMB’000</i>               | <i>RMB’000</i>               |
| <b>Non-current assets</b>               |             |                              |                              |
| Investments in subsidiaries             | (a)         | —                            | —                            |
| <b>Current assets</b>                   |             |                              |                              |
| Amounts due from the subsidiaries       | (b)         | 165,460                      | 176,230                      |
| Cash and cash equivalents               |             | —                            | 408                          |
|                                         |             | <u>165,460</u>               | <u>176,638</u>               |
| <b>Current liabilities</b>              |             |                              |                              |
| Other payables                          |             | —                            | 4                            |
| Amounts due to the holding company      | (b)         | <u>165,462</u>               | <u>176,633</u>               |
|                                         |             | <u>165,462</u>               | <u>176,637</u>               |
| <b>Net current (liabilities)/assets</b> |             | <u>(2)</u>                   | <u>1</u>                     |
| <b>Net (liabilities)/assets</b>         |             | <u>(2)</u>                   | <u>1</u>                     |
| <b>Equity</b>                           |             |                              |                              |
| Share capital                           | (c)         | —                            | 68                           |
| Accumulated losses                      |             | <u>(2)</u>                   | <u>(67)</u>                  |
| <b>Total equity</b>                     |             | <u>(2)</u>                   | <u>1</u>                     |

*Notes:*

- (a) Investment in subsidiaries is stated as cost of RMB13 and details of the subsidiaries as at 31 December 2010 and 2011 are set out in Section A.
- (b) The amounts due from the subsidiaries and the amount due to the holding company are unsecured, interest-free and repayable on or before 23 November 2015.

The Company repaid RMB30 million to the holding company and the holding company waived the remaining balance subsequent to 31 December 2011. The waived amount of RMB147 million was credited directly to equity as a capital contribution.

- (c) The Company was incorporated in the Cayman Islands on 24 February 2010. The issued capital as at the date of incorporation was USD1.00. During the year ended 31 December 2010, 1 share was allotted and issued to Excel Orient, as part of the Reorganisation as detailed in the section headed “History, Reorganization and Group Structure” in the Document. During the year ended 31 December 2011, 9,999 shares of USD1.00 each were allotted and issued to Excel Orient. The Company has not carried on any business since the date of incorporation to 31 December 2011.

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### 31 List of auditors of the subsidiaries

The list of auditors of the statutory financial statements of the subsidiaries was as follows:

| <b>Name of company</b>                                      | <b>Financial period</b>                                                                                        | <b>Statutory auditors</b>                                                  |
|-------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|
| Zibo Yinshilai Textile Co., Ltd.<br>(Note)<br>(淄博銀仕來紡織有限公司) | For the year ended<br>31 December 2009                                                                         | Shandong Shengming Certified<br>Public Accountants<br>(山東盛銘會計師事務所)         |
|                                                             | For the year ended<br>31 December 2010                                                                         | Shandong Bohua Certified Public<br>Accountants Limited<br>(山東博華有限責任會計師事務所) |
|                                                             | For the year ended<br>31 December 2011                                                                         | Zibo Jiufang Certified<br>Public Accountants Limited<br>(淄博九方有限責任會計師事務所)   |
| Zibo Huiyin Textile Co., Ltd.<br>(Note)<br>(淄博匯銀紡織有限公司)     | For the year ended<br>31 December 2009                                                                         | Shandong Shengming Certified<br>Public Accountants<br>(山東盛銘會計師事務所)         |
|                                                             | For the year ended<br>31 December 2010                                                                         | Shandong Bohua Certified Public<br>Accountants Limited<br>(山東博華有限責任會計師事務所) |
|                                                             | For the year ended<br>31 December 2011                                                                         | Zibo Jiufang Certified<br>Public Accountants Limited<br>(淄博九方有限責任會計師事務所)   |
| YSL (HK) Ltd.<br>銀仕來(香港)有限公司                                | From 1 March 2010<br>(date of incorporation) to<br>31 December 2010 and for the<br>year ended 31 December 2011 | Cheng & Cheng Limited, Certified<br>Public Accountants<br>(鄭鄭會計師事務所有限公司)   |
| Huiyin (HK) Ltd.<br>匯銀(香港)有限公司                              | From 1 March 2010<br>(date of incorporation) to<br>31 December 2010 and for the<br>year ended 31 December 2011 | Cheng & Cheng Limited, Certified<br>Public Accountants<br>(鄭鄭會計師事務所有限公司)   |

*Note:* The English translation of the names is for reference only. The official names of these entities are in Chinese.

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## ACCOUNTANTS’ REPORT

### 32 Possible impact of amendments, new standards and interpretations issued but not yet effective for the Relevant Period

Up to the date of this report, the IASB has issued a number of amendments and interpretations and one new standard which are not yet effective for the Relevant Period and which have not been adopted in the Financial Information. These include the following which may be relevant to the Group.

|                                                                                                                 | <b>Effective for<br/>accounting periods<br/>beginning on or after</b> |
|-----------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|
| Amendments to IFRS 7, Financial instruments: Disclosures — Transfer of financial assets                         | 1 July 2011                                                           |
| Amendments to IAS 12, Income taxes — Deferred tax: Recovery of underlying assets                                | 1 January 2012                                                        |
| Amendments to IAS 1, Presentation of financial statements — Presentation of items of other comprehensive income | 1 July 2012                                                           |
| IFRS 9, Financial instruments                                                                                   | 1 January 2015                                                        |
| IFRS 10, Consolidated financial statements                                                                      | 1 January 2013                                                        |
| IFRS 11, Joint arrangements                                                                                     | 1 January 2013                                                        |
| IFRS 12, Disclosure of interests in other entities                                                              | 1 January 2013                                                        |
| IFRS 13, Fair value measurement                                                                                 | 1 January 2013                                                        |
| IAS 27, Separate financial statements (2011)                                                                    | 1 January 2013                                                        |
| Revised IAS 19, Employee benefits                                                                               | 1 January 2013                                                        |

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group’s results of operations and financial position.

### D NON-ADJUSTING POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 31 December 2011

#### (a) Share sub-division

The Company sub-divided each of its authorised shares and issued shares of USD1.00 into 100 shares of USD0.01 each on 26 June 2012. As a result of the share sub-division, the authorised share capital of the Company was divided into 5,000,000 shares of USD0.01 each and the issued share capital of the Company was divided into 1,000,000 shares of USD0.01 each.

The Company increased its authorised share capital to USD100,000,000 by creation of 9,995,000,000 shares of USD0.01 each on 26 June 2012.

#### (b) [ • ]

Pursuant to the written resolutions of the shareholders of the Company passed on 26 June 2012, the Company has conditionally adopted a [ • ]. The principal terms of the [ • ] are summarised in Appendix VI to the Document.

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**APPENDIX I**

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**ACCOUNTANTS’ REPORT**

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**(c) Repayment and waiver of the amount due to Excel Orient**

In regard of the amount due to Excel Orient of RMB177 million as at 31 December 2011, the Group repaid RMB30 million to Excel Orient subsequent to 31 December 2011 and Excel Orient waived the remaining balance of RMB147 million, which was credited directly to equity as a capital contribution, on 14 March 2012.

**E SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company or any of the companies comprising the Group in respect of any period subsequent to 31 December 2011.

Yours faithfully,

*Certified Public Accountants*  
Hong Kong

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## APPENDIX III

## PROPERTY VALUATION

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*The following is the text of a letter and valuation certificate prepared for the purpose of incorporation in this document received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer and consultant, in connection with its valuation as at 30 April 2012 of the property interest of the Group.*



Jones Lang LaSalle Corporate Appraisal and Advisory Limited  
6/F Three Pacific Place 1 Queen's Road East Hong Kong  
tel +852 2846 5000 fax +852 2169 6001  
Licence No: C-030171

29 June 2012

The Board of Directors  
**Silverman Holdings Limited**  
No. 333 Yinlong Village  
Boshan Economic Development Zone  
Zibo City  
Shandong Province  
The PRC

Dear Sirs,

In accordance with your instructions to value the property held by Silverman Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter together referred to as the “**Group**”) in the People’s Republic of China (the “**PRC**”), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital value of the property interest as at 30 April 2012 (the “**date of valuation**”).

Our valuation of the property interest represents the market value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion”.

Due to the nature of the buildings and structures of the property and the particular location in which they are situated, there are unlikely to be relevant market comparable sales readily available, the property interest has therefore been valued on the basis of its depreciated replacement cost.

Depreciated replacement cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.” It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacing the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.



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## **APPENDIX III**

## **PROPERTY VALUATION**

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Our valuation has been made on the assumption that the seller sells the property interest in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interest.

No allowance has been made in our report for any charge, mortgage or amount owing on the property interest valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

In valuing the property interest, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the [ • ] of Securities issued by The [ • ] of Hong Kong Limited; the RICS Valuation — Professional Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates, and official plans relating to the property interest and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interest in the PRC and any material encumbrance that might be attached to the property interest or any tenancy amendment. We have relied considerably on the advice given by the Company’s PRC legal advisers — Jingtian & Gongcheng, concerning the validity of the property interest in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the property. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the property is free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

The site inspection was carried out in June 2011 and March 2012 by Mr. Sam Zhu, a member of the Royal Institution of Chartered Surveyors, and Mr. Shane Zhang, a Qualified Land Valuer of China.

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**APPENDIX III**

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**PROPERTY VALUATION**

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We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive at an informed view, and we have no reason to suspect that any material information has been withheld.

All monetary figures stated in this report are in Renminbi (RMB).

Our valuation certificate is attached.

Yours faithfully,  
for and on behalf of  
**Jones Lang LaSalle Corporate Appraisal and Advisory Limited**  
**Eddie T.W. Yiu**  
*MRICS MHKIS RPS(GP)*  
*Associate Director*

*Note:* Eddie T.W. Yiu is a Chartered Surveyor who has 18 years’ experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

## APPENDIX III

## PROPERTY VALUATION

### VALUATION CERTIFICATE

#### Property interest held and occupied by the Group in the PRC

| Property                                                                                                                                               | Description and tenure                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Particulars of occupancy                                                                                       | Capital value in existing state as at 30 April 2012<br>RMB                      |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| A parcel of land, 14 buildings and 2 ancillary structures No. 333 Yinlong Village Boshan Economic Development Zone Zibo City Shandong Province The PRC | <p>The property comprises a parcel of land with a site area of approximately 76,614.9 sq.m. and 14 buildings and 2 ancillary structures (2 sheds) erected thereon which were completed in various stages between 2003 and 2010.</p> <p>The buildings have a total gross floor area of approximately 56,993.26 sq.m.</p> <p>The buildings include 5 industrial buildings, 2 office buildings, 3 air compressor stations and 4 warehouses.</p> <p>The land use rights of the property have been granted for a term expiring on 25 June 2057 for industrial use.</p> | <p>The property is currently occupied by the Group for production, office, storage and ancillary purposes.</p> | <p>90,036,000</p> <p>100% interest attributable to the Group: RMB90,036,000</p> |

*Notes:*

- Pursuant to a State-owned Land Use Rights Grant Contract — No. 2007-28 entered into between Zibo Municipal State-owned Land and Resources Bureau and Zibo Yinshilai Textile Co., Ltd. (“**Yinshilai Textile**”, an indirect wholly-owned subsidiary of the Company), the land use rights of the property were contracted to be granted to Yinshilai Textile for a term of 50 years for industrial use. The land premium was RMB15,935,900.
- Pursuant to a State-owned Land Use Rights Certificate — Zi Guo Yong (2008) Di No. B00636 (淄國用(2008)第B00636號), the land use rights of a parcel of land with a site area of approximately 76,614.9 sq.m. have been granted to Yinshilai Textile for a term expiring on 25 June 2057 for industrial use.
- Pursuant to 9 Building Ownership Certificates — Zi Bo Shi Fang Quan Zheng Bo Shan Zi Di No. 05-1021317 to 05-1021325 (淄博市房權證博山字第05-1021317至05-1021325號), 9 buildings with a total gross floor area of approximately 53,099.7 sq.m. are owned by Yinshilai Textile.
- For the remaining 5 buildings with a total gross floor area of approximately 3,893.56 sq.m., we have not been provided with any relevant title certificate.
- Pursuant to a Tenancy Agreement and a Supplemental Tenancy Agreement, a portion of the land parcel stated in note 2 with a site area of approximately 20,617.1 sq.m. together with the building erected thereon are rented to Zibo Huiyin Textile Co., Ltd., another indirect wholly-owned subsidiary of the Company, for a term of 20 years commencing from 1 June 2008 at an annual rent of RMB60,000, exclusive of management fees, water and electricity charges.

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**PROPERTY VALUATION**

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6. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
  - a. Yinshilai Textile is the exclusive owner of the land use rights of the property and has obtained all necessary approvals from relevant authorities for acquiring the land use rights, and has the rights to legally occupy, use, lease, mortgage or otherwise dispose of the land;
  - b. Yinshilai Textile is the exclusive owner of the 9 buildings stated in note 3 and has the legal rights to occupy, use, lease, transfer, mortgage or otherwise dispose of these buildings;
  - c. The land use rights of the property and the 9 buildings stated in note 3 are not subject to sequestration, mortgage or other encumbrances; and
  - d. Yinshilai Textile has not obtained construction permits for the buildings stated in note 4. Therefore, Yinshilai Textile may be (i) ordered to dismantle these buildings, face the confiscation of these buildings or rectify this violation within a certain time limit according to the impact on the urban planning; and (ii) imposed a fine of up to a maximum of 10% of the construction cost.
7. In the valuation of this property, we have attributed no commercial value to the 5 buildings stated in note 4 due to lack of relevant title certificates. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the buildings (excluding the land element) as at the date of valuation would be RMB5,744,000 assuming all title certificates have been obtained and the buildings could be freely transferred.

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## **APPENDIX IV**

## **SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANIES LAW**

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### **SUMMARY OF THE CONSTITUTION OF THE COMPANY**

#### **1. Memorandum of Association**

The Memorandum of Association was conditionally adopted on 26 June 2012 and states, inter alia, that the liability of members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in the paragraph headed “2. Documents available for inspection” in Appendix VII to this document.

#### **2. Articles of Association**

The Articles of Association was conditionally adopted on 26 June 2012 and include provisions to the following effect:

##### ***2.1 Classes of Shares***

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles of Association is US\$100,000,000 divided into 10,000,000,000 shares of a par value of US\$0.01 each.

##### ***2.2 Directors***

###### ***(a) Power to allot and issue Shares***

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such time and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

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*(b) Power to dispose of the assets of the Company or any subsidiary*

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

*(c) Compensation or payment for loss of office*

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

*(d) Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors and [ • ] which are equivalent to the restrictions imposed by the Companies Ordinance.

*(e) Financial assistance to purchase Shares*

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

*(f) Disclosure of interest in contracts with the Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of

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being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his [ • ] has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his [ • ] of any security or indemnity in respect of money lent or obligations incurred by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his [ • ] has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his [ • ] is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
  - (A) the adoption, modification or operation of any employees’ share scheme or any share incentive scheme or [ • ] under which the Director or any of his [ • ] may benefit;
  - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their [ • ] and employees of the Company or any of its subsidiaries and does not provide in respect of any Director



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or any of his [ • ] as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

- (v) any contract or arrangement in which the Director or any of his [ • ] is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

*(g) Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission, or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

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*(h) Retirement, appointment and removal*

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment or office as a result of the termination of his appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

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The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

*(i) Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

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The rights of the Directors to exercise these powers may only be varied by a special resolution.

### *(j) Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, whether on a poll or on a show of hands, the chairman of the meeting shall have a second or casting vote.

### **2.3 *Alteration to constitutional documents***

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

### **2.4 *Variation of rights of existing shares or classes of shares***

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

### **2.5 *Alteration of Capital***

The Company in general meeting may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

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The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company’s benefit;
- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Law.

***2.6 Special resolution — majority required***

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of

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the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

### ***2.7 Voting rights***

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting where a show of hands is allowed, every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) shall have one vote, and on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member of the Company is, under the [ • ], required to abstain from voting on any particular resolution or is restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be counted in a quorum, either personally or by proxy at any general meeting.



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At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the Chairman may, in good faith, allow a resolution which relates purely to a procedural or administrative matter as prescribed under the [ • ] to be voted on by a show of hands.

If a recognised [ • ] (or its nominee) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised [ • ] (or its nominee) which he represents as that recognised [ • ] (or its nominee) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

### ***2.8 Annual general meetings***

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the [ • ] may authorise) shall elapse between the date of one annual general meeting of the Company and that of the next.

### ***2.9 Accounts and audit***

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company’s affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date at which the profit and loss account is made up and a Director’s report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company’s affairs as at the end of such period, an auditor’s report on such accounts and such other reports



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and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 clear days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The removal of an Auditor before the expiration of his period of office shall require the approval of an ordinary resolution of the members in general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

***2.10 Notice of meetings and business to be conducted thereat***

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by notice of not less than 21 clear days and any other extraordinary general meeting shall be called by not less than 14 clear days. The notice shall be inclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

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All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (a) the declaration and sanctioning of dividends;
- (b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;
- (c) the election of Directors in place of those retiring;
- (d) the appointment of auditors;
- (e) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;
- (f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20% (or such other percentage as may from time to time be specified in the [ • ]) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and
- (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

***2.11 Transfer of Shares***

Transfers of shares may be affected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the [ • ].

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

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The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such maximum as the [ • ] may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the instrument of transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days’ notice being given by advertisement published on the [ • ]’s website, or, subject to the [ • ], by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

### ***2.12 Power of the Company to purchase its own Shares***

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the [ • ] and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be

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treated as cancelled upon the repurchase, unless the directors resolve prior to the repurchase that upon the repurchase, the shares shall be held in the name of the Company as treasury shares.

### ***2.13 Power of any subsidiary of the Company to own Shares***

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

### ***2.14 Dividends and other methods of distributions***

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment

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of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

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### ***2.15 Proxies***

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing, or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

### ***2.16 Calls on Shares and forfeiture of Shares***

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice



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specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be sold, re-allotted or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.



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***2.17 Inspection of register of members***

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 14 days’ notice being given by advertisement published on the [ • ]’s website, or subject to the [ • ], by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK\$2.50 (or such higher amount as may from time to time be permitted under the [ • ]) as the Directors may determine for each inspection.

***2.18 Quorum for meetings and separate class meetings***

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in sub-paragraph 2.4 above.

***2.19 Rights of minorities in relation to fraud or oppression***

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

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***2.20 Procedure on liquidation***

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

***2.21 Untraceable members***

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (i) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) the Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member; (iii) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the [ • ], by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the [ • ] has been notified of such

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intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

### **SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION**

#### **1. Introduction**

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

#### **2. Incorporation**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 24 February 2010 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

#### **3. Share capital**

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premium on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premium on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);

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- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

#### **4. Dividends and distributions**

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and

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the provisions, if any, of the company’s memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see 3 above for further details).

**5. Shareholders’ suits**

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

**6. Protection of minorities**

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company’s memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

**7. Disposal of assets**

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

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**8. Accounting and auditing requirements**

The Companies Law requires that a company shall cause to be kept proper books of account including, where applicable, material underlying documentation including contracts and invoices with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company’s affairs and to explain its transactions.

**9. Register of members**

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

**10. Inspection of books and records**

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company’s articles of association.

**11. Special resolutions**

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.



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### **12. Subsidiary owning shares in parent**

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

### **13. Mergers and Consolidations**

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company and (b) a “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of each constituent company and (b) such other authorization, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

### **14. Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court of the Cayman Islands is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.



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## **APPENDIX IV**

## **SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANIES LAW**

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### **15. Takeovers**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

### **16. Indemnification**

Cayman Islands law does not limit the extent to which a company’s articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

### **17. Liquidation**

A company is placed in liquidation either by an order of the court or by a special resolution (or, in certain circumstances, an ordinary resolution) of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company’s liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

### **18. Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

### **19. Taxation**

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor in Cabinet:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

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**APPENDIX IV****SUMMARY OF THE CONSTITUTION OF OUR COMPANY  
AND CAYMAN ISLANDS COMPANIES LAW**

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- (b) in addition, that no tax to be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
  - (i) on or in respect of the shares, debentures or other obligations of the Company; or
  - (ii) by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concession Law (1999 Revision).

The undertaking is for a period of twenty years from 23 August 2011.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that is applicable to any payments made to or by the Company.

**20. Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**21. General**

Maples and Calder the Company’s legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed “2. Documents available for inspection” in Appendix VII to this document. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

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## APPENDIX V

## DESCRIPTION OF RELEVANT PRC LAWS AND REGULATIONS

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### 1. THE PRC LEGAL SYSTEM

The PRC legal system is based on the PRC Constitution (《中華人民共和國憲法》) (“**PRC Constitution**”) and is made up of written laws, regulations and directives. Decided court cases do not constitute binding precedents.

The National People’s Congress (“**NPC**”) and the Standing Committee are empowered by the PRC Constitution to exercise the legislative power of the state. The NPC has the power to amend the PRC Constitution and to enact and amend primary laws governing the state organs, civil and criminal matters. The Standing Committee is empowered to interpret, enact and amend laws other than those required to be enacted by the NPC.

The State Council is the highest organ of state administration and has the power to enact administrative rules and regulations. Ministries and commissions under the State Council are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. Administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must not be in conflict with the PRC Constitution or the national laws and, in the event that any conflict arises, the Standing Committee has the power to annul such administrative rules, regulations, directives and orders.

At the regional level, the people’s congresses of provinces and municipalities and their standing committees may enact local rules and regulations and the people’s government may promulgate administrative rules and directives applicable to their own administrative area. These local laws and regulations may not be in conflict with the PRC Constitution, any national laws or any administrative rules and regulations promulgated by the State Council.

Rules, regulations or directives may be enacted or issued at the provincial or municipal level or by the State Council or its ministries and commissions in the first instance for experimental purposes. After sufficient experience has been gained, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee for enactment at the national level.

The power to interpret laws is vested by the PRC Constitution in the Standing Committee. According to the “Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws” (《全國人民代表大會常務委員會關於加強法律解釋工作的決議》) passed on 10 June 1981, the Supreme People’s Court has the power to give general interpretation on application of laws in judicial proceedings apart from its power to issue specific interpretation in specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretation of the rules and regulations promulgated by them. At the regional level, the power to give interpretation of regional laws is vested in the regional legislative and administration organs that promulgate such laws. All such interpretations carry legal effect.

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### 2. JUDICIAL SYSTEM

The People’s Courts are the judicial organs of the PRC. Under the PRC Constitution and the “Law of Organization of the People’s Courts of the PRC” (《中華人民共和國法院組織法》) originally promulgated on 1 July 1979 and amended on 31 October 2006 which became effective as of 1 January 2007, the People’s Courts comprise the Supreme People’s Court, the local people’s courts, military courts and other special people’s courts.

The local people’s courts are divided into three levels, namely, basic people’s courts, intermediate people’s courts and higher people’s courts. The basic people’s courts are divided into civil, criminal, administrative and economic divisions. The intermediate people’s courts have divisions similar to those of the basic people’s courts and, where the circumstances so warrant, may have other special divisions (such as intellectual property divisions). The judicial functions of people’s courts at lower levels are subject to supervision of people’s courts at higher levels. The people’s procuratorates also have the right to exercise legal supervision over the proceedings of people’s courts of the same and lower levels. The Supreme People’s Court is the highest judicial organ of the PRC. It supervises the administration of justice by the people’s courts of all levels.

The people’s courts adopt a two-tier final appeal system. A party may before the taking effect of a judgment or order appeal against the judgment or order of the first instance of a local people’s court to the people’s court at the next higher level. Judgments or orders of the second instance of the same level and at the next higher level are final and binding.

Judgments or orders of the first instance of the Supreme People’s Court are also final and binding. If, however, the Supreme People’s Court or a people’s court at a higher level finds an error in a final and binding judgment which has taken effect in any people’s court at a lower level, or the presiding judge of a people’s court finds an error in a final and binding judgment which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the judicial supervision procedures.

The PRC civil procedures are governed by the “Civil Procedure Law of the PRC” (《中華人民共和國民事訴訟法》) (“**Civil Procedure Law**”) originally adopted on 9 April 1991 (and amended on 28 October 2007 which became effective on 1 April 2008). The Civil Procedure Law contains regulations on the institution of a civil action, the jurisdiction of the people’s courts, the procedures in conducting a civil action, trial procedures and procedures for the enforcement of a civil judgment or order. All parties to a civil action conducted within the territory of the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant’s place of domicile. The jurisdiction may also be selected by express agreement by the parties to a contract provided that the jurisdiction of the people’s court selected has some actual connection with the dispute, that is to say, the plaintiff or the defendant is located or domiciled, or the contract was executed or implemented in the jurisdiction selected, or the subject-matter of the proceedings is located in the jurisdiction selected. A foreign national or foreign enterprise is accorded the same litigation rights and obligations as a citizen or legal person of the PRC. If any party to a civil action refuses to comply with a judgment or order made by a people’s court or an

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award made by an arbitration body in the PRC, the aggrieved party may apply to the people’s court to enforce the judgment, order or award. And the time limit for aggrieved party to apply for such enforcement is 2 years.

A party seeking to enforce a judgment or order of a people’s court against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or order. A foreign judgment or ruling may also be recognized and enforced according to the PRC enforcement procedures by the people’s courts in accordance with the principle of reciprocity or if there exists an international or bilateral treaty with or acceded to by the foreign country that provides for such recognition and enforcement, unless the people’s court considers that the recognition or enforcement of the judgment or ruling will violate fundamental legal principles of the PRC or its sovereignty, security or social or public interest.

### 3. ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

The “Arbitration Law of the PRC” (《中華人民共和國仲裁法》) (“**Arbitration Law**”) was promulgated by the Standing Committee on 31 August 1994 and came into effect on 1 September 1995. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association (中國仲裁協會) of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the Civil Procedure Law.

Where the parties have by an agreement provided arbitration as a method for dispute resolution, the parties are not permitted to institute legal proceedings in a people’s court. Under the Arbitration Law, an arbitral award is final and binding on the parties and if a party fails to comply with an award, the other party to the award may apply to the people’s court for enforcement. A people’s court may refuse to enforce an arbitral award made by an arbitration committee if there were mistakes, absences of material evidence or irregularities over the arbitration proceedings, or the jurisdiction or constitution of the arbitration committee. A party seeking to enforce an arbitral award of a foreign affairs arbitration body of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC.

In respect of contractual and non-contractual commercial-law-related disputes which are recognized as such for the purposes of the PRC law, the PRC has acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Award (“**New York Convention**”) adopted on 10 June 1958 pursuant to a resolution of the Standing Committee passed on 2 December 1986. The New York Convention provides that all arbitral awards made by a state which is a party to the New York Convention shall be recognized and enforced by other parties to the New York Convention subject to their right to refuse



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enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee at the time of the accession of the PRC that (1) the PRC would only recognize and enforce foreign arbitral awards on the principle of reciprocity and (2) the PRC would only apply the New York Convention in disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations.

#### **4. FOREIGN EXCHANGE CONTROL**

Prior to 31 December 1993, enterprises in the PRC requiring foreign currency were required to obtain approval from the State Planning Committee and the China Ministry of Foreign Trade and Economic Cooperation before it could convert Renminbi into foreign currency, and such conversion had to be effected at the official rate prescribed by SAFE. Renminbi reserved by foreign investment enterprises could also be converted into foreign currency at swap centers with the prior examination and verification by SAFE. The exchange rates used by swap centers were largely determined by the supply of and demand for foreign currencies and Renminbi.

On 28 December 1993, the PBOC announced that the dual exchange rate system for Renminbi against foreign currencies would be abolished with effect from 1 January 1994 and be replaced by the unified exchange rate system. Under the new system, the PBOC publishes the Renminbi exchange rate against the US dollar daily. The daily exchange rate is set by reference to the Renminbi/US dollar trading price on the previous day on the “inter-bank foreign exchange market”.

On 1 April 1996, the “Foreign Exchange Control Regulations of the PRC” (《中華人民共和國外匯管理條例》) by the State Council (as amended on 14 January 1997 and 1 August 2008) came into effect. On 20 June 1996, the PBOC issued the “Announcement on the Implementation of Sale and Purchase of Foreign Exchange for the Foreign Investment Enterprises” (《中國人民銀行關於對外商投資企業實行銀行結售匯的公告》) which allows foreign-invested enterprises (“FIEs”) to settle their foreign exchange related transactions at designated banks or at swap centers from 1 July 1996. (This Announcement was abolished on 1 December 2002 by the “Interim Measures for the Administration of Foreign Exchange Settlement and Sales Operations by Designated Foreign Exchange Banks” (《外匯指定銀行辦理結匯、售匯業務管理暫行辦法》)). On 20 June 1996, the “Regulations on Settlement and Sales of and Payment in Foreign Exchange” (《結匯、售匯及付匯管理規定》) were promulgated by the PBOC and came into effect on 1 July 1996.

On 25 October 1998, the PBOC and SAFE issued the “Joint Announcement on Abolishment of Foreign Exchange Swap Business” (《中國人民銀行、國家外匯管理局關於停辦外匯調劑業務的通知》) which stated that from 1 December 1998, foreign exchange transactions for FIEs may only be conducted at designated banks. In addition, some of the swap centers would be abolished, while the others which are already linked up with the China Foreign Exchange Trading Centre (the “CFETC”) by the computerized network will be merged with the CFETC and sub-centers to the CFETC.

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On 21 July 2005, the PBOC issued the public announcement regarding reforming the Renminbi exchange rate regime. With effect from 21 July 2005:

- (a) The PRC will reform the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies and the Renminbi will no longer be pegged to the US dollar;
- (b) The PBOC will announce the closing price of foreign currencies including but not limited to the US dollar traded against Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and will make it the central price for the trading against Renminbi on the following day;
- (c) The exchange rate of the US dollar against the RMB will be adjusted to 8.11 RMB per US dollar at the time of 19:00 hours of 21 July 2005, which will be made as the central price for the trading against the RMB on the following working day. The foreign exchange designated banks may since then adjust quotations of foreign currencies to their customers;
- (d) The daily trading price of the US dollar against the RMB in the inter-bank foreign exchange market will continue to be allowed to float within a band of  $\pm 0.3\%$  around the central parity published by the PBOC, while the trading prices of the non-US\$ currencies against the RMB will be allowed to move within a certain band announced by the PBOC.

In the future, the PBOC will make adjustment of the RMB exchange rate band when necessary according to market development as well as the economic and financial situation.

The Foreign Exchange Control Regulations of China was amended on 1 August 2008. Pursuant to this amendment, (1) the compulsory requirements for PRC enterprises to transfer their foreign exchange income back into PRC territory is abolished; (2) control and inspection over cross-border capital flow are further strengthened; and (3) the foreign exchange approval over direct investment overseas is simplified.

In summary, the present position under PRC laws relating to foreign exchange control, taking into account the promulgation of the recent new regulations and the extent the existing provisions stipulated in previous regulations do not contradict these new regulations, are as follows:

- (a) The previous dual exchange rate system for RMB was abolished and a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies was introduced. The PBOC will announce the closing price of foreign currencies including but not limited to the US dollar traded against the RMB in the inter-bank foreign exchange market after the closing of the market on each working day, and will make it the central parity for the trading against the RMB on the following working day.



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**DESCRIPTION OF RELEVANT PRC LAWS AND REGULATIONS**

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- (b) Foreign exchange receipts and payments shall be based on true and lawful transactions. PRC enterprises may retain or sell their foreign exchange earnings to financial institutions which are allowed to conduct foreign exchange businesses and use their own retained foreign exchange or purchase foreign exchange at financial institutions which are allowed to conduct foreign exchange businesses for current account transactions.
- (c) Capital foreign exchange receipts of PRC enterprises, upon SAFE approval (unless no approvals required), may be retained or sold to financial institutions which are allowed to conduct foreign exchange businesses. PRC enterprises may use their retained foreign exchange or purchase foreign exchange at financial institutions which are allowed to conduct foreign exchange businesses for capital account transactions.
- (d) Despite the relaxation of foreign exchange control over current account transactions, the approval of SAFE is still required before an enterprise may receive a foreign currency loan, provide a foreign exchange guarantee, make an investment outside the PRC or enter into any other capital account transaction that involves the purchase of foreign exchange.
- (e) FIEs which require foreign exchange for their ordinary trading activities such as trade services and payment of interest on foreign debts may purchase foreign exchange from designated foreign exchange banks if the application is supported by proper payment notices or supporting documents.
- (f) FIEs may require foreign exchange for the payment of dividends that are payable in foreign currencies under applicable regulations, such as distributing profits to their foreign investors. They can withdraw funds in their foreign exchange bank accounts kept with designated foreign exchange banks, subject to the due payment of tax on such dividends. Where the amount of the funds in foreign exchange is insufficient, the enterprise may, upon the presentation of the resolutions of the directors on the profit distribution plan of the particular enterprise, purchase foreign exchange from designated exchange banks.
- (g) FIEs may apply to designated foreign exchange banks to remit the profits out of the PRC to the foreign parties to equity or cooperative joint ventures or the foreign investors in wholly foreign-owned enterprises if the requirements provided by PRC laws, rules and regulations are met.

The “Notice of SAFE on Issues Relating to Foreign Exchange Control on Fund Raising by Domestic Residents Through Offshore Special Purpose Vehicles and Round-trip Investment” (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (the “**Circular No. 75**”) issued by SAFE, requires PRC residents to register with the local SAFE branch before establishing or controlling any company outside of PRC for the purpose of capital financing with assets or equities of PRC companies, referred to in the Circular No. 75 as offshore special purpose companies. Further, the PRC residents are required to file amendments to their registrations with the local SAFE branch

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if their offshore special purpose companies undergo a material event involving changes in capital, such as changes in share capital, mergers and division, share transfers or exchanges, long-term or debt investments, etc.

As advised by our PRC legal advisers, Mr. LIU Dong, being the Controlling Shareholder, has duly registered with the Local branch of SAFE in accordance with Circular 75.

**5. TAXATION**

The applicable income tax laws, regulations, notices and decisions (collectively referred to as “**Applicable FIEs Tax Law**”) related to FIEs and their investors include the following:

- (a) New EIT Law;
- (b) Implementing Rules of the Enterprise Income Tax Law of PRC (《中華人民共和國企業所得稅法實施細則》) promulgated by the State Council on 6 December 2007 which came into effect on 1 January 2008; and
- (c) Notice on the Implementation of the Transitional Preferential Policies in respect of Enterprise Income Tax (《國務院關於實施企業所得稅過渡優惠政策的通知》) (“**Notice**”) promulgated by the State Council on 26 December 2007 which came into effect on the same date.

**PRC Enterprise Income Tax**

*(a) Taxpayer*

The taxpayer of income tax of foreign invested enterprises refers to Sino-foreign equity joint ventures, Sino-foreign contractual joint ventures and foreign-capital enterprises that are established in the PRC.

*(b) Tax Rate*

In accordance with the New EIT Law, a unified enterprise income tax rate of 25% and unified tax deduction standards will be applied equally to both domestic-invested enterprises and foreign-invested enterprises. In accordance with the Notice, the EIT rate applicable to foreign-invested enterprises which are currently subject to a deducted rate will be gradually increased up to 25% within five years commencing from 1 January 2008.

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*(c) Preferential Treatment*

Pursuant to the New EIT Law, the “Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises” (《中華人民共和國外商投資企業和外國企業所得稅法》) and its Implementing Rules shall be abolished, and the rate of EIT applicable to all resident enterprises, including foreign invested enterprises and domestic companies in the PRC shall be at a uniform rate of 25% in five years. According to the New EIT Law, any enterprise established prior to the promulgation of the New EIT Law and is currently enjoying tax incentives, shall be entitled to continue to enjoy such incentives till the date of expiry. In the case of an enterprise that has been established before the New EIT Law, but has not declared its first profitable year, the term of any entitlement to tax incentives shall commence from 1 January 2008 for a transition period of five years.

According to the Notice which was promulgated and came into effect on 26 December 2007, commencing from 1 January 2008, enterprises that previously enjoy the preferential policies of low tax rates shall be gradually transited to enjoy the statutory tax rate within 5 years after the implementation of the New EIT Law. Among them, the enterprises that enjoy the EIT rate of 15% shall be subject to the EIT rate of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012. The enterprises that previously enjoy the tax rate of 24% shall be subject to the tax rate of 25% commencing from 2008. As of 1 January 2008, enterprises that previously enjoy “2-year exemption and 3-year half payment”, “5-year exemption and 5-year half payment” of the enterprise income tax and other preferential treatments in the form of periodic tax deductions and exemptions may, after the implementation of the New EIT Law, continue to enjoy the relevant preferential treatments under the preferential measures and the time period prescribed in the former tax law, administrative regulations and relevant documents until the expiration of the said time period. However, if such an enterprise has not enjoyed the preferential treatments yet because of its failure to make profits, its preferential time period shall be calculated from 2008. The expression “enterprises enjoying the preferential policies” as mentioned above refers to the enterprises established and registered in the industrial and commercial administrative department and in other registration administrative departments prior to 16 March 2007.

**Value Added Tax**

The “Provisional Regulations of the People’s Republic of China Concerning Value Added Tax” (《中華人民共和國增值稅暫行條例》) promulgated by the State Council and amended on 5 November 2008 came into effect on 1 January 2009. Under these regulations and the “Implementing Rules of the Provisional Regulations of the People’s Republic of China Concerning Value Added Tax” (《中華人民共和國增值稅暫行條例實施細則》), value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

The value-added tax rates shall be as follows:

1. The tax rate for goods sold or imported by taxpayers other than the goods set forth in Items 2 and 3 below shall be 17%.

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2. The tax rate for sale or import of the following goods by taxpayers shall be 13%:
  - (a) grain, edible vegetable oil;
  - (b) tap water, heating, air-conditioning, hot water, coal gas, liquid petroleum gas, natural gas, methane, and coal products for use by residents;
  - (c) books, newspapers, magazines;
  - (d) feed, chemical fertiliser, agrochemicals, agricultural machinery, agricultural film; and
  - (e) other goods specified by the State Council.
3. The tax rate for goods exported by taxpayers shall be zero, except where otherwise determined by the State Council.
4. The tax rate for processing and repair and replacement services provided by taxpayers shall be 17%.

The value-added tax rates for small scale taxpayer shall be 3%.

### **Business Tax**

With effect from 1 January 2009, businesses that provide services (including entertainment business), assign intangible assets or sell immovable property are liable to business tax at a rate ranging from 3% to 20%, of the charges of the services provided, intangible assets assigned or immovable property sold, as the case may be.

The formula for calculation of the amount of tax payable is set forth below:

Amount of tax payable = amount of business x tax rate

The amount of tax payable shall be calculated in RMB. Taxpayers that settle their amounts of business income in foreign exchange shall convert the amounts into RMB at the foreign exchange market rate.

### **PRC Customs Duties**

According to the “Customs Law of the PRC” (《中華人民共和國海關法》), the consignee of the imports, the consignor of exports and the owner of the imports and the exports are the persons obligated to pay customs duties (generally speaking, exports are not subject to customs duties). The PRC Customs is the authorities in charge of the collection of customs duties.

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The customs duties in the PRC mainly fall under ad valorem duties, namely the price of import/export commodities is the basis for the calculation of the duties. When calculating the customs duties, import/export commodities shall be classified under appropriate tax items in accordance with the category provisions of the Customs Import and Export Tariff and shall be subject to tax levies pursuant to relevant tax rates.

Under the laws of the PRC, raw materials, supplementary materials, parts, components, accessories and packing materials imported for processing and assembling finished products for foreign parties or for manufacturing products for export shall be exempt from import duties pursuant to the actual amount of goods processed for export; or import duties may be levied upfront on import materials and parts and subsequently refunded pursuant to the actual amount of goods processed for export.

To encourage the introduction of foreign investment, commencing from 1992, the PRC exercised exemption and reduction of customs duties on the import of machinery, equipment, parts and other materials within the total investment of foreign investment companies. But after the adjustment of policies as of 1 April 1996, such exemption and reduction has been terminated, while the foreign investment companies incorporated before then can still continue to enjoy such preferential treatment within the grace period.

As from 1 January 1998, according to the “Notice of the State Council regarding the Adjustment of Taxation Policy of Import Equipment” (《國務院關於調整進口設備稅收政策的通知》), in respect of the foreign investment projects that fall under “Encouraging Category and Restricted B Category of the Industrial Guidance Catalogue of Foreign Investment” (《外商投資產業指導目錄》鼓勵類和限制乙類) and also involve the transfer of technology, the equipment imported for its own use within the total investment can be exempt from the customs duties, except for the commodities listed in the “Catalogue of the Non-tax Exemption Import Commodity of Foreign Investment Projects” (《外商投資項目不予免稅的進口商品目錄》).

### **Tax on Dividends from PRC Enterprise with Foreign Investment**

Under the New EIT Law and its implementation rules, dividends, interests, rents and royalties payable by a foreign invested enterprise in the PRC to its foreign investor who is a non-resident enterprise, as well as gains on transfers of shares of a foreign-invested enterprise in the PRC by such a foreign investor, will be subject to a 10% withholding tax, unless such non-resident enterprise’s jurisdiction of incorporation has a tax treaty with the PRC that provides for a reduced rate of withholding tax. According to the “Mainland and Hong Kong Special Administrative Region Arrangement on Avoiding Double Taxation or Evasion of Taxation on Income” (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排》) agreed between the PRC and Hong Kong in August 2006, dividends paid by a foreign-invested enterprise in the PRC to its direct holding company in Hong Kong will be subject to withholding tax at a rate of not more than 5% (if the foreign investor owns directly at least 25% of the shares of the foreign-invested enterprise), in addition, the Applicable FIEs Tax Law also provides that dividends received by a qualified PRC resident enterprise from another qualified PRC resident enterprise are exempted from withholding tax.

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### 6. NEW M&A REGULATIONS

On August 8, 2006, six PRC governmental and regulatory agencies, including MOFCOM and the CSRC, promulgated the Circular 10, which became effective on 8 September 2006 and was revised and reissued by MOFCOM in June 2009. Under the Circular 10, a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic company thereby converting it into a foreign-invested enterprise; (ii) a foreign investor establishes a foreign-invested which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise. The acquisition should be based on appraisal result on the equity or assets to be acquired. According to Article 11 of the Circular 10, it is required that a PRC company, enterprise or individual who intends to take over its domestic affiliated company through a foreign company, which such company or individual establishes or controls, must obtain approval of MOFCOM. Avoiding this requirement by making investment through a PRC subsidiary of the foreign company or by other measures is not allowed. Article 40 of the Circular 10 requires an offshore special purpose vehicle formed for the purpose of an offshore [ • ] and controlled directly or indirectly by the PRC companies or individuals, to obtain CSRC approval prior to the [ • ] and trading of the securities of such offshore special purpose vehicle on an overseas [ • ].

Yinshilai Textile was established on 1 December 1999 as a sino-foreign enterprise, which owned necessary assets to conduct its approved business, and Yinshilai Textile was changed to a wholly foreign owned enterprise on 16 April 2010. According to the agreement entered into between Yinshilai Textile and Yinlong Industrial for Yinlong Assets Acquisition dated 1 April 2011, Yinshilai Textile acquired from Yinlong Industrial approximately 90,000 spindles and other spinning machineries and supporting equipment (the “**Acquired Assets**”) on 31 December 2010, and such acquisition was completed on the same date. As advised by our Group’s PRC legal advisers, on the basis that (i) Yinshilai Textile has been established as a foreign invested enterprise and in operation through its own assets before the occurrence of Yinlong Assets Acquisition; and (ii) the Acquired Assets did not constitute material assets compared to the total assets of Yinshilai Textile as at 31 December 2010, Circular 10 does not apply in Yinlong Assets Acquisition.

As further advised by our PRC legal adviser, the Circular 10 does not apply to our corporate restructuring and the Reorganization because our PRC subsidiaries, Yinshilai Textile and Huiyin Textile, were not domestic companies defined under the Circular 10 and were established as sino-foreign joint ventures before 8 September 2006.



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### **7. WHOLLY FOREIGN-OWNED ENTERPRISE (“WFOE”)**

A WFOE is governed by the “Law of the People’s Republic of China on Wholly Foreign-owned Enterprises” (《中華人民共和國外資企業法》), which was promulgated on 12 April 1986 and revised on 31 October 2000, and its Implementation Regulations promulgated on 12 December 1990 and revised on 12 April 2001 (“WFOE Law”).

#### **(1) Procedures for establishment of a WFOE**

The establishment of a WFOE must be approved by the MOFCOM and its various branches. If two or more foreign investors jointly apply for the establishment of a WFOE, a copy of the contract between the parties must also be submitted to the MOFCOM (or its delegated authorities) for its record. A WFOE must also obtain a business licence from the relevant local Administration for Industry and Commerce before it can commence business operation.

#### **(2) Nature of WFOE**

A WFOE is a limited liability company under the WFOE Law. A WFOE is a legal person who is entitled to independently assume civil obligations, enjoy civil rights and own, use and dispose of property. It is required to have a registered capital contributed by the foreign investor(s). The liability of the foreign investor(s) is limited to the amount of registered capital it subscribed to contribute. A foreign investor is permitted to make its contributions by instalments and the registered capital shall be contributed within the required time period as approved by the MOFCOM (or its delegated authorities) in accordance with relevant PRC laws and regulations.

#### **(3) Profit distribution**

The WFOE Law provides that a WFOE shall withdraw reserve fund and employee bonus and benefit fund from the after-tax profit. The allocation ratio for the employee bonus and welfare fund shall be determined by the enterprise. However, at least 10% of the after-tax profits must be allocated to the reserve fund. If the cumulative total of allocated reserve funds reaches 50% of the enterprise’s registered capital, the enterprise will not be required to make any additional contribution. The enterprise is prohibited from distributing dividends unless the losses (if any) of previous years have been made up.

### **8. LABOUR LAWS AND SAFETY MATTERS**

Relevant labour and safety laws and regulations in the PRC include the “PRC Labour Law” (《中華人民共和國勞動法》), the “PRC Labour Contract Law” (《中華人民共和國勞動合同法》), the “Decision of the State Council on Establishing the Unified Basic Pension Insurance System for the Employees of Enterprises” (《國務院關於建立統一的企業職工基本養老保險制度的決定》), the “Decision of the State Council on Establishing the Basic Medical Insurance System for the Urban Employees” (《國務院關於建立城鎮職工基本醫療保險制度的決定》), the “Regulation on Work-related Injury Insurance” (《工傷保險條例》), the “Regulation on Unemployment Insurance” (《失業保險條例》), the “Provisional



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Insurance Measures for Maternity of Employees” (《企業職工生育保險試行辦法》), the “Interim Provisions on Registration of Social Insurances” (《社會保險登記管理暫行辦法》), the “Interim Regulation on the Collection and Payment of Social Insurances Premiums” (《社會保險費徵繳暫行條例》), the “Social Insurances Law of PRC” (《中華人民共和國社會保險法》), “Rules on Implementation of Social Insurances Law of PRC” (《實施〈中華人民共和國社會保險法〉若干規定》) and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time are applicable to our operations in the PRC.

According to the “PRC Labour Law” (《中華人民共和國勞動法》) and the “PRC Labour Contract Law” (《中華人民共和國勞動合同法》), labour contracts in written form shall be executed to establish labour relationships between employees and employers. The employers must provide wages which are no lower than local minimum wage standards to the employees from time to time. The employers are required to establish a system for labour safety and sanitation, strictly abide by State rules and standards and provide relevant education to the employees. The employers are also required to provide the employees with labour safety and sanitation conditions meeting State rules and standards and carry out regular health examinations of the employees engaged in hazardous occupations.

As required under the Decision of the State Council on Establishing the Unified Basic Pension Insurance System for the Employees of Enterprises, the Decision of the State Council on Establishing the Basic Medical Insurance System for the Urban Employees, the Regulation on Work-related Injury Insurance, the Provisional Insurance Measures for Maternity of Employees, the Interim Regulation on the Collection and Payment of Social Insurances Premiums and the Interim Provisions on Registration of social insurances, the employers are obliged to provide the employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance.

The “PRC Production Safety Law” (《中華人民共和國安全生產法》) requires that the employers maintain safe production conditions as required by the PRC Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. It further provides that any entity that is not sufficiently equipped to ensure safe production may not engage in production and business operation activities, and that companies must provide production safety education and training programs to employees. The design, manufacture, installation, use, checking and maintenance of the safety equipment are required to conform to applicable national or industrial standards. In addition, it is required that labour protection equipment must meet the national or industrial standards and that companies must supervise and educate their employees to wear or use such equipment according to the prescribed rules.

#### **Social Insurances and Housing Fund**

Pursuant to the relevant rules and regulations under the PRC law, enterprises and employees both are required to make contribution payment to provide employees for pension insurance, medical insurance, unemployment insurance and housing fund at

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respective rate. At the same time, enterprises shall make contribution to provide employees with coverage for work-related injury insurance and maternity insurance. As the economics and social development levels vary in different part of the PRC, the implementation of laws and regulations of relevant social insurances and housing fund vary among each local government.

As at 31 December 2011, the Company had a total of 2,141 full-time staff. The Company have entered into labour contracts with 573 out of our 2,141 full-time staff members while the remaining 1,568 employees were dispatched from Zibo Kangye pursuant to the relevant labour sourcing agreements with Zibo Kangye.

According to the labour sourcing agreements entered into by each of Yinshilai Textile and Huiyin Textile with Zibo Kangye, we shall make contribution for work-related injury insurance for those outsourced employees, while the other social insurances (including the pension insurance, medical insurance, unemployment insurance and maternity insurance) and the housing fund shall be contributed by Zibo Kangye which will be reimbursed by us in relation to the employees they respectively dispatched to us.

Yinshilai Textile and Huiyin Textile should make contribution to all social insurance payments (including pension insurance, medical insurance, unemployment insurance, maternity insurance and work-related injury insurance) and housing fund for the employees that have labour contract with them, which amounted to 573 staff as at 31 December 2011 and make contribution to work-related injury insurance for the 1,568 staff dispatched by Zibo Kangye.

Yinshilai Textile and Huiyin Textile has not made social insurances contribution, including work-related injury insurance contribution, and housing fund contribution in full for the employees who have entered into the labour contract with the Company in the [ • ] and the workforce it sourced from Zibo Kangye as and/or when required. As at 31 December 2011, the outstanding amount for social insurances contribution, including work-related injury insurance contribution, for the employees who entered into labour contracts with the Company as well as the workforce sourced from local labour stations was RMB9,631,518.94. The outstanding amount for housing fund contribution for the employees who entered into labour contracts with the Company was RMB2,407,062.5.

According to “Interim Regulation on the Collection and Payment of Social Insurances Premiums” promulgated by the State Council on 22 January 1999, enterprises should make social insurances registration with relevant local authorities. Enterprises which have not paid the social insurances contributions or have not contributed to social insurances payments on behalf of employees according to the rules will be required to pay such amounts by the relevant labour insurance administrative departments or tax authorities within required period. If the payment is not made within the required period, in addition to payment of the outstanding amount, a late charge calculated at 0.2% per day of the outstanding amount will be charged from the date of the default payment. For those enterprises which fail to make payment of any social insurances contributions and (or) any late charges, the relevant government agencies will apply to the People’s Court to make a collection enforceable by law.

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According to “Social Insurances Law of PRC” promulgated by the Standing Committee on 28 October 2010, the administrative department of social insurances under the State Council shall be responsible for the administration of the national social insurances, and other relevant departments under the State Council shall be responsible for social insurances within their respective competence. Administrative departments of social insurances of people’s governments at or above the county level shall be responsible for the administration of social insurances within their jurisdiction, and other relevant departments of social insurances of people’s governments at or above the county level shall be responsible for social insurances within their respective competence. Employees shall participate in basic pension insurance, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance schemes.

The social insurances agency shall collect social insurances premiums in full and on time in accordance with the aforesaid law, and regularly report the relevant details with respect to the same to employers and individuals.

According to “Administrative Requirements for Housing Fund” (《住房公積金管理條例》) promulgated by the State Council on 3 April 1999 (amended on 24 March 2002), enterprises should register with the Housing Fund Management Centre (住房公積金管理中心) and open a housing fund account. The housing fund contributed by enterprises and employees shall not be less than 5% of the average monthly wages of the previous year. Enterprises which do not make requisite registration or complete procedures to open relevant accounts to make housing fund contributions for their employees will be ordered by the Housing Fund Management Centre to make such payment or complete such procedures within a required period, or be subject to a penalty of no less than RMB10,000 and no more than RMB50,000. Enterprises which have not paid or fully paid the housing fund will be ordered by the Housing Fund Management Centre to made such payment within a required period or potentially be subject to the People’s Court’s possible ruling to enforce such payment obligation.

Yinshilai Textile and Huiyin Textile obtained confirmation letters issued by Boshan Human Resources and Socail Security Bureau of Zibo (淄博市博山區人力資源和安全保障局) (“**Boshan Social Insurances Bureau**”) on 10 August 2011 and 13 June 2012 separately, which confirmed that Yinshilai Textile and Huiyin Textile (i) would not be requested to make the outstanding contributions; (ii) would not be subject to any penalties; and (iii) had complied with the relevant social insurances laws and regulations since April 2011.

Save for disclosed above and in the document, Yinshilai Textile and Huiyin Textile comply with all relevant laws and regulations related to social insurances and housing fund payment. As at the Latest Practicable Date, Yinshilai Textile and Huiyin Textile have not received any complaints or requests from its employees requiring payment for the social insurances and housing fund, and have not received any relevant legal documents issued by any organization handling employment disputes or any court in respect of disputes related to the social insurances and housing fund payments.

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**9. ENVIRONMENTAL PROTECTION REGULATIONS**

In accordance with the “Environmental Protection Law of the PRC” (《中華人民共和國環境保護法》) adopted by the Standing Committee on 26 December 1989, the Administration Supervisory Department of Environmental Protection sets the national guidelines for the discharge of pollutants. The provincial and municipal governments of provinces, autonomous regions and municipalities may also set their own guidelines for the discharge of pollutants within their own provinces or districts in the event that the national guidelines are inadequate.

A company or an enterprise which causes environmental pollution and discharges other polluting materials which endanger the public should implement environmental protection methods and procedures into their business operations. This may be achieved by setting up a system of accountability within the company’s business structure for environmental protection; adopting effective procedures to prevent environmental hazards such as waste gases, water and residues, dust powder, radioactive materials and noise arising from production, construction and other activities from polluting and endangering the environment. The environmental protection system and procedures should be implemented simultaneously with the commencement of and during the operation of construction, production and other activities undertaken by the company. Any company or enterprise which discharges environmental pollutants should report and register such discharge with the Administration Supervisory Department of Environmental Protection and pay any fines imposed for the discharge. A fee may also be imposed on the company for the cost of any work required to restore the environment to its original state. Companies which have caused severe pollution to the environment are required to restore the environment or remedy the effects of the pollution within a prescribed time limit. If a company fails to report and/or register the environmental pollution caused by it, it will receive a warning or be penalized.

Companies which fail to restore the environment or remedy the effects of the pollution within the prescribed time will be penalized or have their business licences terminated. Companies or enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, as well as to compensate for any losses or damages suffered as a result of such environmental pollution.

Under the “Prevention and Control of Water Pollution Law of the PRC” (《中華人民共和國水污染防治法》), companies which discharge pollutants directly or indirectly into bodies of water must register with the environmental protection department of the local government at county level or above in the area where they are situated. Such companies must provide information on their facilities which discharge such pollutants, their treatment plants, the type, amount and concentration of the pollutants discharged under normal business operations, in accordance with regulations set by the Administration Supervisory Department of Environmental Protection. If there are significant changes to the type, amount or concentration of pollutants being discharged, such changes must be reported immediately.

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The dismantling or non-usage of pollution treatment plants also require the approval of the environmental protection department of the local government at county level or above.

Under the “Prevention and Control of Atmospheric Pollution Law of the PRC” (《中華人民共和國大氣污染防治法》), companies which discharge pollutants into the atmosphere must provide details of the discharge to the environmental protection department of the local government. Such details must include the facilities which discharge such pollutants, their treatment plants, the type, amount and concentration of the pollutants discharged under normal business operations, in accordance with regulations made by the Administration Supervisory Department of Environmental Protection. If there are significant changes to the type, amount or concentration of pollutants being discharged, such changes must be reported immediately. The dismantling or non-usage of pollution treatment plants also requires the approval of the environmental protection department of the local government.

Under the “Prevention and Control of Solid Waste Pollution Law of the PRC” (《中華人民共和國固體廢物污染環境防治法》), companies which discharge solid waste pollution shall be responsible for their pollution. Companies must register with the local relevant authority for their solid waste pollution, and must provide information in relation to the type, amount, discharge and treatment of such pollution, in accordance with regulations made by the Administration Supervisory Department of Environmental Protection. If there are significant changes to the type, amount or concentration of pollutants being discharged, such changes must be reported immediately. The dismantling or non-usage of pollution treatment plants also requires the approval of the environmental protection department of the local government.

## **10. LAWS, REGULATIONS AND POLICIES RELATED TO THE TEXTILE INDUSTRY**

There are currently no specific laws or regulations governing the production and distribution of textile industry in the PRC. Foreign-invested enterprises engaging in such businesses are subject to the requirements prescribed in various legislations applicable to textile products.

According to the “Catalogue of Industries for Guiding Foreign Investment” (Revised in 2011) (《外商投資產業指導目錄》) (2011年修訂) issued by MOFCOM and NDRC on 24 December 2011, which will become effective on 30 January 2012, the production of textile products does not belong to “Prohibited” or “Restricted” categories.



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On 19 November 2008, the PRC government declared 6 measures below to promote the healthy development of light textile industry:

**(a) Fiscal subsidies to stimulate domestic consumption**

The PRC government will introduce fiscal subsidies with the key objective to stimulate domestic consumption and promote production in the PRC for domestic consumption. These include offering fiscal subsidies to peasants for buying domestic appliances, and increasing financial support to the quake-stricken areas and frontier ethnic minority regions.

**(b) Setting aside special funds to support small and medium textile enterprises**

The PRC government will set aside special funds to support small and medium textile enterprises with the key objective of creating job opportunities, economic and social efficiency and also to attract more investment in the light textile industry.

**(c) Reducing tax burden and increasing export tax rebate**

The PRC government plans to reduce the tax burden on small and medium textile enterprises so as to ease cost pressure. It will also continue to increase export tax rebate on textiles, clothing and light industrial products.

The export tax rebate for certain textile products, garments and home furnishing products such as curtains and bed linens has been increased from 11% to 13% commencing from 1 August 2008, then to 14% with effect from 1 November 2008, then to 15% with effect from 1 February 2009, and is 16% since 1 April 2009 up to now.

**(d) Strong support for enterprises to develop international markets and trade development fund to support merger and acquisitions, research and development and marketing activities**

To strengthen the light textile industry, the PRC government has expressed strong support for small and medium enterprises in the light textile industry to develop international markets. Further, a trade development fund will be set up to support merger and acquisition, research and development and marketing activities in the industry.

**(e) Encouraging bank support**

The PRC government encourages and will guide financial institutions to enhance the financial support for small and medium enterprises in the PRC. This will include measures such as advocating financial institutions to provide more lending and simplify approval process, and developing the export credit insurance business to small and medium textile enterprises.

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### (f) Funds set aside to promote technological transformation

The PRC government will emphasize on the technological transformation of light textile industry and promote industrial upgrading. Small and medium textile enterprises are encouraged to strengthen their research and development capability and improve market competitiveness. A central budget fund will be set aside for this purpose.

According to the “Guiding Catalog for Adjustment in the Structure of Industries” (2011 version) (《產業結構調整指導目錄(2011年本)》), recently promulgated by the NDRC, our production facilities do not fall within the “Prohibited” or “Restricted” category of the catalog.

## 11. SUMMARY OF RELEVANT LAWS AND REGULATIONS ON IMPORTS OF COTTON AND EXPORTS OF TEXTILE PRODUCTS

### (1) Relevant Regulations on Imports of Cotton

According to the “Regulation of the People’s Republic of China on the Administration of Import and Export of Goods” (《中華人民共和國貨物進出口管理條例》) promulgated by the State Council of the People’s Republic of China (“**State Council**”) on 10 December 2001, enterprise that import goods which are subject to tariff and quotas should apply for quotas with relevant administrative department to obtain certificates for tariff and quotas.

In order to fulfil the commitments to reduce tariff made by the PRC when entering into the World Trade Organization and “Bangkok Agreement” (《曼谷協定》), on 21 December 2001, the Customs Tariff Commission of the State Council (“**Customs Tariff Commission**”) issued the “Notice of the Customs Tariff Commission of the State Council on the Implementation of the Customs Tariff of 2002” (《國務院關稅稅則委員會關於2002年關稅實施方案的通知》), pursuant to the said notice, starting from 1 January 2002, imported cotton will subject to tariff quotas management, and corresponding in-quota rates and out-of-quota rates were also came into effect. Imported cotton within tariff quotas were subject to applicable 1% tax rate, while the imported cotton not that out of the tariff quotas were subject to applicable 54.4% Most Favoured Nation rate and 125% general tax rate.

According to the “Interim Measures for the Administration of Import Tariff Quotas of Agricultural Products” (《農產品進口關稅配額管理暫行辦法》) (“**Interim Measures**”) promulgated by MOFCOM and NDRC on 27 September 2003, cotton is one of the agricultural products that subject to import tariff quota. Except for foreign products that went to bonded warehouses, bonded areas and export processing zones can be waived to obtain the “Certificates of Import Tariff Quotas for Agricultural Products” (《農產品進口關稅配額證》), enterprises that import cotton for normal trade, process trade, barter trade, small scale border trade, subsidy, donation, etc. should apply for import tariff quotas for agricultural products with the organizations authorised by NDRC and obtain the Certificates of Import Tariff Quotas for Agricultural Products (effective for one calendar year).



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Pursuant to the above interim measures, the organizations authorised by NDRC will allocate the import tariff quotas of agricultural products according to the application amounts and the historical import record, productivity, other related business standard of the applicants or using the first-come-first-serve method.

If end-users holding the import tariff quotas for agricultural products could not fully use up the quotas they applied in that year, they should return the unused quotas to the original issue organizations. The Interim Measures have been declared invalid on 30 June 2011 by NDRC.

On 26 April 2005, the Customs Tariff Commission issued “Notice on the problem using limited interim tariffs to import cotton that exceeds tariff quotas 2005” (《關於2005年在關稅配額外以有數量限制的暫定關稅方式進口棉花問題的通知》). According to the notice, from 1 May 2005 to 31 December 2005, imported cotton which declared as out-of tariff quota will subject to import tariff based on the “limited interim tariff rate” (有數量限制的暫定關稅稅率), the interim tariff rate will be determined using sliding duties method, the tax rate slid range from 5% to 40%.

The Group strictly complied with the relevant requirement when importing cotton, and has obtained the “Certificates of Import Tariff Quotas for Agricultural Products” and the “Certificates of importing cotton with preferential out-of quota rate” (《關稅配額外優惠稅率進口棉花配額證》).

### (2) Relevant Regulations on Exports of Textile Products

According to the “Regulations of the People’s Republic of China on the Administration of Import and Export of Goods” (《中華人民共和國貨物進出口管理條例》) promulgated by the State Council on 10 December 2001, export quotas and export licences system had been implemented on goods that subject to export control. While exporting restricted export goods that subject to export quotas and export licences, exporters should apply for quota certificates and export licences.

According to the “Measures on the Administration of Passive Quotas for Textile Products” (紡織品被動配額管理辦法) (“**Measures**”) promulgated by the Ministry of Foreign Trade and Economic Cooperation of the People’s Republic of China on 20 December 2001, export quotas and export licences system were implemented on textile products that export to countries which has imposed restrictions, such as the European Union and the United States. The systems are subject to the supervision of the Customs and under the examination of the entry-exit inspection and quarantine authorities according to relevant requirements. Exporting companies may acquire the export quotas through various means such as tendering, self-applications and allocation by performance. Exporting companies should return any unused export quotas to the original issue authority. Quotas acquired through tendering, self-applications and allocation by performance may be transferred in accordance with the above Measures and relevant provisions.

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According to the 2004 Announcement No. 82 of the Ministry of Commerce and General Administration of Customs, under the relevant provisions stipulated in the “Agreement on textile products and clothing” (《紡織品與服裝協議》) of the World Trade Organization in respect of the integration of textile products quotas and China’s World Trade Organization Accession Protocol (《中國加入世界貿易組織議定書》), countries previously imposing restrictions on textiles export from China, such as the European Union and the United States, had lifted the export quota imposed on China since 1 January 2005.

On 18 September 2006, the Ministry of Commerce promulgated the “Measures for the Administration of the Export of Textiles (Provisional)” (紡織品出口管理辦法(暫行)) (“**Provisional Measures**”). According to the Provisional Measures, interim export control had been implemented on textiles products listed in the “Catalogue of Textile Exports Subject to Provisional Administration” (《紡織品出口臨時管理商品目錄》) (“**Exports Catalogue**”). While exporting textile products listed in the Exports Catalogue, foreign trade companies should apply to the local commerce authorities for a “Provisional Export Licence for Textile Products”. As for commodities that subject to the provisional export licence administration, foreign trade companies should apply to the organizations authorised by the General Administration of Quality Supervision, Inspection and Quarantine (“**General Administration of Quality Supervision**”) for the certificate of country of origin for the products after acquiring the “Provisional Export Licence for Textiles Products” (紡織品臨時出口許可證).

Provisional export quotas on textile products is assigned to foreign trade companies by commerce authorities through various means such as allocation by performance and tendering agreement. Provisional export quotas for textile products are allowed to transfer through the transfer platform of provisional export quotas. Should the provisional export quotas were not fully used up within the valid period of the provisional export quota, foreign trade companies should return the remaining provisional quotas to the commerce authorities.

On 14 December 2006, the Ministry of Commerce, General Administration of Customs and General Administration of Quality Supervision issued the 2006 Announcement No. 106, announcing a new “Catalogue of Textile Exports to the United States Subject to Provisional Administration” (《輸美紡織品出口臨時管理商品目錄》) and “Catalogue of Textile Exports to the European Union Subject to Provisional Administration” (《輸歐盟紡織品出口臨時管理商品目錄》) to replace the above Export Catalogue.

The United States and the European Union imposed import restrictions on textiles from China to reduce the impact of an influx of Chinese textiles imports according to the relevant provisions of the special safeguards on importing textiles from China stipulated under the paragraph 242 of the Report of the Working Party on the Accession of China to the WTO (《中國加入世貿組織工作組報告書》). To settle the trade disputes with both the United States and European Union, the PRC government entered into memoranda of understanding with the United States and European Union

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**APPENDIX V****DESCRIPTION OF RELEVANT PRC LAWS AND REGULATIONS**

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respectively in 2005 which prescribed annual quotas and caps on annual increases of quotas on 21 categories and 10 categories of Chinese textiles imports into the United States and European Union.

According to the memoranda of understanding entered into between the European Union and China, management over the export quantity of 10 categories of textile products exported to European Union will be lifted as from 1 January 2008 and export licence management over 8 categories of textile products exported to European Union members shall be carried out as from 1 January 2008, and shall be ended as from 31 December 2008.

On 31 December 2008, the memoranda of understanding entered into between the European Union and China, and the United States and China expired. Since 1 January 2009, the Ministry of Commerce no longer imposed administration on the export amount and quota licence on the 21 categories of textile products exported to the United State and the 8 categories of textile products under bilateral control exported to the European Union.

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## **APPENDIX VI**

## **STATUTORY AND GENERAL INFORMATION**

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### **FURTHER INFORMATION ABOUT OUR COMPANY**

#### **1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands under the Cayman Islands Companies Law as an exempted company with limited liability under the name Silverman Tech Holdings Limited (銀仕來科技控股有限公司) on 24 February 2010. On 21 October 2011, the name of our Company was changed to Silverman Holdings Limited (銀仕來控股有限公司).

We have been registered in Hong Kong under Part XI of the Hong Kong Companies Ordinance as a non-Hong Kong company and our principal place of business in Hong Kong is at 3907-08, 39/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong. In compliance with the requirements of the Hong Kong Companies Ordinance, Ms. CHAN Yin Wah, the company secretary of our Company, has been appointed as our agent for the acceptance of service of process and any notice required to be served on our Company in Hong Kong.

Our Company was incorporated in the Cayman Islands and is subject to Cayman Islands law and its constitution comprising a memorandum of association and articles of association. A summary of certain relevant parts of its constitution and certain relevant aspects of Cayman Islands Companies Law is set out in Appendix IV to this document.

#### **2. Changes in share capital of our Company**

- (i) As of the date of incorporation of our Company on 24 February 2010, our authorized share capital was US\$50,000 divided into 50,000 Shares having a par value of US\$1.00 each. On the same date, one Share with par value of US\$1.00 each was allotted and issued as fully paid at par to Offshore Incorporations (Cayman) Limited, which was then transferred to Excel Orient.
- (ii) On 18 June 2011, 9,999 Shares were allotted and issued as fully paid at par to Excel Orient.
- (iii) On 19 June 2011, pursuant to the Deeds of Loan (as supplemented), Excel Orient transferred 723 and 619 Shares to Sunlion and Solemnity, respectively. Upon completion of the transfer, the equity interest of our Company was owned as to 86.58%, 7.23% and 6.19% by Excel Orient, Sunlion and Solemnity, respectively.
- (iv) [ • ]
- (v) [ • ]

Other than pursuant to the exercise of the [ • ] and the exercise of any options which may be granted under the [ • ], there is no present intention to issue any of the authorized but unissued share capital of our Company and, without the prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

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## **APPENDIX VI**

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Save as disclosed in this document and in the paragraph 4 of this Appendix, there has been no alteration in the share capital of our Company since its incorporation.

Our Company has no founder shares, management shares or deferred shares.

### **3. Resolutions in writing of our Shareholders passed on 26 June 2012**

Written resolutions were passed by our Shareholders on 26 June 2012 pursuant to which, among other matters:

- (a) our Company approved and adopted the Articles of Association;
- (b) [ • ]
- (c) [ • ]
  - (i) [ • ]
  - (ii) [ • ]
  - (iii) [ • ]
  - (iv) a general unconditional mandate was given to the Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles of Association, or pursuant to the exercise of any options which may be granted under the [ • ], or under the [ • ] or the [ • ] or upon the exercise of the [ • ], Shares with an aggregate nominal amount of not exceeding the sum of (aa) 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the [ • ] and the [ • ] but excluding any Shares which may be issued pursuant to the exercise of the [ • ], and (bb) the aggregate nominal amount of the share capital of our Company which may be purchased by our Company pursuant to the authority granted to the Directors as referred to in subparagraph (v) below, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association, the Cayman Islands Companies Law or any other applicable Cayman Islands law to be held, or the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to the Directors, whichever occurs first;
  - (v) a general unconditional mandate (the “[ • ]”) was given to the Directors to exercise all powers of our Company to purchase or repurchase Shares on the [ • ] or other [ • ] on which the securities of our Company may be listed and recognized by the [ • ] and the [ • ] for this purpose, with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following the

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## **APPENDIX VI**

## **STATUTORY AND GENERAL INFORMATION**

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completion of the [ • ] and the [ • ] but excluding any Shares which may be issued pursuant to the exercise of the [ • ] until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to the Directors, whichever occurs first; and

- (vi) the extension of the general mandate to allot, issue and deal with Shares pursuant to sub-paragraph (iv) above to include the nominal amount of Shares which may be purchased or repurchased pursuant to sub-paragraph (v) above.
- (d) We approved the form and substance of each of the service agreements made between our executive Directors and us, and the form and substance of each of the appointment letters made between each of our non-executive Director and independent non-executive Directors with us.

### **4. Group reorganization**

Our Group underwent the Reorganization prior to the [ • ] which involved the following steps:

- (a) establishment of our offshore shareholding structure; and
- (b) restructuring of our PRC operating subsidiaries.

For further details of the Reorganization, please refer to the paragraph headed “Reorganization” in the section headed “History, Reorganization and Group Structure” in this document.

### **5. Changes in share capital and shareholdings of the subsidiaries of the Company**

The following sets out the changes in the share capitals or changes in shareholdings of the subsidiaries of our Company during the two years preceding the date of this document:

*Zibo Yinshilai Textile Co., Ltd. (淄博銀仕來紡織有限公司)*

- (a) Pursuant to an equity transfer agreement dated 2 April 2010 entered into between Yinshan Chemical Fiber and HK YSL, HK YSL agreed to acquire 75% equity interest in Yinshilai Textile from Yinshan Chemical Fiber in consideration of RMB110,000,000.
- (b) Pursuant to an equity transfer agreement dated 2 April 2010 entered into between Top Grade and HK YSL, HK YSL agreed to acquire 25% equity interest in Yinshilai Textile from Top Grade in consideration of RMB36,600,000.
- (c) Upon completion of the equity transfers on 16 April 2010, the registered capital of Yinshilai Textile was owned as to 100% by HK YSL.



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- (d) Save as disclosed above, there was no change in the share capital of Yinshilai Textile within two years immediately preceding the date of issue of this document.

*Zibo Huiyin Textile Co., Ltd. (淄博匯銀紡織有限公司)*

- (a) Pursuant to an equity transfer agreement dated 2 April 2010 entered into between Tianrui Investment and HK Huiyin, HK Huiyin acquired 75% equity interest in Huiyin Textile from Tianrui Investment in consideration of RMB67,280,000.
- (b) Pursuant to an equity transfer agreement dated 2 April 2010 entered into between Angel Dyeing and HK Huiyin, HK Huiyin acquired 25% equity interest in Huiyin Textile from Angel Dyeing in consideration of RMB22,430,000.
- (c) Upon completion of the equity transfers on 16 April 2010, the registered capital of Huiyin Textile was owned as to 100% by HK Huiyin.
- (d) Save as disclosed above, there was no change in the share capital of Huiyin Textile within two years immediately preceding the date of issue of this document.

*YSL (HK) Limited (銀仕來(香港)有限公司)*

- (a) On 1 March 2010, HK YSL was incorporated in Hong Kong as a limited liability company with an authorized share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. Upon its incorporation, the entire equity interest in HK YSL was owned by Power Fit.
- (b) Save as disclosed above, there was no change in the share capital of HK YSL within two years immediately preceding the date of issue of this document.

*Huiyin (HK) Limited (匯銀(香港)有限公司)*

- (a) On 1 March 2010, HK Huiyin was incorporated in Hong Kong as a limited liability company with an authorized share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. Upon its incorporation, the entire equity interest in HK Huiyin was owned by Swift Power.
- (b) Save as disclosed above, there was no change in the share capital of HK Huiyin within two years immediately preceding the date of issue of this document.

*Power Fit Limited (力健有限公司)*

- (a) On 8 January 2010, Power Fit was incorporated in the BVI with an authorized share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. One share with par value of US\$1.00 was allotted and issued as fully paid at par to Wellex Management Limited on 8 February 2010.



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- (b) On 25 February 2010, the issued one share in Power Fit was transferred to our Company by Wellex Management Limited for a consideration of US\$1.00. Upon completion of the share transfer, Power Fit was owned as to 100% by our Company.
- (c) Save as disclosed above, there was no change in the share capital of Power Fit within two years immediately preceding the date of issue of this document.

*Swift Power Limited (力迅有限公司)*

- (a) On 8 January 2010, Swift Power was incorporated in the BVI with an authorized share capital of US\$50,000 divided into 50,000 shares of US\$1 each. One share with par value of US\$1.00 was allotted and issued as fully paid at par to Wellex Management Limited on 8 February 2010.
- (b) On 25 February 2010, the issued one share in Swift Power was transferred to our Company by Wellex Management Limited for a consideration of US\$1.00. Upon completion of the share transfer, Swift Power was owned as to 100% by our Company.
- (c) Save as disclosed above, there was no change in share capital of Swift Power within two years immediately preceding the date of issue of this document.

The subsidiaries of our Company are listed in the accountants’ report set out in Appendix I to this document.

Save as disclosed herein and in paragraph 4 of this Appendix, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this document.

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### 6. Further information about our Group’s PRC establishment(s)

The Company has the following subsidiaries established in the PRC, the basic information of which as of the Latest Practicable Date is set out below:

*Zibo Yinshilai Textile Co., Ltd.* ( 淄博銀仕來紡織有限公司)

- |        |                          |   |                                                                                                                                                                                                                                                                                                                                                                                                                    |
|--------|--------------------------|---|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (i)    | Date of Establishment    | : | 1 December 1999                                                                                                                                                                                                                                                                                                                                                                                                    |
| (ii)   | Registered Office        | : | Yinlong Village, Economic Development Zone, Boshan District, Zibo City, Shandong Province, the PRC ( 淄博市博山區經濟開發區銀龍村)                                                                                                                                                                                                                                                                                               |
| (iii)  | Corporate nature         | : | Limited liability company (solely invested by Hong Kong, Macau and Taiwan legal person)                                                                                                                                                                                                                                                                                                                            |
| (iv)   | Registered share capital | : | US\$12,400,000                                                                                                                                                                                                                                                                                                                                                                                                     |
| (v)    | Term of operation        | : | 1 December 1999 to 30 November 2014                                                                                                                                                                                                                                                                                                                                                                                |
| (vi)   | Legal representative     | : | Mr. LIU Dong                                                                                                                                                                                                                                                                                                                                                                                                       |
| (vii)  | Shareholder(s)           | : | HK YSL (100%)                                                                                                                                                                                                                                                                                                                                                                                                      |
| (viii) | Scope of business        | : | Design, develop and manufacture of high-end and new type home textile fabric and products, new type garment textile fabric and products, cotton yarns as well as functional and differential fiber, and sale of self-developed products (for projects which requires approvals and permits from relevant PRC authorities, production and operation could only be conducted within the permitted or approved scope) |

*Zibo Huiyin Textile Co., Ltd.* ( 淄博匯銀紡織有限公司)

- |       |                          |   |                                                                                                           |
|-------|--------------------------|---|-----------------------------------------------------------------------------------------------------------|
| (i)   | Date of Establishment    | : | 9 June 2006                                                                                               |
| (ii)  | Registered Office        | : | Middle Section, West Guojing Road, Boshan District, Zibo City, Shandong Province, the PRC ( 淄博市博山區西過境路中段) |
| (iii) | Corporate nature         | : | Limited liability company (solely invested by Hong Kong, Macau and Taiwan legal person)                   |
| (iv)  | Registered share capital | : | US\$10,400,000                                                                                            |
| (v)   | Term of operation        | : | 9 June 2006 to 6 June 2018                                                                                |
| (vi)  | Legal representative     | : | Ms. WANG Lingli                                                                                           |
| (vii) | Shareholder(s)           | : | HK Huiyin (100%)                                                                                          |

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- (viii) Scope of business : Manufacture of pure/silky/polyester cotton blended fabrics and color fabrics, trimming and sale of self-developed products (for projects which requires approvals and permits from relevant PRC authorities, production and operation could only be conducted within the permitted or approved scope)

### 7. Securities [ • ]

This paragraph includes information required by the [ • ] to be included in this document concerning the repurchase by our Company of its own securities.

#### *(a) Shareholders’ approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the [ • ] must be approved in advance by an ordinary resolution of the shareholder, either by way of general mandate or by specific approval of a particular transaction.

*Note:* Pursuant to a resolution in writing passed by our Shareholders on 26 June 2012, the [ • ] was given to the Directors authorizing any repurchase by our Company of Shares on the [ • ] or any other [ • ] on which the securities of our Company may be listed and which is recognized by the Securities and Futures Commission of Hong Kong and the [ • ] for this purpose, of up to 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the [ • ] and the [ • ] but excluding any Shares which may be issued pursuant to the exercise of the [ • ] and the [ • ], such mandate to expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or applicable Cayman Islands law to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to the Directors, whichever occurs first.

#### *(b) Source of funds*

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Memorandum and Articles of Association, the [ • ] and the applicable laws of the Cayman Islands.

Repurchases must be paid out of funds legally available for the purpose in accordance with the Memorandum and Articles of Association and the Cayman Islands Companies Law. A listed company may not repurchase its own securities on the [ • ] for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the [ • ] from time to time. Under the Cayman Islands laws, any repurchases by our Company may be made out of profits of our Company or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if so authorized by the Articles of Association and subject to the provisions of the Cayman Islands Companies Law, out of capital.

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Any premium payable on a redemption or purchase over the par value of the Shares to be purchased must be provided for out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, if authorized by the Articles of Association and subject to the provisions of the Cayman Islands Companies Law, out of capital.

*(c) Reasons for repurchases*

The Directors believe that it is in the best interest of our Company and the Shareholders for the Directors to have general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value [ • ] and/or earnings [ • ] and will only be made if the Directors believe that such repurchases will benefit our Company and the Shareholders.

*(d) Impact of repurchases*

On the basis of the current financial position of our Group as disclosed in this document and taking into account the current working capital position of our Group, the Directors consider that, if the [ • ] were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this document. However, the Directors do not propose to exercise the [ • ] to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of the Directors are from time to time appropriate for our Group.

*(e) Takeovers Code*

The exercise in full of the [ • ], on the basis of [ • ] Shares in issue immediately after the [ • ], would result in up to [ • ] Shares being repurchased by our Company during the period in which the [ • ] remains in force.

If, as a result of a securities repurchase, a Shareholder’s proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert (within the meaning under the Takeovers Code), depending on the level of increase of the Shareholders’ interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of a repurchase of Shares made after the [ • ].

The Directors are not aware of any other consequences of the repurchases which would give rise under the Takeovers Code immediately after the [ • ].

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### *(f) General*

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their [•] currently intends to sell any Shares to our Company or our subsidiaries.

The Directors have undertaken to the [•] that, so far as the same may be applicable, they will exercise the [•] in accordance with the [•], the Articles of Association and the applicable laws of the Cayman Islands.

Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than the prescribed percentage of the Shares than in issue may only be implemented with the approval of the [•] to waive the [•] requirements regarding the public shareholding referred to above. However, the Directors do not propose to exercise the [•] to such an extent that, in the circumstances, there is insufficient public float as prescribed under the [•].

The Directors will not exercise the [•] if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the [•]).

No [•] (as defined in the [•]) of our Company has notified our Company that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so if the [•] is exercised.

## **FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY**

### **8. Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this document and are or may be material:

- (a) a deed of loan (貸款契約) in Chinese dated 23 November 2010 and entered into between our Company as borrower and Excel Orient as lender, pursuant to which Excel Orient agreed to provide an interest-free loan at the sum of HK\$194,450,000 to our Company for a term of five years;
- (b) a deed of loan (貸款契約) in Chinese dated 1 April 2011 and entered into between our Company as borrower and Excel Orient as lender, pursuant to which Excel Orient agreed to provide an interest-free loan at the sum of HK\$78,860,000 to our Company for a term of five years;

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- (c) an asset transfer agreement (資產轉讓協議) in Chinese dated 1 April 2011 between Yinlong Industrial and Yinshilai Textile in relation to the Yinlong Assets Acquisition, the particulars of which are set out in the paragraph headed “Relationship with Yinlong Industrial” in the section headed “Our Relationship with Controlling Shareholders” in this document;
- (d) a deed of waiver (豁免契約) in Chinese dated 14 March 2012 between Excel Orient and our Company in respect of the waiver of certain loan owed by our Company to Excel Orient;
- (e) an agreement in Chinese dated 25 June 2012 between Mr. LIU Dong, Yinlong Industrial, Yinshan Chemical Fiber and Yinshilai Textile in relation to, amongst others, the Outstanding Settlement Arrangement;
- (f) a deed of indemnity dated 25 June 2012 and executed by Mr. LIU Dong and Excel Orient in favor of our Company (for ourselves and as trustee for our subsidiaries stated therein) containing the indemnities more particularly referred to in paragraph 15 of this Appendix;
- (g) a deed of non-competition dated 25 June 2012 between Mr. LIU Dong and Excel Orient as the Controlling Shareholders in favour of the Company in respect of certain non-competition undertakings given by the Controlling Shareholders in favour of the Group; and
- (h) the [ • ].

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### 9. Intellectual property rights of our Group

#### (a) Trademark

As at the Latest Practicable Date, our Group is the registered proprietor and beneficial owner of the following trademarks:

| No. | Trademark                                                                           | Place of Registration | Class                | Registration Number | Duration of Validity          | Registered Owner     |
|-----|-------------------------------------------------------------------------------------|-----------------------|----------------------|---------------------|-------------------------------|----------------------|
| 1.  |    | PRC                   | 23 ( <i>Note 1</i> ) | 5345525             | 7 July 2009–<br>6 July 2019   | Yinshilai<br>Textile |
| 2.  |    | PRC                   | 23 ( <i>Note 1</i> ) | 5345526             | 7 July 2009–<br>6 July 2019   | Yinshilai<br>Textile |
| 3.  |    | PRC                   | 24 ( <i>Note 2</i> ) | 5345523             | 14 July 2009–<br>13 July 2019 | Yinshilai<br>Textile |
| 4.  |  | PRC                   | 24 ( <i>Note 2</i> ) | 5345524             | 14 July 2009–<br>13 July 2019 | Yinshilai<br>Textile |
| 5.  |  | Hong Kong             | 24 ( <i>Note 3</i> ) | 301883494           | 8 April 2011–<br>7 April 2021 | The<br>Company       |

*Notes:*

- The specific goods under Class 23 are cotton thread and yarn; spun cotton; rayon thread and yarn; threads of plastic materials for textile use; filament; rayon thread; thread; spun thread and yarn; elastic thread and yarn for textile use; spun wool.
- The specific goods under Class 24 are fabric; cotton fabric; calico; taffeta (textile); oxford; metal cotton (space cotton); band (wall-hanging); bed clothes; bedspread (textile); curtain holders of textile material.
- The specific goods under Class 24 are fabric; cotton fabric; calico; taffeta (textile); oxford; metal cotton (space cotton); band (wall-hanging); bed clothes; bedspread (textile); curtain holders of textile material; textiles and textile goods, not included in other classes; bed and table covers.



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### (b) Patents

As at the Latest Practicable Date, our Group is the registered proprietor and beneficial owner of the following patents:

| No. | Patent                                                               | Type of Patent    | Place of Registration | Registration Number | Expiry Date       | Registered Owner  |
|-----|----------------------------------------------------------------------|-------------------|-----------------------|---------------------|-------------------|-------------------|
| 1   | Sizing Machine Head Roller Gripper (漿紗機頭經軸夾持器)                       | Utility model     | PRC                   | ZL200720025439.5    | 19 July 2017      | Yinshilai Textile |
| 2   | Carding Machine Faucet Cleaner (梳棉機龍頭清潔器)                            | Utility model     | PRC                   | ZL200720017636.2    | 16 January 2017   | Yinshilai Textile |
| 3   | Comb Guiding Device of Carding Machine (梳棉機用導梳裝置)                    | Utility model     | PRC                   | ZL200720017633.9    | 16 January 2017   | Yinshilai Textile |
| 4   | Stäubli Looms — Single-width to Double-width Method (史陶比爾織機單幅改雙幅的方法) | Invention         | PRC                   | ZL200710113020.X    | 19 September 2027 | Yinshilai Textile |
| 5   | Jacquard Fabrics (Love in D) (提花織物(D調愛))                             | Appearance design | PRC                   | ZL201030694043.7    | 22 December 2020  | Yinshilai Textile |
| 6   | Jacquard Fabrics (Tranquil Garden) (提花織物(靜謐田園))                      | Appearance design | PRC                   | ZL201030694031.4    | 22 December 2020  | Yinshilai Textile |
| 7   | Jacquard Fabrics (Brilliant Flower) (提花織物(燦爛之花))                     | Appearance design | PRC                   | ZL201030694034.8    | 22 December 2020  | Yinshilai Textile |
| 8   | Jacquard Fabrics (Drunk in Love) (提花織物(情醉))                          | Appearance design | PRC                   | ZL201030694042.2    | 22 December 2020  | Yinshilai Textile |
| 9   | Jacquard Fabrics (First Sight) (提花織物(宛如初見))                          | Appearance design | PRC                   | ZL201030694050.7    | 22 December 2020  | Yinshilai Textile |
| 10  | Jacquard Fabrics (Enchanting) (提花織物(妖嬈))                             | Appearance design | PRC                   | ZL201030694047.5    | 22 December 2020  | Yinshilai Textile |
| 11  | Jacquard Fabrics (Moon Love Bay) (提花織物(月戀灣))                         | Appearance design | PRC                   | ZL201030694044.1    | 22 December 2020  | Yinshilai Textile |
| 12  | Jacquard Fabrics (Summer Night) (提花織物(仲夏夜))                          | Appearance design | PRC                   | ZL201030694039.0    | 22 December 2020  | Yinshilai Textile |
| 13  | Yarn Layered Dyeing Device of Pulp (經漿機紗線分層染色裝置)                     | Utility model     | PRC                   | ZL201020181494.5    | 6 May 2020        | Huiyin Textile    |
| 14  | Droppings Separating Device of Carding Machine (梳棉機後落棉分梳裝置)          | Utility model     | PRC                   | ZL201020181507.9    | 6 May 2020        | Huiyin Textile    |
| 15  | Jacquard Fabrics (Floating Fragrance) (提花織物(暗香浮動))                   | Appearance design | PRC                   | ZL201030693964.1    | 22 December 2020  | Huiyin Textile    |
| 16  | Jacquard fabrics (Butterflies) (提花織物(蝶戀花))                           | Appearance design | PRC                   | ZL201030693970.7    | 22 December 2020  | Huiyin Textile    |
| 17  | Jacquard fabrics (Love the world) (提花織物(戀戀紅塵))                       | Appearance design | PRC                   | ZL201030693978.3    | 22 December 2020  | Huiyin Textile    |
| 18  | Jacquard fabrics (Rosemary) (提花織物(迷迭香))                              | Appearance design | PRC                   | ZL201030693977.9    | 22 December 2020  | Huiyin Textile    |
| 19  | Jacquard fabrics (Fascination) (提花織物(迷情))                            | Appearance design | PRC                   | ZL201030693987.2    | 22 December 2020  | Huiyin Textile    |
| 20  | Jacquard fabrics (Christmas eve) (提花織物(聖誕之夜))                        | Appearance design | PRC                   | ZL201030694032.9    | 22 December 2020  | Huiyin Textile    |
| 21  | Jacquard fabrics (Heart to heart) (提花織物(心相映))                        | Appearance design | PRC                   | ZL201030694014.0    | 22 December 2020  | Huiyin Textile    |

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As at the Latest Practicable Date, the Group is the exclusive licensee for the following registered patents:

| No. | Patent                                                                    | Type of Patent | Place of Registration | Registration Number | Duration of Validity        | Registered Owner                                                                       | Type of Licence Agreement   |
|-----|---------------------------------------------------------------------------|----------------|-----------------------|---------------------|-----------------------------|----------------------------------------------------------------------------------------|-----------------------------|
| 1.  | Extraction Method of Bamboo Shoot Case Fiber for Spinning (紡紗用竹筍殼纖維的提取方法) | Invention      | PRC                   | ZL200710052977.8    | 15 March 2010–14 March 2015 | Wuhan Textile University (formerly known as Wuhan Institute of Science and Technology) | exclusive licence agreement |

As at the Latest Practicable Date, the Group has applied for registration of the following patents:

| No. | Patent                                                                   | Type of Patent | Place of Application | Application Number | Date of Application | Applicant         |
|-----|--------------------------------------------------------------------------|----------------|----------------------|--------------------|---------------------|-------------------|
| 1   | Safety interlock device at the Comber Head (精梳機車頭安全聯鎖裝置)                 | Utility model  | PRC                  | 201120130826.1     | 28 April 2011       | Yinshilai Textile |
| 2   | Automatic stop motion on Drawing Frames when an end breaks (併條機機後斷條自停裝置) | Utility model  | PRC                  | 201120131055.8     | 28 April 2011       | Yinshilai Textile |

### (c) Domain names

As at the Latest Practical Date, our Group is the registered proprietor of the following domain name:

| No. | Domain Names | Date of Registration | Expiry Date     | Registered Owner  |
|-----|--------------|----------------------|-----------------|-------------------|
| 1.  | silverman.cc | 12 October 2010      | 12 October 2013 | Yinshilai Textile |
| 2.  | ysltex.com   | 17 May 2010          | 17 May 2013     | Yinshilai Textile |

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### 10. Connected transactions and related party transactions

Save as disclosed in the sections headed “Business” and “Our Relationship with Controlling Shareholders” and in Note 27 to the Accountants’ Report, the text of which is set out in Appendix I to this document, during the two years immediately preceding the date of this document, our Company has not engaged in any other material connected transactions or related party transactions.

### FURTHER INFORMATION ABOUT DIRECTORS AND SHAREHOLDERS

#### 11. Directors

##### *(a) Disclosure of interests of the Directors*

- (i) Mr. LIU Dong and Mr. YAN Tangfeng are interested in the Reorganization and the transactions as contemplated under the material contracts as set out in paragraph 8 of this Appendix.
- (ii) Save as disclosed in this document, none of the Directors or their [ • ] were engaged in any dealings with our Group during the two years preceding the date of this document.

##### *(b) Particulars of Directors’ service contracts*

###### *Executive Directors*

Each of the executive Directors has entered into a service contract with our Company for a term of three years commencing from the [ • ] until terminated by not less than three months’ notice in writing served by either party on the other. Each of the executive Directors is entitled to a fixed basic salary.

###### *Non-executive Director and Independent Non-executive Directors*

Each of the non-executive Director and independent non-executive Directors has been appointed for a term of three years commencing from the [ • ] until terminated by either party giving not less than three months’ written notice to the other. The appointments are subject to the provisions of the Articles of Association with regard to vacation of office of Directors, removal and retirement by rotation of Directors. Each of the independent non-executive Directors is entitled to a fixed director’s fee whilst Mr. YAN Tangfeng will not receive any remuneration for holding the office as a non-executive Director. Save for directors’ fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

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Save as aforesaid, none of the Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

***(c) Directors remuneration***

- (i) The aggregate emoluments paid and benefits in kind granted by our Group to the Directors in respect of each of the three financial years ended 31 December 2011 were approximately RMB283,000, RMB853,000 and RMB929,000, respectively.
- (ii) Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus) payable by our Group to and benefits in kind receivable by the Directors (including the independent non-executive Directors in their respective capacity as Directors) for the year ending 31 December 2012 are expected to be approximately RMB1.6 million.
- (iii) None of the Directors or any past directors of any member of our Group has been paid any sum of money for each of the three years ended 31 December 2011 (aa) as an inducement to join or upon joining our Group or (bb) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (iv) There has been no arrangement under which a Director has waived or agreed to any emoluments for each of the three years ended 31 December 2011.

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***(d) Interests and short positions of Directors and chief executives of our Company in the shares, underlying shares or debentures of our Company and our [ • ] corporations***

Immediately following completion of the [ • ] and the [ • ] and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the [ • ] and the options which may be granted under the [ • ], the interests and short positions of the Directors and chief executives of our Company in the Shares, underlying Shares or debentures of our Company and our [ • ] corporations (within the meaning of Part XV of the [ • ]) which will have to be notified to our Company and the [ • ] pursuant to Divisions 7 and 8 of Part XV of the [ • ] (including interests and short positions in which they are taken or deemed to have under such provisions of the [ • ]) or which will be required, pursuant to section 352 of the [ • ], to be entered in the register referred to therein, or which will be required to be notified to our Company and the [ • ] pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the [ • ], once the Shares are listed, will be as follows:

| Name of Director | Name of Group member/[ • ] corporation | Capacity/nature of interest                   | Number and class of securities (Note 1) | Approximate percentage of shareholding |
|------------------|----------------------------------------|-----------------------------------------------|-----------------------------------------|----------------------------------------|
| Mr. LIU Dong     | Our Company                            | Interest of a controlled corporation (Note 2) | [ • ] Shares (L)                        | [ • ]%                                 |
|                  | Excel Orient                           | Beneficial owner                              | [ • ] Share (L)                         | [ • ]%                                 |
| Mr. YAN Tangfeng | Our Company                            | Interest of a controlled corporation (Note 3) | [ • ] Shares (L)                        | [ • ]%                                 |

*Notes:*

1. The letter “L” denotes the Directors’ long position in the Shares or the relevant [ • ] corporation.
2. The Shares are held by Excel Orient which is a company incorporated in the BVI and the entire issued capital of which is beneficially owned by Mr. LIU Dong, one of the Controlling Shareholders and executive Directors.
3. These Shares are held by Sunlion which is a company incorporated in the BVI and the entire issued share capital of which is beneficially owned by Mr. YAN Tangfeng (a non-executive Director).

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### 12. Interest discloseable under the [ • ] and [ • ]

So far as is known to the Directors, immediately following completion of the [ • ] and the [ • ] (but without taking account of any Shares which may be taken up or acquired under the [ • ] and any Shares which may be allotted and issued upon the exercise of the [ • ] and the options which may be granted under the [ • ]), other than the Directors or chief executives of our Company whose interests are disclosed under the sub-paragraph headed “Interests and short positions of Directors and chief executives of our Company in the Shares, underlying Shares or debentures of our Company and our [ • ] corporations” above, the following persons will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the [ • ], or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of our Group:

| Name of shareholder   | Name of Group member/[ • ] corporation | Capacity/nature of interest | Number and class of securities (Note 1) | Approximate percentage of shareholding |
|-----------------------|----------------------------------------|-----------------------------|-----------------------------------------|----------------------------------------|
| Excel Orient (Note 2) | Our Company                            | Beneficial owner            | [ • ] Shares (L)                        | [ • ]%                                 |
| Ms. WANG Lingli       | Our Company                            | Family interest (Note 3)    | [ • ] Shares (L)                        | [ • ]%                                 |
| Sunlion (Note 4)      | Our Company                            | Beneficial owner            | [ • ] Shares (L)                        | [ • ]%                                 |
| Ms. YANG Chun         | Our Company                            | Family Interest (Note 5)    | [ • ] Shares (L)                        | [ • ]%                                 |

Notes:

1. The letter “L” denotes the person’s long position in the shares of our Company or the relevant Group member.
2. Excel Orient is a company incorporated in the BVI and the entire issued share capital of which is beneficially owned by Mr. LIU Dong, one of the Controlling Shareholders and executive Directors. Therefore, Mr. LIU Dong is also deemed to have the interest owned by Excel Orient.
3. Ms. WANG Lingli is the spouse of Mr. LIU Dong. Therefore, Ms. WANG Lingli is deemed, or taken to be interested in the Shares which Mr. LIU Dong is interested in for the purpose of the [ • ].
4. Sunlion is a company incorporated in the BVI, the entire issued share capital of which is beneficially owned by Mr. YAN Tangfeng (a non-executive Director). Therefore, Mr. YAN Tangfeng is also deemed to have the interest owned by Sunlion.
5. Ms. YANG Chun is the spouse of Mr. YAN Tangfeng. Therefore, Ms. YANG Chun is deemed, or taken to be interested in the Shares which Mr. YAN Tangfeng is interested in for the purpose of the [ • ].

### 13. Disclaimers

Save as disclosed in this document:

- (a) and taking no account of any Shares which may be taken up or acquired under the [ • ] or upon the exercise of the [ • ] and any options which may be granted under the [ • ], the Directors are not aware of any person (not being a Director or chief executive of our Company) who immediately following the completion of the [ • ] and the [ • ] will have an interest or a short position in the Shares, underlying Shares or debenture of or Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the [ • ] or who

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will, either directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;

- (b) none of the Directors has any interest or short position in any of the shares, underlying shares or debentures of our Company or any [ • ] corporations within the meaning of Part XV of the [ • ], which will have to be notified to our Company and the [ • ] pursuant to Divisions 7 and 8 of Part XV of the [ • ] (including interests and short positions which any of them is deemed to have under such provisions of the [ • ]) or which will be required, pursuant to section 352 of the [ • ], to be entered in the register referred to therein or which will be required to be notified to our Company and the [ • ] pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case once the Shares are listed;
- (c) none of the Directors nor any of the parties listed in paragraph 21 below has been interested in the promotion of, or has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to our Company or any of the subsidiaries of our Company, or are proposed to be acquired or disposed of by or leased to our Company or any other member of our Group nor will any Director apply for the [ • ] either in his own name or in the name of a nominee;
- (d) none of the Directors nor any of the parties listed in paragraph 21 below is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to business of our Group taken as a whole; and
- (e) save in connection with the [ • ], none of the parties listed in paragraph 21 below:
  - (i) is interested legally or beneficially in any securities of any member of our Group; or
  - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.



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### OTHER INFORMATION

#### 14. [ • ]

The following is a summary of the principal terms of the [ • ] conditionally adopted by the written resolutions of our Shareholders passed on 26 June 2012.

##### *(a) Purpose*

The [ • ] is a share incentive scheme and is established to recognize and acknowledge the contributions the Eligible Participants (as defined in sub-paragraph (b) below) have had or may have made to the Group. The [ • ] will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

- (i) motivating the Eligible Participants to optimize their performance efficiency for the benefit of the Group; and
- (ii) attracting and retaining or otherwise maintaining on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

##### *(b) Who may join*

The Board may, at its discretion, offer to grant an option to subscribe for such number of [ • ] as the Board may determine at an exercise price determined in accordance with sub-paragraph (f) below to the following persons (“**Eligible Participants**”):

- (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;
- (ii) any Directors (including non-executive Directors and independent non-executive Directors) of the Company or any of its subsidiaries;
- (iii) any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries; and
- (iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to the Group, the assessment criteria of which are:
  - (aa) contribution to the development and performance of the Group;
  - (bb) quality of work performed for the Group;
  - (cc) initiative and commitment in performing his/her duties; and
  - (dd) length of service or contribution to the Group.

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*(c) Acceptance of an offer of options*

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptance of the options duly signed by the grantee, together with a remittance in favor of the Company of HK\$1.00 by way of consideration for the grant thereof, is received by the Company on or before the relevant acceptance date. Such payment shall in no circumstances be refundable. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot for dealing in Shares on the [ • ] or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

Subject to sub-paragraphs (l), (m), (n), (o) and (p), an option shall be exercised in whole or in part and, other than where it is exercised to the full extent outstanding, shall be exercised in integral multiples of such number of Shares as shall represent one board lot for dealing in Shares on the [ • ] for the time being, by the grantee by giving notice in writing to the Company stating that the option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the exercise price for the Shares in respect of which the notice is given.

Within 21 days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate by the auditors to the Company or the approved independent financial adviser as the case may be pursuant to sub-paragraph (r), the Company shall allot and issue the relevant number of Shares to the grantee credited as fully paid and issue to the grantee certificates in respect of the Shares so allotted.

The exercise of any option shall be subject to the Shareholders in general meeting approving any necessary increase in the authorized share capital of the Company.

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*(d) Maximum number of Shares*

The maximum number of Shares in respect of which options may be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted) under the [ • ] and under any other [ • ] of the Company must not in aggregate exceed 10% of the total number of Shares in issue on the [ • ], being [ • ] Shares (the “**Scheme Limit**”), excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the [ • ] (or any other [ • ] of the Company). Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the [ • ] from time to time, the Board may:

- (i) renew this limit at any time to 10% of the Shares in issue (the “**New Scheme Limit**”) as at the date of the approval by the Shareholders in general meeting; and/or
- (ii) grant options beyond the Scheme Limit to Eligible Participants specifically identified by the Board. The circular issued by the Company to the Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the [ • ].

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the [ • ] and any other [ • ] of the Company at any time shall not exceed 30% of the Shares in issue from time to time (the “**Maximum Limit**”). No options shall be granted under any schemes of the Company (including the [ • ]) if this will result in the Maximum Limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of the Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of the Company in accordance with sub-paragraph (r) below whether by way of [ • ], rights issue, consolidation, sub-division of shares or reduction of the share capital of the Company but in no event shall exceed the limit prescribed in this sub-paragraph.

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*(e) Maximum number of options to any one individual*

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the [ • ] and any other [ • ] of the Company (including both exercised, outstanding options and Shares which were the subject of options which have been granted and accepted under the [ • ] or any other scheme of the Company but subsequently cancelled (the “**Cancelled Shares**”)) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by the Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant), the information as required under Rules 17.02(2)(d) and the disclaimer required under 17.02(4) of the [ • ]; and
- (ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the [ • ] from time to time with such Eligible Participant and his [ • ] (as defined in the [ • ]) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before the Shareholders’ approval and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of the Shares. The Board shall forward to such Eligible Participant an offer document in such form as the Board may from time to time determine or, alternatively, documents accompanying the offer document which state, among other things:
  - (aa) the Eligible Participant’s name, address and occupation;
  - (bb) the date on which an option is offered to an Eligible Participant which must be a date on which the [ • ] is open for the business of dealing in securities;
  - (cc) the date upon which an offer for an option must be accepted;
  - (dd) the date upon which an option is deemed to be granted and accepted in accordance with sub-paragraph (c);
  - (ee) the number of Shares in respect of which the option is offered;
  - (ff) the subscription price and the manner of payment of such price for the Shares on and in consequence of the exercise of the option;
  - (gg) the date of the notice given by the grantee in respect of the exercise of the option;

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- (hh) the method of acceptance of the option which shall, unless the Board otherwise determines, be as set out in sub-paragraph (c); and
- (ii) such other terms and conditions (including, without limitation, any minimum period for which an option shall be held before it can be exercised and/or any performance targets which must be achieved before the option can be exercised) relating to the offer of the option which in the opinion of the Board are fair and reasonable but not being inconsistent with the [ • ] and the [ • ].

*(f) Price of Shares*

The subscription price of a Share in respect of any particular option granted under the [ • ] shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of:

- (i) the closing price of the Shares as stated in the [ • ]’s daily quotation sheets on the date of grant, which must be a day on which the [ • ] is open for the business of dealing in securities;
- (ii) the average of the closing prices of the Shares as stated in the [ • ]’s daily quotation sheets for the five Business Days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

*(g) Granting options to [ • ]*

Any grant of options to a Director, chief executive or [ • ] (as defined in the [ • ]) of the Company or any of their respective [ • ] (as defined in the [ • ]) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options). If the Board proposes to grant options to a [ • ] or any independent non-executive Director or their respective [ • ] (as defined in the [ • ]) which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and
- (ii) having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the [ • ], based on the closing price of the Shares as stated in the daily quotation sheets of the [ • ] at the date of each grant, such further grant of options will be subject to the approval of the independent non-executive Directors as referred to in this sub-paragraph, the issue of a circular by the Company and the approval of the Shareholders in general meeting on a poll at which all [ • ] (as defined in the [ • ]) of the

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Company shall abstain from voting in favor, and/or such other requirements prescribed under the [ • ] from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by the Company to the Shareholders pursuant to the above sub-paragraph shall contain the following information:

- (i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant, which must be fixed before the Shareholders’ meeting and the date of the Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;
- (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent Shareholders as to voting;
- (iii) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the [ • ]; and
- (iv) the information required under Rule 2.17 of the [ • ].

*(h) Restrictions on the times of grant of Options*

A grant of options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the [ • ]. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (such date to first be notified to the [ • ] in accordance with the [ • ]) for the approval of the Company’s results for any year, half-year, quarterly or other interim period (whether or not required under the [ • ]); and
- (ii) the deadline for the Company to publish an announcement of the results for any year, or half-year, or quarterly or other interim period (whether or not required under the [ • ]); and ending on the date of actual publication of the results announcement.

*(i) Rights are personal to grantee*

An option is personal to the grantee. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any option or attempt so to do (save that the grantee may nominate a nominee in whose name the Shares issued pursuant to the [ • ] may be registered). Any breach of the foregoing shall entitle the Company to cancel any outstanding options or any part thereof granted to such grantee.

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*(j) Time of exercise of option and duration of the [ • ]*

An option may be exercised in accordance with the terms of the [ • ] at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than ten years after it has been granted. No option may be granted more than ten years after the date of approval of the [ • ] by our Shareholders (the “**Adoption Date**”). Subject to earlier termination by the Company in general meeting or by the Board, the [ • ] shall be valid and effective for a period of ten years from the Adoption Date.

*(k) Performance target*

A grantee may be required to achieve any performance targets as the Board may then specify in the grant before any options granted under the [ • ] can be exercised.

*(l) Rights on ceasing employment/death*

If the grantee of an option ceases to be an Eligible Participant:

- (i) by any reason other than death, ill-health, injury, disability or termination of his relationship with the Company and/or any of its subsidiaries on one or more of the grounds specified in sub-paragraph (m) below, the grantee may exercise the option up to the entitlement of the grantee as at the date of cessation (to the extent not already exercised) within a period of one month (or such longer period as the Board may determine) from such cessation which date shall be the last actual working day with the Company or the relevant subsidiary whether salary is paid in lieu of notice or not, failing which it will lapse (or such longer period as the Company may determine); or
- (ii) by reason of death, ill-health, injury or disability (all evidenced to the satisfaction of the Board) and none of the events which would be a ground for termination of his relationship with the Company and/or any of its subsidiaries under sub-paragraph (m) has occurred, the grantee or his personal representative(s) may exercise the option within a period of 12 months (or such longer period as the Board may determine) from the date of cessation of being an Eligible Participant or death to exercise the Options in full (to the extent not already exercised).

*(m) Rights on dismissal*

If the grantee of an option ceases to be an Eligible Participant on the grounds that he has been guilty of serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty, his option will lapse and not be exercisable after the date of termination of his employment.



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*(n) Rights on takeover*

If a general offer is made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Takeovers Code)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

*(o) Rights on winding-up*

In the event that a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two Business Days prior to the proposed general meeting of the Company referred to above by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon the Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid.

*(p) Rights on compromise or arrangement between the Company and its members or creditors*

If a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of the Company or its amalgamation with any other companies pursuant to the laws of the jurisdiction in which the Company was incorporated, the Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a scheme or arrangement and any grantee may by notice in writing to the Company accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given (such notice to be received by the Company no later than two Business Days prior to the proposed meeting), exercise the option to its full extent or to the extent specified in the notice and the Company shall as soon as possible and in any event no later than the Business Day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise of the option credited as fully paid and register the grantee as holder thereof.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement

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does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full but only upon the extent not already exercised and shall become exercisable.

*(q) Ranking of Shares*

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank *pari passu* and shall have the same voting, dividend, transfer and other rights (including those arising on liquidation) as are attached to the other fully-paid Shares in issue on the date of exercise, save that they will not rank for any dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date falling on or before the date of exercise.

*(r) Effect of alterations to capital*

In the event of any alteration in the capital structure of the Company whilst any option may become or remains exercisable, whether by way of [ • ], rights issue, consolidation, subdivision or reduction of share capital of the Company, such corresponding alterations (if any) shall be made in the number of Shares subject to any outstanding options and/or the subscription price [ • ] of each outstanding option as the auditors of the Company or an independent financial adviser shall certify in writing to the Board to be in their/his opinion fair and reasonable in compliance with Rule 17.03(13) of the [ • ] and the note thereto and the supplementary guidance attached to the letter from the [ • ] dated September 5, 2005 to all issues relating to [ • ]. The capacity of the auditors of the Company or the approved independent financial adviser, as the case may be, in this sub-paragraph is that of experts and not arbitrators and their certificate shall, in the absence of manifest error, be final and conclusive and binding on the Company and the grantees.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the equity capital of the Company (as interpreted in accordance with the supplementary guidance attached to the letter from the [ • ] dated September 5, 2005 to all issues relating to [ • ]) for which any grantee of an option is entitled to subscribe pursuant to the options held by him before such alteration provided that no such alteration shall be made if the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

*(s) Expiry of option*

An option shall lapse automatically and shall not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by the Board;

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- (ii) the expiry of any of the periods referred to in sub-paragraphs (l), (m), (n) or (o);
- (iii) the date upon which the scheme of arrangement of the Company referred to in sub-paragraph (p) becomes effective;
- (iv) subject to sub-paragraph (o), the date of commencement of the winding-up of the Company;
- (v) the date upon which the grantee ceases to be an Eligible Participant by reason of such grantee’s resignation from the employment of the Company or any of its subsidiaries or the termination of his or her employment or contract on the grounds that he or she has been guilty of serious misconduct, or has committed any act of bankruptcy or is unable to pay his or her debts or has become insolvent or has made any arrangement or has compromised with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or has been in breach of contract. A resolution of the Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this sub-paragraph shall be conclusive; or
- (vi) the date upon which the Board shall exercise the Company’s right to cancel the option at any time after the grantee commits a breach of sub-paragraph (i) above or the options are cancelled in accordance with sub-paragraph (u) below.

*(t) Alteration of the [ • ]*

The [ • ] may be altered in any respect by resolution of the Board except that:

- (i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the [ • ]; or
- (ii) any material alteration to the terms and conditions of the [ • ] or any change to the terms of options granted;

shall first be approved by the Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees’ approval in accordance with the terms of the [ • ]. The amended terms of the [ • ] must still comply with Chapter 17 of the [ • ] and any change to the authority of the Board in relation to any alteration to the terms of the [ • ] must be approved by Shareholders in general meeting.

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### *(u) Cancellation of Options*

Any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing. For the avoidance of doubt, such approval is not required in the event that any option is cancelled pursuant to sub-paragraph (i).

### *(v) Termination of the [ • ]*

The Company may by resolution in general meeting or the Board may at any time terminate the [ • ] and in such event no further option shall be offered but the provisions of the [ • ] shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the [ • ].

Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the [ • ].

### *(w) Administration of the Board*

The [ • ] shall be subject to the administration of the Board whose decision as to all matters arising in relation to the [ • ] or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

### *(x) Conditions of the [ • ]*

The [ • ] is conditional on:

- (i) the [ • ] of the [ • ] granting the [ • ] of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of options to be granted under the [ • ];
- (ii) the obligations of the [ • ] under the becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s) by the [ • ] (for themselves and on behalf of the [ • ])) and not being terminated in accordance with the terms of the [ • ] or otherwise; and
- (iii) the commencement of dealings in the Shares on the [ • ].

If the conditions in sub-paragraph (x) above are not satisfied within 12 calendar months from the Adoption Date:

- (i) the [ • ] shall forthwith determine;
- (ii) any option granted or agreed to be granted pursuant to the [ • ] and any offer of such a grant shall be of no effect; and
- (iii) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the [ • ] or any option granted thereunder.

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*(y) Disclosure in annual and interim reports*

The Company will disclose details of the [ • ] in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the [ • ] in force from time to time.

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the [ • ].

Application has been made to the [ • ] of the [ • ] for the [ • ] of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the [ • ], being [ • ] Shares in total.

### 15. Estate duty, tax and other indemnities

Mr. LIU Dong and Excel Orient (the “**Indemnifiers**”) have entered into a deed of indemnity with and in favor of our Company (for itself and as trustee for each of its present subsidiaries) (being the material contract referred to in paragraph 8 above) to provide indemnities on a joint and several basis, in respect of, among other matters:

- (a) any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of our Group at any time on or before the [ • ]; and
- (b) tax liabilities (including all fines, penalties, costs, charges, expenses and interests incidental or relating to taxation) which might be payable by any member of our Group in respect of any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into or occurring on or before the [ • ], whether alone or in conjunction with any other circumstances whenever occurring and whether or not such tax liabilities are chargeable against or attributable to any other person, firm, company or corporation.

The Indemnifiers are under no liability under the deed of indemnity in respect of any taxation:

- (a) to the extent that provision or reserve has been made for such taxation in the audited accounts of any member of our Group for any accounting period up to 31 December 2011;
- (b) to the extent that such taxation or liability falling on any of the members of our Group in respect of any accounting period commencing on or after 1 January 2012 and ending on the [ • ], where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily entered into by, any

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member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers, other than any such act, omission or transaction:

- (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before the [ • ]; or
- (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before 31 December 2011 or pursuant to any statement of intention made in the document; or
- (c) to the extent that such taxation liabilities or claim arise or are incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the taxation authority of the PRC, or any other relevant authority (whether in Hong Kong or the PRC or any other part of the world) coming into force after the date of the deed of indemnity or to the extent such claim arises or is increased by an increase in rates of taxation or claim after the date of the deed of indemnity with retrospective effect; or
- (d) to the extent that any provision or reserve made for taxation in the audited accounts of any member of our Group up to 31 December 2011 which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifiers’ liability (if any) in respect of taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the Indemnifiers’ liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Under the deed of indemnity, each of the Indemnifiers has also undertaken to us that he/it will indemnify and at all times keeps us fully indemnified, on a joint and several basis, from any depletion in or reduction in value of its assets or any loss (including all legal costs and suspension of operation), cost, expenses, damages or other liabilities which any member of our Group may incur or suffer arising from or in connection with the implementation of the Reorganization, the failure to pay social insurances, housing fund and work-related injury contributions due or payable for employees of our Group by any members of our Group prior to the [ • ] (as more particularly disclosed in the sections headed “Risk Factors — Risks Relating to our Business — Non-compliance with the social insurances and housing fund contribution regulations in the PRC could lead to imposition of penalties or other liabilities.” and “Directors, Senior Management and Employees — Social Insurances and Housing Fund” in this document), the failure which have occurred at any time on or before the [ • ] by any members of our Group to have the valid and legal rights to own, use and/or hold any of its leased or owned properties or to comply with the laws and regulations in connection with its leased or owned properties, the Civil Mediation Agreement (as more particularly disclosed in the sections headed “Risk Factors — Risks Relating to our Business — We are potentially liable for the payment of the Outstanding Settlement amount under the Civil Mediation Agreement.” and “Connected Transactions”



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in this document), the irregularities in relation to the 2003 Filings and 2005 Filings (as more particularly disclosed in the section headed “Connected Transactions” in this document), and any other non-compliance of any member of our Group which has occurred at any time on or before the [ • ].

The Directors have been advised that no material liability for estate duty is likely to fall on any member of our Group in the Cayman Islands.

### **16. Litigation**

As of the Latest Practicable Date, neither our Company nor any of our subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against our Company or any of our subsidiaries, that would have a material adverse effect on the results of operations or financial condition of our Company.

### **17. Preliminary expenses**

[ • ]

### **18. Promoters**

Our Company has no promoter for the purposes of the [ • ].

### **21. Qualifications of experts**

The qualifications of the experts who have given opinions and/or whose names are included in this document are as follows:

| <b>Name</b>                                                 | <b>Qualification</b>                        |
|-------------------------------------------------------------|---------------------------------------------|
| KPMG                                                        | Certified public accountants                |
| Maples and Calder                                           | Cayman Islands legal adviser                |
| Jingtian & Gongcheng                                        | Qualified PRC lawyers                       |
| Jones Lang LaSalle Corporate Appraisal and Advisory Limited | Professional property valuer and consultant |

### **22. Consents of experts**

Each of KPMG, Maples and Calder, Jingtian & Gongcheng, and Jones Lang LaSalle Corporate Appraisal and Advisory Limited has given and has not withdrawn its written consent to the issue of this document with copies of its reports, valuation, letters or opinions (as the case may be) and the references to its names or summaries of opinions included herein in the form and context in which they respectively appear.



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### **24. Taxation of holders of Shares**

#### *(a) Hong Kong*

Dealings in Shares registered on our Company’s Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

#### *(b) The Cayman Islands*

Under the present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

### **25. Miscellaneous**

#### *(a) Save as disclosed herein:*

##### *(i) within two years preceding the date of this document:*

*(aa)* no share or loan capital of our Company or of any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash; and

*(bb)* no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and

*(cc)* no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company or any of our subsidiaries;

##### *(ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and*

*(b)* The Directors confirm that save as disclosed in this document, there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2011 (being the date to which the latest consolidated financial statements of our Group were made up) up to the date of this document.

*(c)* There has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this document.

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(d) [ • ]

(e) No company within our Group is presently listed on any [ • ] or traded on any trading system.