

SUMMARY

OVERVIEW

Based in Jiangxi province of the PRC, we are principally engaged in the manufacturing and wholesaling of apparels on an OEM basis. Our OEM products are mainly sold to domestic import and export companies and overseas trading companies for export, which the identities of the ultimate customers are unknown to us. To the best knowledge of our Directors, some of our products sold to the domestic import and export companies and overseas trading companies are exported to developing countries in South America, the Middle East and Europe. The designs, specifications and labels of the OEM products are provided by our customers. However, we source all the principal raw materials, such as fabric and accessories by ourselves in the PRC. We are also engaged in the manufacturing and wholesaling of products that are designed by us to domestic distributors for sales in the PRC. In March 2008, we have established a wholesale outlet in Wannian county, Jiangxi province, the PRC for marketing and sales of products designed by us using "eunan" as our brand name. Our products for domestic sales target low-income group customers with an average annual income of less than RMB[25,000]. Prior to March 2008, products designed by us for domestic sales to domestic distributors did not affix any trademark registered in the PRC nor contain any brand name. Most of our OEM products and products designed by us are low-end apparels with average selling price ranged from approximately RMB[8] to RMB[55].

Our products can be broadly categorised into cotton and sweat jacket, sportswear and leisurewear, trousers and children garment. The following table sets forth an analysis of the sales of our products by product types during the Track Record Period:–

Product type	Year ended 31 December				Three months ended 31 March 2009	
	2007		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%
Cotton and sweat jacket	[55,727]	[52.1]	[88,131]	[61.1]	[21,198]	[59.7]
Sportswear and leisurewear	[45,365]	[42.4]	[39,777]	[27.6]	[8,768]	[24.7]
Trousers	[146]	[0.2]	[2,357]	[1.6]	[1,457]	[4.1]
Children garment	[2,704]	[2.5]	[11,951]	[8.3]	[3,299]	[9.3]
Others (<i>Note</i>)	[2,986]	[2.8]	[1,948]	[1.4]	[778]	[2.2]
Total	[106,928]	[100.0]	[144,164]	[100.0]	[35,500]	[100.0]

Note: Others include waistcoats, skirts and pajamas.

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The following table sets forth an analysis of the sales of our products by sales channels during the Track Record Period:–

Sales channel	Year ended 31 December				Three months ended 31 March 2009	
	2007		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%
To domestic import and export companies and overseas trading companies for export	[106,777]	[99.9]	[138,570]	[96.1]	[33,529]	[94.4]
To local distributors or by our wholesale outlet located in Wannian County for domestic sales	[151]	[0.1]	[5,594]	[3.9]	[1,971]	[5.6]
Total	<u>[106,928]</u>	<u>[100.0]</u>	<u>[144,164]</u>	<u>[100.0]</u>	<u>[35,500]</u>	<u>[100.0]</u>

As advised by our legal advisers as to PRC laws, we have obtained all the necessary licenses, approvals and permits from the appropriate regulatory authorities for our business operations in the PRC and have complied with all relevant laws and regulations in relation to environmental protection, welfare contribution and safety matters.

OUR COMPETITIVE STRENGTHS

We believe that our success to date and potential for future growth can be attributed to a combination of strengths, including the following:

Good control over manufacturing costs

Our production facilities are strategically located in Wannian county, Jiangxi province, where the costs of human resources and land are relatively lower compared to coastal cities in the PRC. In addition to the lower costs, we have been able to complete our orders on time and within budgeted costs, riding on the experience of our management team in the apparel business.

Consistency in quality of our products

We have established quality control procedures throughout the entire production process to ensure the quality of our products are consistent. Raw materials, as well as finished products, are inspected and those that do not meet customers' specifications are rejected. As our workers are paid on a piece-by-piece basis and the products must

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meet our required quality standard before delivery, our Directors believe that this policy is an important factor in motivating our workers to maintain a high quality standard.

A profitable track record

Our Group has been operating a profitable business that generates positive cashflows during the Track Record Period. We were able to alleviate external financing facilities from our operations as a substantial portion of our working capital requirements had been satisfied with internally generated funds.

Continuous relationships with customers

We have built up and were able to maintain continuous relationships with our major customers. Our business relationships with our top five largest customers for the year ended 31 December 2008 have been established for more than 2 years. Our Directors believe that this has contributed to the success of our Group. They also attribute the continuous relationships with our customers to product quality, the ability to fill orders within a required timeframe and the competitive pricing of our products.

Experienced management team

We have an experienced management team, which focuses on different business areas and possesses extensive operating experience and industry knowledge. Mr. Cai SY and Mr. Cai SP, our executive Directors, have over 14 and 8 years of experience respectively in business management and clothing industry. Our management team also has a proven track record in directing turnaround situation. Each of our three operating subsidiaries was operating at a loss before Mr. Cai SY and Mr. Cai SP, being our Controlling Shareholders, acquired all the operating subsidiaries through Cai's International in 2006. With extensive operating experience and industry knowledge, our existing management team has strong sales and marketing skills which contribute to the significant increase in revenue after the acquisition by our Controlling Shareholders in 2006. Mr. Cai SY has also successfully introduced several new customers to our Group. Three of these new customers turned out to be the three largest customers of our Group, which accounted for approximately [97.9]%, [80.8]% and [79.5]% of our total turnover during the Track Record Period. With a view to reduce overhead expenses and to improve the manufacturing efficiency, the existing management team has also taken certain measures including, inter alia, consolidated three management teams into one core team to manage the sales and productions of our three operating subsidiaries. Under this structure, we have experienced strong growth in sales whilst our operating expenses have significantly dropped since the acquisition in 2006. As a result, our Group became profitable over the Track Record Period. We believe that our management team's extensive experience and proven ability in the apparel industry are important to the development of our business.

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OUR BUSINESS OBJECTIVES

Our objective is to become one of the major budget apparel manufacturers and wholesalers in the PRC. Having a stable business relationship with domestic import and export companies, we will continue to expand our export business by focusing on developing countries. We also intend to expand our wholesale business into the rural areas in the PRC, which our Directors consider as having a promising potential for our products.

OUR BUSINESS STRATEGIES

We intend to strengthen our existing presence among companies for export and capture the new business potential from rural households by adopting the following strategies in the future:

1. *Expansion of our new product design capacity and brand building*

We will enhance our product design capacity by establishing a research and development department under Xiefeng Textile in Wannian County. This department will be supervised by Mr. Cai Jiabo, our marketing director. Initially, we plan to hire three new staff members with relevant experience in product design and marketing of garments within one year after the [●]. The team will be focusing on new product designs to cater for different target customers. Besides, they will conduct research on production materials and manufacturing processes, with a view to cope with the latest trends and market demands on production materials, improve productivity with reduced material waste and better quality control.

Our Directors consider that as brand loyalty among rural households at present is relatively low, we intend to implement a branding strategy in marketing our products in rural households by building up a brand image among rural households under our trademark 珍珠泉 ZHENZHOUQUAN, which we acquired from an Independent Third Party in June 2009. Our Directors believe that the increase in brand awareness will boost our profile in the PRC, which in turn will increase the sales of our products and facilitate our growth in the future.

2. *Expansion of our production capacity*

At present, we have three production plants located in Jiangxi province, the PRC with a production capacity of approximately 6,240,000 pieces of apparels for the year ended 31 December 2008. To cope with our anticipated business expansion, we plan to increase our production capacity in Jiangxi province, the PRC by establishing new production facilities with an annual production capacity of approximately 2,500,000 pieces of apparels.

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3. *Expansion of our sales and distribution channel*

We will continually expand our distribution base and market coverage to ensure our presence in markets that we consider to have growth potential. Three additional sales and marketing staff members will be recruited within one year after the [●].

We will also strategically consider establishing twenty wholesale outlets in the PRC by 31 December 2011. At present, we target to establish distribution outlets in Fuzhou, Jiangxi, Zhejiang and Guangxi province for marketing and sales of our products under our brand name by entering into lease agreements. Our Directors will take into account factors such as location, rentals, duration of lease and other commercial terms in determining the distribution outlet locations. At present, we are actively evaluating a number of possible leasing properties suitable for the operation of distribution outlets but we have yet entered into any binding leasing agreement. In addition, we will deploy resources in promoting and marketing our brand and our products in the PRC.

RISK FACTORS

We consider that our business is subject to a number of risk factors, which can be summarized as follows:

Risks relating to our Business

- Heavy reliance on our major customers
- Possible infringements of our trademarks, designs and counterfeit products
- Possible infringements of others' trademarks and designs
- No assurance that future business plans will materialize
- Product liability and insurance coverage
- Fluctuations in the purchase price of production materials
- Reliance on key executives and skilled labour
- Occurrence of acts of god, acts of war, epidemics and other disasters
- Climate change may affect demand for certain of our products
- Our cost advantage may not be sustainable

Risks relating to the Industry

- Competition
- Potential risk of imposition of anti-dumping or other duties

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Risks relating to Conducting Operations in China

- Political, economic and social consideration
- Legal consideration
- Currency conversion in the PRC and exchange rate risk
- Preferential tax treatment
- Implementation of the new employment contract law

TRADING RECORD

The following table presents our summary financial information for the Track Record Period which is extracted from the accountants' report set out in appendix I to this [●]. This summary should be read in conjunction with our financial information included in the accountants' report set out in appendix I to this [●], including the notes thereto. Our financial information is prepared in accordance with HKFRSs.

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December		Three months ended 31 March	
	2007	2008	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>			
Turnover	[106,928]	[144,164]	[28,738]	[35,500]
Cost of sales	<u>[(92,242)]</u>	<u>[(125,331)]</u>	<u>[(25,042)]</u>	<u>[(30,426)]</u>
Gross profit	[14,686]	[18,833]	[3,696]	[5,074]
Other operating income	[25]	[56]	[9]	[24]
Selling and distribution costs	[(226)]	[(359)]	[(46)]	[(161)]
Administrative expenses	[(966)]	[(1,059)]	[(255)]	[(303)]
Finance costs	<u>[(27)]</u>	<u>[(78)]</u>	<u>[(17)]</u>	<u>[(60)]</u>
Profit before tax	[13,492]	[17,393]	[3,387]	[4,574]
Income tax expense	<u>[-]</u>	<u>[-]</u>	<u>[-]</u>	<u>[-]</u>
Profit and total comprehensive income for the year/period	<u>[13,492]</u>	<u>[17,393]</u>	<u>[3,387]</u>	<u>[4,574]</u>
Earnings per share (RMB):				
Basic	<u>[0.036]</u>	<u>[0.047]</u>	<u>[0.009]</u>	<u>[0.012]</u>

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COMBINED STATEMENTS OF FINANCIAL POSITION

	As at 31 December 2007	2008	As at 31 March 2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment	[6,560]	[6,081]	[6,580]
Prepaid lease payments	<u>[2,079]</u>	<u>[2,035]</u>	<u>[2,023]</u>
	<u>[8,639]</u>	<u>[8,116]</u>	<u>[8,603]</u>
Current assets			
Inventories	[11,583]	[14,220]	[4,764]
Trade and other receivables	[11,134]	[21,591]	[30,130]
Prepaid lease payments	[44]	[44]	[44]
Amounts due from related parties	[1,015]	[1,045]	[50]
Bank balances and cash	<u>[307]</u>	<u>[3,911]</u>	<u>[4,046]</u>
	<u>[24,083]</u>	<u>[40,811]</u>	<u>[39,034]</u>
Current liabilities			
Trade and other payables	[9,036]	[12,480]	[5,797]
Amounts due to Controlling Shareholders	[5,343]	[-]	[-]
Amount due to a related party	[2,238]	[106]	[-]
Secured bank borrowings	<u>[-]</u>	<u>[1,922]</u>	<u>[2,847]</u>
Total current liabilities	<u>[16,617]</u>	<u>[14,508]</u>	<u>[8,644]</u>
Net current assets	<u>[7,466]</u>	<u>[26,303]</u>	<u>[30,390]</u>
Net assets	<u>[16,105]</u>	<u>[34,419]</u>	<u>[38,993]</u>
Capital and reserves			
Share capital	[23,215]	[24,135]	[24,135]
Reserves	<u>[(7,110)]</u>	<u>[10,284]</u>	<u>[14,858]</u>
Total equity	<u>[16,105]</u>	<u>[34,419]</u>	<u>[38,993]</u>

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DIVIDEND POLICY

We do not have any pre-determined dividend distribution ratio. The declaration of future dividends will be subject to our Directors' decision and will depend on, among other things, our earnings, financial condition, cash requirements and availability, and any other factors that our Directors may consider relevant. The distribution of final dividend for any financial year shall be subject to our Shareholders' approval.

We were incorporated on 10 June 2009 and have not carried out any business since the date of our incorporation, save for the transactions related to the [●]. Accordingly, there was no reserve available for distribution to the Shareholders as at 31 March 2009.