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## HISTORY AND DEVELOPMENT

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### Introduction

Our Company was established in the Cayman Islands under the Companies Law as an exempted company with limited liability on 10 June 2009.

Our Company completed the Reorganization on 14 September 2009 in preparation for listing of our Shares on GEM pursuant to which our Company became the ultimate holding company of our Group. Details of the Reorganization are set out in the paragraph headed “Corporate reorganization” in appendix V to this Prospectus.

Our Company has a number of directly and indirectly wholly-owned subsidiaries incorporated in the BVI, Hong Kong and the PRC respectively. All of our operating subsidiaries were established in the PRC. Corporate history of our major operating subsidiaries are set out below.

### Xiefeng Textile

Xiefeng Textile was established as a wholly-foreign owned enterprise on 21 December 2004 with a registered capital of HK\$3,200,000 by Hong Kong Lung Tan, a company incorporated in Hong Kong with limited liability and wholly-owned by Mr. Cai Changqiang (蔡長牆), a nephew of Mr. Cai SP. The establishment of Xiefeng Textile was approved by the Bureau of Foreign Trade and Economic Co-operation of Shangrao (上饒市對外貿易經濟合作局) on 21 December 2004. The People’s Government of Jiangxi Province (江西省人民政府) granted a certificate of approval to Xiefeng Textile on 21 December 2004 approving its establishment as a wholly-foreign owned enterprise and Shangrao Administration for Industry and Commerce (上饒市工商行政管理局) granted a business license to Xiefeng Textile on 21 December 2004. The registered capital of Xiefeng Textile was to be contributed by Hong Kong Lung Tan by cash. Pursuant to the approval by the Bureau of Foreign Trade and Economic Co-operation of Shangrao (上饒市對外貿易經濟合作局) on 21 December 2004, the first stage capital contribution, which was 15% of the registered capital of Xiefeng Textile, should be paid within three months and the rest should be paid within three years upon issue of the relevant business license.

The first stage registered capital of Xiefeng Textile had not been paid within the required three-month time frame. However, as at 16 December 2005, Hong Kong Lung Tan had fully paid the registered capital of Xiefeng Textile, which was confirmed by the capital verification report issued by a PRC accounting firm dated 16 December 2005. As advised by our legal advisers as to PRC laws, although Hong Kong Lung Tan did not pay the first stage capital contribution of Xiefeng Textile within the time frame as required by the Bureau of Foreign Trade and Economic Co-operation of Shangrao (上饒市對外貿易經濟合作局), Shangrao Administration for Industry and Commerce (上饒市工商行政管理局) had subsequently granted business licenses to Xiefeng Textile on 3 November 2005, 23 June 2006 and 28 June 2006 and Xiefeng Textile had passed the subsequent annual corporate inspections by the relevant authorities. Therefore, the delayed capital contribution did not affect the due establishment and valid existence of Xiefeng Textile.

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On 27 May 2006, Hong Kong Lung Tan entered into a share transfer agreement with Cai's International, pursuant to which Hong Kong Lung Tan agreed to transfer its 100% equity interest in Xiefeng Textile to Cai's International at the consideration of HK\$3,200,000, which was equivalent to the registered capital of Xiefeng Textile. In light of the fact that Xiefeng Textile had been operating at a loss at that time, Hong Kong Lung Tan further entered into a supplemental agreement to the aforesaid share transfer agreement on 31 May 2006 with Cai's International, pursuant to which, inter alia, the consideration of the share transfer was amended to RMB1. As part of the supplemental agreement, Cai's International further entered into a creditors' agreement with Hong Kong Lung Tan and five creditors of Xiefeng Textile (which included Mr. Cai SP, Mr. Cai SY, Mr. Cai Changqiang (蔡長牆), Mr. Cai Jiabo (蔡家搏) (a son of Mr. Cai SP) and Ms. Huang Mei Ling (黃美齡) (save as being a former employee of Wannianxing Textile, she is an Independent Third Party)) on the same date. As advised by our legal advisers as to PRC laws, the loans between Xiefeng Textile and the creditors as named in this creditors' agreement were not in contravention with the relevant PRC laws and regulations, as all of these creditors are individuals and the restrictions of lending in the PRC under the Lending General Provisions do not apply to individuals lending money to entities. Pursuant to this creditors' agreement, Cai's International and Xiefeng Textile agreed to bear the responsibility to repay the debts up to 31 May 2006 owed by Xiefeng Textile to the named creditors of the creditors' agreement, and Xiefeng Textile should fully repay such debts within three years utilizing its operating profits. As confirmed by our Directors, all such debts had been fully repaid by Xiefeng Textile to the named creditors. On 28 June 2006, the Committee of Foreign Trade and Economic Co-operation of Shangrao (上饒市對外貿易經濟合作委員會) approved the aforesaid share transfer and the People's Government of Jiangxi Province (江西省人民政府) granted a new certificate of approval to Xiefeng Textile on the same date. The aforesaid share transfer had also been filed with the Shangrao Administration for Industry and Commerce (上饒市工商行政管理局). After the aforesaid share transfer and before the Reorganization, Xiefeng Textile was 100% owned by Cai's International.

Xiefeng Textile established a number of sales or branch offices, including the sales office established in Wannian, Poyang and Yugan, all located in Jiangxi province in 2008; and the branch office established in Quanzhou, Fujian province in 2009.

The sales office in Wannian, Jiangxi province is principally engaged as our sales arm in Wannian, Jiangxi province, and the branch office in Quanzhou, Fujian province is principally engaged in the provision of after-sale services for our products and as the liaison for the development of our business in the area.

As the sales offices in Poyang and Yugan, Jiangxi province did not engage in any substantial business operations, Xiefeng Textile has applied for the de-registrations of these two sales offices in order to streamline our business structure. The de-registrations of these two sales offices were approved by Shangrao Administration for Industry and Commerce (上饒市工商行政管理局) in May 2009. As advised by our legal advisers as to PRC laws, the de-registrations of these two sales offices were completed in May 2009 and in compliance with the relevant PRC laws and regulations.

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### Wannianxing Textile

Wannianxing Textile was established as a wholly-foreign owned enterprise on 13 May 2005 with a registered capital of US\$1,300,000 by Sun Hing Industrial, a sole proprietorship registered in Hong Kong and wholly-owned by Ms. Tsoi Shan Cha (蔡山查), a sister of Mr. Cai SY. The establishment of Wannianxing Textile was approved by the Bureau of Foreign Trade and Economic Co-operation of Shangrao (上饒市對外貿易經濟合作局) on 10 May 2005. The People's Government of Jiangxi Province (江西省人民政府) granted a certificate of approval to Wannianxing Textile on 10 May 2005 approving its establishment as a wholly-foreign owned enterprise and Shangrao Administration for Industry and Commerce (上饒市工商行政管理局) granted a business license to Wannianxing Textile on 13 May 2005. The registered capital of Wannianxing Textile was to be contributed by Sun Hing Industrial by cash. Pursuant to the approval by the Bureau of Foreign Trade and Economic Co-operation of Shangrao (上饒市對外貿易經濟合作局) on 10 May 2005, the first stage capital contribution, which was 15% of the registered capital of Wannianxing Textile, should be paid within three months and the rest should be paid within three years upon issue of the relevant business license.

As at 16 December 2005, a total of US\$1,106,880, representing approximately 85.14% of the registered capital of Wannianxing Textile, had been contributed by Sun Hing Industrial, which was confirmed by the capital verification report issued by a PRC accounting firm dated 16 December 2005.

On 25 May 2006, Sun Hing Industrial entered into a share transfer agreement with Cai's International, pursuant to which Sun Hing Industrial agreed to transfer its 100% equity interest in Wannianxing Textile to Cai's International at the consideration of US\$1,300,000, which was equivalent to the registered capital of Wannianxing Textile. In light of the fact that Wannianxing Textile had been operating at a loss at that time, Sun Hing Industrial further entered into a supplemental agreement to the aforesaid share transfer agreement on 31 May 2006 with Cai's International, pursuant to which, inter alia, the consideration of the share transfer was amended to RMB1, and Cai's International was responsible for paying the unpaid registered capital of Wannianxing Textile in the amount of US\$193,120. As part of the supplemental agreement, Cai's International further entered into a creditors' agreement with Sun Hing Industrial and four creditors of Wannianxing Textile (which included Mr. Cai SP, Mr. Cai SY, Mr. Tsoi Kam On (蔡金鉸) (a brother of Mr. Cai SY) and Mr. Cai Jiabo (蔡家搏) (a son of Mr. Cai SP)) on the same date. As advised by our legal advisers as to PRC laws, the loans between Wannianxing Textile and the creditors as named in this creditors' agreement were not in contravention with the relevant PRC laws and regulations, as all of these creditors are individuals and the restrictions of lending in the PRC under the Lending General Provisions do not apply to individuals lending money to entities. Pursuant to this creditors' agreement, Cai's International and Wannianxing Textile agreed to bear the responsibility to repay the debts up to 31 May 2006 owed by Wannianxing Textile to the named creditors of the creditors' agreement, and Wannianxing Textile should fully repay such debts within three years utilizing its operating profits. As confirmed by our Directors, all such debts had been fully repaid by Wannianxing Textile to the named creditors. On 26 June 2006, the Committee of Foreign Trade and Economic Co-operation of Shangrao (上饒市對外貿易經濟合作委員會) approved the aforesaid share transfer and the People's Government of Jiangxi Province (江西省人民政府) granted a new certificate of approval to

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Wannianxing Textile on the same date. On 28 June 2006, Shangrao Administration for Industry and Commerce (上饒市工商行政管理局) granted a new business license to Wannianxing Textile. After the aforesaid share transfer and before the Reorganization, Wannianxing Textile was 100% owned by Cai's International.

As at 14 January 2008, Cai's International had paid up the last installment of the registered capital of Wannianxing Textile in the amount of US\$193,120, which was confirmed by the capital verification report issued by a PRC accounting firm dated 17 January 2008, and that all the registered capital of Wannianxing Textile had been paid up. On 30 June 2008, Shangrao Administration for Industry and Commerce (上饒市工商行政管理局) granted a new business license to Wannianxing Textile recognizing the above capital contribution.

As advised by our legal advisers as to PRC laws, although Sun Hing Industrial did not pay the first stage capital contribution of Wannianxing Textile within the three-month time frame as required by the Bureau of Foreign Trade and Economic Co-operation of Shangrao (上饒市對外貿易經濟合作局), Shangrao Administration for Industry and Commerce (上饒市工商行政管理局) had granted subsequent business licenses to Wannianxing Textile and Wannianxing Textile had passed the subsequent annual corporate inspections by the relevant authorities. Therefore, the delayed capital contribution did not affect the due establishment and valid existence of Wannianxing Textile.

### **Xiangyun Fiber**

Xiangyun Fiber was established as a wholly-foreign owned enterprise on 26 May 2005 with a registered capital of US\$1,300,000 by Po Cheung Industrial, a sole proprietorship registered in Hong Kong and wholly-owned by Mr. Tsoi Kam On (蔡金鉸), a brother of Mr. Cai SY. The establishment of Xiangyun Fiber was approved by the Bureau of Foreign Trade and Economic Co-operation of Shangrao (上饒市對外貿易經濟合作局) on 10 May 2005. The People's Government of Jiangxi Province (江西省人民政府) granted a certificate of approval to Xiangyun Fiber on 10 May 2005 approving its establishment as a wholly-foreign owned enterprise and Shangrao Administration for Industry and Commerce (上饒市工商行政管理局) granted a business license to Xiangyun Fiber on 26 May 2005. The registered capital of Xiangyun Fiber was to be contributed by Po Cheung Industrial by cash. Pursuant to the approval by the Bureau of Foreign Trade and Economic Co-operation of Shangrao (上饒市對外貿易經濟合作局) on 10 May 2005, the first stage capital contribution, which was 15% of the registered capital of Xiangyun Fiber, should be paid within three months and the rest should be paid within three years upon issue of the relevant business license.

As at 16 December 2005, a total of US\$1,177,930.57, representing approximately 90.61% of the registered capital of Xiangyun Fiber, was contributed by Po Cheung Industrial, which was confirmed by the capital verification report issued by a PRC accounting firm dated 16 December 2005. Po Cheung Industrial did not contribute the 15% of the registered capital of Xiangyun Fiber within the three-month time frame prescribed in the approval of the Bureau of Foreign Trade and Economic Co-operation of Shangrao (上饒市對外貿易經濟合作局). On 23 June 2006, Shangrao Administration for Industry and Commerce (上饒市工商行政管理局) granted a new business license to Xiangyun Fiber recognizing the above capital contribution by Po Cheung Industrial.

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On 26 May 2006, Po Cheung Industrial entered into a share transfer agreement with Cai's International, pursuant to which Po Cheung Industrial agreed to transfer its 100% equity interest in Xiangyun Fiber to Cai's International at the consideration of US\$1,300,000, which was equivalent to the registered capital of Xiangyun Fiber. In light of the fact that Xiangyun Fiber had been operating at a loss at that time, Po Cheung Industrial further entered into a supplemental agreement to the aforesaid share transfer agreement on 31 May 2006 with Cai's International, pursuant to which, inter alia, the consideration of the share transfer was amended to RMB1, and Cai's International should be responsible for paying up the unpaid registered capital of Xiangyun Fiber in the amount of US\$122,100. As part of the supplemental agreement, Cai's International further entered into a creditors' agreement with Po Cheung Industrial and three creditors of Xiangyun Fiber (which included Mr. Cai SY, Mr. Tsoi Kwing Kwing (蔡炯炯) (a brother of Mr. Cai SY) and Mr. Cai Jiabo (蔡家搏) (a son of Mr. Cai SP)) on the same date. As advised by our legal advisers as to PRC laws, the loans between Xiangyun Fiber and the creditors as named in this creditors' agreement were not in contravention with the relevant PRC laws and regulations, as all of these creditors are individuals and the restrictions of lending in the PRC under the Lending General Provisions do not apply to individuals lending money to entities. Pursuant to this creditors' agreement, Cai's International and Xiangyun Fiber agreed to bear the responsibility to repay the debts up to 31 May 2006 owed by Xiangyun Fiber to the named creditors of the creditors' agreement, and Xiangyun Fiber should fully repay such debts within three years utilizing its operating profits. As confirmed by our Directors, all such debts had been fully repaid by Xiangyun Fiber to the named creditors. On 27 June 2006, the Committee of Foreign Trade and Economic Co-operation of Shangrao (上饒市對外貿易經濟合作委員會) approved the aforesaid share transfer and the People's Government of Jiangxi Province (江西省人民政府) granted a new certificate of approval to Xiangyun Fiber on the same date. On 28 June 2006, Shangrao Administration for Industry and Commerce (上饒市工商行政管理局) granted a new business license to Xiangyun Fiber. After the aforesaid share transfer and before the Reorganization, Xiangyun Fiber was 100% owned by Cai's International.

On 14 November 2008, the board of directors of Xiangyun Fiber resolved to extend the period for capital contribution to the unpaid registered capital of Xiangyun Fiber to 31 December 2008. The extension of time for capital contribution was approved by the Committee of Foreign Trade and Economic Co-operation of Shangrao (上饒市對外貿易經濟合作委員會) on 14 November 2008 and the application made to Shangrao Administration for Industry and Commerce (上饒市工商行政管理局) for extension of time for capital contribution had been accepted.

As at 26 November 2008, Cai's International had paid up the last installment of the registered capital of Xiangyun Fiber in the amount of US\$122,069.43, which was confirmed by the capital verification report issued by a PRC accounting firm dated 26 November 2008 and that all the registered capital of Xiangyun Fiber had been paid up. On 29 December 2008, Shangrao Administration for Industry and Commerce (上饒市工商行政管理局) granted a new business license to Xiangyun Fiber recognizing the above capital contribution.

As advised by our legal advisers as to PRC laws, although Po Cheung Industrial did not pay the capital contribution of Xiangyun Fiber within the time frame as required by the Bureau of Foreign Trade and Economic Co-operation of Shangrao (上饒市對外貿易經濟合作局), it has applied for an extension of the period for full payment of the capital contribution and such application had been approved by the Committee of Foreign Trade and Economic Co-operation of Shangrao (上饒市對外貿易經濟合作委員會). In addition, Shangrao Administration for Industry and Commerce (上饒市工商行政管理局) had

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granted subsequent business licenses to Xiangyun Fiber and Xiangyun Fiber had passed the subsequent annual corporate inspections by the relevant authorities. Therefore, the delayed capital contribution did not affect the due establishment and valid existence of Xiangyun Fiber.

Although the then sole investor of each of Xiefeng Textile, Wannianxing Textile and Xiangyun Fiber did not pay the capital contribution into Xiefeng Textile, Wannianxing Textile and Xiangyun Fiber within the timeframe as required by the relevant governmental authority, such capital contribution had been fully repaid at a later stage. As advised by our legal advisers as to PRC laws, in case of delayed capital contribution in a wholly-foreign owned enterprise by its shareholder, the local Administration for Industry and Commerce may order such shareholder to rectify the position and impose a penalty of 5% to 15% of the due amount. If the shareholder refuses to rectify the position, the local Administration for Industry and Commerce may request the relevant wholly-foreign owned enterprise to apply for an extension of the period for capital contribution to the registered capital of the wholly-foreign owned enterprise within a specified time frame. If the wholly-foreign owned enterprise did not make the application within the specified time frame, the local Administration for Industry and Commerce may impose a fine of RMB10,000 to RMB100,000, and for serious breach, the local Administration for Industry and Commerce may terminate the business license of the wholly-foreign owned enterprise. Our Directors confirmed that each of Xiefeng Textile, Wannianxing Textile and Xiangyun Fiber has not been penalized by the relevant governmental authority due to the delayed capital contribution, and the delayed capital contribution should not have any significant adverse effect on our Group's business and financial results.

Cai's International acquired the entire equity interests in the three PRC operating subsidiaries of our Group, namely Xiefeng Textile, Wannianxing Textile and Xiangyun Fiber, in 2006 at nominal consideration. Our Directors confirmed that the nominal consideration was determined based on arm's length negotiations among the relevant parties after taking into consideration matters including, inter alia, (i) the three PRC operating subsidiaries recorded a total loss of approximately RMB15.9 million in 2005 and were expected to suffer an accumulated loss of about RMB20 million in 2006; (ii) Cai's International agreed to pay up the unpaid registered capital of Wannianxing Textile of US\$193,120 and Xiangyun Fiber of US\$122,100; and (iii) Cai's International, together with the relevant PRC operating subsidiaries, undertook the liabilities of such PRC operating subsidiaries. Our production facilities are mainly originated from our three PRC operating subsidiaries we acquired in 2006.

### **Reorganization**

In connection with the Placing, our Group underwent the Reorganization in anticipation of the listing of our Shares on the GEM.

On 24 June 2009, for the purpose of the Reorganization, Cai's International agreed to transfer its 100% interest in Xiefeng Textile at a consideration of HK\$1 to Sino Prosper. On 1 July 2009, the Department of Commerce of Jiangxi Province (江西省商務廳) approved the aforesaid share transfer and the People's Government of Jiangxi Province (江西省人民政府) granted a new certificate of approval to Xiefeng Textile on 3 July 2009. On 6 July 2009, Shangrao Administration for Industry and Commerce (上饒市工商行政管理局) granted a new business license to Xiefeng Textile. After the aforesaid share transfer, Xiefeng Textile was 100% owned by Sino Prosper.

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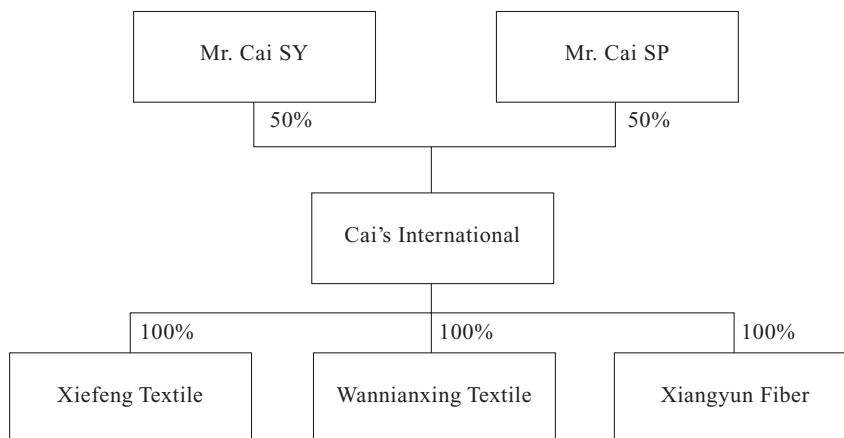
On 24 June 2009, for the purpose of the Reorganization, Cai's International agreed to transfer its 100% interest in Wannianxing Textile at a consideration of HK\$1 to Sino Prosper. On 1 July 2009, the Committee of Foreign Trade and Economic Co-operation of Shangrao (上饒市對外貿易經濟合作委員會) approved the aforesaid share transfer and the People's Government of Jiangxi Province (江西省人民政府) granted a new certificate of approval to Wannianxing Textile on 1 July 2009. On 6 July 2009, Shangrao Administration for Industry and Commerce (上饒市工商行政管理局) granted a new business license to Wannianxing Textile. After the aforesaid share transfer, Wannianxing Textile was 100% owned by Sino Prosper.

On 24 June 2009, for the purpose of the Reorganization, Cai's International agreed to transfer its 100% interest in Xiangyun Fiber at a consideration of HK\$1 to Sino Prosper. On 1 July 2009, the Committee of Foreign Trade and Economic Co-operation of Shangrao (上饒市對外貿易經濟合作委員會) approved the aforesaid share transfer and the People's Government of Jiangxi Province (江西省人民政府) granted a new certificate of approval to Xiangyun Fiber on 1 July 2009. On 6 July 2009, Shangrao Administration for Industry and Commerce (上饒市工商行政管理局) granted a new business license to Xiangyun Fiber. After the aforesaid share transfer, Xiangyun Fiber was 100% owned by Sino Prosper.

As part of the Reorganization, our Company became the holding company of our Group on 14 September 2009. For further details of the Reorganization, please refer to the paragraph headed "Corporate reorganization" in appendix V to this Prospectus.

### Our Corporate Structure

Prior to the Reorganization, the shareholding and corporate structure of our principal operating companies was as follows:

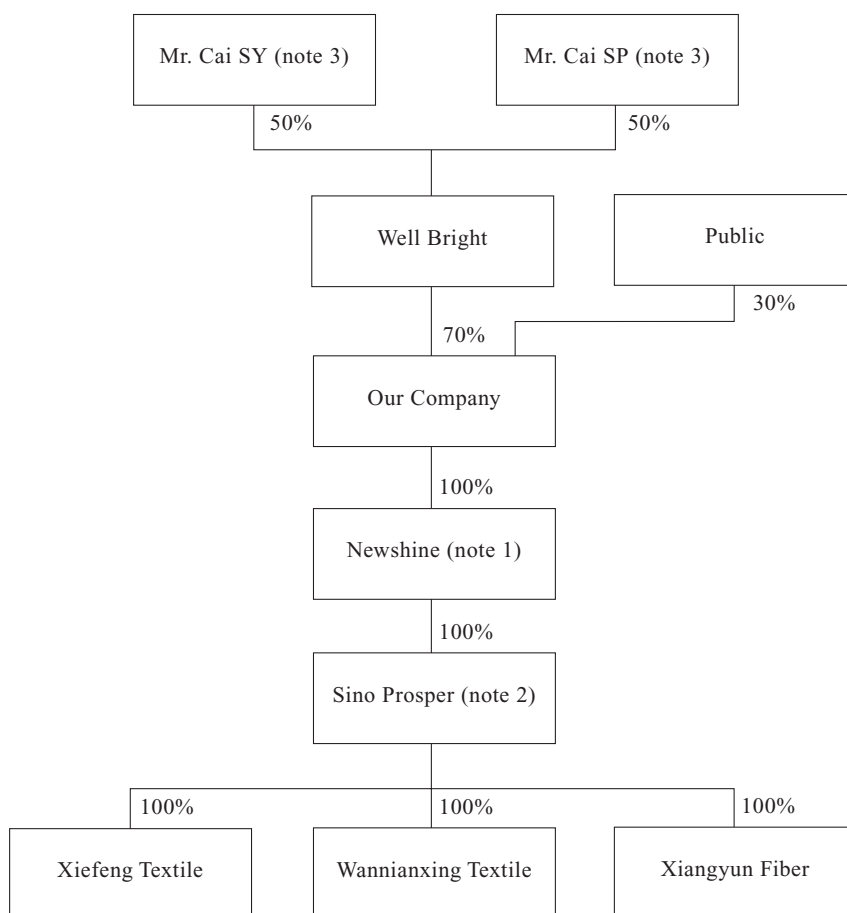


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Immediately following the completion of the Placing and the Capitalization Issue, assuming no options will be granted under the Share Option Scheme, the shareholding and corporate structure of our Group will be as follows:



*Notes:*

1. Newshine is an investment holding company.
2. Sino Prosper is an investment holding company. It will also provide administrative and supporting services to our Group in Hong Kong.
3. Mr. Cai SY and Mr. Cai SP have confirmed that they are acting in concert to exercise their voting right in Well Bright.



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### **Regulations for Merger with and Acquisition of Domestic Enterprises by Foreign Investors** (《關於外國投資者併購境內企業的規定》)

“Regulations for Merger with and Acquisition of Domestic Enterprises by Foreign Investors” (《關於外國投資者併購境內企業的規定》) (the “M&A Rules”) was implemented on 8 September 2006. The M&A Rules applies to a foreign investor when it purchases the equity of a non-foreign-invested enterprise in China (i.e. a domestic company) from its shareholder or through subscription of increased capital of a domestic company so as to convert and re-establish a domestic company to a foreign-invested enterprise; or when a foreign investor establishes a foreign-invested enterprise and purchases and operates the assets of a domestic enterprise by the agreement of that enterprise, or when a foreign investor purchases the assets of a domestic enterprise by agreement and uses such assets to establish a foreign-invested enterprise and operate the assets.

The investment activities of a foreign investor shall comply with the requirements stipulated by laws, administrative regulations and rules of China, and the Guiding Catalogue of Foreign Invested Industry. To an industry that is not allowed to be operated by a sole foreign investor, its merger and acquisition activities shall not result in a foreign investor holding the enterprise’s entire equity. To an industry that requires to have a Chinese party to hold certain percentage of interest, the Chinese party shall maintain its required interest in the enterprise after the enterprise in that industry is merged with or being acquired by a foreign investor. To an industry that is forbidden to be operated by a foreign investor, the foreign investor shall not merge with or acquire any enterprise in that industry.

As advised by our legal advisers as to PRC laws, the M&A Rules does not apply to our Company for the following reasons:

- (i) According to Article 2 of the M&A Rules, “takeover of a domestic enterprise by a foreign investor” is defined as a situation where a foreign investor purchases by agreement the equity interests of a domestic non-foreign-invested enterprise (a “domestic company”) or subscribes to the increased capital of a domestic company, and thus changes the domestic company into a foreign-invested enterprise; or a foreign investor establishes a foreign funded enterprise, and through which it purchases by agreement the assets of a domestic enterprise and operates such assets; or a foreign investor purchases by agreement the assets of a domestic enterprise, and then uses such assets to invest in and establish a foreign-invested enterprise through which it operates such assets. On the basis that each of Xiefeng Textile, Wannianxing Textile and Xiangyun Fiber is a wholly-foreign owned enterprise since its establishment and not a domestic company, and that Sino Prosper, which purchases the entire equity interests in Xiefeng Textile, Wannianxing Textile and Xiangyun Fiber from their foreign shareholder namely Cai’s International, is a foreign enterprise, these acquisitions did not constitute purchases by a foreign investor of the equity interests of a domestic company, and conversion of a domestic company to and re-establishment of a foreign-invested enterprise. Hence, the M&A Rules does not apply to our Company.

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- (ii) Cai's International, the foreign shareholder of Xiefeng Textile, Wannianxing Textile and Xiangyun Fiber, transferred all the equity interests it held in these three wholly-owned foreign enterprises to another foreign investor, Sino Prosper. The legal nature of these transfers were transfers of equity interest in wholly-owned foreign investment enterprises, which were subject to the "Provision for the Alteration of Investors' Equities in Foreign-Invested Enterprises" (《外商投資企業投資者股權變更的若干規定》). This regulation provides that the acquisition would be effective after obtaining approval from the relevant PRC's original approval authority, which for Xiefeng Textile, refers to the Department of Commerce of Jiangxi Province (江西省商務廳), and for Wannianxing Textile and Xiangyun Fiber, refers to the Committee of Foreign Trade and Economic Co-operation of Shangrao (上饒市對外貿易經濟合作委員會).

According to the "Notice on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies" (《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》) implemented on 1 November 2005 ("Circular 75"), a domestic resident legal person or domestic resident natural person ("domestic resident") is required to effect foreign exchange registration with the local foreign exchange bureau, when the domestic resident uses its/his enterprise assets or interests inside China to establish or take control of a special purpose company abroad, and its/his domestic enterprises receive round-trip investments from funds raised by an overseas special purpose company controlled by domestic residents. "Round-trip investments" refers to the direct investment activities in the PRC undertaken by domestic residents through overseas special purpose companies, including but not limited to (a) purchase or exchange of the equity interest held by a PRC party in a PRC enterprise; (b) establishment of a foreign-invested enterprise in the PRC and through that enterprise, purchase or control the PRC assets by agreement; (c) agreement to purchase PRC assets, and use that PRC assets to establish a foreign-invested enterprise; and (d) contribution of additional capital in a PRC enterprise.

As advised by our legal advisers as to PRC laws, Jiangxi Bureau of the State Administration of Foreign Exchange of the PRC (國家外匯管理局) ("SAFE") is the responsible governmental authority in handling of the foreign exchange registration for overseas investments for individuals in Jiangxi province according to Circular 75. As advised by our legal advisers as to PRC laws and confirmed by the Jiangxi Bureau of SAFE, Circular 75 does not apply to the Reorganization. Although our Controlling Shareholders, Mr. Cai SY and Mr. Cai SP are domestic residents, Well Bright, Newshine and our Company do not engage in direct investment activities in the PRC and the Reorganization therefore does not fall within the definition of "round-trip investments" under Circular 75. Hence, Mr. Cai SY and Mr. Cai SP are not required to effect foreign exchange registration in respect of their establishments of Well Bright, Newshine and our Company. Xiefeng Textile, Wannianxing Textile and Xiangyun Fiber, which were acquired by Cai's International and Sino Prosper in 2006 and 2009 respectively, are wholly-foreign owned enterprises. We have made enquiries with the investment management division of the Jiangxi Bureau of SAFE which is responsible for handling the foreign exchange registration for individuals in Jiangxi province, and it replied to us that Cai's International acquired the equity interests of Xiefeng Textile, Wannianxing Textile and Xiangyun Fiber from their respective foreign shareholders, and Sino Prosper acquired the equity interests of Xiefeng Textile, Wannianxing Textile and Xiangyun Fiber from

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their common foreign shareholder. Hence, these acquisitions are not round-trip investments which were regulated by Circular 75. Furthermore, according to No. 2009-001 and No. 2009-002 “Non-receivable Administration Approval Application Notice” (《不予受理行政許可申請通知書》) issued by Jiangxi Bureau of SAFE, Mr. Cai SY and Mr. Cai SP are not required to effect foreign exchange registration in respect of their establishments of Cai’s International and Sino Prosper.