BASIS OF PRESENTATION

Our Group resulting from the [●] is regarded as a continuing entity. Accordingly, the financial information prepared presents the combined results and financial position of our Group as if the current group structure had been in existence throughout the Track Record Period or since the respective dates of incorporation or establishment of the relevant members of our Group, whichever is earlier.

All significant intra-group transactions and balances have been eliminated on combination. Our Directors also confirm that an adequate internal control system is in place to ensure all expenses are recorded by our Group and there is no sharing of costs among related companies during the Track Record Period. The reporting accountants have reviewed our internal control system in order to form their audit opinion. They are of the view that our expenses are not materially misstated and there is no sharing of costs among our related companies during the Track Record Period.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

The major factors affecting our operating results and financial conditions include:

Raw materials price fluctuation

The principal raw materials used by us comprise different sorts of fabric and accessories including tags, crests, zippers and buttons. Raw materials are our largest cost items in our operation. For each of the Track Record Period, the cost of raw, which is calculated as the total amount paid to fabric suppliers divided by the purchase quantity in metres, materials accounted for approximately 84.1%, 83.6% and 82.2% respectively of our cost of sales. Fabric prices may be affected by the prices of crude oil and cotton as they are primary the raw materials of fabric. The average prices we paid, which is calculated as the total amount paid to fabric suppliers divided by the purchase quantity in meters, were RMB[5.2] per meter, RMB[5.3] per meter and RMB[6.5] per meter, respectively. The average price of fabric for the three months ended 31 March 2009 was higher than those for 2007 and 2008 as we have purchased much cotton fabric with a higher unit price. We did not enter into any hedging transactions or adopt any measures during the Track Record Period to mitigate any associated risk resulting from such price fluctuations. When the fabric prices go up, we typically negotiate price adjustments with our customers, and generally have been able to pass on part if not all of the increases to our customers.

However, if the prices of raw materials increase or fluctuate to such an extent beyond customers' expectations too much or we cannot pass on all raw material cost increases to our customers, our cost of sales will increase which could have an adverse impact on our operating result.

Competition

We face competitions from domestic and overseas manufacturers and suppliers engaged in the same or similar businesses that are established larger than ourselves. Consequently, we may not be able to compete effectively, operation wise and/or financially, with our competitors in the future. In the event that we fail to sustain our competitive advantage or to effectively implement our business strategies, our business, operations and financial position could be adversely affected.

Relationship with our major customers

For each of the Track Record Period, our five largest customers accounted for approximately 99.1%, 87.1% and 85.7% of our total turnover and the largest customer accounted for approximately 52.7%, 39.8% and 50.0% of our total turnover. The five largest customers are domestic import and export companies and overseas trading companies.

In light of the competition among apparel manufacturers and in line with the general practice in the PRC apparel industry, our Group does not have long-term contractual arrangements with our customers. There is no assurance that our major customers will continue their business dealings with us or that the income generated from dealings with them will increase or be maintained in the future. Any cessation of, or substantial reduction in the volume of business with any of our major customers could adversely affect the financial performance or profitability and our prospects.

PRC laws and regulations

As all of our production activities are conducted through our manufacturing facilities in the PRC, and a substantial portion of our sales are derived from the PRC market, our Group's operations are significantly exposed to PRC laws and regulations. The PRC legal system which regulates domestic and foreign investments has undergone substantial changes in the past 20 years. Nevertheless, these laws and regulations are relatively new, as well as the limited number of published cases and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. While PRC laws and regulations have not had a material impact on the business, financial condition or results of operations of our Group over the Track Record Period, our Group cannot predict the future development of the PRC legal system, including any promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof and the effect they may have on our Group.

Economic and social consideration

The recent economic downturn in Hong Kong and overseas does not have a material impact on our assets, operations, business, profits or cashflow, as our Group is principally engaging in the manufacturing and wholesaling of low-cost apparels, which is less sensitive to the financial market fluctuation. Nevertheless, substantially all of our business assets and operations are located in the PRC. Our profitability, financial position and prospects will be affected by the economic and social development in China.

Preferential tax treatment

Under the PRC Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises and its Implementation Rules (中華人民共和國外商投資企業和外國企業所得稅法), Xiangyun Fiber, Xiefeng Textitle and Wannianxing Textile are granted preferential tax treatments with a two-year full exemption for the two years ending 31 December 2009 followed by a three-year 50% tax concession for the three years ending 31 December 2012 from PRC national Enterprise Income Tax. In addition, according to a confirmation jointly issued by Committee of Foreign Trade and Economic Cooperation of Wannian County (萬年縣對外貿易經濟合作委員會) and Local Tax Bureau of Wannian County (萬年縣地方稅務局) dated 23 June 2009, a preferential tax treatment with a five-year exemption followed by a five-year 50% tax concession from local tax is offered as an incentive to encourage foreign enterprises to invest in Wannian County. As a result, Xiangyun Fiber, Xiefeng Textitle and Wannianxing Textile are exempted from local tax for the five years ending 31 December 2010 and are subject to a 50% tax concession from local tax for the five years ending 31 December 2015. Such preferential tax treatment is a local tax policy formulated by local tax bureau and may subject to national or local policy change in the future.

If there is any revocation of or unfavourable change to the above tax benefit currently enjoyed by our Group as a result of any change in the government policy or law, the tax payable by our Group may be materially increased which would have an adverse impact on our profitability and financial position of our Group.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain critical accounting policies that are significant to the preparation of our combined financial statements and important for an understanding of our financial condition and results of operation. Our significant accounting policies are set forth in note 3 to the accountants' report attached as appendix I to this [●].

Accounting estimates are those that require management to exercise judgment and make estimates that yield materially different results if management were to apply different assumptions or make different estimates.

We adopt accounting policies and make estimates that our Directors believe are most appropriate in the circumstances for the purpose of giving a true and fair view of our results and financial position. We believe the most complex and sensitive judgments, because of their significance to our results of operations and financial condition, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Actual results in these areas could differ from our estimates. The critical accounting policies and estimates we have adopted are described below.

Revenue

Our revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of value added tax or other sales taxes, returns or allowances, trade discounts and volume rebates. Our revenue is recognized when the significant risks and rewards of ownership have been transferred to the customers.

Inventory

Our inventories are stated at the lower of cost and net realizable value. The cost of inventories is computed using the weighted average method and includes expenditure incurred in acquiring the inventories to bring them to their existing location and condition.

We recognize the carrying amount of our inventories that are sold 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 of loss occurs.

We review the carrying amount of our inventories for slow moving inventory, obsolescence or declines in market value. These reviews are conducted with reference to inventory ageing analyses, projections of expected future saleability of goods and management experience and judgment. If our estimate of net realizable value is below the cost of inventory, we record a provision against the inventories for the difference between cost and net realizable value, which will result in a corresponding increase in our cost of sales. During the Track Record Period, we do not make any provision for inventory obsolescence.

Prepaid lease payments

Prepaid lease payments represent up-front payments to acquire leasehold land interests.

Prepaid lease payments are carried at cost less accumulated amortization and impairment losses. Amortization is charged to our combined statements of comprehensive income on a straight-line basis over the period of the land use right. For details of the movement of prepaid lease payments during the Track Record Period, please refer to note 17 of the accountants' report in appendix I to this [●].

Property, plant and equipment

(a) Recognition and measurement

Our property, plant and equipment are stated at cost less accumulated depreciation and impairment loss. The cost of an asset includes expenditures that are directly attributable to the acquisition of the asset. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(b) Subsequent costs

We recognize in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that future economic benefits associated with such costs incremental will flow to us and such cost incremental can be measured reliably. Repairs and maintenance are charged to our combined statement of comprehensive income as expenses in the period incurred.

(c) Depreciation

Depreciation is provided to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line basis over their estimated useful lives. The estimated useful lives are as follows

Buildings	20 years or over the lease term of the relevant land, whichever is shorter
Machinery	10 years
Office equipment, furniture and fixtures	5 years
Leasehold improvement	5 years or over the relevant lease, whichever is shorter

We review the assets depreciation methods, residual values and useful lives and make adjustment, if appropriate, at each balance sheet date. The estimated useful lives are based on our historical experience of the actual useful lives of assets of similar nature and functions and the anticipated technological changes.

(d) Retirement and disposal

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. Gains or losses arising from the derecognition of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognized in our combined statements of comprehensive income on the date of retirement or disposal.

Trade and other receivables

Our receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method. We estimate provision for impairment of trade and other receivables based on the evaluation of collectability and ageing analysis of the receivables. The amount of provision is recognized in our combined statements of comprehensive income.

If the recoverable amount of our trade and other receivables is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount based on our Director's estimation with reference to the ageing of the trade and other receivables balance, customer creditworthiness and historical write-off experience. Any impairment loss is immediately recognized as an expense in our combined statements of comprehensive income.

For the year ended 31 December 2007 and 2008 and for the three months ended 31 March 2009, we do not make any provision for impairment of trade and other receivables nor recognize any impairment loss.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS

The following discussion addresses the principal trends that have affected our results of operations during the Track Record Period and should be read in conjunction with the combined financial statements during the Track Record Period as set forth in the accountant's report, the text of which is set fort in Appendix 1 to this [●].

The following table sets forth selected financial data from our consolidated financial statements for the period indicated.

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December		Three months ended 31 March	
	2007	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(Unaudited)	
Turnover	[106,928]	[144,164]	[28,738]	[35,500]
Cost of sales	[(92,242)]	[(125,331)]	[(25,042)]	[(30,426)]
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	[(27)]	[(78)]	[(17)]	[(60)]
Profit before tax	[13,492]	[17,393]	[3,387]	[4,574]
Income tax expense	[–]	[–]	[–]	[–]
Profit and total comprehensive income for the year/period	[13,492]	[17,393]	[3,387]	[4,574]
Earnings per share (RMB): Basic	[0.036]	[0.047]	[0.009]	[0.012]

COMBINED STATEMENTS OF FINANCIAL POSITION

	As at 31 December		As at 31 March
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets			
Property, plant and equipment	[6,560]	[6,081]	[6,580]
Prepaid lease payments	[2,079]	[2,035]	[2,023]
	[8,639]	[8,116]	[8,603]
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	[307]	[3,911]	[4,046]
	[24,083]	[40,811]	[39,034]
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	[–]	[1,922]	[2,847]
Total current liabilities	[16,617]	[14,508]	[8,644]
Net current assets	[7,466]	[26,303]	[30,390]
Net assets	[16,105]	[34,419]	[38,993]
Capital and reserves			
Share capital	[23,215]	[24,135]	[24,135]
Reserves	[(7,110)]	[10,284]	[14,858]
Total equity	[16,105]	[34,419]	[38,993]

CERTAIN COMBINED STATEMENTS OF COMPREHENSIVE INCOME ITEMS

Revenue

Our revenue for the Track Record Period is mainly derived from the manufacturing and wholesaling of apparels to domestic import and export companies and overseas trading companies for export. We have also engaged in the manufacturing and selling of apparels to local distributors or by our wholesale outlet located in Wannian County for domestic sales.

Revenue represents the sales value of goods sold net of value added tax or other sales taxes, returns or allowance and trade discounts. The table below sets forth the revenue of our Group for the periods indicated by main product categories, which are also expressed as a percentage of total revenue during the Track Record Period:

Product type	Year ended 31 December 2007		2008		Three months ended 31 March 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 *(Note)*	[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.

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 2007		2008		Three months ended 31 March 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	[106,928]	[100.0]	[144,164]	[100.0]	[35,500]	[100.0]

Cost of goods sold

Our cost of sales primarily consists of costs of raw materials, direct labour, packing materials and overheads involved in production.

The table below sets forth a breakdown of cost of sales for the period indicated:

	Year ended 31 December 2007		2008		Three months ended 31 March 2009	
Cost of sales breakdown	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Raw materials	77,591	84.1	104,780	83.6	24,999	82.2
Direct labour	10,884	11.8	14,258	11.4	3,501	11.5
Overheads	3,767	4.1	6,293	5.0	1,926	6.3
Total	92,242	100.0	125,331	100.0	30,426	100.0

Gross profit and gross profit margin

Gross profit is our revenue minus our cost of goods sold. Our gross profit margin during the Track Record Period was 13.8%, 13.1% and 14.3%, respectively.

Selling and Distribution costs

Our selling and distribution costs primarily consist of wages, freight and delivery charges and packaging expenses, which account for approximately 0.2%, 0.2% and 0.5% respectively of our total revenue during the Track Record Period. Our Directors are of the view that low selling and distribution costs during the Track Record Period were attributable to (i) continuous business relationship with major customers for recurring orders which facilitates our marketing expenses and number of sales and marketing staff to be maintained at a low level; and (ii) our Group's sales office is strategically located in Quanzhou where the costs of human resources and land are relatively low compared to major cities, such as Shenzhen and Dongguan.

Administrative expenses

Administrative expenses primarily consist of salaries and benefits for administrative staff and non-factory employees, professional fees and depreciation which account for approximately 0.9%, 0.7% and 0.9% respectively of our total revenue during the Track Record Period. Our Directors are of the view that low administrative expenses during the Track Record Period were attributable to our uncomplicated business model and structure which does not involve many personnel and sophisticated equipment and hence we did not involve much spending on staff salaries and welfare and depreciation.

Finance costs

Finance costs consist of interest expenses on bank loans.

Taxation

The Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) ("New EIT Law"), as promulgated by the People's National Congress on 16 March 2007 and came into effect on 1 January 2008, consolidates the previous two separate tax regimes for domestic enterprises and foreign-invested enterprises and imposes a unified corporate income tax rate of 25% for both types of enterprises. Pursuant to Notice [2007] 39 "Notice on Implementation of Enterprise Income Tax Transitional Preferential Treatment" (《關於實施企業所得稅過渡優惠政策的通知》) issued by the State Council on 26 December 2007, enterprises that previously enjoyed a preferential tax rate prior to 1 January 2008 will gradually transit to the new tax rate over five years from 1 January 2008. Foreign-invested enterprises that previously enjoyed a fixed period of tax exemption and reduction will continue to enjoy such preferential tax treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment has not commenced due to lack of profit, such preferential tax treatment commences from 1 January 2008. As a result of the New EIT Law, the applicable income tax rates for our Group companies are 25%, subject to the preferential tax rates to which our Group companies are currently entitled. Our legal advisers as to PRC laws confirms that the enactment of the New EIT Law does not affect the preferential tax treatments on local tax granted to us.

FOR THE THREE MONTHS ENDED 31 MARCH 2009

Turnover

Our revenue increased from approximately RMB28.7 million for the three months ended 31 March 2008 to approximately RMB35.5 million for the three months ended 31 March 2009, representing an increase of approximately 23.7%. Our sales to domestic import and export companies and overseas trading companies for export has been increased by 17.9% from RMB28.4 million for the three months ended 31 March 2008 to RMB33.5 million for the three months ended 31 March 2009 while our domestic sales has been increased by more than 4.4 times during the same period. The growth was mainly attributable to the increase in customer order quantity by 6.5% and the increase in average selling price by 16.0%. The average selling price is calculated as our revenue divided by the number of pieces of apparels sold. Our Directors advise that the increase in customer order quantity was driven by the demand from our clients for quality products with reasonable price and the higher average selling price for the three months ended 31 March 2009 was due to the increase in unit selling price of our products to reflect higher fabric prices.

Cost of sales

Our cost of sales increased by 21.6% from RMB25.0 million for the three months ended 31 March 2008 to RMB30.4 million for the three months ended 31 March 2009. The increase in our cost was primarily due to an increase in the sale of our apparels, which resulted in an increase in raw material expenses and direct labour expenses and was in line with the turnover growth. As a percentage of revenue, our cost of sales decreased slightly from 87.1% during the previous period to 85.7%.

Gross profit

Our gross profit increased by 37.8% from RMB3.7 million for the three months ended 31 March 2008 to RMB5.1 million for the three months ended 31 March 2009. As a percentage of revenue, our gross profit margin for the three months ended 31 March 2009 was approximately 14.3% which is slightly better than that of the corresponding period in 2008 of 12.9%.

Other revenue

Our other income represents bank interest income which increased from approximately RMB9,000 for the three months ended 31 March 2008 to approximately RMB24,000 for the three months ended 31 March 2009.

Selling and distribution expenses

Our selling and distribution costs increased from approximately RMB46,000 for the three months ended 31 March 2008 to approximately RMB161,000 for the three months ended 31 March 2009. This increase was mainly due to marketing efforts to improve domestic sales and the operating costs of the our wholesale outlet located in Wannian Country.

Administrative expenses

Our administrative expenses increased by 18.8% from approximately RMB255,000 for the three months ended 31 March 2008 to approximately RMB303,000 for the three months ended 31 March 2009. This increase was primarily due to an increase in staff salaries and welfare expenses.

Finance costs

Our finance cost increased from approximately RMB17,000 for the three months ended 31 March 2008 to approximately RMB60,000 for the three months ended 31 March 2009. This increase was mainly due to the increase in bank borrowings.

Total comprehensive income

As a result of the abovementioned, our total comprehensive income increased by 35.3% from RMB3.4 million for the three months ended 31 March 2008 to RMB4.6 million for the three months ended 31 March 2009.

Taxation

No provision for PRC Enterprise Income Tax has been made for the three months ended 31 March 2009 as all the operating subsidiaries of our Group are subjected to two years of tax holiday for 2008 and 2009 and three years of 50% tax relief for 2010 to 2012.

FOR THE YEAR ENDED 31 DECEMBER 2008

Turnover

Our revenue increased from approximately RMB106.9 million for the year ended 31 December 2007 to approximately RMB144.2 million for the year ended 31 December 2008, representing an increase of approximately 34.9%. Our export sale has been increased by 29.8% from RMB106.8 million for the year ended 31 December 2007 to RMB138.6 million for the year ended 31 December 2008 while our domestic sales has been increased from RMB151,000 to RMB5.6 million during the same period. The growth was mainly attributable to the increase in customer order quantity by 39.0%. Our Directors consider that the increase in customer order quantity was driven by our continuous effort in developing our export sales including longer credit terms of 180 days have been offered to our direct export client and the demand from the ultimate customers of our clients for quality products with reasonable price.

Cost of sales

Our cost of sales increased by 35.9% from RMB92.2 million for the year ended 31 December 2007 to RMB125.3 million for the year ended 31 December 2008. The increase in our cost was primarily due to an increase in the sale of our apparels, which resulted in an increase in raw material expenses and direct labour expenses and was in line with the turnover growth. As a percentage of revenue, our cost of sales increased slightly from 86.2% during the previous period to 86.9%.

Gross profit

Our gross profit increased by 27.9% from RMB14.7 million for the year ended 31 December 2007 to RMB18.8 million for the year ended 31 December 2008. As a percentage of revenue, our gross profit margin for the year ended 31 December 2008 was approximately 13.1% which is slightly lower than that of the corresponding period in 2007 of 13.8%.

Other revenue

Our other income represents bank interest income which increased from approximately RMB25,000 for the year ended 31 December 2007 to approximately RMB56,000 for the year ended 31 December 2008.

Selling and distribution expenses

Our selling and distribution costs increased by 58.8% from approximately RMB226,000 for the year ended 31 December 2007 to approximately RMB359,000 million for the year ended 31 December 2008. This increase was mainly due to the increase in contributions paid to the social insurance schemes of about RMB96,000 and the increase in freight changes from RMB2,000 to RMB74,000 for the year ended 31 December 2008.

Administrative expenses

Our administrative expenses increased by 9.6% from approximately RMB966,000 for the year ended 31 December 2007 to approximately RMB1,059,000 for the year ended 31 December 2008. This increase was mainly due to the increase in exchange difference of RMB185,000 arising for the appreciation of Renminbi against US dollars.

Finance costs

Our finance cost increased from approximately RMB27,000 for the year ended 31 December 2007 to approximately RMB78,000 for the year ended 31 December 2008. This increase was mainly due to the increase in bank borrowings.

Total comprehensive income

As a result of the abovementioned, our total comprehensive income increased by 28.9% from RMB13.5 million for the year ended 31 December 2007 to RMB17.4 million for the year ended 31 December 2008.

Taxation

No provision for PRC Enterprise Income Tax has been made for the year ended 31 December 2008 as all the operating subsidiaries of our Group are subjected to two years of tax holiday for 2008 and 2009 and three years of 50% tax relief for 2010 to 2012. For the year ended 31 December 2007, we have utilized the tax loss carried forward from previous years to offset against the comprehensive income for 2007 and therefore no tax provision has been made.

INDEBTEDNESS

Our gearing ratio, defined as total borrowing as a percentage of total assets, was 0%, 3.9% and 6.0% as at 31 December 2007, 31 December 2008 and 31 March 2009, respectively. The increase in gearing ratio was primarily resulted from the increase in secured bank loan to finance our continuous business operation. In May 2009, we borrowed a secured bank borrowing of RMB[2.0] million.

As at [31 July 2009], we had a total indebtedness of RMB[2.0] million, representing secured bank loans with fixed interest rates. There is no material covenant related to the outstanding bank loans.

Except as described above, as at the [●], we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

Our Directors confirm that there is no material adverse change in indebtedness and contingent liabilities since [31 July 2009], being the date for determining our indebtedness.

MARKET RISK

We are, in the normal course of business, exposed to risks relating to fluctuations in interest rates and exchange rates, as well as credit risks and commodity price risks. Our risk management strategy aims to minimise the adverse effects of these risks on our financial performance.

Foreign currency exchange risk

Most of our revenue and expenses are denominated in Renminbi. We currently do not have a foreign currency exchange hedging policy. Therefore, fluctuations in exchange rates may adversely affect the value translated or converted into Renminbi, of our net assets, earnings and any dividends we may declare.

Interest rate risk

Our interest bearing financial assets are mainly bank balances. Our interest bearing financial liabilities as at 31 March 2009 are mainly secured bank loans which have fixed interest rates. Accordingly, we believe we are not exposed to significant fair value interest rate risk. We currently do not have an interest rate hedging policy.

Credit risk

Our cash and cash equivalents are deposited principally with state-owned banks in the PRC.

The carrying amount of trade receivables and cash included in the combined statement of finance positions represent our maximum exposure to credit risk in relation to our financial assets. We have no significant concentration of credit risk and no other financial assets that carrying significant exposure to credit risk.

Liquidity risk

Our senior management monitors and maintains an adequate level of cash and cash equivalent to finance the operations and mitigate the effects of fluctuations in cash flows. Short term secured bank loans will be arranged if deemed necessary. During the Track Record Period, we have no significant concentration of liquidity risk.

Off-balance sheet transactions

We do not have any off-balance sheet transaction as at [31 July 2009].

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Overview

Since the commencement of our business, we have generally relied on internal cash flows, banking and other loan facilities available from our principal bankers to meet the requirements for our operations. We expect to meet our anticipated cash needs, including capital commitments, repayment of borrowings and working capital, principally through cash generated from operations and the net proceeds of the [●].

Cash Flow

The following table sets forth certain information about our audited consolidated cash flows for the two years ended 31 December 2008 and the three months ended 31 March 2009.

	Year ended 31 December		Three months ended 31 March
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Cash and cash equivalents at beginning of year/period	103	307	3,911
Net cash generated from/(used in) operating activities	23,956	8,288	(1,014)
Net cash generated (used in)/from investing activities	(45)	26	390
Net cash generated (used in)/from financing activities	(23,707)	(4,710)	759
Cash and cash equivalents at ending of year/period	307	3,911	4,046

During the Track Record Period, our operations were funded primarily from operating cash flow and loans and borrowings from banks and related parties. Our cash requirements are mainly for working capital and capital expenditures relating to the expansion of our operations as well as repayment of existing indebtedness. We continuously manage our liquidity situation to ensure that it is adequate to meet our expansion plans.

Cash flow from operating activities

Cash flow from operating activities reflects profits for the year adjusted for non-cash items such as depreciation, bad debts write off, interest income, the changes in our working capital.

Net cash generated from operating activities for the year ended 31 December 2007 was RMB24.0 million, while we had a profit before tax for the same period of RMB13.5 million. The difference of RMB10.5 million was primarily a result of RMB6.3 million increase in trade and other payables, a RMB2.8 million decrease in trade and other receivables and a RMB1.0 million decrease in inventory. The increase in trade and other payables was attributable the business growth during the year while the decrease in trade and other receivables was a result of receipt of payments from trade receivables.

Net cash generated from operating activities for the year ended 31 December 2008 was RMB8.3 million, while we had a profit before tax for the same period of RMB17.4 million. The difference of RMB9.1 million was primarily a result of RMB10.5 million increase in trade and other receivables and a RMB2.6 million increase in inventories, partially offset by RMB3.4 million increase in trade and other payables. The increase in trade and other receivables was attributable to the increase in revenue in the year ended 31 December 2008 and our marketing strategy to offer a longer credit terms of 180 days to our direct export client. The increase in trade and other payables was attributable to the increase in revenue during the year ended 31 December 2008. The increase in inventories was mainly due to our business expansion plan.

Net cash used in operating activities for the three months ended 31 March 2009 was RMB1.0 million, while we had a profit before tax for the same period of RMB4.6 million. The difference of RMB5.6 million was primarily a result of RMB6.7 million decrease in trade and other payables and a RMB8.5 million increase in trade and other receivables, partially offset by a RMB9.5 million decrease in inventories. The increase in trade and other receivables was attributable to the increase in revenue in the three months ended 31 March 2009. The decrease in trade and other payables was primarily due to the increase in upfront deposit required by our suppliers during the economic downturn. The decrease in inventories was mainly due to our strategy to shorten the lag time before collection by requiring our clients to collect the finished goods as soon as we complete the orders.

Cash flow from investing activities

Our cash inflow from investing activities primarily consists of interest income received and repayment from related parties. Our cash outflow from investing activities primarily consists of amounts used in the purchase of property, plant and equipment and advances to related parties.

Our net cash used in investing activities for the year ended 31 December 2007 was RMB45,000, consisting of bank interest received of approximately RMB25,000 and non-trade nature advances of RMB50,000 paid to a company called Jiangxi Jianfa Real Estate Development Co., Ltd. (江西建發房地產開發有限公司) which was then beneficially owned by Mr. Cai SP and Mr. Cai SY and of RMB20,000 paid to Ms. Cai Shuyan (蔡淑燕), the spouse of Mr. Cai SY. The advance is unsecured, non-interesting bearing and is repayable on demand.

Our net cash generated from investing activities for the year ended 31 December 2008 was RMB26,000, consisting of bank interest received of approximately RMB56,000 and a non-trade nature of RMB30,000 paid to Ms. Cai Shuyan (蔡淑燕), the spouse of Mr. Cai SY. The advance is unsecured, non-interesting bearing and is repayable on demand.

Our net cash generated from investing activities for the three months ended 31 March 2009 was RMB390,000, consisting of bank interest received of approximately RMB24,000, a repayment of advances from Jiangxi Jianfa Real Estate Development Co., Ltd. (江西建發房地產開發有限公司) of RMB995,000 and a payment of RMB629,000 for the purchase of property, plant and equipment, including RMB44,000 for the acquisition of machinery and RMB585,000 for leasehold improvement.

The amounts due from Jiangxi Jianfa Real Estate Development Co., Ltd. (江西建發房地產開發有限公司) and Ms. Cai Shuyan (蔡淑燕) have been fully settled as at the [●].

Cash flow from financing activities

Our cash inflow from financing activities primarily consists of financing from bank loans and borrowings and capital injections. Our cash outflow from financing activities primarily consists of repayments of loans and borrowings from banks and related parties. During the Track Record Period, we had arranged a number of short-term bank loans and borrowings to fulfill our financing needs.

Our net cash used in financing activities for the year ended 31 December 2007 was RMB23.7 million, consisting of a repayment of bank borrowings of RMB2.9 million, repayment to a related party of RMB17.2 million and repayments to controlling shareholders of RMB6.0 million in accordance with the creditors' agreements as described in the section headed "History and Development" in the [●], partially offset by new bank borrowing raised of RMB1.7 million and capital injections of RMB0.8 million. The proceeds from new bank borrowings raised were used as part of our working capital. For details of the repayments to related parties and the capital injections paid for the unpaid registered capital of our operating subsidiaries, please refer to the section headed "History and Development" in the [●].

Our net cash used in financing activities for the year ended 31 December 2008 was RMB4.7 million, consisting of a repayment of bank borrowings of RMB5.9 million, repayment to a related party of RMB2.1 million and repayments to controlling shareholders of RMB5.3 million in accordance with the creditors' agreements as described in the section headed "History and Development" in the [●], partially offset by new bank borrowing raised of RMB7.9 million and capital injections of RMB0.9 million. The proceeds from new bank borrowings raised were used as part of our working capital. For details of the repayments to related parties and the capital injections paid for the unpaid registered capital of our operating subsidiaries, please refer to the section headed "History and Development" in the [●].

Our net cash generated from financing activities for the three months ended 31 March 2009 was RMB0.8 million, consisting of a new bank borrowing raised of RMB2.8 million, partially offset by a repayment of bank borrowings of RMB1.9 million. The bank borrowings are mainly used to finance our operation needs.

During the Track Record Period and up to the [●], we had not experienced any difficulty in raising funds by short-term bank loans from our principal bank in the PRC, and we had not experienced any liquidity problems in settling the payables in the normal course of business and repaying bank loans as and when such bank loans fall due.

For further details of our debt financing, please refer to the paragraph headed "Indebtedness" in this section.

Working Capital

Taking into account the internally generated funds, credit facilities available to our Group and the net proceeds from the issue of Shares under the [●], our Directors are of the opinion that our Group will have sufficient funds to meet our working capital requirements and financial requirements for capital expenditures for at least the next twelve months from the date of this [●].

Net Current Assets

As at [31 July 2009], based on our management account, we had net current assets of approximately RMB[39.6] million. Our net current assets comprised cash and bank balance of approximately RMB[4.6] million, trade and other receivables of approximately RMB[39.5] million, and inventories of approximately RMB[8.6] million. Our current liabilities comprised bank and other borrowings of approximately RMB[2.0] million and trade and other payables of approximately RMB[11.0] million.

Capital commitments

As at [●], our Group did not have any significant capital commitments.

Financial resources

Prior to the completion of the [●], our operations and investments will be financed principally by revenues generated from business operation. As at 31 March 2009, we have bank balances of approximately HK$[4.0] million. We intends to finance our future operations, capital expenditure and other capital requirements with the revenues generated from business operations, existing bank balances available and [●].

CERTAIN STATEMENTS OF FINANCIAL POSITION ITEMS

Inventories

Our inventories comprise raw materials, work in progress and finished products. In order to keep the occurrence of obsolete stock to a minimum, we implement stock control procedures for our products, including performance of stock-take every three months. Stock-take of our products is performed through physical counting by our finance department. Our staff are required to fill in the stock-take checklist.

Inventory records and stock take results are reviewed by senior management to determine the focus of sales efforts and whether inventory provision is necessary. During the Track Record Period, we did not make any provision for obsolete stocks.

The following table sets forth a breakdown of our inventories and percentage of inventories by nature as at the date indicated:

	As at 31 December				As at 31 March	
	2007		2008		2009	
Our inventory breakdown	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Raw materials	1,600	13.8	94	0.7	909	19.1
Work-in-progress	5,685	49.1	10,995	77.3	876	18.4
Finished goods	4,298	37.1	3,131	22.0	2,979	62.5
Total	11,583	100.0	14,220	100.0	4,764	100.0

Our Directors confirm that all the inventories outstanding as at 31 March 2009 has been utilized on or before 31 July 2009.

Trade receivables

We implement strict credit control policies. We generally grant credit terms ranging from 90 to 180 days with respect to the sales of our products, depending on our relationship with the relevant customers as well as their credit worthiness.

Our marketing staff is responsible for monitoring, collection and following up with customers when payment is due. Impairment for doubtful debts is made based on the evaluation of recoverability, ageing analysis of receivable and the judgment of our management on a case-by-case basis. We continue to attempt to collect account receivables from our customers even after the credit period, and our staff will follow up with these customers and request payment from them. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness, the past collection history of each customer and subsequent collection. We will only deem trade receivables uncollectible upon careful consideration after having attempted to collect the same from our customers and by reference to the aforementioned factors, appropriate impairment will be recognized in our accounts. During the Track Record Period, we made no provision for bad and doubtful debts.

During the Track Record Period, about 97.9%, 89.0% and 85.1% of our sales were settled in Renminbi and only 2.1%, 11.0% and 14.9% of our sales were denominated in US dollars. Our customers normally settle our account receivables through bank transfers.

The following table sets forth an ageing analysis of the trade receivables as at the date indicated:

	As at 31 December				As at 31 March	
	2007		2008		2009	
Our accounts receivable ageing	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
0 to 90 days	5,613	91.0	15,650	90.7	22,045	86.4
91 to 180 days	518	8.4	775	4.5	3,409	13.4
181 to 365 days	38	0.6	780	4.5	65	0.2
Over 365 days	–	–	44	0.3	–	–
Total	6,169	100.0	17,249	100.0	25,519	100.0

Our Directors confirm that approximately [97.3]% of trade receivables outstanding as at 31 March 2009 has been settled on or before 31 July 2009.

Trade payables

Our trade payables mainly related to the purchase of raw materials from our suppliers which include different sorts of fabric and accessories including tags, crests, zippers and buttons with credit terms of 30 days after receipt of goods and invoices.

During the Track Record Period, trade payables are settled by bank transfer.

The following table sets forth an ageing analysis of the trade payables as at the date indicated:

	As at 31 December				As at 31 March	
	2007		2008		2009	
Our accounts payable ageing	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
0 to 30 days	6,689	89.2	5,570	57.2	2,008	59.7
31 to 90 days	136	1.8	3,493	35.9	492	14.6
91 to 180 days	–	–	–	–	190	5.6
Over 180 days	676	9.0	676	6.9	676	20.1
Total	7,501	100.0	9,739	100.0	3,366	100.0

[The accounts payables of RMB676,000 over 180 days, which were all due to Independent Third Parties, were carried forward from 2006 before Mr. Cai SY and Mr. Cai SP acquired our three operating subsidiaries, namely Xiefeng Textile, Wannianxing Textile and Xiangyun Fiber, from their relatives in 2006. Our Directors confirm that approximately RMB354,000 has been settled in May 2009 with the remaining balance credited to our other income in May 2009 as no action had been taken against our operating subsidiaries for the settlement of these account payables for more than two years.

Save as disclosed above, our Directors confirm that all the trade payables outstanding as at 31 March 2009 has been repaid on or before 31 July 2009.

Other receivables

Our other receivables consist of mainly value-added tax refund receivables, advances made to staff for business use and deposit paid to our service providers.

The following table sets forth a breakdown of other receivables as at the date indicated:

	As at 31 December		As at 31 March
	2007	**2008**	**2009**
Our other receivables	*RMB'000*	*RMB'000*	*RMB'000*
Value-added tax refund receivables	3,315	2,731	879
Staff advances	152	505	505
Deposits	21	21	21
Total	3,488	3,257	1,405

As our Group's structure was relatively simple, it was our practice to make advances to our senior management staff so that they would have the flexibility to incur appropriate expenses when needed for business related activities of our Group which mainly include, inter alia, marketing, travelling and entertainment expenses. The relevant staff would be required to tender the receipts to our Group after incurring such expenses, and upon request, to repay to us the full amount of the advances after deducting the appropriate expenses. As at 31 December 2007, 31 December 2008 and 31 March 2009, the outstanding amounts of such advances were RMB152,000, RMB505,000 and RMB505,000 respectively. Our legal advisers as to PRC laws confirmed that the aforesaid practice as well as the prepayment arrangement comply with the applicable PRC laws or regulations. In order to establish a better financial control mechanism, we have terminated this practice. Since [July] 2009, all business-related expenses would be paid on a reimbursement basis.

Other payables

Our other payables mainly consist of accrued staff salaries and welfare, receipts in advance from our customers and value-added tax payable.

The following table sets forth a breakdown of other payables as at the date indicated:

	As at 31 December		As at 31 March
	2007	**2008**	**2009**
Our other payables	*RMB'000*	*RMB'000*	*RMB'000*
Accrued staff salaries and welfare	1,359	1,792	1,613
Receipts in advance	71	625	71
Value-added tax payables	–	206	595
Other payables	–	–	35
Total	1,430	2,623	2,314

Selected key financial ratios

The following table sets forth certain key financial ratios of our Group for the period indicated:

	For the financial year ended 31 December		For the three months ended 31 March
	2007	**2008**	**2009**
Debtors' turnover days	21	44	65
Creditors' turnover days	26	25	9
Inventory turnover days	40	36	12

Notes:

1. Debtors' turnover days equal to the trade receivables at the end of the year/period divided by total turnover and multiplied by the number of days generating the turnover.

2. Creditors' turnover days equal to the trade payables at the end of the year/period divided by total turnover and multiplied by the number of days generating the turnover.

3. Inventory turnover days equal to the inventories at the end of the year/period divided by total turnover and multiplied by the number of days generating the turnover.

Debtors' turnover days

For each of two years ended 31 December 2008 and three months ended 31 March 2009, our average debtors' turnover days were 21, 44 and 65 respectively. The increase in debtors' turnover day from 21 days in 2007 to 44 days in 2008 and 65 days in 2009 is mainly due to the increase in account receivables from RMB6.2 million as at 31 December 2007 to RMB17.2 million as at 31 December 2008 and to RMB25.5 million as at 31 March 2009 which was attributable to (i) we have offered a longer credit term of 180 days to our direct export clients as part of our marketing strategy to develop this segment; and (ii) our turnover grew from RMB106.9 million in 2007 to RMB144.2 million in 2008.

Creditors' turnover days

For each of two years ended 31 December 2008 and three months ended 31 March 2009, our average creditors' turnover days were 26, 25 and 9 respectively. The reduction in creditors' turnover days from 26 days in 2007 to 9 days in 2009 was mainly due to the increase in upfront deposit required by our suppliers during the economic downturn.

Inventory turnover days

Our average inventory turnover days for the two years ended 31 December 2008 and three months ended 31 March 2009 were 40 days, 36 days and 12 days respectively. The improvement of the inventory turnover days was mainly due to (i) our marketing strategy to offer our products at a competitive price and (ii) our strategy to shorten the lag time before collection by requesting our clients to collect the finished goods as soon as we complete the orders.

PROPERTY INTERESTS AND VALUATION OF PROPERTIES

For the purpose of the listing of the Shares on the [●], our properties were valued as at 30 June 2009 by [●]. Details of the valuation are summarised in appendix III to this [●].

PROPERTY VALUATION

A reconciliation of the property interests of our Group and the valuation of such property interests as required under Rule 8.30 of the [●] is set out below.

	RMB'000	*RMB'000*
Valuation of properties with certificate as at 30 June 2009 as set out in the Valuation Report included in appendix III to this [●]		[8,034]
Net book value of the following properties as at 31 March 2009 as set out in the Accountants' Report included in appendix I to this [●]		
– Properties	[4,179]	
– Land use rights	[2,067]	
	[6,246]	
Less: Depreciation of properties during the period from [1 April 2009] to [30 June 2009] (unaudited)	[56]	
Less: Amortization of land use rights during the period from [1 April 2009] to [30 June 2009] (unaudited)	[12]	
Net book value of properties as at [30 June 2009] subject to valuation as set out in the Valuation Report included in appendix III to this [●]		[6,178]
Net revaluation surplus		[1,856]

In accordance with our accounting policy, all properties are stated at cost less accumulated depreciation. As such, the net revaluation surplus arising from the valuation of properties has not been included in the unaudited pro forma adjusted net tangible assets statement under the section headed "Financial Information – Unaudited Pro Forma Adjusted Net Tangible Assets" in this [●].

DIVIDEND POLICY AND DISTRIBUTABLE RESERVES

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.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in the financial or trading positions or prospects of our Company since 31 March 2009, the date of the latest audited financial statements of our Company.

Our Directors confirm that they have performed sufficient due diligence on our Company to ensure that, up to the date of this [●], there has been no material adverse change in our financial or trading position or prospects since 31 March 2009, the date of the latest audited financial statements of our Company were made up, and there is no event since 31 March 2009 which would materially affect the information shown in the accountants' reports, contained in appendix 1 to this [●].