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**Web Proof Information Pack of**  
**江晨國際控股有限公司**  
**Jiangchen International Holdings Limited**  
*(Incorporated in the Cayman Islands with limited liability)*

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## CONTENTS

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This Web Proof Information Pack contains the following information relating to Jiangchen International Holdings Limited extracted from the Post Hearing Proof of the draft document:

- Summary
- Definitions
- Risk Factors
- Directors
- Corporate Information
- Industry Overview
- History and Development
- Business
- Future Plans and Prospects
- Connected Transactions
- Directors, Senior Management and Staff
- Substantial, Controlling and Significant Shareholders
- Share Capital
- Financial Information
- Appendix I – Accountants’ Report
- Appendix III – Property Valuation
- Appendix IV – Summary of the Constitution of the Company and Cayman Islands Companies Law
- Appendix V – Statutory and General Information
- Appendix VI – Document Delivered to the Registrar of Companies in Hong Kong and Available for Inspection

**YOU SHOULD READ THE SECTION HEADED “WARNING” ON THE COVER OF THIS INFORMATION PACK.**

## 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		2008		Three months ended 31 March 2009	
	2007 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]
<b>Total</b>	<b>[106,928]</b>	<b>[100.0]</b>	<b>[144,164]</b>	<b>[100.0]</b>	<b>[35,500]</b>	<b>[100.0]</b>

*Note:* Others include waistcoats, skirts and pajamas.

## SUMMARY

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	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
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]
<b>Total</b>	<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

## SUMMARY

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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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## SUMMARY

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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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## SUMMARY

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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



## SUMMARY

### 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>

## SUMMARY

### 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>
<b>Non-current assets</b>			
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>
<b>Current assets</b>			
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>
<b>Current liabilities</b>			
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>
<b>Total current liabilities</b>	<u>[16,617]</u>	<u>[14,508]</u>	<u>[8,644]</u>
<b>Net current assets</b>	<u>[7,466]</u>	<u>[26,303]</u>	<u>[30,390]</u>
<b>Net assets</b>	<u>[16,105]</u>	<u>[34,419]</u>	<u>[38,993]</u>
<b>Capital and reserves</b>			
Share capital	[23,215]	[24,135]	[24,135]
Reserves	<u>[(7,110)]</u>	<u>[10,284]</u>	<u>[14,858]</u>
<b>Total equity</b>	<u>[16,105]</u>	<u>[34,419]</u>	<u>[38,993]</u>

## SUMMARY

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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.

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## DEFINITIONS

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*In this [●], unless the context otherwise requires, the following expressions shall have the following meanings.*

“Articles of Association” or “Articles”	the articles of association of our Company adopted on 15 September 2009, as amended from time to time
“ASEAN”	The Association of Southeast Asian Nations
“associate(s)”	has the meaning ascribed thereto in [●]
“Board”	our board of Directors
“Business Day”	any day (other than a Saturday or a Sunday) on which banks in Hong Kong are generally open for normal banking business
“BVI”	British Virgin Islands
“Cai’s International”	Cai’s International Holdings Limited 蔡氏國際控股有限公司, a company incorporated in the BVI on 6 April 2006 with limited liability, and was held 50% by Mr. Cai SP and 50% by Mr. Cai SY as at the [●]
“[●]”	the issue of Shares to be made upon capitalization of part of the amount standing to the credit of the share premium account of our Company referred to in the section headed “Written resolutions of our sole Shareholder passed on 15 September 2009” in appendix V to this [●]
“China” or “PRC”	the People’s Republic of China, but for the purposes of this [●] and for geographical reference only (unless otherwise indicated), excluding Taiwan, the Macau Special Administrative Region of the People’s Republic of China and Hong Kong
“Companies Law”	the Companies Law (2009 Revision) of the Cayman Islands as amended, supplemented or otherwise modified from time to time

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## DEFINITIONS

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“our Company” or “we”	Jiangchen International Holdings Limited 江晨國際控股有限公司, an exempted company incorporated in the Cayman Islands with limited liability on 10 June 2009, or where the context refers to any time prior to its incorporation, those businesses and operations which were assumed by it pursuant to the [●], or where the context requires, any of the businesses and operations that is or was carried on by any member of our Group
“connected person”	has the meaning ascribed to it under [●]
“connected transaction”	the transaction stapled and specified in Rule 20.13 of [●]
“Controlling Shareholder(s)”	has the meaning ascribed thereto under [●] and for the purpose of this [●] means Well Bright, Mr. Cai SY and Mr. Cai SP
“Director(s)”	the director(s) of our Company
“EU”	European Union
“GDP”	gross domestic product
“GEM”	the Growth Enterprise Market of the [●]
“GEM website”	the internet website at <a href="http://www.hkgem.com">http://www.hkgem.com</a> operated by the [●] for the purposes of GEM
“Group”, “our Group”, “we” or “us”	our Company and our subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“HK\$” or “HK dollars” or “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“HKFRSs”	the Hong Kong Financial Reporting Standards, which include the Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants

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## DEFINITIONS

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“HK Shui Ping”	Hong Kong Shui Ping Fashion International Industry Limited 香港水平服裝國際實業有限公司, a company incorporated in Hong Kong on 24 December 2003 and had been 50% owned by Mr. Cai SP and 50% owned by Ms. Sun Meige (孫美鵠) (the wife of Mr. Cai SP) before Mr. Cai SP and Ms. Sun Meige (孫美鵠) transferred all of their interest in HK Shui Ping in May 2009
“Hong Kong Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Lung Tan”	Hong Kong Lung Tan International Fashion Industry Limited 香港龍騰國際服裝實業有限公司, a company incorporated in Hong Kong with limited liability and formerly a shareholder of Xiefeng Textile
“Independent Third Party(ies)”	party(ies) which is (are) independent from and not connected with any of our Directors, chief executive, substantial shareholders or management shareholders of our Company or its subsidiary or any of their respective associates
“Jinjiang Shuiping”	晉江水平服裝有限公司 Jinjiang Shuiping Garment Co., Ltd., a domestic limited liability company incorporated in the PRC on 11 April 2001. It had been 50% owned by Mr. Cai SP and 50% owned by Mr. Cai Jiabo (蔡家搏) (a son of Mr. Cai SP) before Mr. Cai SP and Mr. Cai Jiabo (蔡家搏) transferred all of their interest in Jinjiang Shuiping in May 2009
“Mr. Cai SP”	Cai Shuiping, our executive Director and our Controlling Shareholder, a first cousin of Mr. Cai SY
“Mr. Cai SY”	Cai Shuiyong, our executive Director and our Controlling Shareholder, a first cousin of Mr. Cai SP
“Newshine”	Newshine International Limited 新光國際有限公司, a company incorporated in the BVI on 19 June 2009 with limited liability, and our wholly owned subsidiary
“OEM”	original equipment manufacturing, involving no product design but produces the products according to the specifications and designs provided by customers

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## DEFINITIONS

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“Po Cheung Industrial”	Po Cheung Industrial Company 寶祥實業公司, a sole proprietorship registered in Hong Kong and owned by Mr. Tsoi Kam On (蔡金鉸), and formerly a shareholder of Xiangyun Fiber
“Quanzhou Yongchun”	泉州永春新豐盛鞋服有限公司 Quanzhou Yongchun Xinfengsheng Shoes & Garments Co., Ltd., incorporated in the PRC on 29 June 2004. It was a wholly-foreign owned enterprise wholly owned by HK Shui Ping at the time when Mr. Cai SP and Ms. Sun Meige (孫美鵠) (the wife of Mr. Cai SP) transferred all of their interest in HK Shui Ping in May 2009
“RMB” and “Renminbi”	Chinese Yuan, the lawful currency of the PRC
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	holders of the Shares
“Share Option Scheme”	the share option scheme conditionally approved and adopted by our Company on 15 September 2009, the principal terms of which are summarised in the paragraph headed “Share Option Scheme” in appendix V to this [●]
“Shares”	ordinary shares in the share capital of our Company, with a nominal value of HK\$0.01 each
“Sino Prosper”	Sino Prosper (Asia) Limited 華盛(亞洲)有限公司, a company incorporated in Hong Kong on 27 May 2009 with limited liability, and our wholly-owned subsidiary
“[●]”	The [●] of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in section 2 of the Hong Kong Companies Ordinance
“substantial shareholders”	has the meaning as ascribed to it under [●]
“Sun Hing Industrial”	Sun Hing Industrial Company 新興實業公司, a sole proprietorship registered in Hong Kong and owned by Ms. Tsoi Shan Cha (蔡山查), and formerly a shareholder of Wannianxing Textile

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## DEFINITIONS

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"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Track Record Period"	comprises the period for the two years ended 31 December 2008 and the three months ended 31 March 2009
"UN"	United Nations
"US" or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US\$" or "US dollars"	United States dollars, the lawful currency for the time being of the United States
"Vendor"	Well Bright
"Wannianxing Textile"	江西省萬年興紡織服裝有限公司 Jiangxi Province Wan Nian Xing Textiles and Dress Co., Ltd., a company established in PRC and our indirect wholly-owned subsidiary
"Well Bright"	Well Bright Group Limited 明珠集團有限公司, a company incorporated in the BVI with limited liability on 18 May 2009 and 50% owned by Mr. Cai SP and 50% owned by Mr. Cai SY, and is our Controlling Shareholder
"Xiangyun Fiber"	萬年縣祥雲纖維紡織有限公司 Wan Nian County Xiang Yun Fibers and Fabrics Co., Ltd., a company established in PRC and our indirect wholly-owned subsidiary
"Xiefeng Textile"	萬年縣協豐紡織服飾有限公司 Wannianxian Xiefeng Textiles and Garments Co., Ltd., a company established in PRC and our indirect wholly-owned subsidiary
"%"	per cent.

*All times refer to Hong Kong local time.*

*Unless otherwise specified, amounts denominated in US\$ and RMB are translated into Hong Kong dollars as follows:*

*HK\$1.00 : RMB0.88*

*HK\$7.80 : US\$1.00*



## DEFINITIONS

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*These exchange rates are for the purpose of illustration only and no representation is made that any amounts in US\$ or RMB have been, could have been or may be converted, at these or any other rates or at all.*

*Any discrepancies in any table or chart between the total shown and the sum of amounts listed are due to rounding.*

*If there is any inconsistency between the Chinese names of the entities or enterprises established in China and their English translations, the Chinese names shall prevail.*

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## RISK FACTORS

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### RISKS RELATING TO OUR BUSINESS

#### Heavy reliance on our major customers

During 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. Our five largest customers are domestic import and export companies and overseas trading companies. To the best knowledge of our Directors, an Independent Third Party controlled 100% and 35% of two out of the five largest customers respectively with an aggregate sales amount of approximately RMB[48.3] million, RMB[59.1] million and RMB[10.5] million, representing approximately [45.2]%, [41.0]% and [29.5]% of our turnover during the Track Record Period.

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 our financial performance or profitability and our prospects.

#### Possible infringements of our trademarks, designs and counterfeit products

Since March 2008, we have marketed our products in the wholesale market in the PRC using “” as our brand name, which we have applied for the registration as our trademark in the PRC in October 2008, and the registration has yet been granted. In June 2009, we have acquired a trademark “” from an Independent Third Party. Any significant infringement of our brand name or trademark could have an adverse effect on our business and operation.

As advised by our legal advisers as to PRC laws, generally speaking, it takes approximately 2 to 3 years to complete the registration process of a trademark in the PRC and approximately 4 to 6 months to complete the registration process of an assignment of trademark in the PRC. Both the trademark application and the assignment of trademark are currently under process by the Trademark Office, the State Administration of Industrial and Commerce, the PRC, and we expect the registration process for the trademark application to complete in [2011], and the assignment of trademark to complete by the end of 2009. Our legal advisers as to PRC laws further advised that they did not find any impediments for such registration.

In addition, as there are numerous variations of product styles for each product, it is impractical to effect registrations thereof as significant costs and time would be involved. During the Track Record Period, our Directors are not aware of any infringement of our unregistered product or graphic designs by others. Nevertheless, our sales and profitability could be adversely affected if a third party engages in an unauthorised imitation of our unregistered designs.

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## **RISK FACTORS**

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### **Possible infringements of others' trademarks and designs**

As part of our value added services to our domestic customers, we provide product designs to our customers from time to time. There can be no assurance that our designs will not infringe any third parties' intellectual property rights. During the Track Record Period, we did not receive any material claim of this nature. Nonetheless, there can be no assurance that we will not face such claims in the future. In such event, the business of our customers and thus the business of our Group could be adversely affected. Furthermore, we might also lose our customers and our business reputation could also be adversely affected.

### **No assurance that future business plans will materialize**

Our future business plans are based on the existing intention of our Directors and some of them are at preliminary stages. These business plans and intention are based on assumption as to the occurrence of certain future events, which may or may not materialize, and the real situation might differ materially.

There is no assurance that our future business plans will materialize, or result in the conclusion or execution of any agreement within the planned time frame, or that our objectives will be fully or partially accomplished. For instance, our ability to expand our business scope to apparels distribution depends on factors such as:

- our ability to reach agreements with our suppliers on commercial terms
- the availability of adequate management and financial resources
- the hiring, training and retention of skilled staff
- sustainable consumer demand for our products
- our ability to obtain all required government approvals and permits

We may therefore not be able to achieve our planned future business growth and our operating results may be adversely affected in the event that we fail to accomplish all or any of our future business plans or doing so in a timely manner. Besides, failure to effectively manage our future business plan may also lead to increased costs and reduced profitability for us.

In addition, our Directors expect that the net proceeds from the [●] of the [●] together with our internally generated funds will be sufficient to implement our current business plans. If our Group is unable to generate sufficient revenue from our business or our financial needs are larger than expected, we may need to raise funds from debt or equity markets or make certain modifications to our current intended use of proceeds as described in the sections headed "Future Plans and Prospects" in this [●], which could have an adverse effect on our operations and future profitability.

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## **RISK FACTORS**

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### **Product liability and insurance coverage**

We do not maintain any product liability insurance or any insurance coverage against our property, business interruption or personal injury. As confirmed by our legal advisers as to PRC laws, there is no mandatory requirement under the PRC laws for companies to maintain any product liability insurance or any insurance against a property, business interruption or personal injury in the PRC. We had not been subject to any product liability claims during the Track Record Period, nor have we experienced any significant business interruptions due to accidents or natural disasters. In the event that any product liability claim is successfully brought against us, or if major accidents or natural disasters occur that cause prolonged suspension of our operations, or that significant costs would be incurred as a result of any of the above events, our business and financial position could be adversely affected.

### **Fluctuations in the purchase price of production materials**

The principal raw materials used by us comprise of different sorts of fabric and accessories including tags, crests, zippers and buttons. We have not entered into any long-term contractual arrangements with our raw materials suppliers. Whilst we have not experienced any supply interruptions or shortages of raw materials during the Track Record Period, there is no assurance that we will not suffer from any shortages of raw materials in the future. Any shortage of raw materials could have a material adverse effect on our production, reduce our production output, and in turn resulting in reduced sales revenue of our Group.

Raw materials are our largest cost items in our operation. For each of the Track Record Period, the cost of raw materials accounted for approximately 84.1%, 83.6% and 82.2% respectively of our cost of sales. The prices of many of our raw materials are affected by changing market supply and demand. Fabric prices may be affected by the prices of crude oil and cotton as they are the primary raw materials of fabric. The average prices we paid for fabric, which is calculated as the total amount paid to fabric suppliers divided by the purchased quantity in meters, were RMB[5.2] per meter, RMB[5.3] per meter and RMB[6.5] per meter, respectively. 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. Any increases in raw material costs that we are unable to pass onto our customers would have a negative impact on our profit margin.

### **Reliance on key executives and skilled labour**

Our success is attributable to, amongst other things, the expertise and experience in the apparel industry of the executive Directors and the members of our senior management and their relationships with our major customers and suppliers. Although each of the executive Directors has signed a service agreement with us, the loss of service of any of the executive Directors or members of our senior management in the absence of any suitable replacements could have a material adverse effect on our operations and future profitability.

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## **RISK FACTORS**

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By nature of our business, we, to a significant extent, rely on skilled workers who mainly acquire their skills through on the job training provided by our Group. The failure in retaining these skilled workers and in recruiting replacement staff which would result in loss of the services of these skilled workers could have an adverse effect on our production.

### **Occurrence of acts of god, acts of war, epidemics and other disasters**

Any occurrence of acts of god, acts of war, epidemics, including the recent outbreak of new influenza (H1N1) virus (also known as swine flu), and other disasters that are beyond our control may have a material and adverse effect on the results of our operations, financial performance and business. In April 2009, swine flu was discovered in North America and has quickly spread to a number of countries. Although China has not been reported to be widely affected by the swine flu as at the [●], we cannot predict the effect, if any, that the swine flu may have on our business.

Acts of war and terrorist attacks may cause damage or disruption to us, our employees and our markets, any of which could materially impact our sales, cost of sales, overall results of operations and financial condition. The potential for war or terrorist attacks may also cause uncertainty and cause our business to suffer in ways that we cannot predict.

### **Climate change may affect demand for certain of our products**

Demand for our certain products, namely cotton and sweat jackets, is seasonal. Any changes in climate in the PRC or in any of our targeted overseas markets may adversely affect consumer demand for these products and thus our business and profitability. During the Track Record Period, the aggregate sales of cotton and sweat jackets accounted for approximately [52.1]%, [61.1]% and [59.7]% of our total turnover, respectively.

In addition, for the foregoing reason, comparisons of sales volumes and operating results between different periods within the same financial year, between same periods in different financial years or between different financial years, may not be meaningful and should not be relied on as indicators of our future performance.

### **Our cost advantage may not be sustainable**

During the Track Record Period, our selling and distribution costs accounted for approximately 0.2%, 0.2% and 0.5% respectively of our total revenue and our administrative expenses accounted for approximately 0.9%, 0.7% and 0.9% respectively of our total revenue. Though we have adopted stringent cost measures to reduce unnecessary expenditures in our operation, our Company will incur additional costs in order to fulfill our future plans and objectives and ensure compliance with [●] and other provisions of the new law and regulations, and may not be able to maintain our operating expenses at such a low level.

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## **RISK FACTORS**

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

#### **Competition**

We face competition from domestic and overseas manufacturers and suppliers engaged in the same or similar businesses that have larger production capacity and stronger financial bases than our Group. 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.

#### **Potential risk of imposition of anti-dumping or other duties**

During the Track Record Period, approximately [99.9]%, [96.1]% and [94.4]% of our turnover are derived from apparels sold to domestic import and export companies and overseas trading companies for export. Some countries in South America and Europe may impose anti-dumping duties on products exported from another country if such exported products are being sold (i) at less than the producer's sale prices in home market or (ii) at prices that are lower than its production costs. To the best knowledge of our Directors, there is no anti-dumping measure in force in the Middle East. Although our Directors consider that the anti-dumping provision does not apply to our exported sales as (i) our OEM products are not distributed in the PRC, therefore there is no reference price on the sale prices of our OEM products in our home markets; and (ii) our OEM products are sold at prices higher than our production costs, there is no assurance that our OEM products exported by domestic import and export companies and overseas trading companies may not and will not be subject to any anti-dumping measures or any forms of duty, levy or other trade sanction adopted by the countries where our OEM products are exported to. In the event that there is any anti-dumping measure or other unfair trade practice imposed on our OEM products by overseas countries, it could significantly increase the prices of our products which in turn could result in a loss of our competitive advantage. Consequently, our export sales and profitability may be adversely affected.

### **RISKS RELATING TO CONDUCTING OPERATIONS IN CHINA**

#### **Political, economic and social consideration**

Substantially all of our business assets and operations are located in the PRC. Accordingly, our profitability, financial position and prospects will be affected by the economic, political and social development in China.

Since late 1970s, the PRC government has undertaken economic reform measures in order to transform the PRC economy into a socialist market-oriented economy. These reforms have resulted in rapid economic growth in the PRC and an increased emphasis on the utilization of market forces. Although economic growth in the PRC is generally expected to continue, there is no assurance that all economic reform measures will continue or will continue to be effective. Although we believe these reforms will have a positive effect on our overall and long-term development, we cannot predict whether changes in the PRC's political, economic and social conditions will have any adverse effect on our current or future business, operations or financial condition.

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## RISK FACTORS

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### Legal consideration

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. In addition, as the legal system in PRC is subject to further development from time to time, foreign investors may face uncertainties as a result of any introduction of new laws and changes in the existing legislation. There is no assurance that future changes in legislation or the interpretation thereof will not have an adverse effect on our operations.

### Currency conversion in the PRC and exchange rate risk

Our operations are primarily in China and we receive most of our revenues in Renminbi. Fluctuations in the Renminbi exchange rate against other currencies currently do not have a material impact on the results of our operations.

Nevertheless, we may be required to pay dividends in currency other than Renminbi to our Shareholders which will increase our foreign currency denominated obligations and in turn, our exchange rate risk exposure. Since 1994, the conversion of Renminbi into foreign currencies, including the Hong Kong dollar and US dollar, has been based on the rate set by the People's Bank of China and the official exchange rate for the conversion of Renminbi to US dollars has generally been stable. As of 21 July 2005, the Renminbi was no longer pegged to the US dollar but to a basket of currencies. The revaluation of the Renminbi resulted in an appreciation of the Renminbi against the US dollar and the Hong Kong dollar by approximately 2%, and the Renminbi has appreciated by approximately an additional 16% since that date until 31 March 2008. Despite such developments, Renminbi is still not a freely convertible currency. There is also no assurance that the exchange rates of Renminbi will not be subject to fluctuation due to administrative or legislative intervention by the PRC government or adverse market movements. There could be an adverse effect on the value of our income generated from PRC caused by any fluctuation in the exchange rates of Renminbi against foreign currencies.

### 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 Textile 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 Textile 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

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## RISK FACTORS

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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.

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.

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.

### **Implementation of the new employment contract law**

A new employment contract law became effective in China on 1 January 2008. The Employment Contract Law contains a number of provisions that are more favourable to employees than the prior labour laws and regulations in China. For instance, an employer is obligated to compensate an employee if the employer decides not to renew an existing employment contract, unless the employee refuses the employer’s offer to renew the expiring employment contract with the same or better terms. In addition, an employer is obligated to provide an open-ended employment contract after an employee has completed two consecutive terms of fixed-term employment, under which the employer will be liable to pay damages to an employee if the employer terminates the employment without cause, until the employee reaches an age at which he or she is eligible for pension payment. Under the newly promulgated Regulations on Paid Annual Leave for Employees (職工帶薪年休假條例), which came into effect on the same date, employees who have continuously worked for more than one year are entitled to a paid holiday ranging from 5 to 15 days, depending on their length of service. Our Directors consider that the implementation of the compensation on non-renewal of existing employment contracts and the obligation of providing open-ended employment contracts would not have any substantial financial impact on our Group as it is beneficial to our Group in retaining our skilled labour following the establishment of the new production plant. We have announced to our employees that the paid holidays they would have entitled to in 2008 under the Regulations on Paid Annual



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## **RISK FACTORS**

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Leave for Employees will be realized in 2009, together with the paid holidays they are entitled to in 2009. Therefore, we expect to incur no more than RMB[600,000] for paid holidays to our staff in 2009. As confirmed by our Directors and as endorsed by the relevant labour bureau, we have fully complied with the Employment Contract Law and the Regulations on Paid Annual Leave for Employees since they became effective. As advised by our legal advisers as to PRC laws, [the labour bureau has the authority in the enforcement and implementation of the Employment Contract Law and the Regulations on Paid Annual Leave for Employees.

As a result of the new law and regulations, we may incur higher levels of labor costs in order to comply with the provisions of the new law, which may adversely affect our business, financial condition and operating results.

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## DIRECTORS

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### DIRECTORS

Name	Residential Address	Nationality
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#### *Executive Directors*

Mr. Cai Shuiyong (蔡水泳先生)	2nd Floor, Block 4 Cheng Zhou Gong Ye Qu Quanzhou City Fujian Province PRC	Chinese
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Mr. Cai Shuiping (蔡水平先生)	No.88, Zhangtang District Meifeng Village, Dongshi Town Jinjiang City Fujian Province PRC	Chinese
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#### *Independent non-executive Directors*

Mr. Lin Anqing (林安慶先生)	No.3, Lu Pai, Shi Wai Yuan Qian Yi Shan Zhuang Quanzhou City Fujian Province PRC	Chinese
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Ms. Lin Peifen (林佩芬女士)	No. 605, 2 Jiao Jing Da Dui Zhi Shu Li Cheng District Fujian Province PRC	Chinese
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Mr. Liu Jianlin (劉建林先生)	Room B2-711 Xi Hu Xin Zhuang No.110 Hu Bin Road Fuzhou City Fujian Province PRC	Chinese
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## CORPORATE INFORMATION

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<b>Registered office</b>	Clifton House 75 Fort Street PO Box 1350 Grand Cayman KY1-1108 Cayman Islands
<b>Principal place of business in Hong Kong</b>	Suites 2201-2203 22nd Floor Jardine House 1 Connaught Place Central Hong Kong
<b>Head office in the PRC</b>	Level 4, No. 20 Zheng Da Street Wan Nian County Jiangxi Province the PRC
<b>Company secretary</b>	Mr. Kwong Ping Man <i>CPA, ACIS, ACS</i>
<b>Audit committee</b>	Mr. Liu Jianlin (劉建林先生) ( <i>Chairman</i> ) Mr. Lin Anqing (林安慶先生) Ms. Lin Peifen (林佩芬女士)
<b>Remuneration committee</b>	Mr. Cai Shuiyong (蔡水泳先生) ( <i>Chairman</i> ) Mr. Lin Anqing (林安慶先生) Ms. Lin Peifen (林佩芬女士)
<b>Nomination committee</b>	Mr. Cai Shuiyong (蔡水泳先生) ( <i>Chairman</i> ) Mr. Lin Anqing (林安慶先生) Ms. Lin Peifen (林佩芬女士)
<b>Website address</b>	<a href="http://www.jcholding.hk">www.jcholding.hk</a> (the contents of which do not form part of this [●])
<b>Principal banker</b>	Bank of China, Wannian Branch Wannian County, Jiangxi Province, PRC

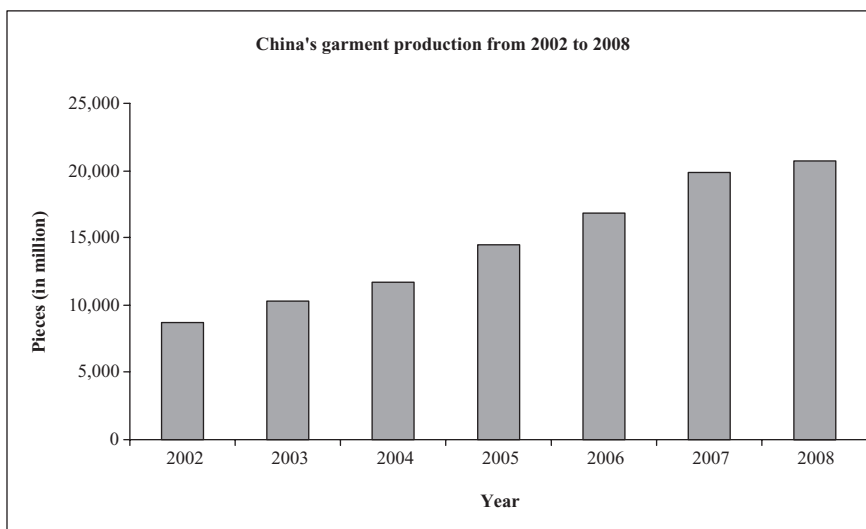
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## INDUSTRY OVERVIEW

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### CHINA GARMENT INDUSTRY OVERVIEW

China is one of the world's largest producers of textile and garment. Based on the statistics collected by CEIC Data Company Ltd, China produces some [20.75] billion pieces of garment for the year ended 2008. The abundance of low cost labour and China's economic growth over the years helped fuel the growth in China's garment industry, which in 1980 manufactured only about [945] million garment items.



Source: CEIC Data Company Ltd

In the early 1980s, Hong Kong garment companies set up garment manufacturing plants in Guangdong province to take advantage of lower manufacturing costs across the border and the "Open Door Policy" endorsed in the late 1970s, which included the establishment of four Chinese southern cities (Shenzhen, Zhuhai, Shantou and Xiamen) as special economic zones. This was soon followed by operations established by Asian investors from Taiwan, Japan, South Korea and etc. Such foreign investors, which were later followed by more affluent Chinese businessmen, began to set up garment factories throughout China where they can find low startup cost with cheaper labour compared to their territories.

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## INDUSTRY OVERVIEW

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Today, garment factories can be found in major provinces along coastal region such as Zhejiang, Guangdong and Jiangsu. Together, these three provinces accounted for 57.7% of garment exports from China in the first three months of 2009 totaling US\$19.7 billion.

### Top Ten Garment Exporting Provinces in China

Rank	Province	Export Value (in US\$ million)	
		2008	2009 (January to March)
1	Zhejiang	42,264	7,945
2	Guangdong	34,128	6,239
3	Jiangsu	29,217	5,486
4	Shanghai	16,618	3,288
5	Shandong	15,550	3,046
6	Xinjiang	10,711	1,161
7	Fujian	7,977	1,779
8	Heilongjiang	5,673	705
9	Liaoning	3,808	791
10	Hebei	2,717	526

*Source: China Customs Statistics*

Currently, a large portion of these PRC clothing manufacturers focuses on low and medium end products. They engage principally in export oriented original equipment manufacturing segment of the industry, taking advantage of scale of production and China's lower cost due to labour intensive manufacturing processes required in the industry. However, the industry export focus is slowly changing with the advent of Chinese brands and Chinese manufacturers began to manufacture and sell garments domestically under their own brand names.

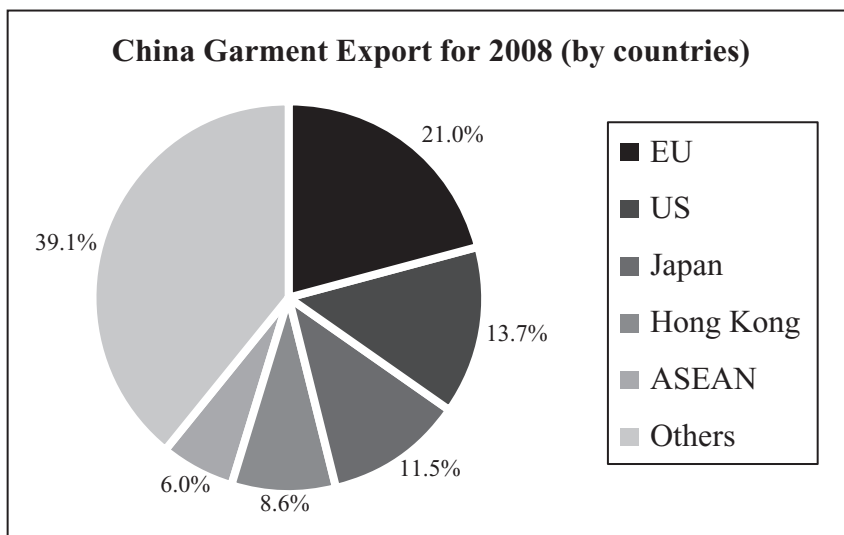
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## INDUSTRY OVERVIEW

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### China Garment Export Market

Over the last few decades, China managed to establish itself as the leader in low cost manufacturing, particularly in labour intensive industries. Since 1994, China is one of the world's largest exporters of garment. In 2008, US\$185.2 billion worth of garments were exported to various countries in the world with US, EU and Japan accounting for 46.2% of the total exports.



Source: China Customs Statistics

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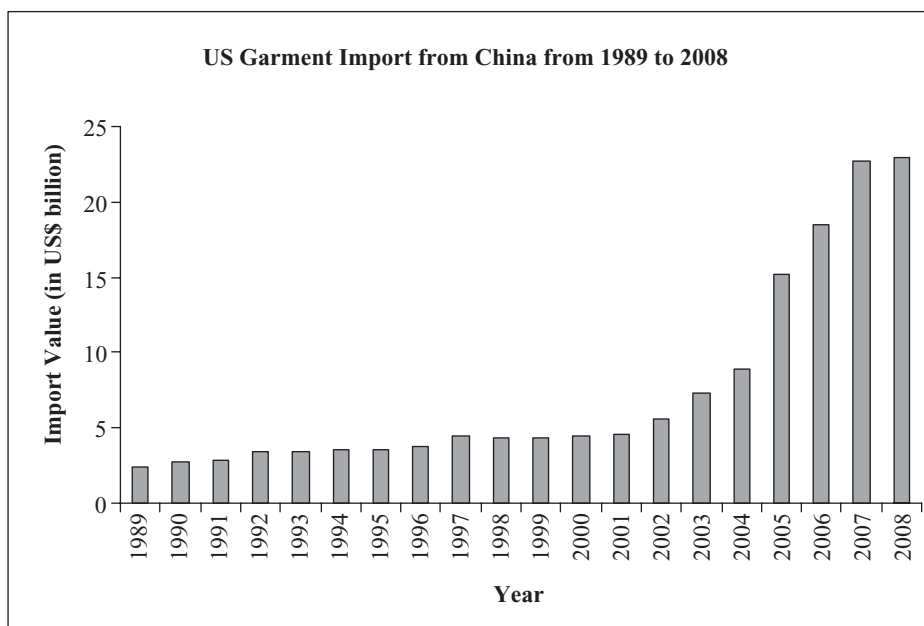
## INDUSTRY OVERVIEW

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### Impact of WTO on China's Garment Export

Export of garments from China used to face tariffs and/or import quotas in the US and EU countries. Prior to China joining the World Trade Organization ("WTO") and reaching the Agreement on Textiles and Clothing with members of the WTO, Chinese made garments were subjected to import tariffs and quotas thus affecting its growth. With China joining WTO, these tariffs and quotas were gradually removed and in 2005, the only restriction left were anti dumping protection from China-made goods for 15 years from the date of accession and a China-specific safeguard mechanism restraining China imports from disrupting WTO members' markets.

Since 2002 (the year after China joined WTO), garment exports from China continues to register significant growth upon the removal of key tariffs and quotas.

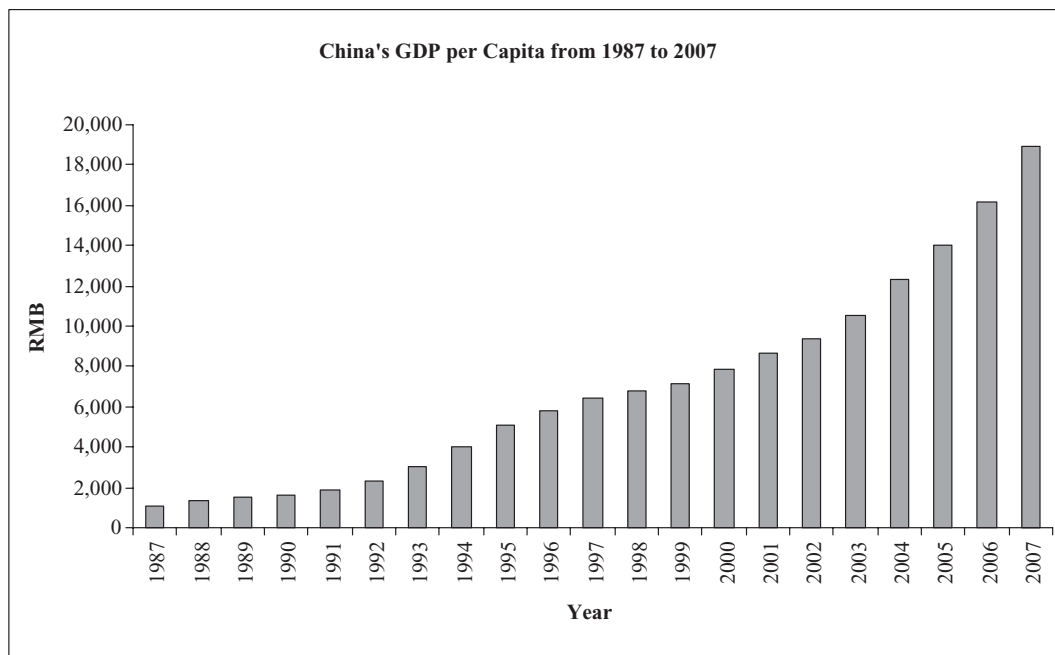


Source: U.S. Office of Textiles and Apparel

## INDUSTRY OVERVIEW

### China Domestic Consumer Market

China's has grown exponentially over the last 20 years with GDP growing at an annual growth rate of 16.2% to an estimated RMB30.07 trillion by National Bureau of Statistics in 2008. Such rate of growth meant that the GDP of China grew by almost 19 times in total for the last 20 years.



Source: National Bureau of Statistics of China

China's growth of GDP per capita from approximately RMB1,112 in 1987 to approximately RMB[18,934] in [2007], representing approximately 152% growth per annum, meant that domestic consumers are fast gaining the financial ability to spend on goods that were once considered a luxury.

Despite the robust growth of its economy, China suffers significant economic disparity between rural and urban areas. According to the latest statistics published by the Chinese Academy of Social Sciences, urban to rural income ratio averaged about 5 in 2008 by contrast with the gap in 2000 when the ratio was 2.79. As a result, China has become one of the countries with the largest urban-rural gap in the world. This disparity has led the Communist Party of China Central Committee issuing a policy document to expedite rural reform and development in October 2008.

One of the key moves of the new policy was to allow farmers to lease their contracted farmland or transfer their land use right to boost their scale of operation for farm production and provide funds for them to start new businesses. The other key element of the policy was to push for rural-urban integration whereby industrial structure in rural areas would be optimized, to foster enterprises owned by villages and townships and to channel capital and



## INDUSTRY OVERVIEW

talent to the countryside. Lastly, the new policy encourages the improvement of farmers' life by establishing a modern agricultural industrial system and the modernization of rural finances as well as security systems.

Generally, China's improving economic conditions and the support from the Chinese government increase the importance of domestic consumer market of China. The worldwide financial tsunami that began in the third quarter of 2008 had also led Chinese garment and other products manufacturers that traditionally focused on export markets to look into the domestic retail market.

### China Urban Consumer Market

As of 2008, 45.7% of China's population is estimated to be living in urban areas. The UN has forecasted that more than half of China's population will be staying in the urban areas in less than a decade. This rural to urban migration process is expected to continue as various studies have shown that urban residents earn more than 3 times, which has since widened to 5 times in recent studies, what rural resident earns. In terms of disposable income of urban population, there is a constant increase with the amount compounding at an annual growth rate of 10.3% for the last 10 years. Furthermore, Engel's coefficient, a measurement of the proportion of people's expenditure on food relative to total consumption and a major indicator of people's living standard, has been trending downwards from 46.6% in 1997 to [36.3%] in [2007], which further showed that urban consumers now have an increasingly larger percentage of disposable income.

#### China Per Capita Annual Disposable Income/Annual Net Income and Engel's Coefficient of Urban and Rural Households for the period 1997 to 2008

Year	Per Capita Annual Disposable Income of Urban Households <i>RMB</i>	Per Capita Annual Net Income of Rural Households <i>RMB</i>	Engel's Coefficient of Urban Households (%)	Engel's Coefficient of Rural Households (%)
1997	5,160	2,090	46.6	55.1
1998	5,425	2,162	44.7	53.4
1999	5,854	2,210	42.1	52.6
2000	6,280	2,253	39.4	49.1
2001	6,860	2,366	38.2	47.7
2002	7,703	2,476	37.7	46.2
2003	8,472	2,622	37.1	45.6
2004	9,422	2,936	37.7	47.2
2005	10,493	3,255	36.7	45.5
2006	11,760	3,587	35.8	43.0
2007	13,786	4,140	36.3	43.1
2008	15,781	4,761	[●] (Note)	[●] (Note)

Source: National Bureau of Statistics of China

[Note: As at [●], the National Bureau of Statistics of China have not released this data for 2008]

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## INDUSTRY OVERVIEW

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With growing affluence in urban households, international apparel brands are setting up outlets in PRC. As a result, intense competition has appeared in garment and apparel market in the urban areas, with more premium international brands trying to establish their presence in big cities within China.

### **China Rural Consumer Market**

Rural consumer market on the other hand shows a different trend from that of urban areas. Despite disposal income in rural markets registered 7.07% compounded annual growth rate from 1997 to 2007, growth is slower when compared to that of urban residents. Rural-to-urban migration also contributed to this shift as younger working adults move to the cities to seek better job and educational opportunities, leaving behind an already weak rural consumer market. However, as the government began investing in, and encouraging the development of, the rural and western part of China, the government hopes that this would lead to faster growth in these areas in the future.

With lower income, the rural consumers focus on different criteria in their consumption decisions compared to their urban counterparts. Quality and value tend to be their main criteria in selecting their choice of goods. To date, international established apparel brands have yet to establish in rural areas.

### **REGULATIONS IN THE PRC**

As advised by our legal advisers as to PRC laws, our manufacturing and wholesaling business operations in the PRC are not subject to any specific license requirements other than those generally applicable to companies and business operating in the PRC. A summary of some regulations which are applicable to our Group is set forth below.

#### **Environmental Protection Law (環境保護法)**

Promulgated on 26 December 1989, the Environmental Protection Law sets out the legal framework for environmental protection in the PRC. The purpose of the Environmental Protection Law is to protect and enhance the living environment, to prevent and remove environmental pollution, contamination and other public hazards, and to safeguard public health. The State Administration for Environmental Protection is primarily responsible for the supervision and administration of environmental protection work nationwide and formulating national waste discharge limits and standards. Local environmental protection authorities at county level and above are responsible for the environmental protection in their administrative areas.

Enterprises that discharge contaminants must report to, and register with, the State Administration for Environmental Protection or the local environmental protection authorities. Enterprises discharging contaminants in excess of the discharge limits or standards prescribed by the central and/or local authorities must pay discharge fees for the treatment of the excessive discharge.

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## INDUSTRY OVERVIEW

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Government authorities can impose different penalties on persons or enterprises in violation of the Environmental Protection Law, depending on the individual circumstances of each case and the extent of contamination. Such penalties include warnings, fines, imposition of deadlines for remedying the contamination, orders to stop production or use, orders to re-install contamination prevention and treatment facilities which have been removed without permission or left unused, administrative actions against relevant responsible persons or enterprises, or orders to close down those enterprises. Where the violation is serious, the persons or enterprises responsible for the violation may be required to pay damages to victims of the contamination. Where serious environmental contamination occurs in violation of the provisions of the Environmental Protection Law which results in serious loss of public and private property, persons or enterprises directly responsible for such contamination may be subject to criminal liabilities.

### **Production Safety Law (安全生産法)**

The Production Safety Law was promulgated on 29 June 2002 and became effective on 1 November 2002, companies conducting production activities must meet the conditions for safe production stipulated by the laws and regulations. Companies conducting production activities that have more than 300 employees must form a management department for production safety or have personnel solely responsible for production safety. Companies conducting production activities that have less than 300 employees must have personnel solely responsible for production safety or have part-time personnel responsible for the management of production, or entrust engineering technicians with qualifications stipulated by laws and regulations for such purpose. Companies conducting production activities must place warning signs in the working place or on the equipment which is comparatively more hazardous. Companies conducting production activities must take out job-related injury insurance in accordance with applicable laws and regulations.

### **Provisions on Minimum Wages (最低工資規定)**

The Provisions on Minimum Wages promulgated by the former Ministry of Labour and Social Security became effective on 1 March 2004. The purpose of this regulation is to safeguard the legitimate rights and interests of labour in getting labour remunerations, and safeguard the basic necessities of labour and their family members. The term "standards on minimum wages" refers to the minimum labour remunerations that shall be paid by the employing entities according to law under the precondition that the labour have provided normal labour services within normal working hours or within the working hours as prescribed in the labour contracts concluded according to law.

In general, the standards of minimum wages appear in two forms, namely the monthly minimum wage standard and the hourly minimum wage standard. The monthly minimum wage standard applies to full-time employees while the hourly minimum wage standard to part-time employees. Different administrative areas within a province, autonomous region or municipality directly under the Central Government may adopt different standards of minimum wages. The standards on minimum wages shall be reviewed at least once every two years.

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## **INDUSTRY OVERVIEW**

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### **Provisional Regulations on Collection and Payment of Social Insurance Premiums**

(社會保險費徵繳暫行條例)

Provisional Regulations on Collection and Payment of Social Insurance Premiums was implemented on 22 January 1999, which is formulated to strengthen and regularize collection and payment of social insurance premiums, and to ensure the granting of social insurance compensation. The administrative department of labour security under the State Council is responsible for the nationwide administration, supervision and checkup of the collection and payment of social insurance premiums. The administrative departments of labour security of the people's governments at or above the county level are responsible for the administration, supervision and checkup of the collection and payment of social insurance premiums within their respective administrative areas. The base and rate of social insurance premiums shall be set fixed in accordance with relevant laws and administrative regulations as well as provisions of the State Council. Units and individuals paying premiums shall promptly pay social insurance premiums in full amount and social insurance premiums collected and paid shall be incorporated into social insurance funds and only used for their special purposes. No unit and individual may misappropriate these premiums.

### **ANTI-DUMPING PROVISION**

Some countries in South America and Europe may impose anti-dumping duties on products exported from another country if such exported products are being sold (i) at less than the producer's sale prices in home market or (ii) at prices that are lower than its production costs. To the best knowledge of our Directors, there is no anti-dumping measure in force in the Middle East.

Our Directors consider that the anti-dumping provision does not apply to our exported sales as (i) to the best knowledge of our Directors your OEM products are not distributed in the PRC, therefore there is no reference price on the sale prices of our OEM products in our home markets; and (ii) our OEM products are sold at prices higher than our production costs.

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## HISTORY AND DEVELOPMENT

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### Introduction

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

Our Company completed the [●] on 14 September 2009 pursuant to which our Company became the ultimate holding company of our Group. Details of the [●] are set out in the paragraph headed “[●]” in appendix V to this [●].

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.

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

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## HISTORY AND DEVELOPMENT

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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 [●], 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.

### **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.

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## HISTORY AND DEVELOPMENT

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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 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 [●], Wannianxing Textile was 100% owned by Cai's International.

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## HISTORY AND DEVELOPMENT

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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 timeframe 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.

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



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## HISTORY AND DEVELOPMENT

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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 [●], 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 instalment 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 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.

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## HISTORY AND DEVELOPMENT

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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.

[●]

On 24 June 2009, for the purpose of the [●], 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.

On 24 June 2009, for the purpose of the [●], 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

## HISTORY AND DEVELOPMENT

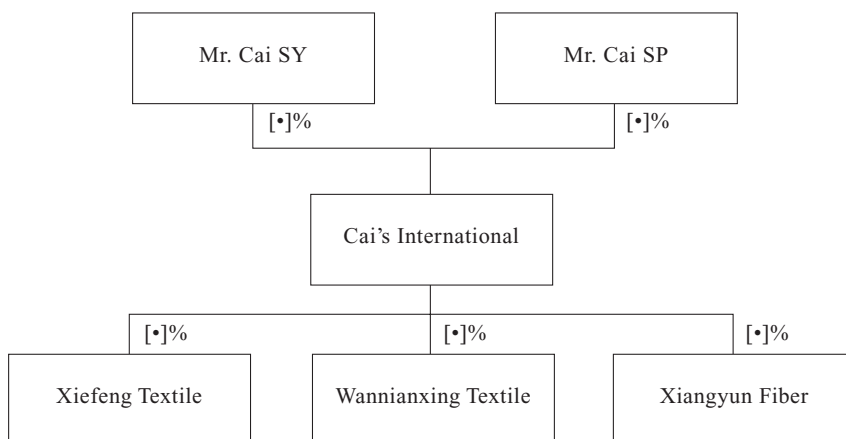
and Commerce (上饒市工商行政管理局) granted a new business license to Wannianxing Textile. After the aforesaid share transfer, Wannianxing Textile was 100% owned by Sino Prosper.

On 24 June 2009, for the purpose of the [●], 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 [●], our Company became the holding company of our Group on 14 September 2009. For further details of the [●], please refer to the paragraph headed “Corporate reorganization” in appendix V to this [●].

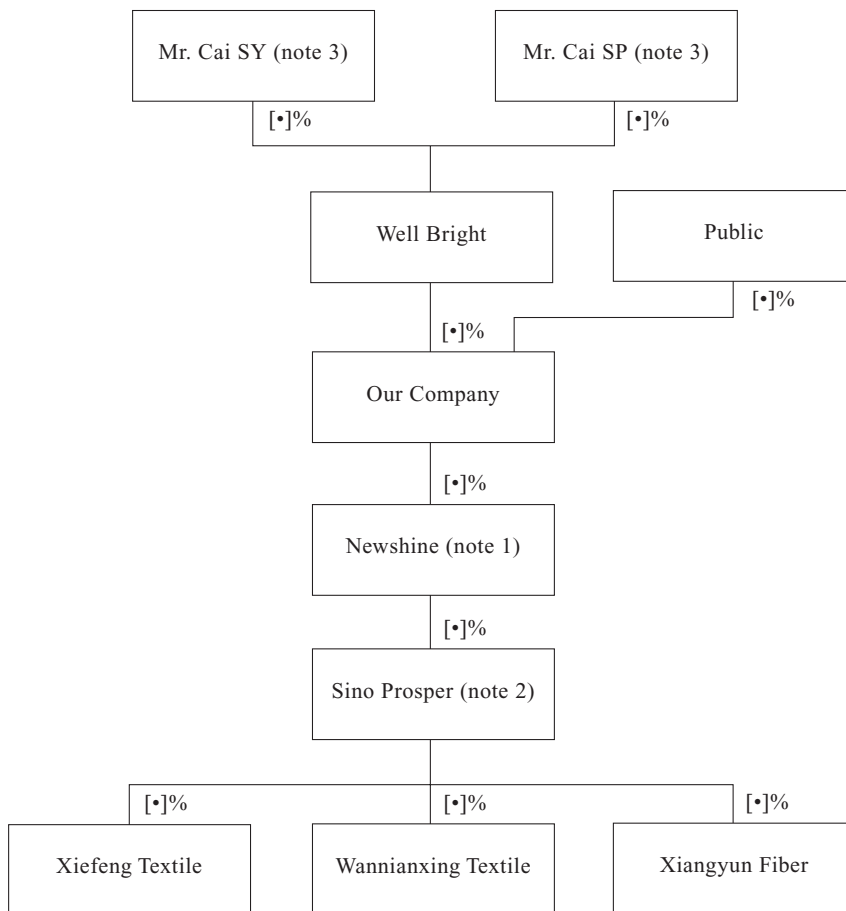
### Our Corporate Structure

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



## HISTORY AND DEVELOPMENT

Immediately following the completion of the [●], 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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## HISTORY AND DEVELOPMENT

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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 advisors 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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## HISTORY AND DEVELOPMENT

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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 advisors as to PRC laws and confirmed by the Jiangxi Bureau of SAFE, Circular 75 does not apply to the [●]. 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 [●] 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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## HISTORY AND DEVELOPMENT

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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.

## BUSINESS

### 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		RMB'000	%
	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]
<b>Total</b>	<b>[106,928]</b>	<b>[100.0]</b>	<b>[144,164]</b>	<b>[100.0]</b>	<b>[35,500]</b>	<b>[100.0]</b>

*Note:* Others include waistcoats, skirts and pajamas.



## BUSINESS

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		RMB'000	
	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.

### 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.

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## **BUSINESS**

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### **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' specification are rejected. As our workers are paid on a piece-by-piece basis and the products must 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 as a substantial portion of our working capital requirements had been satisfied with internally generated funds from our operations.

### **Continous 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

## BUSINESS

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.

### PRODUCTION

#### Production facilities and capabilities

As at the [●], we operated a total of three production facilities located in Wannian county, Jiangxi province, the PRC. Our production facilities are mainly originated from our three PRC operating subsidiaries we acquired in 2006. Details of our production facilities and the utilization rates of our production facilities are summarized in the following table:

Name of production line	Year of establishment	Location	Approximate number of employees as at 31 March 2009	Approximate gross floor area (square meters) at 31 March 2009	Approximate output for the year ended 31 December 2008 (pieces)	Estimated maximum output for the year ended 31 December 2008 (pieces)	Approximate utilization rate for the year ended 31 December 2008
Wannianxing Textile	2005	Wannian County	495	[4,575.96]	2,367,380	2,496,000	95%
Xiefeng Textile	2004	Wannian County	296	[3,828.77]	1,283,154	1,497,600	86%
Xiangyun Fiber	2005	Wannian County	446	[3,908.63]	1,571,028	2,246,400	70%
			1,237		5,221,562	6,240,000	84%

*Notes:*

- The estimated maximum annual output is calculated by multiplying the number of production equipment by its maximum output per day and the maximum number of working days a year.
- With a view to expanding our production capacities, the production line of Xiefeng Textile has been relocated from Hu Yun Village, Wannian County, Jiangxi province to Feng Shou Industrial Park, Wannian county, Jiangxi province in January 2009. The production facility with gross floor area of approximately 2,154.60 square meters, located in Hu Yun Village, Wannian county, Jiangxi province, which has temporarily ceased production, will recommence production after completion of a production equipment enhancement at the facility by using internal resources in the second half of 2010. As the production line has been relocated with expanded production capacity from an estimated maximum annual output of 1,497,600 pieces in 2008 to about [1,797,120] pieces in 2009, our Directors consider that there will not be any impact on our operations and results before production recommences.

The plant where the production facilities of Xiefeng Textile is located has been leased from Jiangxi Hongfeng Textile Company Limited (江西泓峰紡織有限公司), a company wholly-owned by Hong Feng International Holdings Limited (泓峰國際控股有限公司) which is owned as to 50% by Mr. Cai SY and as to 50% by Mr. Cai SP. The term of the lease is 3 years which commenced in January 2009 and is due to expire on 31 December 2011. The rental throughout the lease period is RMB144,000 per annum. Upon expiry of the existing

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## BUSINESS

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lease agreement, Xiefeng Textile has the right to renew the lease for another three years under the same terms offered. Our Directors consider that we can secure a long term lease from our connected person without incurring substantial capital expenditure.

The lease between Xiefeng Textile and Jiangxi Hongfeng Textile Company Limited (江西泓峰紡織有限公司) has been duly registered with the relevant authority. According to [●], an independent valuer of our Company, Xiefeng Textile production facilities are situated on parcels of land, which as advised by our legal advisers as to PRC laws, have proper land use right certificates and building ownership certificates. Having considered that there would be substantial costs involved in the acquisition of the leased property from Jiangxi Hongfeng Textile Company Limited (江西泓峰紡織有限公司), our Directors consider it to be commercially beneficial for us to lease the property under normal commercial terms from our connected person. Details of the rental arrangement are set out in the section headed “Connected Transactions” of this [●].

Should Xiefeng Textile is required to relocate from the leased plant of Jiangxi Hongfeng Textile Company Limited (江西泓峰紡織有限公司), our Directors are of the view that given our labour intensive business nature and abundant land and plants available in Wannian county, we will be in a position to make relocation arrangement without encounter any major difficulties in securing a location in Wannian county to continue Xiefeng Textile’s operation. Our Directors estimate that the time required from identifying a suitable plant to the completion of relocation of Xiefeng Textile’s production line is about one month and the estimated relocation costs and loss of profit will be no more than RMB[1.0] million. Our Directors advised that, barring any unforeseeable circumstances, there would not be any material disruption to our operation and business if we are forced to vacate from the plant.

The production facilities of Wannianxing Textile and Xiangyun Fiber (property numbers 1 and 2 respective set out in the property valuation report attached as appendix III to this [●]) are situated at pieces of land owned by our Group, which proper land use right certificates and building ownership certificates have been obtained. Details of properties owned by or leased to us are set out in the property valuation report attached as appendix III to this [●].

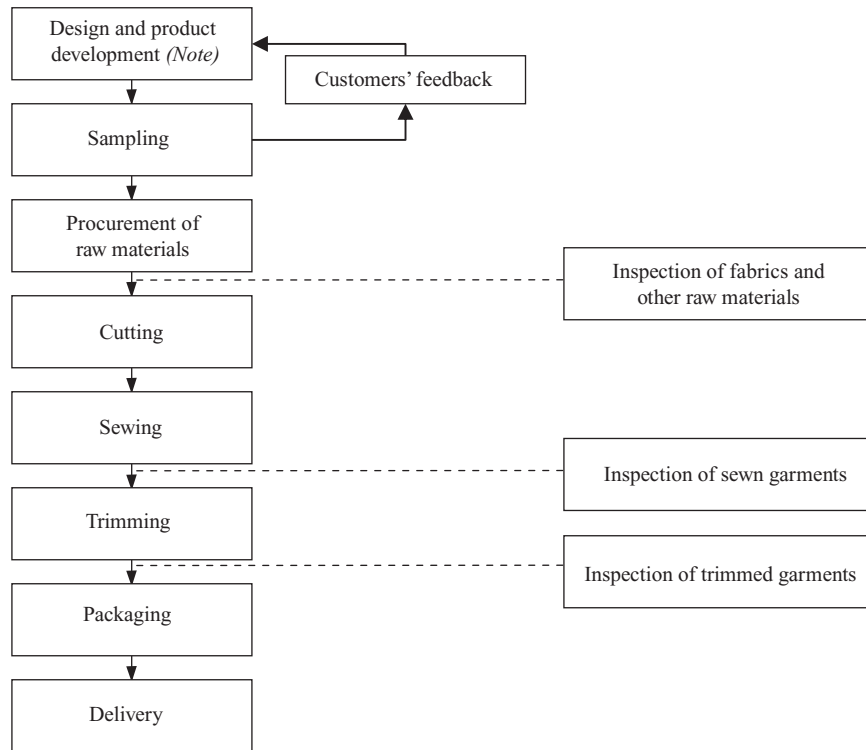
During the Track Record Period, we have not experienced any material machinery failure or equipment breakdown in our production facilities leading to material production interruption.

### **Production process**

As our customers continue to demand for shorter delivery time, we have been focusing on driving efficiency through the production process during the Track Record Period. Our workers are grouped into small teams and each team is responsible for a particular process for the production of a garment. The production process of a garment is divided into a number of smaller tasks. The head of the production team will then distribute these tasks to the workers of small teams and more workers will be allocated to perform more time consuming tasks. As a result, our production efficiency can be significantly improved through the implementation of the above process.

## BUSINESS

The following flow chart illustrates the major production processes for our garments:



*Note:* Design and product development of our OEM products are provided by our OEM clients.

## QUALITY CONTROL

We believe that the ability to produce high quality products to our customers is crucial to maintaining our relationship with our customers. As at 31 March 2009, we had about 53 staff members responsible for carrying out regular inspections and sample checkings of the production process to ensure that our products meet our required standard of quality and adhere to customers' specifications. Inspection is carried out at every key step of the production process, from initial checking of the quality of incoming raw materials to final inspection of finished apparels. All finished products are subject to final inspection before they are packed and delivered to customers.

We have put in place detailed work procedures and control mechanisms throughout the procurement and production process so that employees would have a clear understanding of their scope of work and our quality requirement. During the production process, some of our key customers will send their own representatives to our production facilities to monitor our production process and inspect our products.


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## BUSINESS

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### SALES AND MARKETING

#### Sales and marketing strategy

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. We are also engaged in manufacturing and wholesaling of products which are designed by us to domestic distributors for sales in the PRC. In March 2008, we have established a wholesale outlet located in Wannian County, Jiangxi Province, the PRC for marketing and sales of products designed by us using “” as our brand name. To the best knowledge of our Directors, most of our ultimate customers in the PRC belong to the income group that reside in secondary cities and in countryside with an average annual income of less than RMB[25,000]. Subject to promotional offers from time to time, the selling price of most of our OEM products and products designed by us ranged from approximately RMB[8] to RMB[55]. The following table sets forth the price range of each category of our products:

Product type	Price range RMB
Cotton and sweat jacket	15 to 45
Sportswear and leisurewear	8 to 35
Trousers	40 to 55
Children garment	15 to 35
Others ( <i>Note</i> )	10 to 30

*Note:* Others include waistcoats, skirts and pajamas.

Our OEM products manufactured and sold to domestic import and export companies and overseas trading companies are affixed with brand names provided by our customers. We have applied for the registration of “” as our trademark in the PRC in October 2008 and the registration is under process. Nevertheless, we have been using “” as our brand name since March 2008 to trade and market our own garments products. 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. In June 2009, we have acquired a trademark “” from an Independent Third Party. Our plan is to diversify our business into wholesaling with a target on low to middle income groups among rural households by building up and developing this newly acquired trademark.

Generally, we do not allow any sales return from our customers after quality control inspection and delivery of our products. As our workers are paid on a piece-by-piece basis and any work-in-progress apparels that do not meet our required quality standard are reworked, we have only recorded an immaterial rate of defective products during our production process. During the Track Record Period, our Directors estimate that the rate of defective products was less than [0.1]% of the total actual output.

Normally deliveries of our apparels to our customers who are domestic import and export companies are handled by our customers and they will arrange for their own transportation from our factories to their designated locations at their own costs. For our

## BUSINESS

customers who are domestic distributors and overseas trading companies, we generally deliver our apparels through third party logistic providers at our costs. During the Track Record Period, we have incurred approximately RMB2,000, RMB74,000 and RMB31,000 in engaging third party logistic providers. These outsourcing arrangements of cargo delivery allow us to reduce capital investment and streamline our operation.

Our sales office in Quanzhou, Fujian province, is principally responsible for soliciting customer orders, sales and marketing, raw materials procurement, samples making and production liaison with our production facilities in Jiangxi Province. From time to time, our sale representatives visit our customers to solicit new orders and to maintain customer relationships. Customers are also invited to visit our showroom at our sales office located in Quanzhou, Fujian province to view our latest product design displays and our production facilities located in Wannian county, Jiangxi province, the PRC to get a better understanding of our production capabilities and quality control measures. As at 31 March 2009, we had 8 staff responsible for carrying out such sales and marketing functions.

Our marketing strategy is to produce quality products at competitive price. 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		2008		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]
<b>Total</b>	<b>[106,928]</b>	<b>[100.0]</b>	<b>[144,164]</b>	<b>[100.0]</b>	<b>[35,500]</b>	<b>[100.0]</b>

*Note:* Others include waistcoats, skirts and pajamas.

## BUSINESS

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	
	2007		2008		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	<u>[106,928]</u>	<u>[100.0]</u>	<u>[144,164]</u>	<u>[100.0]</u>	<u>[35,500]</u>	<u>[100.0]</u>

### Customers

Our major customers are import and export companies located in PRC as well as apparel trading companies in Hong Kong and overseas. During the Track Record Period, sales to domestically registered import and export companies and overseas (including Hong Kong) trading companies amounted to approximately RMB106.8 million, RMB138.6 million and RMB33.5 million, representing approximately 99.9%, 96.1% and 94.4% of our total sales, respectively, with the remaining balance being our sales to local distributors and retailers in the PRC. All our existing customers are Independent Third Parties.

Generally, our domestic import and export companies' and overseas trading companies' customers approach us with product specifications, such as the type of raw materials, design, colour, size, delivery dates and the volume required. In addition, customers are invited to visit our showroom at our sales office in Quanzhou, Fujian province, the PRC to view our latest product designs and to place orders based on our design displays there. We will negotiate with our customers on prices before orders are placed by them based on our estimated production costs.

[Our OEM contracts with our major customers are in standard form, pursuant to which commercial terms like quantities, time of delivery are agreed between the parties for each transaction. Our import and export companies' customers would bear the transportation costs and have the right to conduct on-site inspection of our products. Each of the OEM contracts also stipulates that if the agreed deposit is not paid on time, the contracts would be terminated without notice.]



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## BUSINESS

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Our Directors believe that our key to retaining and attracting customers is our product quality, efficient operation and reliability on product delivery. For each of the two years ended 31 December 2008 and the three months ended 31 March 2009, total sales to our five largest customers represented 99.1%, 87.1% and 85.7%, respectively, of our total turnover and sales to the largest customer represented 52.7%, 39.8% and 50.0%, respectively, of our total turnover. Our five largest customers are domestic import and export companies and overseas trading companies. To the best knowledge of our Directors, an Independent Third Party controlled 100% and 35% of two out of the five largest customers respectively with an aggregate sales amount of approximately RMB[48.3] million, RMB[59.1] million and RMB[10.5] million, representing approximately [45.2]%, [41.0]% and [29.5]% of our turnover during the Track Record Period.

We have built up and was able to maintain continuous relationships with our major customers. Our business relationship with our top five largest customers for the year ended 31 December 2008 are more than 2 years. At the same time, we will continue to identify new customers through participating in textile and apparel exhibitions and through referrals on such occasions so that our customer base can be diversified and our business can be expanded in order to align with our planned expansion of our production capacities.

So far as we are aware, none of our Directors, their respective associates nor shareholders (who or which to the knowledge of our Directors own more than 5% of our issued share capital or any of our subsidiaries) had any interest in any of our five largest customers during the Track Record Period.

### **Pricing policies and payment terms**

We negotiate prices for orders on a case-by-case basis with each customer. Prices are determined on the basis of a number of factors including estimated production costs, complexity of the production process, the size of the order, timing of delivery and the extent to which we will be responsible for the delivery of our products. Generally, we believe that the pricing of our products on this basis has generally enabled our products to be sold with a satisfactory profit margin.

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 or remittance.

We adopt a credit control policy under which the length of credit period and the amount of credit limit are appraised according to our assessment of the creditworthiness of the customer. The credit terms offered to our customers generally range from 90 to 180 days.

Staff in our sales and marketing department is responsible for monitoring the collection and following up with the customers when payment is due. We review the recoverability of trade receivables due by our customers from time to time and make specific provisions for bad and doubtful debts on trade receivables if our head of sales and marketing department,

## BUSINESS

after consulting with the sales representative, is of the view that such amount may not be recovered. During the Track Record Period, we made no provision for bad and doubtful debts.

The following table set forth an ageing analysis of our accounts receivable as at 31 December 2007, 31 December 2008 and 31 March 2009, respectively:

<b>Our accounts receivable ageing</b>	<b>As at 31 December</b>		<b>As at</b>
	<b>2007</b>	<b>2008</b>	<b>31 March</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0 to 90 days	[5,613]	[15,650]	[22,045]
91 to 180 days	[518]	[775]	[3,409]
181 to 365 days	[38]	[780]	[65]
Over 365 days	[—]	[44]	[—]
<b>Total</b>	<b>[6,169]</b>	<b>[17,249]</b>	<b>[25,519]</b>

### PROCUREMENT AND SUPPLIERS

#### Raw materials

The principal raw materials used by us comprise different sorts of fabric and accessories including tags, crests, zippers and buttons. We source fabric and other raw materials mainly in the PRC through our sales office located in Quanzhou. The cost of raw materials for each of the two years ended 31 December 2008 and the three months ended 31 March 2009 accounted for approximately 84.0%, 84.1% and 83.9% respectively of our total production costs.

We generally keep a certain amount of basic raw materials in stock. As at 31 December 2007, 2008 and 31 March 2009, the inventory of our raw materials was RMB1.6 million, RMB94,000 and RMB909,000 respectively. Raw materials may also be purchased after customer's order is placed and confirmed and when the ordered quantities have been ascertained. We have never experienced any significant difficulties in the sourcing of raw materials and accessories and our Directors do not anticipate any material difficulties in the foreseeable future as all the principal raw materials required by us can be purchased from a number of alternative suppliers.

#### Suppliers

For each of the two years ended 31 December 2008 and the three months ended 31 March 2009, aggregate purchases from our five largest suppliers represented 54.6%, 55.9% and 77.7%, respectively, of our total purchase and purchase from the largest suppliers represented 14.8%, 15.6% and 22.7%, respectively, of our total purchase.

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## **BUSINESS**

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In order to maintain our flexibility in locating quality-conscious and cost effective suppliers and to avoid over reliance on any supplier, we do not have any long term contracts with our suppliers. Our Directors are not aware of any factor that may lead to the shortage of raw materials in future as there are abundant raw materials suppliers in the region.

We normally pay a 30% deposit upon confirmation of orders with suppliers with the remaining 70% to be settled within one month after delivery. During the Track Record Period, all the raw materials sourced from suppliers were denominated in Renminbi and we settle our purchase through bank transfers.

So far as we are aware, none of our Directors, their respective associates nor shareholders (who or which to the knowledge of our Directors own more than 5% of our issued share capital or any of our subsidiaries) had any interest in any of our five largest suppliers during the Track Record Period.

### **INVENTORY CONTROL**

Our inventory comprises raw materials, work-in-progress and finished products. As at 31 December 2007, 31 December 2008 and 31 March 2009 our inventory amounted to approximately RMB11.6 million, RMB14.2 million and RMB4.8 million respectively. 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. The staff is required to fill in the stock-take checklist. During the Track Record Period, we did not make any provision for obsolete stocks.

Physical movement of stock is recorded based on established procedures. Stock-in notes are issued and approved for purchased materials after inspection. Inventory records are updated according to the approved goods receipt notes. Only lots of finished goods with properly approved delivery notes are allowed to be delivered to our customers. Obsolete or outdated stocks are also identified based on established procedures.

Inventory records and stock take results are reviewed by senior management to determine the focus of sales efforts and whether inventory provision is necessary.

### **PRODUCT DEVELOPMENT**

To maintain the quality standard of our products, before we began the mass production of a new design, our technical team produces samples that will be tested for conformity with the design specifications and for a variety of safety standards as required by some of our customers. Our products are also inspected throughout the production process to ensure high quality and standards. Our technical team comprised of four members as at the [●].

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## **BUSINESS**

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### **COMPETITION**

We face competitions from both domestic and overseas manufacturers and suppliers engaged in the same or similar businesses. Our Directors believe that competition in the apparel industry is characterised as competitive price squeeze while demanding quality and timeliness delivery requirements. Our Directors are of the view that there is very low entry barrier to the apparel industry as operational complexity and financial requirement for the establishment of production facilities are not demanding due to the nature of this industry. Nevertheless, our Directors consider that it requires the management of new entrants to gain in-depth knowledge and experience in understanding and meeting customers' requirements.

Although we face competition from domestic and overseas manufacturers and suppliers, we believe with our competitive strengths as set out in the paragraph "Our competitive strengths" under this section, our business is well positioned to continue to strive in the apparel manufacturing industry.

### **ENVIRONMENTAL PROTECTION**

Since the principal business of our Company is manufacturing and wholesaling of apparels and the manufacturing process does not involve fabric dyeing or other procedures which may create environmental waste, our Directors are of the view that our production does not and will not discharge any pollutant, toxic gas, sewage or industrial waste.

We are obliged to comply with all the environmental protection laws and regulations of the PRC relating to our apparel industry. During the Track Record Period, we have never been required to pay any penalties and fines regarding our violation of environmental protection laws, rules or regulations in the PRC.

### **WELFARE CONTRIBUTION**

Our Directors confirmed that in accordance with the local practice in Wannian county where the operating subsidiaries of our Group in the PRC are located, we are allowed to make social insurance contribution on a voluntary basis. With a view to gradually participate in the social insurance schemes and after discussion with the relevant local authorities, since July 2008, we have participated in the pension program, and since July 2009, we have participated in industrial accident insurance, maternity insurance, housing pension, unemployment insurance and medical insurance under the social insurance schemes operated by local government authorities in accordance with the PRC national and local laws and regulations. The total amount of contributions we made for the pension program under such social insurance schemes for the years ended 31 December 2007, 2008 and for the three months ended 31 March 2009 were approximately nil, RMB1,730,000 and RMB740,000, respectively.

In order to ensure full compliance with the social insurance schemes, we have designated human resources staff to keep record of movement of employees and accounting staff to calculate contributions for each social insurance program on a monthly basis. In

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## BUSINESS

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addition, our Directors will review our internal procedures and will liaise with the relevant local authorities regularly to ensure that contribution for each social insurance program will be made in accordance with all relevant requirements.

Based on the relevant requirements, our Directors estimate that if our Group were asked to contribute all six types of social insurance, the aggregate unpaid amount would be approximately RMB4.6 million, RMB4.0 million and RMB0.6 million during the Track Record Period. No provision in relation to the underpaid contribution to social insurance has been made by our Group during the Track Record Period as we have received confirmation letters from the responsible local government authorities in Wannian county that all our operating subsidiaries in the PRC were not required to rectify the underpayment and were not subject to any penalty. As at the [●], no action had been taken against our operating subsidiaries in PRC. Accordingly, our Directors consider that there would not be any adverse business or financial effect on our Group arising from the past underpayment.


In addition, Mr. Cai SY and Mr. Cai SP have agreed to indemnify our Group for any losses, liabilities or damages suffered in connection with such underpayment of social insurance prior to the [●] and to the extent provision has not been made by our Group for such losses, liabilities or damages during the Track Record Period.


## SAFETY MATTERS

We have established procedures to provide our workers with a safe and healthy working environment including the establishment of working safety rules.

We have had no significant incidents and accidents in relation to workers' safety and non-compliance to the applicable laws and regulations relevant to the working safety and health issues during the Track Record Period.

## INTELLECTUAL PROPERTY RIGHTS

We have marketed our wholesale business in the PRC using “” as our brand name, which we have applied for the registration as our trademark in the PRC in October 2008 and the registration was in progress.

In June 2009, we have acquired a trademark “” from an Independent Third Party at a consideration of RMB15,000 and we have submitted the assignment of trademark application to the Trademark Office, the State Administration for Industry and Commerce, the PRC and the assignment is under process.

[As advised by our legal advisers as to PRC laws, generally speaking, it takes approximately 2 to 3 years to complete the registration process of a trademark in the PRC and approximately 4 to 6 months to complete the registration process of an assignment of trademark in the PRC. Both the trademark application and the assignment of trademark are currently under process by the Trademark Office, the State Administration of Industrial and Commerce, the PRC, and we expect that the registration process for the trademark

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## **BUSINESS**

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application shall be completed in [2011], and the assignment of trademark shall be completed by [the end of 2009]. Our legal advisers as to PRC laws further advised that they do not find impediments for such registration.

Detailed information of our intellectual property right is set out in the paragraph headed "Intellectual property rights" in appendix V to this [●].

### **PRODUCT LIABILITY**

Taking into account the general practice in the PRC apparel industry and the insurance products available in the PRC, we currently do not maintain any product liability insurance. As confirmed by our legal advisers as to PRC laws, there is no mandatory requirement under the PRC laws for companies to maintain any product liability insurance in the PRC.

Our directors confirm that there was no claim or payment relating to product liability during the Track Record Period.

### **TAXATION**

As confirmed by the relevant supervising tax bureaux of the three PRC operating subsidiaries of our Group by way of confirmation letters all dated [4th May 2009], the three PRC operating subsidiaries of our Group have not violated any relevant tax rules and regulations in the PRC, and have not been penalized by the supervising PRC tax bureaux. Our legal advisers as to PRC laws advised that such supervising tax bureaux are the proper supervising tax bureaux overseeing the tax position of our three PRC operating subsidiaries, and have the authority to issue the above confirmation letters.

### **LEGAL PROCEEDINGS**

We are not, to the best of our knowledge, aware of any litigation or arbitration proceedings pending or threatening against us or any of our directors that would have a material adverse effect on our financial condition or results of operation.

### **COMPETITION WITH OUR DIRECTORS**

Each of our Directors and their associates has confirmed that he/she does not have any interest in a business which competes or may compete with our business nor do they have any conflicts of interests with us.

Mr. Cai SP and Mr. Cai SY, being the management shareholders and substantial shareholders of our Company (the "Covenantors"), have undertaken to us, pursuant to the deeds of non-competition executed by each of them, that with effect from the [●] Date and for as long as the Shares remain listed on GEM and Mr. Cai SP or Mr. Cai SY remains as a substantial shareholder (as defined in [●]) or a management shareholder (as defined in [●]) of the Company, each of them is not and shall not be engaged in any business in competition with that of our Group. Each of them will also procure that their respective associates and the companies in which he is directly or indirectly interested so as to exercise or control the exercise of 30% or more of the voting power at general meetings, or to

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## BUSINESS

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control the composition of a majority of the board of directors (the “Controlled Entity”), are not and shall not be engaged in any business in competition with that of our Group, save for the holding of not more than 5% shareholding interests (individual and/or with their respective associates) in any company listed on a stock exchange. As Jiangxi Hongfeng Textile Company Limited (江西泓峰紡織有限公司) is indirectly owned 50% by Mr. Cai SP and 50% by Mr. Cai SY, it is a Controlled Entity and as long as it remains as a Controlled Entity, each of Mr. Cai SP and Mr. Cai SY will procure that it shall not be engaged in any business in competition with that of our Group.

Where business opportunities which may compete with the business of our Group arise, we shall have the first right of refusal to take up such business opportunities. We shall only exercise the first right of refusal upon approval of all the independent non-executive Directors. The Covenantors (or their respective associates) shall only have the liberty to participate in such business if we choose not to exercise our first right of refusal.

In addition, in order to protect the interests of the independent Shareholders, we will adopt the following arrangements in respect of the implementation of the deeds of non-competition:

1. the independent non-executive Directors will review, on an annual basis, compliance with the deeds of non-competition by the relevant parties;
2. the Covenantors will provide an annual confirmation as to compliance with the deeds of non-competition in our annual report and provide the necessary information for the review of the independent non-executive Directors; and
3. we will disclose result of the findings found (if any) and decisions on matter reviewed by the independent non-executive Directors relating to the enforcement of the deeds of non-competition in our annual report or by way of an announcement to the public.

For better corporate governance, in the event that there is a potential conflict of interest arising from transactions to be entered into between our Group and any of our Directors, the interested Directors will abstain from physical meeting and voting at the relevant board meeting of our Company in respect of such transaction and will not be counted as quorum, unless their attendance and participation are specially invited by other disinterested Directors but subject to the aforesaid restrictions on voting and being counted in the quorum on the relevant resolution.

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## BUSINESS

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### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

#### Management independence and operational independence

Although our Controlling Shareholders will retain a controlling interest in our Company upon the completion of the [●], the operational management of the business of our Group will be the responsibility of our Directors and senior management. Our Board consists of five Directors, namely two executive Directors and three independent non-executive Directors. The independent non-executive Directors represent a majority of the Board. In addition, members of senior management of our Company, save for Mr. Cai Jiabo and Ms. Cai Shuyan, are also independent from the Controlling Shareholders and their respective associates.

As at the [●], we leased the plant occupied by Xiefeng Textile from Jiangxi Hongfeng Textile Company Limited (江西泓峰紡織有限公司), a company owned by our Controlling Shareholders. Having considered that there would be substantial costs involved in the acquisition of the leased property from the Controlling Shareholders or any suitable property from Independent Third Party, our Directors consider it to be commercially beneficial for us to continue the leasing arrangement. In addition, the transactions pursuant to the lease agreement were and will continue to be undertaken on normal commercial terms and on arm's length basis, which were and are no more favourable to the Controlling Shareholder than those extended to Independent Third Parties. Consequently, our Directors consider that the lease agreement with the Controlling Shareholders represents an enhancement to our business plans, rather than a dependent on our Controlling Shareholders.

Save as disclosed above, our Company has not been dependent on our Controlling Shareholders in any material way to conduct our business operations in manufacturing and wholesaling of apparels.

#### Financial independence

Our Directors confirm that they have the ability to operate independently from the Controlling Shareholders from a financial perspective. Our Directors also confirm that all loans and/or guarantees provided by the Controlling Shareholders or their respective associates for the benefit of our Group will be repaid or released upon [●]. Having taken consideration of the above, our Directors believe they are capable of carrying on the business of our Group independently of the Controlling Shareholders and their respective associates after the [●].

#### Disposal of apparel companies by Mr. Cai SP

Mr. Cai SP and his family members disposed of their interests in Jinjiang Shuiping and Quanzhou Yongchun, both of which had been engaging in apparel business, in May 2009.

Jinjiang Shuiping was incorporated in the PRC as a domestic limited liability company on 11 April 2001. It engaged in manufacturing of garment, including coats, windbreakers, jackets, suits and sportswear. It had been 50% owned by Mr. Cai SP and 50% owned by Mr. Cai Jiabo (蔡家搏) (a son of Mr. Cai SP). In May 2009, Mr. Cai SP transferred his 50% interest in Jinjiang Shuiping to an Independent Third Party at a consideration of RMB2,500,000, and Mr. Cai Jiabo transferred his 50% interest in Jinjiang Shuiping to an



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## BUSINESS

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Independent Third Party at a consideration of RMB2,500,000. The consideration was determined with reference to the registered capital of Jinjiang Shuiping contributed by Mr. Cai SP and Mr. Cai Jiabo (蔡家搏) each in the amount of RMB2,500,000. Before the aforesaid transfers, the paid up registered capital of Jinjiang Shuiping amounted to RMB5,000,000. It had a production facility of 4,000 square meters, and around 170 workers. Its major markets included Middle East, Europe, America and South America. Mr. Cai SP had been the legal representative and director of Jinjiang Shuiping, and was in charge of its management.

Quanzhou Yongchun was incorporated in the PRC on 29 June 2004. It was a wholly-foreign owned enterprise wholly owned by HK Shui Ping. HK Shui Ping had been 50% owned by Mr. Cai SP and 50% owned by Ms. Sun Meige (孫美鵠) (the wife of Mr. Cai SP). Quanzhou Yongchun engaged in manufacturing of fabric, clothing, accessories and shoes, and HK Shui Ping was an investment holding company and its only substantial assets were the 100% interest in Quanzhou Yongchun. In May 2009, Ms. Sun Meige (孫美鵠) transferred her 50% interest in HK Shui Ping to an Independent Third Party at a consideration of HK\$500,000 and Mr. Cai SP transferred his 50% interest in HK Shui Ping to an Independent Third Party at a consideration of HK\$500,000. The consideration was determined with reference to the total issued share capital of HK Shui Ping in the amount of HK\$1,000,000, and the total paid-up capital of Quanzhou Yongchun contributed by HK Shui Ping in the amount of HK\$1,000,000. By the time of the above transfers, the paid up registered capital of Quanzhou Yongchun amounted to HK\$1,000,000. Quanzhou Yongchun had around 150 workers. Its products were mainly for export through domestic import and export companies. Mr. Cai SP had been the legal representative and director of Quanzhou Yongchun, and was in charge of its management.

There were no transactions between our Group and each of Jinjiang Shuiping, Quanzhou Yongchun and HK Shui Ping during the Track Record Period and up to the [●].

As advised by Mr. Cai SP, the reasons that Mr. Cai SP and his family members disposed of their interest in Jinjiang Shuiping and Quanzhou Yongchun instead of injecting them into our Group are as follows:

1. Both of Jinjiang Shuiping and Quanzhou Yongchun were not very profitable in the past two years. For Jinjiang Shuiping, it recorded a net profit of approximately RMB68,000 and RMB55,000 for the two years ended 31 December 2008; and for Quanzhou Yongchun, it recorded a net profit of approximately RMB210,000 and RMB102,000 for the two years ended 31 December 2008. The aggregate cashflow from operating activities before changes in working capital generated by Jinjiang Shuiping and Quanzhou Yongchun was approximately RMB0.4 million and RMB0.3 million for the two years ended 31 December 2008. Hence, by disposing of Jinjiang Shuiping and Quanzhou Yongchun, Mr. Cai SP could concentrate his time and efforts in our business.
2. Both of Jinjiang Shuiping and Quanzhou Yongchun were operated completely independent from our Group, and apart from Mr. Cai SP and Mr. Cai Jiabo (蔡家搏), there was no overlapping of management personnel between Jinjiang Shuiping and Quanzhou Yongchun and our Group. As confirmed by Mr. Cai SP, he had been in charge of the management of Jinjiang Shuiping and Quanzhou Yongchun, but he was not involved in the day to day operation of our Group. As

## **BUSINESS**

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confirmed by Mr. Cai Jiabo (蔡家博), being one of our senior management team members, he did not involve in the day to day operations of Jinjiang Shuiping and Quanzhou Yongchun. As such, our Directors consider that although Jinjiang Shuiping and Quanzhou Yongchun were also engaged in the apparel business, their management and operation had been completely different and independent from us.

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## FUTURE PLANS AND PROSPECTS

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### Business Objectives

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

### Market potential

According to the China Statistical Yearbook 2008, as the end of 2007, the total population in China was about 1.3 billion, with about 716 million or 55% residing in the rural area. The per capita annual net income of rural households was about RMB4,140. The per capita annual disposable income of urban households in 2007 was about RMB13,786, which is 2.3 times higher than that of rural households.

Our Directors consider that although the purchasing power of urban households is stronger, there is a promising potential in the rural areas for budget apparel in the PRC as:

- the living standards of farmers are improving and they are more willing to purchase quality clothes;
- the competition among retail and wholesale within rural households sector are less fierce;
- the bargaining power of rural households sector to be weaker than that of urban households; and
- the people in rural households show less brand loyalty at present.

### 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 different target customers. Besides, they will conduct research on production materials and manufacturing processes with a view to cope with the latest trend and market demands on production materials, improve the productivity with reduced material waste and better quality control.

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## FUTURE PLANS AND PROSPECTS

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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 ZHENZHUQUAN, 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.

### *3. Expansion of our sales and distribution channel*

We will continually consider expanding our distribution base and market coverage to ensure that we are presence in markets that we consider to have growth potential. Three additional sales and marketing staff 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 province, Jiangxi province, Zhejiang province 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 leasing agreement. In addition, we will deploy resources in promoting and marketing our brand acquired and our products in the PRC.

## FUTURE PLANS AND PROSPECTS

### Implementation Plans

In order to adopt the following implementation plans with respect to our Group's operations and to achieve the objectives set out in those plans, our Directors have drawn up detail implementation plans within the time periods set out below. Our Directors will use their best endeavors to anticipate future changes in the market where we operate and propose to establish operations, and to take measures to remain flexible in order that our Group may stay ahead of or react in a timely manner appropriately to such changes. Based on the current state of the apparel industry, our Directors intend to carry out the following implementation plans:

#### *Expansion of our new product design capacity and brand building*

From the [●] to 31 December 2009	For the six months ending 30 June 2010	For the six months ending 31 December 2010	For the six months ending 30 June 2011	For the six months ending 31 December 2011
<ul style="list-style-type: none"> <li>- Acquire and renovate the premise of the research and development department</li> <li>- Recruit three research and development staff</li> <li>- Acquire equipment for research and development team</li> <li>- Research on production materials and manufacturing processes</li> <li>- Commence product design and development</li> <li>- Conduct advertising campaigns on our brands in PRC</li> </ul>	<ul style="list-style-type: none"> <li>- Research on production materials and manufacturing processes</li> <li>- Commence product design and development</li> <li>- Conduct advertising campaigns on our brands in PRC</li> <li>- Establish other brands to target different clientele</li> </ul>	<ul style="list-style-type: none"> <li>- Research on production materials and manufacturing processes</li> <li>- Commence product design and development</li> <li>- Conduct advertising campaigns on our brands in PRC</li> <li>- Establish other brands to target different clientele</li> </ul>	<ul style="list-style-type: none"> <li>- Research on production materials and manufacturing processes</li> <li>- Commence product design and development</li> <li>- Conduct advertising campaigns on our brands in PRC</li> <li>- Establish other brands to target different clientele</li> </ul>	<ul style="list-style-type: none"> <li>- Research on production materials and manufacturing processes</li> <li>- Commence product design and development</li> <li>- Conduct advertising campaigns on our brands in PRC</li> <li>- Establish other brands to target different clientele</li> </ul>

#### *Expansion of our production capacity*

From the [●] to 31 December 2009	For the six months ending 30 June 2010	For the six months ending 31 December 2010	For the six months ending 30 June 2011	For the six months ending 31 December 2011
<ul style="list-style-type: none"> <li>- Acquire land use right</li> <li>- Construct production plant</li> <li>- Renovate production plant</li> <li>- Acquire production equipment</li> </ul>	<ul style="list-style-type: none"> <li>- Acquire land use right</li> <li>- Construct production plant</li> <li>- Renovate production plant</li> <li>- Acquire production equipment</li> </ul>	<ul style="list-style-type: none"> <li>- Acquire production equipment</li> </ul>	<ul style="list-style-type: none"> <li>-</li> </ul>	<ul style="list-style-type: none"> <li>-</li> </ul>

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## FUTURE PLANS AND PROSPECTS

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### *Expansion of our sales and distribution channel*

<b>From the [●] to 31 December 2009</b>	<b>For the six months ending 30 June 2010</b>	<b>For the six months ending 31 December 2010</b>	<b>For the six months ending 30 June 2011</b>	<b>For the six months ending 31 December 2011</b>
<ul style="list-style-type: none"><li>- Establish four wholesale outlets</li><li>- Recruitment of three additional sales and marketing staff</li></ul>	<ul style="list-style-type: none"><li>- Establish four wholesale outlets</li></ul>	<ul style="list-style-type: none"><li>- Establish four wholesale outlets</li></ul>	<ul style="list-style-type: none"><li>- Establish four wholesale outlets</li></ul>	<ul style="list-style-type: none"><li>- Establish four wholesale outlets</li></ul>

### **Bases and Assumptions**

The business objectives set out by our Directors are based on the following bases and assumptions:

- there will be no significant economic change in respect of inflation, interest rate, tax rate and currency exchange rate in the PRC what will adversely affect our business;
- we will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objectives relate;
- there will be no material changes in the existing laws (whether in the PRC, Hong Kong or any part of the world), policies or industry or regulatory treatment relating to our Group, or in the political, economic or market conditions in which our Group operates;
- there will be no change in the funding requirement for each of the near term business objectives described in this [●] from the amount as estimated by our Directors;
- there will be no material changes in the bases or rates of taxation applicable to our Group;
- there be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of our Group or cause substantial loss, damage or destruction to its property or facilities;
- there will be no change in the effectiveness of the licenses and permits obtained by us; and
- we will not be materially affected by the risk factors as set out under the section headed "Risk factors" in this [●].

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## CONNECTED TRANSACTIONS

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### CONNECTED TRANSACTIONS

During the Track Record Period, we have entered into a number of related party transactions, details of which are set out in note 29(a) to the accountants’ report set out in appendix I to this [●]. Our Directors have confirmed that these related party transactions were conducted in the ordinary course of business and on normal commercial terms. Save as described below, these related party transactions have discontinued before the [●]. These related party transactions, if continue after the listing of our Shares, may constitute connected transactions under [●].

Following the listing of our Shares on the [●]s, the following transactions will continue between our Group and the relevant connected persons, which will constitute continuing connected transactions under [●].

#### Exempt Continuing Connected Transactions

The following transactions have been carried out by our Group and its connected persons which constitute continuing connected transactions which are exempt from all reporting, announcement and independent shareholders’ approval requirements set out in Chapter 20 of [●], and are expected to continue following the listing of our Shares on the [●]:

*Lease Agreement with Jiangxi Hongfeng Textile Company Limited (江西泓峰紡織有限公司)*  
(“*Jiangxi Hongfeng*”)

On 23 November 2008 and 26 June 2009, Xiefeng Textile, as tenant, entered into a lease agreement and a supplemental agreement, respectively (together, the “Lease Agreement”) with Jiangxi Hongfeng, as lessor, for a term commencing from 1 January 2009 and ending on 31 December 2011 in respect of the two plants locate at [Fengshou Industrial Park, Wannian County], Jiangxi, the PRC with a total gross floor area of approximately [3,828] sq.m. for use by Xiefeng Textile for production at [an annually rental of RMB[144,000]. Xiefeng Textile had paid the full year rental of RMB144,000 for the year 2009. From 2010 onwards, the rent shall be paid every quarter.]

[At the time of its establishment, Cai’s International held 55% equity interest in Jiangxi Hongfeng, with the remaining 45% being held by an [Independent Third Party]. In March 2009, Cai’s International and the other shareholder of Jiangxi Hongfeng agreed to transfer all their respective interests in Jiangxi Hongfeng to Hong Feng International Holdings Limited (泓峰國際控股有限公司). A confirmed by our Directors, except for holding of the above-mentioned plants and the relevant piece of land where the plants are located, Jiangxi Hongfeng has no other substantial operations.

Mr. Cai SY and Mr. Cai Jiabo (蔡家搏), a son of Mr. Cai SP and one of our senior management, were directors of Jiangxi Hongfeng . Currently, Mr. Cai SY is a director, Mr. Cai Jiabo (蔡家搏) is the general manager and Ms. Xu Pingping (許萍萍), the spouse of Mr. Cai Jiabo (蔡家搏), is the supervisor of Jiangxi Hongfeng.

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## CONNECTED TRANSACTIONS

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Hong Feng International Holdings Limited (泓峰國際控股有限公司) is a company with limited liability incorporated in the BVI in October 2008 and is principally engaged in investment holding. Hong Feng International Holdings Limited (泓峰國際控股有限公司) is owned by Mr. Cai SY and Mr. Cai SP, each as to 50% since its incorporation. Mr. Cai SY and Mr. Cai SP are also its directors.]

As Mr. Cai SY and Mr. Cai SP are Controlling Shareholders and Directors, Jiangxi Hongfeng is a connected person of our Company within the meaning of [●]. Accordingly, the arrangements under the Lease Agreement constitute a continuing connected transaction under [●].

[●], an independent valuer of our Company, considers that the annual rent payable under the Lease Agreement was fair and reasonable and did not exceed market rental.

Our Directors (including our independent non-executive Directors) are of the view that the Lease Agreement with Jiangxi Hongfeng has been entered into on normal commercial terms, in the ordinary and usual course of business of our Group and that the terms of the Lease Agreement are fair and reasonable and in the interests of our Shareholders as a whole.

It is expected that the rental to be payable by our Group on an annual basis under the Lease Agreement will be RMB144,000 for each of the three years ending 31 December 2011.

Since each of the percentage ratios (other than the profit ratio), where applicable, calculated by reference to Rule 20.33 of [●], for the Lease Agreement with Jiangxi Hongfeng on an annual basis is less than 2.5% and the annual consideration payable under the Lease Agreement is less than HK\$1,000,000, the Lease Agreement is exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of [●].

### *Lease Agreement with Mr. Tsoi Kam On (蔡金鉸)*

On 15 March 2009 and 26 June 2009, Xiefeng Textile, as tenant, entered into a lease agreement and a supplemental agreement, respectively (together, the "Lease Agreement") with Mr. Tsoi Kam On (蔡金鉸), as lessor, for a term commencing from 15 March 2009 and ending on 14 March 2012 in respect of the premises locate at [2/F, Industrial Building West, No.4 Chengzhou Industrial Zone, Fengze District, Quanzhou], Fujian, the PRC with a total gross floor area of approximately [600] sq.m. for use by Xiefeng Textile as the office premises at [an annually rental of RMB[28,800] by quarterly payment.] Mr. Tsoi Kam On (蔡金鉸) is the brother of Mr. Cai SY and is thus a connected person of our Company within the meaning of [●]. Accordingly, the arrangements under the Lease Agreement constitute a continuing connected transaction under [●].

[●], an independent valuer of our Company, considers that the annual rent payable under the Lease Agreement was [fair and reasonable and did not exceed market rental.

During the Track Record Period, the rental paid for the office premises by our Group to Mr. Tsoi Kam On (蔡金鉸) amounted to RMB[47,000], RMB[47,000] and RMB[12,000].



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## CONNECTED TRANSACTIONS

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Our Directors (including our independent non-executive Directors) and the [●] are of the view that the Lease Agreement with Mr. Tsoi Kam On (蔡金鉸) has been entered into on normal commercial terms, in the ordinary and usual course of business of our Group and that the terms of the lease agreement are fair and reasonable and in the interests of our Shareholders as a whole.

It is expected that the rental to be payable by our Group on an annual basis under the Lease Agreement will be RMB[28,800] for each of the three years ending 31 December 2011.

Since each of the percentage ratios (other than the profit ratio), where applicable, calculated by reference to Rule 20.33 of [●], for the Lease Agreement with Mr. Tsoi Kam On (蔡金鉸) on an annual basis is less than [2.5% and the annual consideration payable under the lease agreement is less than HK\$1,000,000], the Lease Agreement is exempt from the reporting, announcement and independent shareholders’ approval requirements under Chapter 20 of [●].

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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### BOARD OF DIRECTORS

#### Executive Directors

**Mr. Cai Shuiyong (蔡水泳)**, aged [43], is an executive Director, the Chairman of our Board and chief executive officer of our Group. He is responsible for the overall strategic planning and direction of our Group. Mr. Cai SY has over 14 years of experience in the clothing industry. He had been the general manager of Quanzhou Qiaomei Garment Company Limited (泉州僑美服裝有限公司), a domestic enterprise established in the PRC, from 1995 to 2005. Since 2006, he has been a director of Cai’s International, Xiefeng Textile, Wannianxing Textile and Xiangyun Fiber. He is also a director of Newshine and Sino Prosper. He and Mr. Cai SP are first cousins. He is the spouse of Ms. Cai Shuyan (蔡淑燕), one of our Group’s senior management. Mr. Cai SY has not been a director of any publicly listed company during the three years preceding the date of this [●]. He was appointed as a Director on 10 June 2009 and redesignated as an executive Director on [15] September 2009.

**Mr. Cai Shuiping (蔡水平)**, aged [52], is an executive Director. He is also a director of Newshine and Sino Prosper. Mr. Cai SP participates in all the major decision making process of our Group. Mr. Cai SP has over 8 years of experience in the clothing industry. He had been a director of Jinjiang Shuiping Garment Company Limited (晉江水平服裝有限公司), a domestic enterprise established in the PRC, from 2001 to 2009. Since 2006, he has been a director of Cai’s International. He and Mr. Cai SY are first cousins, and he is the father of Mr. Cai Jiabo, a senior management staff of our Group. Mr. Cai SP has not been a director of any publicly listed company during the three years preceding the date of this [●]. He was appointed as a Director on 10 June 2009 and redesignated as an executive Director on [15] September 2009.

#### Independent Non-Executive Directors

**Mr. Lin Anqing (林安慶)**, aged [42], was appointed as an independent non-executive Director on [15 September 2009]. He graduated at Huaqiao University (華僑大學) in 1992, majoring in English. Mr. Lin has over 10 years of experience in the banking and financial industry. He had served Quanzhou Haibin City Credit Union (泉州市海濱城市信用社) and Quanzhou Commercial Bank Joint-Stock Co., Ltd. (泉州市商業銀行股份有限公司) during 1994 to 2006 and is currently the general manager of Quanzhou Zhongding Guarantee and Investment Company Limited (泉州市中鼎擔保投資有限公司). Mr. Lin has not been a director of any publicly listed company during the three years preceding the date of this [●].

**Ms. Lin Peifen (林佩芬)**, aged [40], was appointed as an independent non-executive Director on [15 September 2009]. She joined the Fujian Wumei Group Company Limited (福建湖美集團有限公司) in May 1998 and is currently the deputy general manager of Quanzhou Wumei Hotel (泉州湖美大酒店), a four-star hotel in Quanzhou, Fujian, the PRC. She has nearly 10 years of experience in the hotel industry. Ms. Lin has not been a director of any publicly listed company during the three years preceding the date of this [●].

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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**Mr. Liu Jianlin (劉建林)**, aged [40], was appointed as an independent non-executive Director on [15 September 2009]. He graduated at Fuzhou University (福州大學) in 1993, majoring in Packaging Engineering. Mr. Liu passed the national examination of registered accountants in December 1996 and is a PRC registered accountant. He is currently a partner and the manager of the audit department of Fujian Da Zheng Accounting Firm (福建大正有限責任會計師事務所). Mr. Liu has not been a director of any publicly listed company during the three years preceding the date of this [●].

### SENIOR MANAGEMENT

**Ms. Cai Shuyan (蔡淑燕)**, aged [41], joined our Group in May 2006 and is the supervisor of Xiefeng Textile, Wannianxing Textile and Xiangyun Fiber and the responsible officer of Quanzhou Office. Ms. Cai is the spouse of Mr. Cai SY. She has not been a director of any publicly listed company during the three years preceding the date of this [●].

**Mr. Cai Jiabo (蔡家搏)**, aged [26], joined our Group in January 2005 and is a director of Wannianxing Textile, the general manager of Xiangyun Fiber and the marketing director of our Group. He obtained a Professional Certificate in English issued by University of Westminster in association with Management Development Institute of Singapore in 2003. Mr. Cai is the son of Mr. Cai SP. He has not been a director of any publicly listed company during the three years preceding the date of this [●].

**Mr. Xiao Wei (肖偉)**, aged [38], joined our Group in [●] 2006 and is the production director of our Group. Before joining our Group, he had been one of the factory heads of [Quanzhou Longquan Garment Company Limited (泉州市隆泉服裝有限公司)], a domestic enterprise established in the PRC, during 2000 to 2006. He has not been a director of any publicly listed company during the three years preceding the date of this [●].

**Ms. Wang Xiaohua (王小華)**, aged [37], joined our Group in [●] 2006 and is the Chief Financial Controller of our Group. Before joining our Group, she had been an accountant of [Jinjiang Shuiping Garment Company Limited (晉江水平服裝有限公司)], a domestic enterprise established in the PRC, during 1993 to 2006. She has not been a director of any publicly listed company during the three years preceding the date of this [●].

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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### COMPANY SECRETARY

**Mr. Kwong Ping Man** (鄺炳文), aged [44], was appointed as the company secretary of our Company on [15 September 2009]. He is also one of our [●] appointed pursuant to Rule 5.24 of [●]. Mr. Kwong is a Certified Practising Accountant of the Australian Society of Certified Practising Accountants, an associate member of Hong Kong Society of Accountants and an associate member of Hong Kong Institute of Company Secretaries and Institute of Chartered Secretaries and Administrators. Mr. Kwong graduated from Curtin University of Technology, Western Australia with a Bachelor’s degree in Commerce (Accounting) in 1996. He further obtained a Master’s degree in Professional Accounting from the Hong Kong Polytechnic University in 2003. Mr. Kwong is currently a director of O’Park Corporate Services Limited. He is also an independent non-executive director of Yueshou Environmental Holdings Limited (Stock Code: 01191), Mitsumaru East Kit (Holdings) Limited (Stock Code: 02358) and Century Sunshine Group Holdings Limited (Stock Code: 00509). Save as disclosed above, Mr. Kwong did not hold directorships in any other listed public companies in the last three years and does not hold other positions with our Company and its subsidiaries.

### AUDIT COMMITTEE

Our Company has established an audit committee in [September 2009] with written terms of reference in compliance with Rules 5.28 to 5.33 of [●]. The primary duties of the audit committee are, among other things, to review and supervise the financial reporting process and internal control system of our Group. The audit committee has three members comprising our three independent non-executive Directors and [Mr. Liu Jianlin] has been appointed as the chairman of the audit committee.

### REMUNERATION COMMITTEE

Our Company has established a remuneration committee in [September 2009] with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in appendix 15 to [●]. The remuneration committee comprises one executive Director, namely, [Mr. Cai SY] and two independent non-executive Directors, namely [Mr. Lin Anqing and Ms. Lin Peifen], with [Mr. Cai SY] being appointed as the chairman of the remuneration committee. The primary duties of the remuneration committee are, amongst other things, to review and determine the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management and to make recommendation to our Board on our Group’s policy and structure for all remuneration of our Directors and senior management.

### NOMINATION COMMITTEE

Our Company has established a nomination committee in [September 2009] with written terms of reference. The nomination committee comprises one executive Director namely Mr. Cai SY and two independent non-executive Directors namely Mr. Lin Anging and Ms. Lin Peifen and Mr. Cai SY has been appointed as the chairman of the nomination committee. The nomination committee is mainly responsible for making recommendations to our Board on appointment of Directors and succession planning for our Directors.

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## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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### **SHARE OPTION SCHEME**

We have conditionally adopted the Share Option Scheme. Details of the principal terms of the Share Option Scheme are summarised in the paragraph headed "Share Option Scheme" as set out in "Appendix V – Statutory and General Information".

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

The aggregate amount of fee, salaries, housing allowances, other allowances and benefits in kind paid by our Group to our Directors for each of the two financial years ended 31 December 2008 and three months ended 31 March 2009 were RMB60,000, RMB63,000 and RMB16,000, respectively.

All our Directors receive reimbursements from us for expenses that are necessarily and reasonably incurred for providing services to us or in the execution of matters in relation to our operations. Our executive Directors are also our employees and receive, in their capacity as our employees, compensation in the form of salaries and contributions to the pension scheme according to PRC laws.

Mr. Cai SP only holds a non-executive role in our three PRC operating subsidiaries in the past. Therefore, he did not receive any emoluments from our Group during the Track Record Period.

The aggregate amount of fees, salaries, housing allowances, other allowances and benefits in kind paid by our Group to its five highest paid individuals for each of the two financial years ended 31 December 2008 and three months ended 31 March 2009 were RMB192,000, RMB199,000 and RMB50,000, respectively.

Save as disclosed above, no other payments have been made or are payable by our Company to our Directors, in respect of the Track Record Period.

Our Directors estimate that under the current proposed arrangement, the aggregate basic annual remuneration (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to Directors will be approximately RMB[199,200].

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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### EMPLOYEES

As at [30 June 2009], we employed [1,428] full-time employees. The following table sets forth the total number of employees by function:

<b>Job function</b>	<b>Number</b>
Management	[4]
Sales and marketing	[8]
Technical	[4]
Accounting and finance	[4]
Production	[1,352]
Quality control	[53]
Administrative	<u>[3]</u>
Total	<u>[1,428]</u>

### OUR RELATIONSHIP WITH EMPLOYEES

We maintain good working relations with our employees. We have not experienced any significant problems with the recruitment and retention of experienced employees. In addition, we have not suffered from any material disruption of our normal business operations as a result of labour disputes or strikes.

### BENEFITS

Our Directors confirmed that in accordance with the local practice in Wannian County where the operating subsidiaries of our Group in the PRC are located, we are allowed to make social insurance contribution on a voluntary basis. With a view to gradually participate in the social insurance schemes and after discussion with the relevant local authorities, since July 2008, we have participated in the pension program, and since July 2009, we have participated in industrial accident insurance, maternity insurance, housing pension, unemployment insurance and medical insurance under the social insurance schemes operated by relevant local government authorities in accordance with PRC national and local laws and regulations. The total amount of contributions we made for the pension program under such social insurance schemes for the years ended 31 December 2007, 2008 and for the three months ended 31 March 2009 were approximately nil, RMB1,730,000 and RMB740,000, respectively.

In order to ensure full compliance with the social insurance schemes, we have designated human resources staff to keep record of movement of employees and accounting staff to calculate contributions for each social insurance program on a monthly basis. In addition, our Directors will review our internal procedures and will liaise with the relevant local authorities regularly to ensure that contribution for each social insurance program will be made in accordance with all relevant requirements.

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## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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Based on the relevant requirements, our Directors estimate that if our Group were asked to contribute all six types of social insurance, the aggregate unpaid amount would be approximately RMB4.6 million, RMB4.0 million and RMB0.6 million during the Track Record Period. No provision in relation to the underpaid contribution to social insurance has been made by our Group during the Track Record Period as we have received confirmation letters from the responsible local government authorities in Wannian county that all our operating subsidiaries in PRC were not required to rectify the underpayment and were not subject to any penalty. As at the [●], no action had been taken against our operating subsidiaries in PRC. Accordingly, our Directors consider that there would not be any adverse business or financial effect on our Group arising from the past underpayment.

In addition, Mr. Cai SY and Mr. Cai SP have agreed to indemnify our Group for any losses, liabilities or damages suffered in connection with such underpayment of social insurance prior to the [●] and to the extent provision has not been made by our Group for such losses, liabilities or damages during the Track Record Period.

## SUBSTANTIAL, CONTROLLING AND SIGNIFICANT SHAREHOLDERS

### SUBSTANTIAL SHAREHOLDERS

Our Directors confirm that, immediately following the completion of the [●] but without taking into account any Shares which may be allotted and issued pursuant to the exercise of options granted under the Share Option Scheme, the following persons will have interests and/or short positions in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be directly or indirectly interested in 10% or more of the voting power at general meetings of our Company:

*Long position in our Shares*

Name of Shareholder	Nature of interest	Number of Shares held	Approximate shareholding percentage (%)
Well Bright	Beneficial owner	[259,000,000]	[70]
Mr. Cai SY ( <i>Note 1</i> )	Interest of a controlled corporation	[259,000,000]	[70]
Mr. Cai SP ( <i>Note 1</i> )	Interest of a controlled corporation	[259,000,000]	[70]
[Ms. Cai Shuyan] ( <i>Note 2</i> )	Interest of Spouse	[259,000,000]	[70]
[Ms. Sun Meige] ( <i>Note 3</i> )	Interest of Spouse	[259,000,000]	[70]

*Notes:*

- (1) Well Bright is owned 50% by Mr. Cai SY and 50% by Mr. Cai SP. Therefore, each of Mr. Cai SY and Mr. Cai SP is deemed, or taken to be, interested in [259,000,000] Shares held by Well Bright under the SFO. Mr. Cai SY and Mr. Cai SP are the two directors of Well Bright.
- (2) Well Bright is beneficially owned by Mr. Cai SY as to [50%]. Therefore, Mr. Cai SY is deemed, or taken to be, interested in the [259,000,000] Shares which are beneficially owned by Well Bright for the purposes of the SFO. [Ms. Cai Shuyan] is the spouse of Mr. Cai SY. Therefore, [Ms. Cai Shuyan] is deemed, or taken to be, interested in the [259,000,000] Shares which Mr. Cai SY is deemed, or taken to be interested in for the purposes of the SFO.
- (3) Well Bright is beneficially owned by Mr. Cai SP as to [50%]. Therefore, Mr. Cai SP is deemed, or taken to be, interested in the [259,000,000] Shares which are beneficially owned by Well Bright for the purposes of the SFO. Ms. Sun Meige is the spouse of Mr. Cai SP. Therefore, Ms. Sun Meige is deemed, or taken to be, interested in the [259,000,000] Shares which Mr. Cai SP is deemed, or taken to be interested in for the purposes of the SFO.



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## SUBSTANTIAL, CONTROLLING AND SIGNIFICANT SHAREHOLDERS

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### CONTROLLING SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the [●] (but without taking into account of any Shares which may be granted under the Share Option Scheme), the following persons individually and/or collectively are entitled to exercise or control the exercise of 30% or more of the voting power at the general meetings of our Company and are able, as a practical matter, to control the composition of a majority of the board of Directors immediately prior to the date of this [●] and/or immediately prior to the [●] Date and are therefore regarded as Controlling Shareholders under [●]:

*Long position in our Shares*

Name of Shareholder	Nature of interest	Number of Shares held	Approximate shareholding percentage (%)
Well Bright	Beneficial owner	[259,000,000]	[70]
Mr. Cai SY ( <i>Note</i> )	Interest of a controlled corporation	[259,000,000]	[70]
Mr. Cai SP ( <i>Note</i> )	Interest of a controlled corporation	[259,000,000]	[70]

*Note:* Well Bright is 50% owned by Mr. Cai SY and 50% by Mr. Cai SP. Therefore, each of Mr. Cai SY and Mr. Cai SP is deemed, or taken to be, interested in [259,000,000] Shares held by Well Bright under the SFO.

### SIGNIFICANT SHAREHOLDERS

[So far as our Directors are aware, save for the persons disclosed under the paragraphs headed "Substantial Shareholders" and "Controlling Shareholders" in this section above, there are no other persons who will immediately following completion of the [●] (but without taking into account of any Shares which may be granted under the Share Option Scheme) be directly or indirectly interested in 5% or more of the voting power at the general meetings of our Company and are therefore regarded as significant shareholders of our Company under [●].]

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## SHARE CAPITAL

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<i>Authorized share capital:</i>	<i>HK\$</i>
[1,000,000,000] Shares of HK\$[0.01] each	[10,000,000]
<i>Issued and to be issued, fully paid or credited as fully paid</i>	
[37,000,000] Shares in issue as at the date of this [●]	[370,000]
[259,000,000] Shares to be issued pursuant to the [●]	[2,590,000]
<u>[74,000,000]</u> Shares to be placed pursuant to the [●] of [●]	<u>[740,000]</u>
<u>[370,000,000]</u> Shares	<u>[3,700,000]</u>

### Assumptions

The above table assumes that the [●] and the [●] become unconditional and the issue of Shares pursuant thereto are made as described herein. It takes no account of Shares which may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates for the allotment and issue or repurchase of Shares granted to Directors as referred to below or otherwise.

### MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(1) of [●], at the time of [●] and at all times thereafter, we must maintain the "minimum prescribed percentage" of 25% of the issued share capital of our Company in the hands of the public (as defined in [●]).

### RANKING

The [●] will rank pari passu in all respects with all other Shares in issue as mentioned in this [●], and in particular, will rank in full for all dividends and other distributions hereafter declared, paid or made on the Shares after the date of this [●] save for entitlement under the [●].

### SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme, the principal terms of which are set out in the section headed "Share Option Scheme" in appendix V to this [●].

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## SHARE CAPITAL

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### GENERAL MANDATE TO ISSUE SHARES

Our Directors have been granted a general unconditional mandate to allot, issue and deal with unissued Shares with an aggregate nominal value of not exceeding 20% of the aggregate of the total nominal amount of the share capital of our Company in issue as enlarged by the [●] and the [●] and the aggregate nominal value of the share capital of our Company repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares as described below.

Our Directors may, in addition to the Shares which they are authorised to issue under the mandate, allot, issue and deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription rights attaching to any warrants or convertible securities of our Company, scrip dividends or similar arrangements or the exercise of options granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted.

This mandate will expire:

- (i) at the conclusion of our Company’s next annual general meeting; or
- (ii) upon the expiry of the period within which our Company is required by any applicable law of the Cayman Islands or its Articles to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of the Shareholders in general meeting, whichever is the earliest.

For further details of the general mandates for the allotment and issue of Shares, see the paragraph headed “Written resolutions of our Sole Shareholder passed on 15 September 2009” in appendix V to this [●].

### GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue, as enlarged by the [●] and the [●].

This mandate relates only to repurchases made on the [●] or on any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the [●] for this purpose), and which are made in accordance with [●]. A summary of the relevant [●] is set out in the section headed “Repurchase of Shares by our Company” in appendix V to this [●].

## SHARE CAPITAL

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This mandate will expire:

- (i) at the conclusion of our Company's next annual general meeting; or
- (ii) upon the expiry of the period within which our Company is required by any applicable law of the Cayman Islands or its Articles to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of the Shareholders in general meeting, whichever is the earliest.

For further details of the general mandates for the repurchase of Shares, see the section headed "Written resolutions of our Sole Shareholder passed on 15 September 2009" in appendix V to this [●].

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## FINANCIAL INFORMATION

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### 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.

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## FINANCIAL INFORMATION

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### **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

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## FINANCIAL INFORMATION

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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 Textile 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 Textile 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.

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## FINANCIAL INFORMATION

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### 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.



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## FINANCIAL INFORMATION

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### (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

## FINANCIAL INFORMATION

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 forth 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		Three months ended	
	31 December		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>

## FINANCIAL INFORMATION

### COMBINED STATEMENTS OF FINANCIAL POSITION

	As at 31 December 2007 RMB'000	2008 RMB'000	As at 31 March 2009 RMB'000
<b>Non-current assets</b>			
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>
<b>Current assets</b>			
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>
<b>Current liabilities</b>			
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>
<b>Total current liabilities</b>	<u>[16,617]</u>	<u>[14,508]</u>	<u>[8,644]</u>
<b>Net current assets</b>	<u>[7,466]</u>	<u>[26,303]</u>	<u>[30,390]</u>
<b>Net assets</b>	<u>[16,105]</u>	<u>[34,419]</u>	<u>[38,993]</u>
<b>Capital and reserves</b>			
Share capital	[23,215]	[24,135]	[24,135]
Reserves	<u>[(7,110)]</u>	<u>[10,284]</u>	<u>[14,858]</u>
<b>Total equity</b>	<u>[16,105]</u>	<u>[34,419]</u>	<u>[38,993]</u>

## FINANCIAL INFORMATION

### 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		2008		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]
<b>Total</b>	<b>[106,928]</b>	<b>[100.0]</b>	<b>[144,164]</b>	<b>[100.0]</b>	<b>[35,500]</b>	<b>[100.0]</b>

*Note:* Others include waistcoats, skirts and pajamas.

## FINANCIAL INFORMATION

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	
	2007		2008		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]
<b>Total</b>	<b>[106,928]</b>	<b>[100.0]</b>	<b>[144,164]</b>	<b>[100.0]</b>	<b>[35,500]</b>	<b>[100.0]</b>

### 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:

Cost of sales breakdown	Year ended 31 December				Three months ended	
	2007		2008		31 March 2009	
	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
<b>Total</b>	<b>92,242</b>	<b>100.0</b>	<b>125,331</b>	<b>100.0</b>	<b>30,426</b>	<b>100.0</b>

### 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.

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## FINANCIAL INFORMATION

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### **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.

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## FINANCIAL INFORMATION

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### 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.

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## FINANCIAL INFORMATION

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### **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.



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## FINANCIAL INFORMATION

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### 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.

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## FINANCIAL INFORMATION

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### 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.

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## FINANCIAL INFORMATION

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### 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].

## FINANCIAL INFORMATION

### 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.

	<b>Year ended</b>		<b>Three</b>
	<b>31 December</b>		<b>months ended</b>
	<b>2007</b>	<b>2008</b>	<b>31 March</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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.

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## FINANCIAL INFORMATION

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### **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

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## FINANCIAL INFORMATION

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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-interest 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-interest 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 [●].

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## FINANCIAL INFORMATION

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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 [●].

## FINANCIAL INFORMATION

### 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:

<b>Our inventory breakdown</b>	<b>As at 31 December</b>				<b>As at 31 March</b>	
	<b>2007</b>		<b>2008</b>		<b>2009</b>	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
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	<u>4,298</u>	<u>37.1</u>	<u>3,131</u>	<u>22.0</u>	<u>2,979</u>	<u>62.5</u>
<b>Total</b>	<b><u>11,583</u></b>	<b><u>100.0</u></b>	<b><u>14,220</u></b>	<b><u>100.0</u></b>	<b><u>4,764</u></b>	<b><u>100.0</u></b>

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.



## FINANCIAL INFORMATION

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	
<b>Our accounts receivable ageing</b>	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
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	—	—
<b>Total</b>	<u>6,169</u>	<u>100.0</u>	<u>17,249</u>	<u>100.0</u>	<u>25,519</u>	<u>100.0</u>

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	
<b>Our accounts payable ageing</b>	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
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
<b>Total</b>	<u>7,501</u>	<u>100.0</u>	<u>9,739</u>	<u>100.0</u>	<u>3,366</u>	<u>100.0</u>

## FINANCIAL INFORMATION

[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
	2007	2008	March
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	<u>21</u>	<u>21</u>	<u>21</u>
Total	<u>3,488</u>	<u>3,257</u>	<u>1,405</u>

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.

## FINANCIAL INFORMATION

### 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
	2007	2008	March
<b>Our other payables</b>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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
<b>Total</b>	<b><u>1,430</u></b>	<b><u>2,623</u></b>	<b><u>2,314</u></b>

### Selected key financial ratios

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

	For the financial year		For the
	ended 31 December	ended 31 December	three
	2007	2008	months
			ended 31
			March
			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.

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## **FINANCIAL INFORMATION**

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### **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 [●].

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## FINANCIAL INFORMATION

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### 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.

	<i>RMB'000</i>	<i>RMB'000</i>
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	<u>[2,067]</u>	
	[6,246]	
<i>Less:</i> Depreciation of properties during the period from [1 April 2009] to [30 June 2009] (unaudited)	[56]	
<i>Less:</i> Amortization of land use rights during the period from [1 April 2009] to [30 June 2009] (unaudited)	<u>[12]</u>	
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 [●]		<u>[6,178]</u>
Net revaluation surplus		<u><u>[1,856]</u></u>

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 [●].

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## **FINANCIAL INFORMATION**

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### **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 [●].



SHINEWING (HK) CPA Limited  
16/F., United Centre  
95 Queensway, Hong Kong

[Date]

The Directors  
Jiangchen International Holdings Limited

Dear Sirs,

We set out below our report on the financial information regarding Jiangchen International Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) including the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Group for each of the two years ended 31 December 2007 and 2008 and the three months ended 31 March 2009 (the “Relevant Periods”) and the combined statements of financial position of the Group as at 31 December 2007 and 2008, and 31 March 2009, together with the notes thereto (the “Financial Information”) for inclusion in the [●] of the Company dated [●] (the “[●]”).

The Company was incorporated in the Cayman Islands on 10 June 2009 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group [●] (the “[●]”) as detailed in the section headed “Corporate [●]” in Appendix V to the [●], which was completed on [●], the Company became the holding company of the subsidiaries now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned [●].

As at the date of this report, no audited financial statements have been prepared for the Company and the companies now comprising the Group, except for Wannian Xian Xiefeng Textiles and Garments Co., Ltd.\* (萬年縣協豐紡織服飾有限公司) (“Xiefeng Textile”), Wan Nian County Xiang Yue Fibers and Fabrics Co., Ltd.\* (萬年縣祥雲纖維紡織有限公司) (“Xiangyun Fiber”) and Jiangxi Province Wan Nian Xing Textiles and Dress Co., Ltd.\* (江西省萬年興紡織服裝有限公司) (“Wannianxing Textile”), as they have either not carried on any business since their respective dates of incorporation or are investment holding companies and not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation. We have, however, reviewed all significant transactions of these companies from their respective dates of incorporation to 31 March 2009 for the purpose of this report.

\* English name is for identification only.

## APPENDIX I

## ACCOUNTANTS' REPORT

All companies now comprising the Group have adopted 31 December as the financial year end date. The statutory financial statements of Xiefeng Textile, Xiangyun Fiber and Wannianxing Textile, which were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the People's Republic of China (the "PRC"), were audited during the Relevant Periods by the respective statutory auditors as indicated below:

<b>Name of subsidiary</b>	<b>Financial year</b>	<b>Statutory auditors</b>
Xiefeng Textile	Year ended 31 December 2007	Jiangxi Zhongshen Certified Public Accountants Shang Rao Branch* 江西中審會計師事務所 有限責任公司上饒分所
	Year ended 31 December 2008	Shang Rao HuaXin LianHe Certified Public Accountants* 上饒華信聯合會計師事務所
Xiangyun Fiber	Year ended 31 December 2007	Jiangxi Zhongshen Certified Public Accountants Shang Rao Branch* 江西中審會計師事務所 有限責任公司上饒分所
	Year ended 31 December 2008	Shang Rao HuaXin LianHe Certified Public Accountants* 上饒華信聯合會計師事務所
Wannianxing Textile	Year ended 31 December 2007	Jiangxi Zhongshen Certified Public Accountants Shang Rao Branch* 江西中審會計師事務所 有限責任公司上饒分所
	Year ended 31 December 2008	Shang Rao HuaXin LianHe Certified Public Accountants* 上饒華信聯合會計師事務所

\* English name is for identification only



## **APPENDIX I**

## **ACCOUNTANTS' REPORT**

### **BASIS OF PREPARATION**

The Financial Information has been prepared by the directors of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the Group on the basis set out in Note 1 of Section A below, after making such adjustments as appropriate. Adjustments have been made, for the purpose of this report, to restate these financial statements to conform with the accounting policies as stated in Note 3 of Section A to conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Rules Governing the [●] of Securities on the Growth Enterprise Market (the "[●]") of The [●] of Hong Kong Limited (the "[●]"). HKFRSs include Hong Kong Accounting Standards and interpretations.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS**

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with HKFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our audit.

### **BASIS OF OPINION**

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "[●] and the Reporting Accountant" issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

We have not audited any financial statements of the companies now comprising the Group in respect of any period subsequent to 31 March 2009.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the

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**APPENDIX I****ACCOUNTANTS' REPORT**

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appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**OPINION**

In our opinion, for the purpose of this report and on the basis of presentation set out in Note 1 of Section A below, all adjustments considered necessary have been made to the Financial Information which gives a true and fair view of the Group's combined results, combined changes in equity and combined cash flows for the Relevant Periods, and of the Group's combined state of affairs as at 31 December 2007 and 2008, and 31 March 2009.

**CORRESPONDING FINANCIAL INFORMATION**

For the purpose of this report, we have also reviewed the unaudited financial information of the Group comprising the combined statement of comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the three months ended 31 March 2008, together with notes thereon (the "March 2008 Financial Information"), for which the directors of the Company are responsible, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our responsibility is to express a conclusion on the March 2008 Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the March 2008 Financial Information.

Base on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the March 2008 Financial Information is not prepared, in all material aspects, in accordance with the same basis adopted in respect of the Financial Information.

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**(A) FINANCIAL INFORMATION**

**COMBINED STATEMENTS OF COMPREHENSIVE INCOME**

	<i>Notes</i>	<b>Year ended 31 December</b>		<b>Three months ended 31 March</b>	
		<b>2007</b>	<b>2008</b>	<b>2008</b>	<b>2009</b>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Turnover	7	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	9	25	56	9	24
Selling and distribution costs		(226)	(359)	(46)	(161)
Administrative expenses		(966)	(1,059)	(255)	(303)
Finance costs	10	<u>(27)</u>	<u>(78)</u>	<u>(17)</u>	<u>(60)</u>
Profit before tax	11	13,492	17,393	3,387	4,574
Income tax expense	12	<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	14	<u>0.036</u>	<u>0.047</u>	<u>0.009</u>	<u>0.012</u>

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**COMBINED STATEMENTS OF FINANCIAL POSITION**

	<i>Notes</i>	<b>As at 31 December 2007</b>	<b>2008</b>	<b>As at 31 March 2009</b>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>				
Property, plant and equipment	<i>16</i>	6,560	6,081	6,580
Prepaid lease payments	<i>17</i>	<u>2,079</u>	<u>2,035</u>	<u>2,023</u>
		<u>8,639</u>	<u>8,116</u>	<u>8,603</u>
<b>Current assets</b>				
Inventories	<i>18</i>	11,583	14,220	4,764
Trade and other receivables	<i>19</i>	11,134	21,591	30,130
Prepaid lease payments	<i>17</i>	44	44	44
Amounts due from related parties	<i>20</i>	1,015	1,045	50
Bank balances and cash	<i>21</i>	<u>307</u>	<u>3,911</u>	<u>4,046</u>
		<u>24,083</u>	<u>40,811</u>	<u>39,034</u>
<b>Current liabilities</b>				
Trade and other payables	<i>22</i>	9,036	12,480	5,797
Amounts due to controlling shareholders	<i>23</i>	5,343	–	–
Amount due to a related party	<i>20</i>	2,238	106	–
Secured bank borrowings	<i>24</i>	<u>–</u>	<u>1,922</u>	<u>2,847</u>
<b>Total current liabilities</b>		<u>16,617</u>	<u>14,508</u>	<u>8,644</u>
<b>Net current assets</b>		<u>7,466</u>	<u>26,303</u>	<u>30,390</u>
<b>Net assets</b>		<u>16,105</u>	<u>34,419</u>	<u>38,993</u>
<b>Capital and reserves</b>				
Share capital	<i>25</i>	23,215	24,135	24,135
Reserves		<u>(7,110)</u>	<u>10,284</u>	<u>14,858</u>
<b>Total equity</b>		<u>16,105</u>	<u>34,419</u>	<u>38,993</u>

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**COMBINED STATEMENTS OF CHANGES IN EQUITY**

	<b>Share capital</b> <i>RMB'000</i>	<b>Capital reserve</b> <i>RMB'000</i>	<b>Statutory reserves</b> <i>RMB'000</i> <i>(Note)</i>	<b>(Accumulated losses) retained earnings</b> <i>RMB'000</i>	<b>Total equity</b> <i>RMB'000</i>
At 1 January 2007	22,431	9	–	(20,611)	1,829
Capital injection	784	–	–	–	784
Total comprehensive income for the year	<u>–</u>	<u>–</u>	<u>–</u>	<u>13,492</u>	<u>13,492</u>
At 31 December 2007	23,215	9	–	(7,119)	16,105
Capital injection	920	1	–	–	921
Total comprehensive income for the year	–	–	–	17,393	17,393
Transfer	<u>–</u>	<u>–</u>	<u>1,027</u>	<u>(1,027)</u>	<u>–</u>
At 31 December 2008	24,135	10	1,027	9,247	34,419
Total comprehensive income for the period	<u>–</u>	<u>–</u>	<u>–</u>	<u>4,574</u>	<u>4,574</u>
At 31 March 2009	<u>24,135</u>	<u>10</u>	<u>1,027</u>	<u>13,821</u>	<u>38,993</u>
	<b>Share capital</b> <i>RMB'000</i>	<b>Capital reserve</b> <i>RMB'000</i>	<b>Statutory reserves</b> <i>RMB'000</i>	<b>Accumulated losses</b> <i>RMB'000</i>	<b>Total equity</b> <i>RMB'000</i>
(Unaudited)					
At 1 January 2008	23,215	9	–	(7,119)	16,105
Capital injection	87	–	–	–	87
Total comprehensive income for the period	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,387</u>	<u>3,387</u>
At 31 March 2008	<u>23,302</u>	<u>9</u>	<u>–</u>	<u>(3,732)</u>	<u>19,579</u>

*Note:* Statutory reserves were established in accordance with the relevant PRC rules and regulations for the companies comprising the Group which are incorporated in the PRC. Appropriations to the reserves were approved by the respective directors.

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**COMBINED STATEMENTS OF CASH FLOWS**

	<b>Year ended</b>		<b>Three months ended</b>	
	<b>31 December</b>		<b>31 March</b>	
	<b>2007</b>	<b>2008</b>	<b>2008</b>	<b>2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>			
<b>OPERATING ACTIVITIES</b>				
Profit before tax	13,492	17,393	3,387	4,574
Adjustments for:				
Amortization of prepaid lease payments	44	44	12	12
Depreciation on property, plant and equipment	479	479	120	130
Finance costs	27	78	17	60
Bank interest income	(25)	(56)	(9)	(24)
	<u>14,017</u>	<u>17,938</u>	<u>3,527</u>	<u>4,752</u>
<b>OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL</b>				
Decrease (increase) in inventories	972	(2,637)	(3,544)	9,456
Decrease (increase) in trade and other receivables	2,618	(10,457)	3,243	(8,539)
Increase (decrease) in trade and other payables	6,349	3,444	3,926	(6,683)
	<u>23,956</u>	<u>8,288</u>	<u>7,152</u>	<u>(1,014)</u>
<b>NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>				
<b>INVESTING ACTIVITIES</b>				
(Advances to) repayments from related parties	(70)	(30)	60	995
Interests received	25	56	9	24
Purchase of items of property, plant and equipment	—	—	—	(629)
	<u>(45)</u>	<u>26</u>	<u>69</u>	<u>390</u>
<b>NET CASH (USED IN) FROM INVESTING ACTIVITIES</b>				

**APPENDIX I**

**ACCOUNTANTS' REPORT**

	<b>Year ended</b>		<b>Three months ended</b>	
	<b>31 December</b>		<b>31 March</b>	
	<b>2007</b>	<b>2008</b>	<b>2008</b>	<b>2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>			
<b>FINANCING ACTIVITIES</b>				
Repayment to a related party	(17,224)	(2,132)	(2,132)	(106)
Repayments to controlling shareholders	(6,040)	(5,343)	–	–
Repayment of bank borrowings	(2,900)	(5,929)	–	(1,922)
Interest paid	(27)	(78)	(17)	(60)
New bank borrowings raised	1,700	7,851	2,000	2,847
Capital injections	784	921	87	–
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>	<u>(23,707)</u>	<u>(4,710)</u>	<u>(62)</u>	<u>759</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENT</b>	204	3,604	7,159	135
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/ PERIOD</b>	<u>103</u>	<u>307</u>	<u>307</u>	<u>3,911</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD, represented by bank balances and cash</b>	<u><u>307</u></u>	<u><u>3,911</u></u>	<u><u>7,466</u></u>	<u><u>4,046</u></u>

## APPENDIX I

## ACCOUNTANTS’ REPORT

### NOTES TO THE FINANCIAL INFORMATION

#### 1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Xiefeng Textile, Xiangyun Fiber, Wannianxing Textile, Cai’s International Holdings Limited (“Cai’s International”), Newshine International Limited (“Newshine”) and Sino Prosper (Asia) Limited (“Sino Prosper”) and the Company are ultimately controlled by Mr. Cai Shuiyong (蔡水泳) (“Mr. Cai SY”) and Mr. Cai Shuiping (蔡水平) (“Mr. Cai SP”) (the “ultimate shareholders”) and are primarily engaged in the manufacturing and wholesaling of apparels to domestic import and export companies and overseas trading companies (the “Apparel Business”) and investment holding during the Relevant Periods. Pursuant to the [●] as detailed in the section headed “Corporate [●]” in Appendix V to the [●], in preparation for the [●] of the shares of the Company on the [●] and for the purpose of rationalizing the Group’s structure, the Company acquired the entire equity interests in Xiefeng Textile, Xiangyun Fiber and Wannianxing Textile, through Newshine and Sino Prosper from Cai’s International in June 2009. As a result, the Apparel Business had been transferred to the Company and its subsidiaries following the [●].

As Mr. Cai SY and Mr. Cai SP ultimately controlled the Apparel Business before and after the [●] and, consequently there was a continuation of the risks and benefits to the ultimate shareholders, the Financial Information has been prepared using the merger basis of accounting as if the Group has always been in existence. The net assets of the combining companies are combined using the existing book values from the ultimate shareholders’ perspective.

The combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Group for the Relevant Periods include the results of operations of the companies now comprising the Group as if the current group structure had been in existence and remained unchanged throughout the entire periods referred to in this report, or since the dates of their incorporation where this is a shorter period. The combined statements of financial position of the Group as at 31 December 2007 and 2008, and 31 March 2009 have been prepared to present the state of affairs of the companies now comprising the Group as at the respective dates as if the current group structure had been in existence as at the respective dates. All material intra-group transactions and balances have been eliminated on combination.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of company	Date of incorporation/ establishment	Place of incorporation/ establishment	Equity interest attributable to the Group		Issued and fully paid share capital/ registered capital	Principal activities
			Direct	Indirect		
Newshine	19 June 2009	The British Virgin Islands (the “BVI”)	100%	–	USD1	Investment holding
Sino Prosper	27 May 2009	Hong Kong	–	100%	HK\$1	Investment holding
Xiefeng Textile <sup>#</sup>	21 December 2004	The PRC	–	100%	HK\$3,200,000	Manufacturing and wholesaling of apparels
Xiangyun Fiber <sup>#</sup>	26 May 2005	The PRC	–	100%	US\$1,300,000	Manufacturing and wholesaling of apparels
Wannianxing Textile <sup>#</sup>	13 May 2005	The PRC	–	100%	US\$1,300,000	Manufacturing and wholesaling of apparels



## APPENDIX I

## ACCOUNTANTS' REPORT

# These entities are wholly-foreign owned enterprise established in the PRC and have operating periods of 30 years.

The Financial Information is presented in Renminbi ("RMB"), which is the functional currency of the Group.

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the Financial Information of the Relevant Periods, the Group has consistently adopted all the revised HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations ("INT(s)") (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning on 1 January 2009.

The Group has not early applied the following new and revised standards, amendments or INTs that have been issued but are not yet effective as at the date of this report.

HKFRSs (Amendments)	Improvement of HKFRSs May 2008 <sup>1</sup>
HKFRSs (Amendments)	Improvement of HKFRSs April 2009 <sup>2</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>3</sup>
HKAS 39 (Amendment)	Eligible hedged item <sup>3</sup>
HKFRS 1 (Revised)	First-time Adoption of HKFRSs <sup>3</sup>
HKFRS 1 (Amendment)	First-time Adoption of HKFRSs <sup>4</sup>
HKFRS 2 (Amendment)	Share based Payment – Group cash-settled share-based Payment Transactions <sup>4</sup>
HKFRS 3 (Revised)	Business Combinations <sup>3</sup>
HK(IFRIC)-INT 9 & HKAS 39 (Amendments)	Embedded Derivatives <sup>5</sup>
HK(IFRIC)-INT 17	Distribution of Non-cash Assets to Owners <sup>3</sup>
HK(IFRIC)-INT 18	Transfers of Assets from Customers <sup>6</sup>

- <sup>1</sup> Amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.
- <sup>2</sup> Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
- <sup>3</sup> Effective for annual periods beginning on or after 1 July 2009.
- <sup>4</sup> Effective for annual periods beginning on or after 1 January 2010.
- <sup>5</sup> Effective for annual periods ending on or after 30 June 2009.
- <sup>6</sup> Effective for transfer of assets from customers received on or after 1 July 2009.

The directors of the Company anticipates that the adoption of new and revised standards, amendments and INTs will have no material impact on the results and the financial position of the Group.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. These accounting policies have been consistently applied throughout the Relevant Periods.

In addition, the Financial Information includes applicable disclosures required by the [●] on the [●] and by the Hong Kong Companies Ordinance.

#### Business combinations under common control

Business combinations under common control are accounted for using merger accounting. In applying merger accounting, the combined financial information incorporates the financial information of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

## **APPENDIX I**

## **ACCOUNTANTS' REPORT**

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognized in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined statements of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the combined financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

### **Property, plant and equipment**

Property, plant and equipment, including buildings held for use in the production or for administrative purposes are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimate residual value, using the straight-line method.

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 asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the combined statements of comprehensive income in the year/period in which the item is derecognized.

### **Prepaid lease payments**

Prepaid lease payments are up-front payments to acquire leasehold land interests. The prepaid lease payments are stated at cost less accumulated amortization and accumulated impairment losses, amortization is charged to the combined statements of comprehensive income over the period of the land use right using the straight-line method.

### **Impairment losses**

At the end of each reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

## **APPENDIX I**

## **ACCOUNTANTS' REPORT**

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

### **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant leases.

### **Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise. Exchange difference arising on the retranslation of non-monetary items at fair value are included in profit or loss for the period.

### **Borrowing costs**

All borrowing costs are recognized as and included in finance costs in the combined statements of comprehensive income in the period in which they are incurred.

### **Retirement benefit costs**

Payments to state-managed retirement benefit schemes are charged as an expense when employees have rendered services entitling them to the contributions.

### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit as reported in the combined statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of reporting period.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

## APPENDIX I

## ACCOUNTANTS' REPORT

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### **Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### **Related parties**

For the purposes of the Financial Information, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the group or a joint venture in which the group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group. Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

### **Financial instruments**

Financial assets and financial liabilities are recognized on the statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets are recognized immediately in profit or loss.

### ***Financial assets***

The Group's financial assets are classified as loans and receivables. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

## APPENDIX I

## ACCOUNTANTS' REPORT

### *Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period.

Interest income is recognized on an effective interest basis.

### *Loan and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related parties and bank balances and cash) are carried at amortized cost, using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

### *Impairment loss on financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period ranging from 90 to 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance

## **APPENDIX I**

## **ACCOUNTANTS' REPORT**

account are recognized in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

### ***Financial liabilities and equity***

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and as equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified as other financial liabilities.

### ***Effective interest method***

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

Interest expenses is recognized on an effective interest basis.

### ***Other financial liabilities***

Other financial liabilities including trade and other payables, amounts due to controlling shareholders and a related party and secured bank borrowings are subsequently measured at amortized cost, using the effective interest method.

### ***Equity instruments***

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### ***Derecognition***

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognised in profit or loss.

### ***Segment reporting***

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## APPENDIX I

## ACCOUNTANTS' REPORT

### 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### **Depreciation of property, plant and equipment**

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

#### **Estimated impairment loss recognized in respect of trade receivables**

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses.

#### **Estimated impairment of property, plant and equipment**

The management of the Group determines whether the property, plant and equipment is impaired at least on an annual basis. The impairment loss for property, plant and equipment are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue and discount rates. No impairment was provided during the Relevant Periods.

#### **Estimated impairment of inventories**

The management of the Group reviews an aging analysis at the end of each reporting periods, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale. The management estimates the net realisable value for finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting periods and makes allowance for obsolete items. No impairment was provided during the Relevant Periods.

### 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes secured bank borrowings disclosed in Note 24 and equity attributable to the owners of the parent, comprising issued share capital, reserves and retained earnings.

## APPENDIX I

## ACCOUNTANTS’ REPORT

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the raising of new debts or the repayment of existing debts. The Group’s overall strategy remains unchanged throughout the Relevant Periods.

### 6. FINANCIAL INSTRUMENTS

#### 6a. Categories of financial instruments

	As at 31 December		As at
	2007	2008	31 March
	RMB’000	RMB’000	2009
Loan and receivables (including cash and cash equivalents)	7,744	23,563	30,392
Financial liabilities at amortized cost	16,617	14,302	8,050

#### 6b. Financial risk management objectives and policies

The Group’s major financial instruments include trade and other receivables, amounts due from related parties, bank balances and cash, trade and other payables, amount(s) due to controlling shareholders and a related party, and secured bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

##### (i) Currency risk

Certain subsidiaries of the Company have foreign currency sales, which exposes the Group to foreign currency risk. The Group does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Certain trade receivables and bank borrowings of the Group are denominated in currencies other than RMB.

The following table shows the Group’s exposure at the end of each reporting periods to currency risk arising from transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	As at 31 December		As at
	2007	2008	31 March
	’000	’000	2009
<i>United States Dollar (“USD”)</i>			
Assets	293	1,118	1,407
Liabilities	–	282	417

The Group is mainly exposed to the currency of USD.

The following table details the Group’s sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates a decrease in profit



## APPENDIX I

## ACCOUNTANTS' REPORT

where RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the loss, and the balances below would be negative.

	As at 31 December		As at
	2007	2008	31 March
	RMB'000	RMB'000	2009
			RMB'000
Impact on profit for the year/period	<u>107</u>	<u>286</u>	<u>338</u>

(ii) *Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see Note 24 for details) for the year ended 31 December 2008 and three months ended 31 March 2009. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

The Group is also exposed to interest rate risk relates to bank balances carried at prevailing market rate. However, such exposure is minimal to the Group as the bank balances are all short-term in nature.

(iii) *Credit risk*

At the end of each of the reporting periods the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is the carrying amount of the respective recognized financial assets as stated in the combined statements of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivable at the end of each reporting periods to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

The Group has concentration of credit risk as 39%, 22% and 38% of the total trade receivables as at 31 December 2007 and 2008, and 31 March 2009 was due from the Group's largest trade receivable and 90%, 74% and 74% of the total trade receivables as at 31 December 2007 and 2008, and 31 March 2009 was due from the five largest trade receivables, respectively. In the opinion of directors of the Company, the risk is gradually reduced as the Group's customer base has been diversified and became less concentrated during the Relevant Periods.

The Group's concentration of credit risk by geographical location is mainly in the PRC, which accounted for 64%, 56% and 62% of the total trade receivables as at 31 December 2007 and 2008, and 31 March 2009, respectively.

The Group has no other significant concentration of credit risk, with exposure spreading over a number of counterparties.

## APPENDIX I

## ACCOUNTANTS’ REPORT

(iv) *Liquidity risk*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group’s operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of bank borrowings and other source of fundings and considers the risk is minimal.

The following table details the Group’s remaining contractual maturity for its financial liabilities. For non-derivative financial instruments, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group will be required to pay. The table includes both interest and principal cash flows.

Liquidity risk tables

	<b>Weighted average effective interest rate</b>	<b>Carrying amounts RMB’000</b>	<b>Total undiscounted cash flows and due within one year RMB’000</b>
As at 31 December 2007			
<b>Non-derivative financial liabilities</b>			
Trade and other payables	–	9,036	9,036
Amounts due to controlling shareholders	–	5,343	5,343
Amount due to a related party	–	2,238	2,238
		<u>16,617</u>	<u>16,617</u>
As at 31 December 2008			
<b>Non-derivative financial liabilities</b>			
Trade and other payables	–	12,274	12,274
Amount due to a related party	–	106	106
Secured bank borrowings	6.8%	1,922	1,932
		<u>14,302</u>	<u>14,312</u>
As at 31 March 2009			
<b>Non-derivative financial liabilities</b>			
Trade and other payables	–	5,203	5,203
Secured bank borrowings	6.8%	2,847	2,851
		<u>8,050</u>	<u>8,054</u>

**6c. Fair value**

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

## APPENDIX I

## ACCOUNTANTS' REPORT

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instrument.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate to their fair values due to their short-term maturities.

### 7. TURNOVER

Turnover represents the net amounts received and receivable for goods sold in the normal course of business, net of discounts and sales related taxes, for the Relevant Periods and the three months ended 31 March 2008.

### 8. SEGMENT INFORMATION

The Group's turnover and profit during the Relevant Periods and the three months ended 31 March 2008 were mainly derived from manufacturing and wholesaling of apparels. Accordingly, no segment analysis by business segment is provided for the Relevant Periods.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

	Year ended 31 December		Three months ended	
	2007	2008	31 March 2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
			<i>(Unaudited)</i>	
Turnover based on geographical locations				
Hong Kong	1,378	6,608	1,626	3,278
PRC (excluding Hong Kong)	104,735	128,371	27,112	30,196
Others	815	9,185	–	2,026
	<u>106,928</u>	<u>144,164</u>	<u>28,738</u>	<u>35,500</u>

An analysis of segment assets and capital expenditure by geographical area in which the assets are located has not been presented as the Group's assets are substantially located in the PRC.

### 9. OTHER OPERATING INCOME

	Year ended 31 December		Three months ended	
	2007	2008	31 March 2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
			<i>(Unaudited)</i>	
Bank interest income	<u>25</u>	<u>56</u>	<u>9</u>	<u>24</u>

## APPENDIX I

## ACCOUNTANTS' REPORT

### 10. FINANCE COSTS

	Year ended 31 December		Three months ended	
	2007	2008	31 March 2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
			(Unaudited)	
Interest on bank borrowings wholly repayable within one year	27	78	17	60

### 11. PROFIT BEFORE TAX

	Year ended 31 December		Three months ended	
	2007	2008	31 March 2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
			(Unaudited)	
Profit before tax has been arrived at after charging:				
Directors' emoluments ( <i>Note 13</i> )	60	63	15	16
Other staff costs	13,838	17,782	3,643	4,175
Retirement benefits scheme contributions, excluding directors	–	1,730	–	763
Total staff costs	13,898	19,575	3,658	4,954
Amortization of prepaid lease payments	44	44	12	12
Auditors' remuneration	8	9	–	–
Cost of inventories recognised	92,242	125,331	25,042	30,426
Depreciation of property, plant and equipment	479	479	120	130
Exchange loss	–	185	49	7
Operating lease rental paid in respect of rented premises	94	86	22	66

### 12. INCOME TAX EXPENSE

Hong Kong Profits Tax has not been provided for in the Financial Information as there were no assessable profits derived from Hong Kong during the Relevant Periods and the three months ended 31 March 2008.

Pursuant to the relevant laws and regulations in the PRC, Xiefeng Textile, Xiangyun Fiber and Wannianxing Textile (the "PRC subsidiaries") are exempted from PRC Enterprise Income Tax for two years starting from its first profit-making year, followed by a 50% reduction for the next three years (the "Tax exemptions"). The basic tax rate is 33%, 25% and 25% for each of the two years ended 31 December 2007 and 2008 and the three months ended 31 March 2009, respectively.

For the year ended 31 December 2007, no provision for PRC Enterprise Income Tax has been made in the Financial Information as the PRC subsidiaries had sufficient tax losses brought forward from previous years to offset the estimated assessable income for that year and accordingly did not have any assessable income.

## APPENDIX I

## ACCOUNTANTS' REPORT

For the year ended 31 December 2008 and the three months ended 31 March 2009, no provision for PRC Enterprise Income Tax has been made in the Financial Information as the PRC subsidiaries were exempted from PRC Enterprise Income Tax.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by order No.63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changed the tax rate from 33% to 25% for subsidiaries in the PRC from 1 January 2008. The PRC subsidiaries which are currently entitled to the Tax exemptions from 1 January 2008 would continue to enjoy such treatments until the Tax exemptions period expires, but not beyond 2012.

The income tax expense for the Relevant Periods and the three months ended 31 March 2008 can be reconciled to the profit before tax per the combined statements of comprehensive income as follows:

	Year ended 31 December		Three months ended 31 March	
	2007 RMB'000	2008 RMB'000	2008 RMB'000	2009 RMB'000
			<i>(Unaudited)</i>	
Profit before tax	<u>13,492</u>	<u>17,393</u>	<u>3,387</u>	<u>4,574</u>
PRC Enterprise Income Tax rate	33%	25%	25%	25%
Tax at the PRC Enterprise Income Tax rate	4,452	4,348	847	1,144
Tax effect of expenses not deductible for tax purpose	151	296	11	115
Tax effect of tax exemption granted to PRC subsidiaries	–	(3,377)	(193)	(1,259)
Utilization of tax losses previously not recognized	<u>(4,603)</u>	<u>(1,267)</u>	<u>(665)</u>	<u>–</u>
Income tax expense for the year/ period	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

At 31 December 2007 and 2008, and 31 March 2009, the Group had unused tax losses of approximately RMB5,068,000, Nil and Nil, respectively, available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The tax losses will expire after five years from the year of assessment to which they related to.

Under the New Law of PRC, withholding tax is imposed on dividends in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards (the "Post-2008 Earnings"). As at 31 December 2008, deferred taxation has not been provided for in the Financial Information in respect of temporary difference attributable to the "Post-2008 Earnings" as the Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## APPENDIX I

## ACCOUNTANTS' REPORT

### 13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

#### (a) Directors

Details of emoluments paid to the directors for the Relevant Periods and the three months ended 31 March 2008 are as follows:

Name	Fees RMB'000	Salaries, and other allowance RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2007				
Executive director:				
Mr. Cai SY	-	60	-	60
Mr. Cai SP	-	-	-	-
Independent Non-executive director:				
Mr. Lin Anqing (林安慶)	-	-	-	-
Ms. Lin Peifen (林佩芬)	-	-	-	-
Mr. Liu Jianlin (劉建林)	-	-	-	-
Total	-	60	-	60
For the year ended 31 December 2008				
Executive director:				
Mr. Cai SY	-	60	3	63
Mr. Cai SP	-	-	-	-
Independent Non-executive director:				
Mr. Lin Anqing (林安慶)	-	-	-	-
Ms. Lin Peifen (林佩芬)	-	-	-	-
Mr. Liu Jianlin (劉建林)	-	-	-	-
Total	-	60	3	63
For the three months ended 31 March 2008 (unaudited)				
Executive director:				
Mr. Cai SY	-	15	-	15
Mr. Cai SP	-	-	-	-
Independent Non-executive director:				
Mr. Lin Anqing (林安慶)	-	-	-	-
Ms. Lin Peifen (林佩芬)	-	-	-	-
Mr. Liu Jianlin (劉建林)	-	-	-	-
Total	-	15	-	15

## APPENDIX I

## ACCOUNTANTS' REPORT

Name	Fees RMB'000	Salaries, and other allowance RMB'000	Retirement	Total RMB'000
			benefit scheme contributions RMB'000	
For the three months ended 31 March 2009				
Executive director:				
Mr. Cai SY	–	15	1	16
Mr. Cai SP	–	–	–	–
Independent Non-executive director:				
Mr. Lin Anqing (林安慶)	–	–	–	–
Ms. Lin Peifen (林佩芬)	–	–	–	–
Mr. Liu Jianlin (劉建林)	–	–	–	–
Total	–	15	1	16

### (b) Employees

Details of emoluments of the five highest paid individuals of the Group for the Relevant Periods and the three months ended 31 March 2008 are set out below.

	Year ended 31 December		Three month ended 31 March	
	2007 RMB'000	2008 RMB'000	2008 RMB'000	2009 RMB'000
Salaries and other allowances	192	192	48	48
Retirement benefit scheme contributions	–	7	–	2
	<u>192</u>	<u>199</u>	<u>48</u>	<u>50</u>
Number of director	1	1	1	1
Number of other employees	4	4	4	4
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

*Note:* The emolument of each of the above employees is below RMB880,000 (approximately HK\$1,000,000).

During the Relevant Periods and the three months ended 31 March 2008, no emoluments were paid by the Group to any director or the five highest paid individuals (including director and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the director waived any emoluments during the Relevant Periods and the three months ended 31 March 2008.

## APPENDIX I

## ACCOUNTANTS' REPORT

### 14. EARNINGS PER SHARE

The calculation of basic earnings per share for the Relevant Periods and the three months ended 31 March 2008 is based on the profit attributable to owners of the parent for each of the Relevant Periods and the three months ended 31 March 2008 and on the basis of 370,000,000 shares of the Company in issue and issuable at the date of [●].

There was no dilutive earnings presented as there were no dilutive potential ordinary shares outstanding during the Relevant Periods and the three months ended 31 March 2008.

### 15. DIVIDEND

No dividends have been paid or declared by the Company since the date of its incorporation on 10 June 2009.

### 16. PROPERTY, PLANT AND EQUIPMENT

	<b>Buildings</b> <i>RMB'000</i>	<b>Machinery</b> <i>RMB'000</i>	<b>Office equipment, furniture and fixtures</b> <i>RMB'000</i>	<b>Leasehold improvement</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>COST</b>					
At 1 January 2007, 31 December 2007 and 31 December 2008	4,918	2,639	111	–	7,668
Additions	–	44	–	585	629
At 31 March 2009	4,918	2,683	111	585	8,297
<b>ACCUMULATED DEPRECIATION</b>					
At 1 January 2007 Provided for the year	239	383	7	–	629
At 31 December 2007 Provided for the year	222	237	20	–	479
At 31 December 2008 Provided for the period	461	620	27	–	1,108
At 31 December 2008 Provided for the period	222	237	20	–	479
At 31 December 2008 Provided for the period	683	857	47	–	1,587
At 31 December 2008 Provided for the period	56	60	5	9	130
At 31 March 2009	739	917	52	9	1,717
<b>CARRYING VALUES</b>					
At 31 December 2007	4,457	2,019	84	–	6,560
At 31 December 2008	4,235	1,782	64	–	6,081
At 31 March 2009	4,179	1,766	59	576	6,580



## APPENDIX I

## ACCOUNTANTS' REPORT

All the buildings of the Group are situated on land with medium-term land use rights in the PRC.

The above items of property, plant and equipment are depreciated on a straight-line basis. The estimated useful lives of the property, plant and equipment 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

### 17. PREPAID LEASE PAYMENTS

	As at 31 December		As at 31 March
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
The Group's prepaid lease payments comprise:			
Leasehold land in the PRC under medium-term lease	2,123	2,079	2,067
	<u>2,123</u>	<u>2,079</u>	<u>2,067</u>
Analysed for reporting purposes as:			
Current asset	44	44	44
Non-current asset	2,079	2,035	2,023
	<u>2,123</u>	<u>2,079</u>	<u>2,067</u>

The prepaid lease payments are amortized over the lease term of 50 years.

### 18. INVENTORIES

	As at 31 December		As at 31 March
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Raw materials	1,600	94	909
Work-in-progress	5,685	10,995	876
Finished goods	4,298	3,131	2,979
	<u>11,583</u>	<u>14,220</u>	<u>4,764</u>

### 19. TRADE AND OTHER RECEIVABLES

	As at 31 December		As at 31 March
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Trade receivables	6,169	17,249	25,519
Prepayments and deposits (Note a)	1,477	1,085	3,206
Other receivables (Note b)	3,488	3,257	1,405
	<u>11,134</u>	<u>21,591</u>	<u>30,130</u>

## APPENDIX I

## ACCOUNTANTS' REPORT

*Notes:*

- a. As at 31 December 2007 and 2008, and 31 March 2009, included in prepayments and deposits are rental deposit paid and prepaid rentals and certain expenses amounting to approximately Nil, RMB832,000 and RMB359,000, respectively paid to a related party, Jiangxi Hongfeng Textile Company Limited (江西泓峰紡織有限公司) ("Hongfeng Textile"), a company in which Mr. Cai SY and Mr. Cai SP have beneficial interests.
- b. As at 31 December 2007 and 2008, and 31 March 2009, included in other receivables of approximately RMB150,000, RMB410,000 and RMB410,000, respectively are staff advance made to Mr. Cai Jiabo (蔡家搏), who is the son of Mr. Cai SP. The amount has been fully settled as at the date of this report.

The Group generally allows an average credit period of 90 to 180 days to its trade customers, where payment in advance is normally required.

The aged analysis of the Group's trade receivables is as follows:

	As at 31 December		As at
	2007	2008	31 March 2009
	RMB'000	RMB'000	RMB'000
0 – 90 days	5,613	15,650	22,045
91 – 180 days	518	775	3,409
181 – 365 days	38	780	65
Over 365 days	–	44	–
Total	<u>6,169</u>	<u>17,249</u>	<u>25,519</u>

No impairment loss is provided for the trade receivables that are neither past due nor impaired because these receivables are within credit period granted to the respective customer and the management considers the default rate is low for such receivables based on historical information and past experience.

In determining the recoverability of a trade receivable, the Group considers any change in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. In view of the good settlement history and substantial settlement from those receivables of the Group which are past due but not impaired for the Relevant Periods, the directors of the Company consider that no allowance is required.

Ageing of trade receivables which are past due but not impaired:

	Total	Neither past due nor impaired	Past due but not impaired		
			<90 days	91 – 180 days	181 – 365 days
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2007	6,169	6,131	–	38	–
2008	17,249	16,417	651	137	44
2009	<u>25,519</u>	<u>24,351</u>	<u>1,103</u>	<u>65</u>	<u>–</u>

The Group does not hold any collateral over these balances.

## APPENDIX I

## ACCOUNTANTS’ REPORT

The above Group’s trade receivables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	As at 31 December		As at 31
	2007	2008	March
	'000	'000	2009
USD	293	1,118	1,407

### 20. AMOUNTS DUE FROM (TO) RELATED PARTIES

	As at 31 December		As at
	2007	2008	31 March
	RMB'000	RMB'000	2009
<b>Amounts due from related parties</b>			
Non-trading in nature			
Ms. Cai Shuyan (蔡淑燕) (Note a)	20	50	50
Jiangxi Jianfa Real Estate Development Co., Ltd. (江西建發房地產開發有限公司) (“Jianfa Real Estate”) (Note b)	995	995	–
Total amounts due from related parties	<u>1,015</u>	<u>1,045</u>	<u>50</u>
Maximum amount outstandings during the year/ period			
Ms. Cai Shuyan (蔡淑燕)	20	50	50
Jianfa Real Estate	995	995	995

The amounts are unsecured, non-interest bearing and are repayable on demand. The amounts due from related parties were fully settled as at the date of this report.

	As at 31 December		As at
	2007	2008	31 March
	RMB'000	RMB'000	2009
<b>Amount due to a related party</b>			
Non-trading in nature			
Mr. Tsoi Kam On (蔡金鉸) (Note c)	2,238	106	–

The amount due to a related party is unsecured, non-interest bearing and was fully settled during the Relevant Periods.

*Notes:*

- Ms. Cai Shuyan (蔡淑燕) is the spouse of Mr. Cai SY.
- Mr. Cai SY and Mr. Cai SP have beneficial interests in Jianfa Real Estate.
- Mr. Tsoi Kam On (蔡金鉸) is the brother of Mr. Cai SY.

## APPENDIX I

## ACCOUNTANTS’ REPORT

### 21. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less.

Conversion of RMB into foreign currencies is subject to the PRC’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

The bank balances and bank deposits carry average interest rate of 0.72%, 0.69% and 0.36% per annum for each of the two years ended 31 December 2007 and 2008, and the three months period ended 31 March 2009, respectively.

### 22. TRADE AND OTHER PAYABLES

The aged analysis of the Group’s trade payables is as follows:

	As at 31 December		As at
	2007	2008	31 March
	RMB’000	RMB’000	2009
			RMB’000
0 – 30 days	6,689	5,570	2,008
31 – 90 days	136	3,493	492
91 – 180 days	–	–	190
Over 180 days	676	676	676
	<u>7,501</u>	<u>9,739</u>	<u>3,366</u>
Other payables	1,430	2,623	2,314
Accruals	105	118	117
	<u>9,036</u>	<u>12,480</u>	<u>5,797</u>

### 23. AMOUNTS DUE TO CONTROLLING SHAREHOLDERS

The payables arose from temporary fund transfers, which are non-trade in nature.

The amounts are unsecured, non-interest bearing and were fully settled during the Relevant Periods.

### 24. SECURED BANK BORROWINGS

	As at 31 December		As at
	2007	2008	31 March
	RMB’000	RMB’000	2009
			RMB’000
Bank borrowings due within one year	–	1,922	2,847
	<u>–</u>	<u>1,922</u>	<u>2,847</u>

The bank borrowings carry fixed interest rates of Nil, 6.8% and 6.8% per annum for each of the two years ended 31 December 2007 and 2008, and the three months period ended 31 March 2009, respectively.

At 31 December 2008 and 31 March 2009, the bank borrowings are secured by:

- certain assets of the Group as set out in Note 28;
- land and buildings owned by an independent third parties, Wannian County Meiling Apparel and Knitting Co. Ltd. (萬年縣美嶺服飾織造有限公司) (“Meiling”), a company wholly-owned by one of the Group’s customers (“Secured Land and Buildings”); and
- guaranteed by Mr. Cai SY and Mr. Cai SP.

## APPENDIX I

## ACCOUNTANTS' REPORT

The directors of the Company are of the opinion that no consideration paid or payable to Meiling for the provision of the above security to the Group and the Group did not provide any cross guarantee to Meiling during the Relevant Periods.

In addition, at 31 December 2008, the bank borrowings were also secured by personal guarantee provided by Mr. Cai Jiabo (蔡家搏).

The guaranteed provided by Mr. Cai SY, Mr. Cai SP and Mr. Cai Jiabo (蔡家搏) and the Secured Land and Buildings will be released upon the [●] of the Company's share on the [●].

The above Group's bank borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	As at 31 December		As at
	2007	2008	31 March
	'000	'000	2009
			'000
USD	–	282	417

### 25. SHARE CAPITAL

As the Company was not yet incorporated prior to 31 March 2009 and the [●] was not completed as at 31 March 2009, the share capital in the combined statements of financial position as at 31 December 2007 and 2008, and 31 March 2009 represented the combined capital of the companies now comprising the Group in which the owners of the parent held direct interests.

### 26. RETIREMENT BENEFIT SCHEME

The Group's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participates in social insurance schemes operated by the relevant local government authorities. The insurance premium is borne by the Group on a specified proportion of the employee's salaries laid down under relevant PRC laws.

During the Relevant Periods and the three months ended 31 March 2008, the total amounts contributed by the Group to the schemes and cost charged to the combined statements of comprehensive income represent contribution paid or payable to the scheme by the Group at rates or amount specified in the rules of the schemes.

The Group has no significant obligation apart from the contribution as above as at the end of each reporting periods.

### 27. OPERATING LEASE COMMITMENTS

The Group's leases certain of its office premises and production plants under operating lease arrangements with leases negotiated for an average term of 2 to 3 years and rentals are fixed.

At the end of each reporting periods, the Group had the followings future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December		As at
	2007	2008	31 March
	RMB'000	RMB'000	2009
			RMB'000
Within one year	78	172	219
In the second to fifth year inclusive	24	288	302
	102	460	521

## APPENDIX I

## ACCOUNTANTS' REPORT

As at 31 December 2008 and 31 March 2009, included in the above are commitments under non-cancellable operating leases of approximately RMB432,000 and RMB396,000, respectively which expire in 2011 payable to Hongfeng Textile and approximately Nil and RMB84,000, respectively which expire in 2012 payable to Mr. Tsoi Kam On (蔡金鉸), respectively.

### 28. PLEDGED OF ASSETS

The Group had pledged certain of its buildings, prepaid lease payments and machinery to secure banking facilities granted to the Group at the end of each reporting periods. The carrying values of the assets pledged are as follows:

	As at 31 December		As at
	2007	2008	31 March
	RMB'000	RMB'000	2009
Buildings	–	3,456	4,179
Prepaid lease payments	–	2,079	2,067
Machinery	–	1,252	1,199
	–	6,787	7,445

### 29. RELATED PARTY TRANSACTIONS

- (a) Except as disclosed elsewhere in the Financial Information, the Group entered into the following significant related party transactions during the Relevant Periods and the three months ended 31 March 2008:

	Year ended 31 December		Three months ended	
	2007	2008	31 March	
	RMB'000	RMB'000	2008	2009
			<i>(Unaudited)</i>	
Hongfeng Textile				
– rental expense paid	–	–	–	36
Mr. Tsoi Kam On				
– rental expense paid	47	47	12	12

In the opinion of the directors of the Company, the above transactions were conducted on normal commercial terms and in the ordinary course of business. The directors of the Company have confirmed that the above transactions will continue in the future after the [●] of the Company's shares on the [●].

- (b) The directors of the Company considered that the directors and the five highest paid individuals are the key management of the Group where emoluments have been disclosed in Note 13. The directors of the Company have confirmed that the above transactions will continue in the future after the [●] of the Company's shares on the [●].

## APPENDIX I

## ACCOUNTANTS’ REPORT

### C. SUBSEQUENT EVENTS

The following significant transaction took place subsequent to 31 March 2009:

(a) [●]

The Company was incorporated on 10 June 2009 and the companies comprising the Group underwent a [●] to rationalize the Group’s structure in preparation for the [●] of the Company’s shares on the GEM of the [●] in [Date]. Details of the [●] are set out in the section headed “Corporate [●]” in Appendix V to the [●]. As a result of the [●], the Company became the holding company of the Group on 2009.

(b) **Subsequent bank borrowing**

In May 2009, the Group borrowed a bank borrowing of RMB2,000,000. The borrowing was secured by buildings of Hongfeng Textile. It is the intention of the Directors of the Company will fully repay the loan upon the [●] of the Company’s share on the [●] by utilizing internal resources and such pledged buildings will be released at that time.

(c) **Valuation of properties and prepaid lease payments**

For the purpose of the [●] of the Company’s shares on the GEM of the [●], the properties and prepaid lease payments of the Group were revalued as at 30 June 2009 by [●], an independent property valuer.

The valuation gave rise to a revaluation surplus of approximately RMB 1,856,000 from the carrying amount of the relevant assets at that date. According to the Group’s accounting policy, the revaluation surplus will not be recorded in the Group’s Financial Information. If the revaluation surplus were to be included in the Group’s Financial Information, additional depreciation and amortization charge would be approximately RMB45,000 per annum. Details of the valuation are set out in the independent property valuers’ certificate in Appendix III to the [●].

### D. DIRECTORS’ REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable by the Company to the Company’s directors in respect of the Relevant Periods.

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**APPENDIX I**

**ACCOUNTANTS' REPORT**

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**E. SUBSEQUENT FINANCIAL STATEMENT**

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31 March 2009.

Yours faithfully,  
**SHINEWING (HK) CPA Limited**  
*Certified Public Accountants*  
**Lo Wa Kei**  
Practising Certificate Number: P03427

Hong Kong



## APPENDIX III

## PROPERTY VALUATION

[●] 2009

The Board of Directors  
Jiangchen International Holdings Limited  
Clifton House  
75 Fort Street  
PO Box 1350  
Grand Cayman, KY1-1108  
Cayman Islands

Dear Sirs,

In accordance with your instructions to value the properties in which Jiangchen International Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 30 June 2009 (the "date of valuation").

Our valuation of the property interests represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

We have valued the property interests in Group I by depreciated replacement cost approach. Where, due to the nature of the buildings and structures of the property interests in Group I and the particular locations in which they are situated, there are unlikely to be relevant market comparable sales readily available. The property interests have therefore been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimization". It is based on an estimate of the market value for the existing use of the land, plus the current cost or replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

We have attributed no commercial value to the property interests in Group II, which is leased by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

## APPENDIX III

## PROPERTY VALUATION

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 8 of the Rules Governing the [●] of Securities on the Growth Enterprise Market issued by The [●] of Hong Kong Limited; the RICS Valuation Standards (6th Edition) published by the Royal Institution of Surveyors; and the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates and Building Ownership Certificates relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers – SHU JIN LAW FIRM, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

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**APPENDIX III**

**PROPERTY VALUATION**

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Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,  
for and on behalf of

[●]

**Paul L. Brown**

*B.Sc. FRICS FHKIS*

*Director*

*Note:* Paul L. Brown is a Chartered Surveyor who has 26 years' experience in the valuation of properties in the PRC and 29 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

**APPENDIX III**

**PROPERTY VALUATION**

**SUMMARY OF VALUES**

**Group I – Property interests owned and occupied by the Group in the PRC**

No.	Property	Capital value in existing state as at 30 June 2009 <i>RMB</i>	Interest attributable to the Group	Capital value attributable to the Group as at 30 June 2009 <i>RMB</i>
1.	2 parcels of land, various buildings and structures located at Zhen Nan Guan and Chang Feng Ling, Shi Zhen Wan Nian County Jiangxi Province The PRC	3,650,000	100%	3,650,000
2.	A parcel of land, various buildings and structures located at Qing Yun Road Qing Yun Town Wan Nian County Jiangxi Province The PRC	2,980,000	100%	2,980,000
3.	A parcel of land, various buildings and structures located at Zhai Shan Hu Yun Village Wan Nian County Jiangxi Province The PRC	1,404,000	100%	1,404,000
			<b>Sub-total:</b>	<u><u>8,034,000</u></u>

**APPENDIX III**

**PROPERTY VALUATION**

**Group II – Property interests rented and occupied by the Group in the PRC**

No.	Property	Capital value in existing state as at 30 June 2009 <i>RMB</i>	Interest attributable to the Group	Capital value attributable to the Group as at 30 June 2009 <i>RMB</i>
4.	Two buildings located at Feng Shou Industrial Park Wan Nian County Jiangxi Province The PRC	No commercial value	100%	No commercial value
5.	Level 4, No. 20 Zheng Da Street Wan Nian County Jiangxi Province The PRC	No commercial value	100%	No commercial value
6.	Unit B1-2-34 Tian Yuan Xing Guang Liu Ling South Road Chen Ying Town Wan Nian County Jiangxi Province The PRC	No commercial value	100%	No commercial value
7.	Level 2, Western Portion of Industrial Building No. 4 Cheng Zhou Industrial Area Feng Ze District Quan Zhou City Fujian Province The PRC	No commercial value	100%	No commercial value
			<b>Sub-total:</b>	<u><u>Nil</u></u>
			<b>Total:</b>	<u><u>8,034,000</u></u>

## APPENDIX III

## PROPERTY VALUATION

### VALUATION CERTIFICATE

#### Group I – Property interests owned and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2009 RMB
1.	2 parcels of land, various buildings and structures located at Zhen Nan Guan and Chang Feng Ling, Shi Zhen Wan Nian County Jiangxi Province The PRC	<p>The property comprises 2 parcels of land with total site area of approximately 19,998 sq.m. and 13 buildings erected thereon which were completed in 1980's.</p> <p>The buildings have a total gross floor area of approximately 4,575.96 sq.m.</p> <p>The buildings mainly include industrial buildings, ancillary office buildings, staff quarters and stores, etc.</p> <p>The structures mainly include boundary fences, roads and gates, etc.</p> <p>The land use rights of the property have been granted for various terms with the expiry dates on 22 January 2055 and 24 November 2055 respectively for industrial uses.</p>	The property is currently occupied by the Group for production, office and storage purposes.	<p>3,650,000</p> <p>100% interest attributable to the Group: RMB3,650,000 (see note 3 for date and cost of acquisition)</p>

#### Notes:

- Pursuant to 2 State-owned Land Use Rights Certificates – Wan Guo Yong (2005) Di No. 0411-23 and Wan Guo Yong (2005) Di No. 0411-36, the land use rights with a total site area of approximately 19,998 sq.m. have been granted to Jiangxi Province Wan Nian Xing Textiles and Dress Co., Ltd. (江西省萬年興紡織服裝有限公司) for various terms with the expiry dates on 22 January 2055 and 24 November 2055 respectively for industrial uses.
- Pursuant to 13 Building Ownership Certificates – Wan Fang Quan Zheng Shi Zhen Zi Di Nos. 16-C0216, 16-C0217, 16-C0218, 16-C0219, 16-C0222, 16-C0215, 16-C0220, 16-C0221, 16-C0223, 16-C0224, 16-C0225, 16-C0226 and 16-C0227, the buildings with a total gross floor area of approximately 4,575.96 sq.m. are owned by Jiangxi Province Wan Nian Xing Textiles and Dress Co., Ltd. (江西省萬年興紡織服裝有限公司) for industrial uses.
- Pursuant to an Agreement dated 20 May 2005 between the People's Government of Shi Zhen Wan Nian County Jiangxi Province (Party A) and Jiangxi Province Wan Nian Xing Textiles and Dress Co., Ltd. (江西省萬年興紡織服裝有限公司) (Party B), Party B acquired the property from Party A for a consideration RMB 3,319,049.7 for industrial uses.
- Jiangxi Province Wan Nian Xing Textiles and Dress Co., Ltd. (江西省萬年興紡織服裝有限公司) is an indirect wholly-owned subsidiary of the Company.

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## APPENDIX III

## PROPERTY VALUATION

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5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
  - a. Jiangxi Province Wan Nian Xing Textiles and Dress Co., Ltd. (江西省萬年興紡織服裝有限公司) is the sole owner of the property with legal and valid property right; and
  - b. The property has been collateralized to Bank of China, Wannian Branch for the period of 17 February 2009 to 15 January 2010.

## APPENDIX III

## PROPERTY VALUATION

### VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2009 RMB
2.	A parcel of land, various buildings and structures located at Qing Yun Road Qing Yun Town Wan Nian County Jiangxi Province The PRC	<p>The property comprises a parcel of land with site area of approximately 7,675.70 sq.m. and 11 buildings erected thereon which were completed in 2000's.</p> <p>The buildings have a total gross floor area of approximately 3,908.63 sq.m.</p> <p>The buildings mainly include industrial buildings, ancillary office buildings, staff quarters and stores, etc.</p> <p>The structures mainly include boundary fences, roads and gates, etc.</p> <p>The land use rights of the property have been granted for a term with the expiry date on 24 November 2055 for industrial uses.</p>	The property is currently occupied by the Group for production, office and storage purposes.	<p>2,980,000</p> <p>100% interest attributable to the Group: RMB2,980,000 (see note 3 for date and cost of acquisition)</p>

*Notes:*

- Pursuant to a State-owned Land Use Rights Certificate – Wan Guo Yong (2005) Di No. 0511-21, the land use rights with a site area of approximately 7,675.70 sq.m. has been granted to Wan Nian County Xiang Yun Fibers and Fabrics Co., Ltd. (萬年縣祥雲纖維紡織有限公司) for a term with the expiry date on 24 November 2055 for industrial uses.
- Pursuant to 11 Building Ownership Certificates – Wan Fang Quan Zheng Qing Yun Zi Di Nos. 11-C0267, 11-C0269 to 11-C0278 the buildings with a total gross floor area of approximately 3,908.63 sq.m. are owned by Wan Nian County Xiang Yun Fibers and Fabrics Co., Ltd. (萬年縣祥雲纖維紡織有限公司) for industrial uses.
- Pursuant to an Agreement dated 30 May 2005 between the People's Government of Qing Yun Town Wan Nian County Jiangxi Province (Party A) and Wan Nian County Xiang Yun Fibers and Fabrics Co., Ltd. (萬年縣祥雲纖維紡織有限公司) (Party B), Party B acquired the property from Party A for a consideration RMB 2,414,859.7 for industrial uses.
- Wan Nian County Xiang Yun Fibers and Fabrics Co., Ltd. (萬年縣祥雲纖維紡織有限公司) is an indirect wholly-owned subsidiary of the Company.



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## APPENDIX III

## PROPERTY VALUATION

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5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
  - a. Wan Nian County Xiang Yun Fibers and Fabrics Co., Ltd. (萬年縣祥雲纖維紡織有限公司) is the sole owner of the property with legal and valid property right; and
  - b. The property has been collateralized to Bank of China, Wannian Branch for the period of 17 February 2009 to 15 January 2010.

**APPENDIX III**

**PROPERTY VALUATION**

**VALUATION CERTIFICATE**

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2009 RMB
3.	A parcel of land, various buildings and structures located at Zhai Shan Hu Yun Village Wan Nian County Jiangxi Province The PRC	<p>The property comprises a parcel of land with site area of approximately 8,459 sq.m. and 8 buildings erected thereon which were completed in 1980's.</p> <p>The buildings have a total gross floor area of approximately 2,154.60 sq.m.</p> <p>The buildings mainly include industrial buildings, ancillary office buildings, staff quarters and stores, etc.</p> <p>The structures mainly include boundary fences, roads and gates, etc.</p> <p>The land use rights of the property have been granted for a term with expiry date on 21 November 2055 for industrial uses.</p>	The property is currently vacant.	<p>1,404,000</p> <p>100% interest attributable to the Group: RMB1,404,000 (see note 3 for date and cost of acquisition)</p>

*Notes:*

1. Pursuant to a State-owned Land Use Rights Certificate – Wan Guo Yong (2005) Di No. 0931-29, the land use rights with a site area of approximately 8,459.00 sq.m. has been granted to Wannianxian Xiefeng Textiles and Garments Co., Ltd. (萬年縣協豐紡織服飾有限公司) for a term with the expiry dates on 21 November 2055 for industrial uses.
2. Pursuant to 8 Building Ownership Certificates – Wan Fang Quan Zheng Hu Yun Zi Di Nos. 19-C0128 to 19-C0135, the buildings with a total gross floor area of approximately 2,154.6 sq.m. are owned by Wannianxian Xiefeng Textiles and Garments Co., Ltd. (萬年縣協豐紡織服飾有限公司) for industrial uses.
3. Pursuant to an Agreement dated 28 January 2005 between the People's Government of Hu Yun Village Wan Nian County Jiangxi Province (Party A) and Wannianxian Xiefeng Textiles and Garments Co., Ltd. (萬年縣協豐紡織服飾有限公司) (Party B), Party B acquired the property from Party A for a consideration RMB 1,399,781.03 for industrial uses.
4. As advised by the Company, the property has been planned to carry an improvement construction works of the existing buildings and structures in the second half of year 2010.
5. Wannianxian Xiefeng Textiles and Garments Co., Ltd. (萬年縣協豐紡織服飾有限公司) is an indirect wholly-owned subsidiary of the Company.

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## APPENDIX III

## PROPERTY VALUATION

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6. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
  - a. Wannianxian Xiefeng Textiles and Garments Co., Ltd. (萬年縣協豐紡織服飾有限公司) is the sole owner of the property with legal and valid property right; and
  - b. The property has been collateralized to Bank of China, Wannian Branch for the period of 17 February 2009 to 15 January 2010.

## APPENDIX III

## PROPERTY VALUATION

### VALUATION CERTIFICATE

#### Group II – Property interests rented and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2009 RMB
4.	Two buildings located at Feng Shou Industrial Park Wan Nian County Jiangxi Province The PRC	<p>The property comprises 2 industrial buildings completed in 1980's.</p> <p>The buildings have a total lettable area of approximately 3,828.77 sq.m.</p> <p>The Property is leased to Wannianxian Xiefeng Textiles and Garments Co., Ltd. (萬年縣協豐紡織服飾有限公司) from a connected party for a term of 3 years expiring on 31 December 2011 at an annual rent of RMB144,000 exclusive of management fees (if any), water and electricity charges.</p>	The property is currently occupied by the Group for production, office and storage purposes.	No commercial value

*Notes:*

1. Pursuant to a Tenancy Agreement and Supplementary Tenancy Agreement, the property is leased to Wannianxian Xiefeng Textiles and Garments Co., Ltd. (萬年縣協豐紡織服飾有限公司) from Jiangxi Hongfeng Textile Company Limited (江西泓峰紡織有限公司), a connected party, for a term of 3 years expiring on 31 December 2011 at an annual rent of RMB144,000 exclusive of management fees (if any), water and electricity charges with the pre-emption right to renew the tenancy agreement.
2. Pursuant to the supplementary Tenancy Agreement date 26 June 2009, Wannianxian Xiefeng Textiles and Garments Co., Ltd. (萬年縣協豐紡織服飾有限公司) has the pre-emption right to renew the tenancy agreement subject to prevailing rental agreement after the expiration of the existing tenancy agreement.
3. Jiangxi Hongfeng Textile Company Limited has been granted a "Certificate of Real Estate for Leasing" – (Wan Fang Zu Zheng (02) Zi (2009) Nian Di No. 02), effective date from 1 January 2009 to 1 January 2010 by Jiangxi Province Wan Nian County Land and Building Exchange Centre on 11 May 2009.
4. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
  - a. The Tenancy Agreement is legal, valid and binding on both signing parties.

## APPENDIX III

## PROPERTY VALUATION

### VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2009 RMB
5.	Level 4, No. 20 Zheng Da Street Wan Nian County Jiangxi Province The PRC	<p>The property comprises a whole of level 4 of a 10-storey office building completed in 2005.</p> <p>The property has a lettable area of approximately 220 sq.m.</p> <p>The Property is leased to Wannianxian Xiefeng Textiles (萬年縣協豐紡織服飾有限公司) and Garments Co., Ltd. from an independent party for a term of 3 years expiring on 31 December 2009 at an annual rent of RMB24,000 exclusive of management fees, gas, water and electricity charges.</p>	<p>The property is currently occupied by the Group for office purpose.</p>	No commercial value

*Notes:*

1. Pursuant to a Tenancy Agreement, the property is leased to Wannianxian Xiefeng Textiles and Garments Co., Ltd. (萬年縣協豐紡織服飾有限公司) from China Construction Bank Wan Nian Branch, independent third party, for a term of 3 years expiring on 31 December 2009 at an annual rent of RMB24,000 exclusive of management fees, gas, water and electricity charges.
2. China Construction Bank Wan Nian Branch has been granted a "Certificate of Real Estate for Leasing" (Wan Fang Zu Zheng (01) Zi (2009) Nian Di No. 01), effective date from 1 January 2009 to 1 January 2010 by Jiangxi Province Wan Nian County Land and Building Exchange Centre on 11 May 2009.
3. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
  - a. The Tenancy Agreement is legal, valid and binding on both signing parties.

## APPENDIX III

## PROPERTY VALUATION

### VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2009 RMB
6.	Unit B1-2-34 Tian Yuan Xing Guang Liu Ling South Road Chen Ying Town Wan Nian County Jiangxi Province The PRC	<p>The property comprises a shop unit on level 2 of a multi-storey shopping centre building completed in 2004.</p> <p>The property has a lettable area of approximately 44.16 sq.m.</p> <p>The Property is leased to Wannianxian Xiefeng Textiles and Garments Co., Ltd. (萬年縣協豐紡織服飾有限公司) from an independent third party for a term of 1 year expiring on 1 March 2010 at an annual rent of RMB24,000 exclusive of management fees, water and electricity charges.</p>	The property is currently occupied by the Group for retail purpose.	No commercial value

*Notes:*

1. Pursuant to a Tenancy Agreement, the property is leased to Wannianxian Xiefeng Textiles and Garments Co., Ltd. (萬年縣協豐紡織服飾有限公司) from Yu Feng Jiao (余鳳嬌), independent third party, for a term of 1 year expiring on 1 March 2010 at an annual rent of RMB24,000 exclusive of management fees, water and electricity charges with pre-emption right to renew the tenancy agreement. Also, it has a right of subletting the property subject to prior consent from the Landlord.
2. Yu Feng Jiao (余鳳嬌) has been granted a "Certificate of Real Estate for Leasing" (Wan Fang Zu Zheng (03) Zi (2009) Nian Di No. 03), effective date from 1 January 2009 to 1 January 2010 by Jiangxi Province Wan Nian County Land and Building Exchange Centre on 14 May 2009.
3. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
  - a. The Tenancy Agreement is legal, valid and binding on both signing parties.

## APPENDIX III

## PROPERTY VALUATION

### VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2009 RMB
7.	Level 2, Western Portion of Industrial Building No. 4 Cheng Zhou Industrial Area Feng Ze District Quan Zhou City Fujian Province The PRC	<p>The property comprises the level 2 of a 6-storey industrial building completed in 2004.</p> <p>The property has a lettable area of approximately 600 sq.m.</p> <p>The Property is leased to Wannianxian Xiefeng Textiles and Garments Co., Ltd. (萬年縣協豐紡織服飾有限公司) from a connected party for a term of 3 years expiring on 14 March 2012 at a monthly rent of RMB2,400 exclusive of all out going charges.</p>	<p>The property is currently occupied by the Group for showroom and ancillary office purposes.</p>	No commercial value

*Notes:*

1. Pursuant to a Tenancy Agreement and Supplementary Tenancy Agreement, the property is leased to Wannianxian Xiefeng Textiles and Garments Co., Ltd. (萬年縣協豐紡織服飾有限公司) from Mr. Tsoi Kam On, a connected party, for a term of 3 years expiring on 14 March 2012 at a monthly rent of RMB2,400 exclusive all out going charges with the pre-emption right to renew the tenancy agreement.
2. The Tenancy Agreement has been registered, effective date from 1 January 2009 to 31 December 2009, and granted by Bureau of Real Estate Management, Quan Zhou on 11 May 2009.
3. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
  - a. The Tenancy Agreement is legal, valid and binding on both signing parties.

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## **APPENDIX IV** **SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW**

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Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 10 June 2009 under the Cayman Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the "Memorandum") and the Amended and Restated Articles of Association (the "Articles").

### **1. MEMORANDUM OF ASSOCIATION**

- (a) The Memorandum provides, inter alia, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and since the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified therein.

### **2. ARTICLES OF ASSOCIATION**

The Articles were adopted on [●] 2009. The following is a summary of certain provisions of the Articles:

#### **(a) Shares**

##### *(i) Classes of shares*

The share capital of the Company consists of ordinary shares.

##### *(ii) Share certificates*

Every person whose name is entered as a member in the register of members shall be entitled without payment to receive a certificate for his shares. The Cayman Companies Law prohibits the issue of bearer shares to any person other than an authorised or recognized custodian defined in the Cayman Companies Law. The requirement on all service providers to implement appropriate due diligence procedures on the identity of a client in order to "know your client" as a result of proceeds of crime legislation mandates that special procedures should be followed when issuing bearer shares.



## APPENDIX IV

## SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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Every certificate for shares, warrants or debentures or representing any other form of securities of the Company shall be issued under the seal of the Company, and shall be signed autographically by one Director and the Secretary, or by 2 Directors, or by some other person(s) appointed by the Board for the purpose. As regards any certificates for shares or debentures or other securities of the Company, the Board may by resolution determine that such signatures or either of them shall be dispensed with or affixed by some method or system of mechanical signature other than autographic as specified in such resolution or that such certificates need not be signed by any person. Every share certificate issued shall specify the number and class of shares in respect of which it is issued and the amount paid thereon and may otherwise be in such form as the Board may from time to time prescribe. A share certificate shall relate to only one class of shares, and where the capital of the Company includes shares with different voting rights, the designation of each class of shares, other than those which carry the general right to vote at general meetings, must include the words "restricted voting" or "limited voting" or "non-voting" or some other appropriate designation which is commensurate with the rights attaching to the relevant class of shares. The Company shall not be bound to register more than 4 persons as joint holders of any share.

### (b) Directors

#### (i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that upon the happening of a specified event or upon a given date and either at the option of the Company or the holder thereof, they are liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate thereof shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate thereof has been destroyed and the Company has received an indemnity in such form as the Board shall think fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any [●] of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time

## APPENDIX IV

## SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

*(ii) Power to dispose of the assets of the Company or any subsidiary*

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

*(iii) Compensation or payments for loss of office*

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

*(iv) Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors and their associates which are equivalent to provisions of Hong Kong law prevailing at the time of adoption of the Articles.

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective associates, or if any one or more of the Directors hold (jointly or severally or directly or indirectly) a controlling interest

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**APPENDIX IV**

**SUMMARY OF THE CONSTITUTION OF THE  
COMPANY AND CAYMAN ISLANDS COMPANY LAW**

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in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

- (v) *Disclosure of interest in contracts with the Company or with any of its subsidiaries*

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and, upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realized by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any Share by reason that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the Company.

A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he or his associate(s) is/are materially interested, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters namely:

## APPENDIX IV

## SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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- (aa) the giving of any security or indemnity to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the [●] or sub-[●] of the offer;
- (dd) any proposal concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a member or in which the Director or his associate(s) is/are beneficially interested in shares of that company, provided that the Director and any of his associates are not in aggregate beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest or that of his associate(s) is derived) or of the voting rights;
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to Directors, his associate(s) and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not generally accorded to the employees to which such scheme or fund relates; or
- (ff) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

### *(vi) Remuneration*

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree or failing

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**APPENDIX IV**

**SUMMARY OF THE CONSTITUTION OF THE  
COMPANY AND CAYMAN ISLANDS COMPANY LAW**

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agreement, equally, except that in such event any Director holding office for only a portion of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he has held office. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with other companies (being subsidiaries of the Company or with which the Company is associated in business), or may make contributions out of the Company's monies to, such schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

In addition, the Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

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**APPENDIX IV**

**SUMMARY OF THE CONSTITUTION OF THE  
COMPANY AND CAYMAN ISLANDS COMPANY LAW**

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*(vii) Appointment, retirement and removal*

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election. There is no shareholding qualification for Directors.

At each annual general meeting, one third of the Directors for the time being will retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office. The period for lodgment of such notices will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting and the minimum length of the period during which such notices to the Company may be given must be at least 7 days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to the Board or retirement therefrom.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two.

In addition to the foregoing, the office of a Director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office or head office of the Company for the time being or tendered at a meeting of the Board;

## APPENDIX IV

## SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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- (bb) if he dies or becomes of unsound mind as determined pursuant to an order made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;
- (cc) if, without special leave, he is absent from meetings of the Board for six (6) consecutive months, and the Board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles;
- (gg) if he has been validly required by the [●] of the Relevant Territory (as defined in the Articles) to cease to be a Director and the relevant time period for application for review of or appeal against such requirement has lapsed and no application for review or appeal has been filed or is underway against such requirement; or
- (hh) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director or Directors and other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

### *(viii) Borrowing powers*

Pursuant to the Articles, the Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt,

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## APPENDIX IV

## SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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liability or obligation of the Company or of any third party. The provisions summarized above, in common with the Articles of Association in general, may be varied with the sanction of a special resolution of the Company.

*(ix) Register of Directors and officers*

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers.

*(x) Proceedings of the Board*

Subject to the Articles, the Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

**(c) Alterations to the constitutional documents**

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed by the Company by special resolution.

**(d) Variation of rights of existing shares or classes of shares**

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings shall mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or in the case of a shareholder being a corporation, by its duly [●]) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.



## APPENDIX IV

## SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

### **(e) Alteration of capital**

The Company may, by an ordinary resolution of its members, (a) increase its share capital by the creation of [●] of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; and (e) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorized and subject to any conditions prescribed by law.

Reduction of share capital – subject to the Companies Law and to confirmation by the court, a company limited by shares may, if so authorised by its Articles of Association, by special resolution, reduce its share capital in any way.

### **(f) Special resolution – majority required**

In accordance with the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly [●] or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are

## APPENDIX IV

## SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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corporations, by their duly [●] or, where proxies are allowed, by proxy at a general meeting of which not less than fourteen clear days' notice has been given and held in accordance with the Articles. A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

### **(g) Voting rights (generally and on a poll) and right to demand a poll**

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly [●] shall have one vote, and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly [●] shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purpose as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded or otherwise required under the rules of the [●] of the Relevant Territory (as defined in the Articles). A poll may be demanded by:

- (i) the chairman of the meeting; or
- (ii) at least two members present in person or, in the case of a member being a corporation, by its duly [●] or by proxy for the time being entitled to vote at the meeting; or
- (iii) any member or members present in person or, in the case of a member being a corporation, by its duly [●] or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) a member or members present in person or, in the case of a member being a corporation, by its duly [●] or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

## APPENDIX IV

## SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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Should a Clearing House or its nominee(s), be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s), as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the [●] Rules, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

### **(h) Annual general meetings**

The Company must hold an annual general meeting each year. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the [●] at such time and place as may be determined by the Board.

### **(i) Accounts and audit**

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account or book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

## APPENDIX IV

## SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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Subject to the rules of the [●] of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to shareholders who has, in accordance with the rules of the [●] of the Relevant Territory (as defined in the Articles), consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the [●] of the Relevant Territory (as defined in the Articles), and must be sent to the shareholders not less than twenty-one days before the general meeting to those shareholders that have consented and elected to receive the summarized financial statements.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the [●].

### **(j) Notices of meetings and business to be conducted thereat**

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by at least 21 days' notice in writing, and any other extraordinary general meeting shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting, and particulars of the resolution(s) to be considered at that meeting, and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member either personally or by sending it through the post in a prepaid envelope or wrapper addressed to such member at his registered address as appearing in the Company's register of members or by leaving it at such registered address as aforesaid or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address. Where the registered address of the member is outside Hong Kong, notice, if given through the post, shall be sent by prepaid airmail letter where available.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

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## APPENDIX IV

## SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the issued shares giving that right.

All business transacted at an extraordinary general meeting shall be deemed special business and all business shall also be deemed special business where it is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of Directors in place of those retiring;
- (dd) the appointment of auditors;
- (ee) the fixing of the remuneration of the Directors and of the auditors;
- (ff) the granting of any mandate or authority to the Board to offer, allot, grant options over, or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing issued share capital (or such other percentage as may from time to time be specified in the rules of the [●]) and the number of any securities repurchased by the Company since the granting of such mandate; and
- (gg) the granting of any mandate or authority to the Board to repurchase securities in the Company.

### **(k) Transfer of shares**

Subject to the Cayman Companies Law, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve provided always that it shall be in such form prescribed by the [●] and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers in any case in which it in its discretion thinks fit to do so, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof.

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## APPENDIX IV

## SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share option scheme upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The Board may decline to recognize any instrument of transfer unless a fee of such maximum sum as the [●] may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a newspaper circulating generally in Hong Kong or, where applicable, any other newspapers in accordance with the requirements of the [●], at such times and for such periods as the Board may determine. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

Fully paid shares shall be free from any restriction with respect to the right of the holder thereof to transfer such shares (except when permitted by the [●]) and shall also be free from all liens.

### **(1) Power of the Company to purchase its own shares**

The Company is empowered by the Cayman Companies Law and the Articles to purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by code, rules or regulations issued from time to time by the [●] and/or the Securities and Futures Commission of Hong Kong.

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## APPENDIX IV

## SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price, and if purchases are by tender, tenders shall be available to all members alike.

### **(m) Power of any subsidiary of the Company to own shares in the Company**

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

### **(n) Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared on the share capital of the Company, the Board may resolve:

- (aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

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## APPENDIX IV

## SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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Upon the recommendation of the Board the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, but in the case of joint holders, shall be addressed to the holder whose name stands first in the register of members of the Company in respect of the shares at his address as appearing in the register, or addressed to such person and at such address as the holder or joint holders may in writing so direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the moneys so advanced may pay interest at such rate (if any) not exceeding 20 % per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.



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## APPENDIX IV

## SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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### **(o) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly [●]) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that any form issued to a member for use by him for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

### **(p) Calls on shares and forfeiture of shares**

The Board may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual

## APPENDIX IV

## SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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payment. The notice will name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and it shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent per annum as the Board may prescribe.

### **(q) Inspection of corporate records**

Members of the Company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. However, the members of the Company will have such rights as may be set forth in the Articles. The Articles provide that for so long as any part of the share capital of the Company is listed on the [●], any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of member is closed) without charge and require the provision to him of copies or extracts thereof in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as its directors may, from time to time, think fit.

### **(r) Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly [●]) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened

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## APPENDIX IV

## SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

### **(s) Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

### **(t) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, on the shares held by them respectively.

In the event that the Company is wound up (whether the liquidation is voluntary or compelled by the court) the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

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## APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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### **(u) Untraceable members**

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

In accordance with the Articles, the Company is entitled to sell any of the shares of a member who is untraceable if:

- (i) all cheques or warrants, being not less than three in total number, for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years;
- (ii) upon the expiry of the 12 years and 3 months period (being the 3 months notice period referred to in sub-paragraph (iii)), the Company has not during that time received any indication of the existence of the member; and
- (iii) the Company has caused an advertisement to be published in accordance with the rules of the [●] of the Relevant Territory (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the [●] of the Relevant Territory (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

### **(v) Subscription rights reserve**

Pursuant to the Articles, provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

## **3. CAYMAN ISLANDS COMPANY LAW**

The Company was incorporated in the Cayman Islands as an exempted company on 10 June 2009 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

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**APPENDIX IV****SUMMARY OF THE CONSTITUTION OF THE  
COMPANY AND CAYMAN ISLANDS COMPANY LAW**

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**(a) Company operations**

As an exempted company, the Company must conduct its operations mainly outside the Cayman Islands. Moreover, the Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

**(b) Share capital**

In accordance with the Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) in the redemption and repurchase of shares (in accordance with the detailed provisions of section 37 of the Cayman Companies Law);
- (iv) writing-off the preliminary expenses of the company;
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (vi) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

Notwithstanding the foregoing, the Cayman Companies Law provides that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

## **APPENDIX IV**

## **SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW**

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It is further provided by the Cayman Companies Law that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorized to do so by its articles of association, by special resolution reduce its share capital in any way.

The Articles include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

### **(c) Financial assistance to purchase shares of a company or its holding company**

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company when proposing to grant such financial assistance discharge their duties of care and acting in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

### **(d) Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. Nonetheless, if the articles of association do not authorize the manner of purchase, a company cannot purchase any of its own shares without the manner of purchase first being authorized by an ordinary resolution of the company. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy and sell and deal in personal property of all kinds.

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## APPENDIX IV

## SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

### **(e) Dividends and distributions**

With the exception of section 34 of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see sub-paragraph 2(n) of this Appendix for further details).

### **(f) Protection of minorities and shareholders' suits**

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions thereto) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge:

- (i) an act which is ultra vires the company or illegal;
- (ii) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and
- (iii) an irregularity in the passing of a resolution the passage of which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members thereof holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report thereon.

Moreover, any member of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

### **(g) Disposal of assets**

There are no specific restrictions in the Cayman Companies Law on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in

## APPENDIX IV

## SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interest of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

### **(h) Accounting and auditing requirements**

Section 59 of the Cayman Companies Law provides that a company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters with respect to which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Section 59 of the Cayman Companies Law further states that proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

### **(i) Exchange control**

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

### **(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

- (i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (ii) in addition, that no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
  - (aa) on or in respect of the shares, debentures or other obligations of the Company; or
  - (bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking for the Company is for a period of twenty years from [●].

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the



## **APPENDIX IV**

## **SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW**

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Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments. The Cayman Islands are not a party to any double tax treaties.

### **(k) Stamp duty on transfers**

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

### **(l) Loans to directors**

The Cayman Companies Law contains no express provision prohibiting the making of loans by a company to any of its directors. However, the Articles provide for the prohibition of such loans under specific circumstances.

### **(m) Inspection of corporate records**

The members of the company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

### **(n) Register of members**

A Cayman Islands exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as the directors may, from time to time, think fit. The Cayman Companies Law contains no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

### **(o) Winding up**

A Cayman Islands company may be wound up either by (i) an order of the court or (ii) voluntarily by a special resolution of its members. The court also has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company occurs where the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or where the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event

## APPENDIX IV

## SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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referred to above. Upon appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no further executive action may be carried out without his approval.

A company is placed in liquidation either by an order of the court or by a special resolution of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and discharge the company's liability to them, ratably if insufficient assets exist to discharge the liabilities in full, and settle the list of contributories ("members") and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

When the affairs of a company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This general meeting shall be called by public notice or such other means as the Registrar of Companies may direct.

For the purpose of conducting the proceedings in winding up a company and assisting the court, there may be appointed one or more persons to be called an official liquidator or official liquidators; and the court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one persons are appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

### **(p) Reconstructions**

Reconstructions and amalgamations are governed by specific statutory provisions under the Cayman Companies Law whereby such arrangements may be approved by a majority in number representing 75% in value of members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member would have the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, nonetheless the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting member would have no rights comparable to the

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## APPENDIX IV

## SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

### **(q) Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

### **(r) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

## **4. GENERAL**

[●], the Company's legal adviser on Cayman Islands law, have sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

## APPENDIX V

## STATUTORY AND GENERAL INFORMATION

### A. FURTHER INFORMATION ABOUT OUR COMPANY

#### 1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company on 10 June 2009. Our Company has established our principal place of business in Hong Kong at Suites 2201-2203, 22nd Floor, Jardine House, 1 Connaught Place, Central, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part XI of the Hong Kong Companies Ordinance on 29 July 2009. In connection with such registration, Loong & Yeung of Suites 2201-2203, 22nd Floor, Jardine House, 1 Connaught Place, Central, Hong Kong has been appointed as the agent for the acceptance of service of process and any notices served on our Company in Hong Kong.

As our Company is incorporated in the Cayman Islands, our operation is subject to the Companies Law and to our constitution which comprises our memorandum of association and Articles. A summary of various parts of the constitution and certain relevant aspects of the Cayman Islands company law is set out in appendix [IV] to this [●].

#### 2. [Changes in share capital of our Company]

- (a) As at the date of incorporation of our Company, our authorized share capital was HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each, one of which was allotted and issued nil paid to Reid Services Limited and the one nil paid Share was subsequently transferred from Reid Services Limited to Well Bright on the same date.
- (b) Pursuant to the [●] and as consideration for the acquisition by our Company of the one ordinary share of US\$1.00 each in the issued share capital of Newshine, on [14 September 2009], (i) 36,999,999 Shares, all credited as fully paid, were allotted and issued to Well Bright; and (ii) the one nil paid Share then held by Well Bright was credited as fully paid at par.
- (c) On [15 September 2009], our sole Shareholder resolved to increase the authorized share capital of our Company from HK\$[380,000] to HK\$[10,000,000] by the creation of an additional of [962,000,000] Shares, each ranking pari passu with our Shares then in issue in all respects.
- (d) Immediately upon completion of the [[●]] and the [[●]] but taking no account of any Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme, [370,000,000] Shares will be issued fully paid or credited as fully paid and [630,000,000] Shares will remain unissued.
- (e) Save as mentioned above, there has been no alteration in the share capital of our Company.

## APPENDIX V

## STATUTORY AND GENERAL INFORMATION

Other than pursuant to the [[●]], the [[●]] and the exercise of the options to be granted under the Share Option Scheme, there is no present intention to issue any of the authorized but unissued share capital of our Company and without prior approval of our Shareholders at general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

### 3. Written resolutions of our sole Shareholder passed on [15 September 2009]

By written resolutions of our sole Shareholder passed on [15 September 2009]:

- (a) our Company approved and adopted the [memorandum of association and the Articles];
- (b) the authorized share capital of our Company was increased from HK\$[380,000] to HK\$[10,000,000] by the creation of an additional of [962,000,000] Shares of HK\$[0.01] each, each ranking pari passu with our Shares then in issue in all respects;
- (c) conditional on the [●] granting the [●] of, and permission to deal in, our Shares in issue and our Shares to be issued as mentioned in this [●] including any Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme and on the obligations of the [[●]] under the [[●]] becoming unconditional and not being terminated in accordance with the terms of the [[●]] or otherwise, in each case on or before the date falling [30] days after the date of this [●]:
  - (i) the [[●]] was approved and our Directors were authorized to allot and issue the [[●]] pursuant to the [[●]] to rank pari passu with the then existing Shares in all respects; and
  - (ii) the rules of the Share Option Scheme were approved and adopted and our Directors were authorized, at their absolute discretion, to grant options to subscribe for Shares thereunder and to allot, issue and deal with our Shares pursuant to the exercise of subscription rights attaching to any options granted under the Share Option Scheme and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme; and
  - (iii) the [[●]] was approved and conditional further on the share premium account of our Company being credited as a result of the [[●]], our Directors were authorized to capitalize an amount of HK\$[2,590,000] standing to the credit of the share premium account of our Company and to appropriate such amount as to capital to pay up in full at par [259,000,000] Shares for allotment and issue credited as fully paid to the person(s) whose name(s) appear on the register of members of our Company at the close of business on [14 September 2009] on proportion (as nearly as possible

## APPENDIX V

## STATUTORY AND GENERAL INFORMATION

without involving fractions) to its/their then existing shareholding(s) in our Company, each ranking pari passu in all respects with the then existing issued Shares, and our Directors were authorized to give effect to such capitalization and distributions.

- (d) a general unconditional mandate was given to our Directors to allot, issue and deal with, otherwise than by way of rights or an issue of our Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme or any other share scheme of our Company or any of our Shares allotted in lieu of the whole or part of a dividend on our Shares in accordance with the [Articles] or pursuant to a specific authority granted by our Shareholders or pursuant to the [[●]] or the [●], Shares with an aggregate nominal value not exceeding 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the [[●]] and the [[●]], such mandate to remain in effect until whichever is the earliest of:
  - (i) the conclusion of the next annual general meeting of our Company;
  - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the [Articles] or the Companies Law or any other applicable laws of the Cayman Islands to be held; and
  - (iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders at general meeting;
- (e) a general unconditional mandate was given to our Directors authorizing them to exercise all powers of our Company to repurchase on GEM or on any other [●] on which the securities of our Company may be listed and which is recognized by the Securities and Futures Commission in Hong Kong and the [●] for this purpose such number of Shares as will represent up to 10% of the aggregate of the nominal value of the share capital of our Company in issue immediately following completion of the [[●]] and the [[●]], such mandate to remain in effect until whichever is the earliest of:
  - (i) the conclusion of the next annual general meeting of our Company;
  - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the [Articles] or the Companies Law or any other applicable laws of the Cayman Islands to be held; and
  - (iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders at general meeting; and
- (f) the general unconditional mandate mentioned in sub-paragraph (d) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company

## APPENDIX V

## STATUTORY AND GENERAL INFORMATION

pursuant to the mandate to repurchase Shares referred to in sub-paragraph (e) above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the [[●]] and the [●].

### 4. Corporate [●]

The companies comprising our Group underwent a [●] to rationalize our Group’s structure in preparation for the [●] of our Shares on GEM, pursuant to which our Company became the holding company of our Group.

[Our Group underwent the following restructuring:

- (a) our Company was incorporated on 10 June 2009.
- (b) On 10 June 2009, one Share was allotted and issued at nil paid to the subscriber to the memorandum and articles of association of our Company and the one nil paid Share was transferred to Well Bright on the same date.
- (c) On 19 June 2009, Newshine was incorporated in the BVI with limited liability with an authorized capital of US\$50,000 divided into 50,000 shares of US\$1 each, and on 23 June 2009, one share in Newshine was allotted and issued to Well Bright.
- (d) On 27 May 2009, Sino Prosper was incorporated in Hong Kong with limited liability with an authorized capital of HK\$10,000 divided into 10,000 shares of HK\$1 each, one of which was allotted and issued at par to the subscriber to the memorandum and articles of association of Sino Prosper. On 23 June 2009, the one share in Sino Prosper was transferred from the subscriber to the memorandum and articles of association of Sino Prosper to Newshine at HK\$1.
- (e) Pursuant to the share transfer agreement dated 24 June 2009 referred to in item [(a)] of the paragraph headed “Summary of material contracts” in this appendix, Cai’s International transferred its 100% equity interest in Xiefeng Textile to Sino Prosper at the consideration of HK\$1.
- (f) Pursuant to the share transfer agreement dated 24 June 2009 referred to in item [(b)] of the paragraph headed “Summary of material contracts” in this appendix, Cai’s International transferred its 100% equity interest in Wannianxing Textile to Sino Prosper at the consideration of HK\$1.
- (g) Pursuant to the share transfer agreement dated 24 June 2009 referred to in item [(c)] of the paragraph headed “Summary of material contracts” in this appendix, Cai’s International transferred its 100% equity interest in Xiangyun Fiber to Sino Prosper at the consideration of HK\$1.

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## APPENDIX V STATUTORY AND GENERAL INFORMATION

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- (h) On [14 September 2009], pursuant to the sale and purchase agreement referred to in item [(d)] of the paragraph headed "Summary of material contracts" in this appendix, Well Bright transferred the one share it held in Newshine (being all the issued share capital of Newshine) to [our Company] and as consideration, (i) [36,999,999] Shares, all credited as fully paid, were allotted and issued to Well Bright; and (ii) the [one] nil paid Share then held by Well Bright was credited as fully paid at par.

Immediately after completion of the transfer of shares on [14 September 2009] referred to above, our Company became the holding company of our Group.

### 5. Changes in share capital of subsidiaries

The subsidiaries of our Company are listed in the accountants' report set out in appendix I to this [●]. [Save as disclosed in paragraph [(4)] of this appendix, there has been no alteration in the share capital of the subsidiaries of our Company which took place within the two years immediately preceding the date of this [●].]

### 6. Repurchase of Shares by our Company

This section includes information required by the [●] to be included in this [●] concerning the repurchase of Shares by our Company.

#### (a) Provisions of the [●]

The [●] permit companies with a primary [●] on GEM to purchase their shares on GEM subject to certain restrictions.

##### (i) Shareholders' approval

The [●] provide that all proposed repurchases of shares (which must be fully paid) by a company with a primary [●] on GEM must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval of a specific transaction.

*Note* Pursuant to the written resolutions of our sole Shareholder passed on [15 September 2009], a general unconditional mandate (the "Repurchase Mandate") was given to our Directors authorizing our Directors to exercise all powers of our Company to repurchase on GEM, or on any other [●] on which the securities of our Company may be listed and which is recognized by the Securities and Futures Commission in Hong Kong and the [●] for this purpose, such number of Shares representing up to 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the [[●]] and the [[●]], and the Repurchase Mandate shall remain in effect until whichever is the earliest of the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by law or the [Articles] to be held, or when the Repurchase Mandate is revoked or varied by an ordinary resolution of our Shareholders at general meeting of our Company.



## APPENDIX V

## STATUTORY AND GENERAL INFORMATION

### *(ii) Shares to be repurchased*

Under the [●], Shares which are proposed to be repurchased by our Company must be fully paid up.

### *(iii) Source of funds*

Repurchases must be funded out of funds legally available for such purpose in accordance with the [Articles] and the laws of the Cayman Islands. A listed company may not repurchase its own shares on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the [●].

Any repurchases by our Company may be made out of profits or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorized by the [Articles] and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of our Company or out of our Company's share premium account before or at the time our Shares are repurchased or, if authorized by the [Articles] and subject to the Companies Law, out of capital.

### *(iv) Connected parties*

The [●] prohibit a company from knowingly repurchasing its shares on GEM from a "connected person" (as defined in the [●]), which includes our Directors, chief executive(s), substantial Shareholders or management Shareholders of our Company or any of our subsidiaries or an associate of any of them and a connected person shall not knowingly sell shares to our Company.

### ***(b) Reasons for repurchases***

Our Directors believe that it is in the best interests of our Company and Shareholders for our Directors to have a general authority from Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of our Company's net asset value and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and Shareholders.

### ***(c) Exercise of the Repurchase Mandate***

Exercise in full of the Repurchase Mandate, on the basis of [370,000,000] Shares in issue after completion of the [[●]] and the [[●]] could accordingly result in up to [37,000,000] Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

*(d) Funding of repurchase*

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the [Articles], the [●] and the applicable laws of the Cayman Islands.

Our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

*(e) General*

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the [●]), has any present intention if the Repurchase Mandate is exercised to sell any Shares to our Company.

Our Directors have undertaken to the [●] that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Articles, the [●] and the applicable laws of the Cayman Islands.

If as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. Save as disclosed above, our Directors are not aware of any consequence that would arise under the Takeovers Code as a result of a repurchase pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the [●]).

No connected person (as defined in the [●]) of our Company has notified our Company that he has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

## APPENDIX V

## STATUTORY AND GENERAL INFORMATION

### B. FURTHER INFORMATION ABOUT THE BUSINESS

#### 1. [Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this [●] and are or may be material:

- (a) a share transfer agreement dated 24 June 2009 in Chinese made between Cai's International and Sino Prosper, pursuant to which Cai's International transferred its 100% equity interest in Xiefeng Textile to Sino Prosper at the consideration of HK\$1;
- (b) a share transfer agreement dated 24 June 2009 in Chinese made between Cai's International and Sino Prosper, pursuant to which Cai's International transferred its 100% equity interest in Wannianxing Textile to Sino Prosper at the consideration of HK\$1;
- (c) a share transfer agreement dated 24 June 2009 in Chinese made between Cai's International and Sino Prosper, pursuant to which Cai's International transferred its 100% equity interest in Xiangyun Fiber to Sino Prosper at the consideration of HK\$1;
- (d) [a sale and purchase agreement dated 14 September 2009 made between Well Bright, our Company, Mr. Cai SY and Mr. Cai SP, pursuant to which Well Bright agreed to transfer the one share it held in Newshine (being all the issued share capital of Newshine) to our Company and as consideration, (i) [36,999,999] Shares, all credited as fully paid, were allotted and issued to Well Bright; and (ii) the one nil paid Share then held by Well Bright was credited as fully paid at par;
- (e) [an instrument of transfer dated 14 September 2009 made between Well Bright and our Company, pursuant to which Well Bright transferred the one share it held in Newshine (being all the issued share capital of Newshine) to our Company at the consideration as stated in item [(d)] above];
- (f) a deed of indemnity dated [●] executed by Mr. Cai SP and Mr. Cai SY in favour of our Group containing the indemnities referred to in the paragraph headed "Tax indemnities" in this appendix;
- (g) a deed of non-competition dated [●] in Chinese executed by Mr. Cai SP in favour of our Group, the particulars of which are set out in the paragraph headed "Competition with our Directors" in the section headed "Business" of this [●];
- (h) a deed of non-competition dated [●] in Chinese executed by Mr. Cai SY in favour of our Group, the particulars of which are set out in the paragraph headed "Competition with our Directors" in the section headed "Business" of this [●];


## APPENDIX V STATUTORY AND GENERAL INFORMATION

- (i) the [[●]] dated [●] made among, inter alia, [our Company, our executive Directors, the [●] and the [●]], details of which are set out in the section headed “Underwriting” in this [●].

### 2. Intellectual property rights


#### (a) Trademark

As at the [●], our Group had acquired the following registered trademark in the PRC, and the assignment of the trademark to our Group was under process:

Trademark	Registration Number	Class	Effective Date	Expiry Date
 珍珠泉 ZHENZHUQUAN	4299361	25	14 May 2008	13 May 2018

*Note:* We acquired the above trademark by a trademark transfer agreement dated 23 June 2009 signed between [Xiefeng Textile] and the registered owner of the trademark, being an [Independent Third Party] at a consideration of RMB15,000. The trademark transfer agreement had been submitted to the Trademark Office, the State Administration of Industrial and Commerce, the PRC, for approval.

As at the [●], our Group had applied for the registration of the following trademark(s) in the PRC:

Trademark	Application Number	Class	Application Date	Name of Applicant
“  ”	6984952	25	6 October 2008	Xiefeng Textile

#### (b) Domain name

As at the [●], our Group has registered the following domain name:

Domain Name	Date of Registration
jcholding.hk	13 August 2009

## APPENDIX V

## STATUTORY AND GENERAL INFORMATION

### 3. Information about the PRC Subsidiaries of our Group

#### **Xiefeng Textile**

Name:	[萬年縣協豐紡織服飾有限公司 Wannianxian Xiefeng Textiles and Garments Co., Ltd.]
Date of incorporation:	21 December 2004
Corporate nature:	wholly-foreign owned enterprise
Present member and percentage of shareholding:	100% held by Sino Prosper
Total investment:	HK\$4,500,000
Total registered capital:	HK\$3,200,000 (fully paid up as to HK\$3,209,000 )
Attributable interest of our Company:	100%
Term:	30 years
Scope of business:	manufacture and processing of surface material of high-class textile products; manufacture various clothing, accessories and shoes; and wholesale and retail sale in clothing and accessories.
Legal representative:	Mr. Cai SY

#### **Wannianxing Textile**

Name:	江西省萬年興紡織服裝有限公司 Jiangxi Province Wan Nian Xing Textiles and Dress Co., Ltd.
Date of incorporation:	13 May 2005
Corporate nature:	wholly-foreign owned enterprise
Present member and percentage of shareholding:	100% held by Sino Prosper
Total investment:	US\$1,300,000
Total registered capital:	US\$1,300,000 (fully paid up)
Attributable interest of our Company:	100%
Term:	30 years
Scope of business:	manufacture and processing of surface materials of high-class textile products, manufacture and sale of various clothing, accessories and shoes
Legal representative:	Mr. Cai SY

## APPENDIX V

## STATUTORY AND GENERAL INFORMATION

### Xiangyun Fiber

Name:	萬年縣祥雲纖維紡織有限公司 Wan Nian County Xiang Yun Fibers and Fabrics Co., Ltd.
Date of incorporation:	26 May 2005
Corporate nature:	wholly-foreign owned enterprise
Present member and percentage of shareholding:	100% held by Sino Prosper
Total investment:	US\$1,300,000
Total registered capital:	US\$1,300,000 (fully paid up)
Attributable interest of our Company:	100%
Term:	30 years
Scope of business:	manufacture and processing of various chemical and sponge cotton, manufacture and sale of various clothing and accessories
Legal representative:	Mr. Cai SY

### C. FURTHER INFORMATION ABOUT SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND EXPERTS

#### 1. Disclosure of interests

- (a) Immediately following the completion of the [[●]] and the [[●]] but taking no account of our Shares to be issued pursuant to options which may be granted under the Share Option Scheme, the interests and short positions of our Directors or chief executive of our Company in our Shares, underlying Shares and debentures of our Company or any of our associated corporations (within the meaning of Part XV of the SFO) which, once our Shares are listed on GEM, will have to be notified to our Company and the [●] pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests which they are taken or deemed to have under such provisions of the SFO) or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the required standard of dealings by

## APPENDIX V STATUTORY AND GENERAL INFORMATION

directors as referred to in Rule 5.46 of the [●], to be notified to our Company and the [●], in each case once our Shares are listed on GEM, will be as follows:

(i) *Long position in our Shares*

Name of Director	Capacity/Nature	No. of Shares held	Approximate percentage of interest
Mr. Cai SY ( <i>Note 1</i> )	Interest of controlled corporation	[259,000,000]	[70%]
Mr. Cai SP ( <i>Note 1</i> )	Interest of controlled corporation	[259,000,000]	[70%]

*Note 1:* Immediately following the completion of the [[●]] and the [[●]], Well Bright will hold [259,000,000] Shares, representing approximately [70%] of the total issued share capital of our Company. Well Bright is owned as to [50%] by Mr. Cai SY and [50%] by Mr. Cai SP and thus under the SFO, each of Mr. Cai SY and Mr. Cai SP is deemed, or taken to be interested in the 259,000,000 Shares held by Well Bright.

(ii) *Long position in the ordinary shares of associated corporation*

Name of Director	Name of associated corporation	Capacity/Nature	No. of securities held	Approximate percentage of shareholding
Mr. Cai SY	Well Bright	Beneficial owner	[1]	[50%]
Mr. Cai SP	Well Bright	Beneficial owner	[1]	[50%]

- (b) So far as is known to our Directors and save as disclosed in this [●] and taking no account of any [●] which to be issued pursuant to the [[●]] or options which may be granted under the Share Option Scheme, the following persons (not being a Director or chief executive of our Company) will, immediately following the completion of the [[●]] and the [[●]] have interests or short positions in our Shares or underlying Shares which would fall to be disclosed to our Company and the [●] under the provisions of Divisions 2 and 3 of Part XV of the SFO (including any interests which they are taken or deemed to have under such provisions of the SFO) or will be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

## APPENDIX V STATUTORY AND GENERAL INFORMATION

### *Long position in our Shares*

Name	Nature of interest	No. of Shares held	Approximate percentage of shareholding
Well Bright	Beneficial interest	[259,000,000]	[70%]
[Ms. Cai Shuyan] (蔡淑燕) (Note 2)	Interest of Spouse	[259,000,000]	[70%]
[Ms. Sun Meige] (孫美鶴) (Note 3)	Interest of Spouse	[259,000,000]	[70%]

Note 2: Well Bright is beneficially owned by Mr. Cai SY as to [50%]. Therefore, Mr. Cai SY is deemed, or taken to be, interested in the [259,000,000] Shares which are beneficially owned by Well Bright for the purposes of the SFO. [Ms. Cai Shuyan] (蔡淑燕) is the spouse of Mr. Cai SY. Therefore, [Ms. Cai Shuyan] (蔡淑燕) is deemed, or taken to be, interested in the [259,000,000] Shares which Mr. Cai SY is deemed, or taken to be interested in for the purposes of the SFO.

Note 3: Well Bright is beneficially owned by Mr. Cai SP as to [50%]. Therefore, Mr. Cai SP is deemed, or taken to be, interested in the [259,000,000] Shares which are beneficially owned by Well Bright for the purposes of the SFO. [Ms. Sun Meige] (孫美鶴) is the spouse of Mr. Cai SP. Therefore, [Ms. Sun Meige] (孫美鶴) is deemed, or taken to be, interested in the [259,000,000] Shares which Mr. Cai SP is deemed, or taken to be interested in for the purposes of the SFO.

## 2. Particulars of service agreements

- (a) Each of our executive Directors has entered into a service agreement with our Company for an initial term of [three years] commencing from the [●] Date, subject to the termination provisions therein. Each of our executive Directors or our Company may terminate the appointment by giving the other party not less than [three months'] prior notice in writing.
- (b) Each of our executive Directors is entitled to a basic salary which will be reviewed at the discretion of our Board after such executive Director has completed 12 months of service.
- (c) Each of our independent non-executive Directors has entered into a service agreement which our Company for a term of [two years] commencing on the [●] Date. Each of our independent non-executive Directors or our Company may terminate the appointment at any time during the two-year term by giving the other party at least [three month's] notice in writing.]



## APPENDIX V STATUTORY AND GENERAL INFORMATION

Save as disclosed in this [●], no Director has entered into any service agreement with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

### 3. Directors' remuneration

- (a) The aggregate amount of remuneration paid to our Directors by our Group in respect of the two years ended [31 December 2008] were approximately RMB[60,000] and RMB[63,000] respectively.
- (b) Under the arrangements currently in force, the aggregate emoluments (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to our Directors for the year ending [31 December 2009] will be approximately RMB[94,800].
- (c) Under the arrangements currently proposed, conditional upon the [●] of our Shares on GEM, the basic annual remuneration (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of our Directors will be as follows:

<b>Executive Directors</b>	<i>RMB</i>
Mr. Cai SY	[60,000]
Mr. Cai SP	[60,000]
<b>Independent non-executive Directors</b>	<i>HK\$</i>
Mr. Lin Anqing (林安慶)	[30,000]
Ms. Lin Peifen (林佩芬)	[30,000]
Mr. Liu Jianlin (劉建林)	[30,000]

### 4. Fees or commission received

Save as disclosed in this [●], none of our Directors or the experts named in the paragraph headed "Consents of experts" in this appendix had received any agency fee or commissions from our Group within the two years preceding the date of this [●].

### 5. [Related party transactions]

Details of the related party transactions are set out under note [29] to the accountants' reports set out in appendix [I] to this [●].

## APPENDIX V

## STATUTORY AND GENERAL INFORMATION

### 6. Disclaimers

Save as disclosed in this [●]:

- (a) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between our Directors and any member of our Group;
- (b) no remuneration or other benefits in kind have been paid by our Company to any Director since the date of incorporation of our Company, nor are any remuneration or benefits in kind payable by our Company to any Director in respect of the current financial year under any arrangement in force as at the [●];
- (c) none of our Directors or the experts named in the paragraph headed "Consents of experts" in this appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this [●], acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (d) none of our Directors or the experts named in the paragraph headed "Consents of experts" in this appendix is materially interested in any contract or arrangement subsisting at the date of this [●] which is significant in relation to the business of our Group taken as a whole;
- (e) taking no account of Shares which may be pursuant to options which may be granted under the Share Option Scheme, none of our Directors is aware of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the [[●]] and the [[●]], have any interest in our Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;
- (f) none of our Directors or chief executive of our Company has any interest or short position in our Shares, underlying Shares or debentures of our Company or any of our associated corporations (within the meaning of the SFO) which, once our Shares are listed on GEM, will have to be notified to our Company and the [●] pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which he will be taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the [●], to be notified to our Company and the [●]; and

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## APPENDIX V STATUTORY AND GENERAL INFORMATION

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- (g) so far as is known to our Directors, none of our Directors, their respective associates (as defined under the [●]) or Shareholders who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group.

### D. SHARE OPTION SCHEME

#### (a) Definitions

For the purpose of this paragraph D, the following expressions have the meanings set out below unless the context requires otherwise:

“Adoption Date”	[15 September 2009], the date on which the Share Option Scheme is conditionally adopted by our sole Shareholder by way of written resolution
“Board”	our Board of Directors or a duly authorized committee of our Board of Directors
“Group”	our Company and any entity in which our Company, directly or indirectly, holds any equity interest
“Scheme Period”	the period commencing on the Adoption Date and expiring at the close of business on the business day immediately preceding the tenth anniversary thereof

#### (b) Summary of terms

The following is a summary of the principal terms of the rules of the Share Option Scheme conditionally adopted by the written resolutions of our sole Shareholder passed on [15 September 2009]:

##### (i) *Purpose of the Share Option Scheme*

[The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of our Group and to promote the success of the business of our Group.]

##### (ii) *Who may join and basis of eligibility*

Our Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or adviser of our Group, or any substantial shareholder of our Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of our Group, options to

## APPENDIX V

## STATUTORY AND GENERAL INFORMATION

subscribe at a price calculated in accordance with paragraph (iii) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any participant to the grant of any option shall be determined by our Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of our Group.

### *(iii) Price of Shares*

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by our Board and notified to a participant and shall be at least the higher of: (i) the closing price of our Shares as stated in the [●]'s daily quotations sheet on the date of offer of an option to a participant, which must be a trading day (i.e. any day on which the [●] is open for business of dealing in securities); (ii) the average of the closing prices of our Shares as stated in the [●]'s daily quotations sheets for the 5 trading days immediately preceding the date of offer of an option to a participant; and (iii) the nominal value of a Share on the date of offer of an option to a participant, provided always that for the purpose of calculating the subscription price, where our Company has been listed on the GEM for less than five trading days, the new issue price shall be used as the closing price for any trading day falling within the period before [●].

### *(iv) Grant of options and acceptance of offers*

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to our Company on acceptance of the offer for the grant of an option is HK\$1.00.

### *(v) Maximum number of Shares*

- (aa) Subject to sub-paragraph (bb) and (cc) below, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company as from the Adoption Date (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) must not in aggregate exceed 10% of all our Shares in issue as at the [●] Date. Therefore, it is expected that our Company may grant options in respect of up to [37,000,000] Shares (or such numbers of Shares as shall result from a sub-division or a consolidation of such [37,000,000] Shares from time to time) to the participants under the Share Option Scheme.

## APPENDIX V

## STATUTORY AND GENERAL INFORMATION

- (bb) The 10% limit as mentioned above may be refreshed at any time by obtaining approval of the Shareholders in general meeting provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company must not exceed 10% of our Shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) will not be counted for the purpose of calculating the refreshed 10% limit. A circular must be sent to the Shareholders containing the information as required under the [●] in this regard.
- (cc) our Company may seek separate approval of the Shareholders in general meeting for granting options beyond the 10% limit provided the options in excess of the 10% limit are granted only to grantees specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to the Shareholders containing a generic description of such grantees, the number and terms of such options to be granted and the purpose of granting options to them with an explanation as to how the terms of the options will serve such purpose, and such other information required under the [●].
- (dd) The aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company must not exceed 30% of our Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes of our Company, if this will result in such 30% limit being exceeded.

*(vi) Maximum entitlement of each participant*

The total number of Shares issued and to be issued upon exercise of options granted to any participant (including both exercised and outstanding options) under the Share Option Scheme, in any 12-month period up to the date of grant shall not exceed 1% of our Shares in issue. Any further grant of options in excess of such limit must be separately approved by Shareholders in general meeting with such grantee and his associates abstaining from voting. In such event, our Company must send a circular to the Shareholders containing the identity of the grantee, the number and terms of the options to be granted (and options previously granted to such grantee), and all other information required under the [●]. The number and terms (including the subscription price) of the options to be granted must be fixed before the approval of the Shareholders and the date of the Board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

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## APPENDIX V STATUTORY AND GENERAL INFORMATION

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*(vii) Grant of options to certain connected persons*

- (aa) Any grant of an option to a Director, chief executive, management shareholder or substantial shareholder of our Company (or any of their respective associates) must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the option).
- (bb) Where any grant of options to a substantial Shareholder or an independent non-executive Director (or any of their respective associates) will result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted to such person under the Share Option Scheme and any other share option schemes of our Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant:
  - (i) representing in aggregate over 0.1% of our Shares in issue; and
  - (ii) having an aggregate value, based on the closing price of our Shares at the date of each grant, in excess of HK\$[5] million,

such further grant of options is required to be approved by Shareholders at a general meeting of our Company, with voting to be taken by way of poll. Our Company shall send a circular to the Shareholders containing all information as required under the [●] in this regard. All connected persons of our Company shall abstain from voting (except where any connected person intends to vote against the proposed grant). Any change in the terms of an option granted to a substantial shareholder of our Company or an independent non-executive Director or any of their respective associates is also required to be approved by Shareholders in the aforesaid manner.

*(viii) Restrictions on the times of grant of options*

- (aa) An offer for the grant of options may not be made after a price sensitive event of our Company has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the [●]. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:
  - (i) the date of the Board meeting (such date to first be notified to the [●] in accordance with the [●]) for the approval of our Company's results for any year, half-year, quarterly or other interim period (whether or not required under the [●]); and
  - (ii) the deadline for our Company to publish an announcement of the results for any year, or half-year under the [●], or quarterly or other interim period (whether or not required under the [●]).

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## APPENDIX V STATUTORY AND GENERAL INFORMATION

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(bb) Further to the restrictions in paragraph (aa) above, no option may be granted on any day on which financial results of our Company are published and:

- (i) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
- (ii) during the period of 30 days immediately preceding the publication date of the quarterly results and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

*(ix) Time of exercise of option*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as our Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

*(x) Performance targets*

Save as determined by our Board and provided in the offer of the grant of the relevant options, there is no performance target which must be achieved before any of the options can be exercised.

*(xi) Ranking of Shares*

Our Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions paid or made after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be on or before the date of allotment, save that our Shares allotted upon the exercise of any option shall not carry any voting rights until the name of the grantee has been duly entered on the register of members of our Company as the holder thereof.

*(xii) Rights are personal to grantee*

An option shall not be transferable or assignable and shall be personal to the grantee of the option.

*(xiii) Rights on cessation of employment by death*

In the event of the death of the grantee (provided that none of the events which would be a ground for termination of employment referred to in (xiv) below arises within a period of 3 years prior to the death, in the case the grantee is an employee at

## APPENDIX V

## STATUTORY AND GENERAL INFORMATION

the date of grant), the legal personal representative(s) of the grantee may exercise the option up to the grantee's entitlement (to the extent which has become exercisable and not already exercised) within a period of 12 months following his death provided that where any of the events referred to in (xvii), (xviii) and (xix) occurs prior to his death or within such period of 12 months following his death, then his personal representative(s) may so exercise the option within such of the various periods respectively set out therein.

### *(xiv) Rights on cessation of employment by dismissal*

In the event that the grantee is an employee of our Group at the date of grant and he subsequently ceases to be an employee of our Group on any one or more of the grounds that he has been guilty of serious misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by our Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group, his option shall lapse automatically (to the extent not already exercised) on the date of cessation of his employment with our Group.

### *(xv) Rights on cessation of employment for other reasons*

In the event that the grantee is an employee of our Group when an Offer is made to him and he subsequently ceases to be an employee of our Group for any reason other than his death or the termination of his employment on one or more of the grounds specified in (xiv) above, the option (to the extent not already exercised) shall lapse on the expiry of 3 months after the date of cessation of such employment (which date will be the last actual working day with our Company or the relevant member of our Group whether salary is paid in lieu of notice or not).

### *(xvi) Effects of alterations to share capital*

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable, whether by way of capitalization of profits or reserves, rights issue, open offer, consolidation, subdivision or reduction of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which any member of our Group is a party), such corresponding adjustments (if any) shall be made in the number of Shares subject to the option so far as unexercised; and/or the subscription prices; and/or the method of exercise of the option, as the auditors of or independent financial adviser to our Company shall certify or confirm in writing (as the case may be) to our Board to be in their opinion fair and reasonable in compliance with the relevant provisions of the [●], or any guideline or supplemental guideline issued by the [●] from time to time (no such certification is required in case of adjustment made on a [●]), provided that any alteration shall give a grantee the same proportion of the issued share capital of our Company as that to which he was previously entitled, but no adjustment shall be made to the effect of which would be to enable a Share to be issued at less than its nominal value.



## APPENDIX V

## STATUTORY AND GENERAL INFORMATION

### *(xvii) Rights on a general offer*

In the event of a general offer (whether by way of takeover offer or scheme of arrangement or otherwise in like manner) being made to all the Shareholders (or all such holders other than the offeror and/or any persons controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becoming or being declared unconditional, the grantee shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 1 month after the date on which the offer becomes or is declared unconditional.

### *(xviii) Rights on winding-up*

In the event a notice is given by our Company to the members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Company to give notice thereof to all grantees and thereupon, each grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than 2 business days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

### *(xix) Rights on compromise or arrangement*

In the event of a compromise or arrangement between our Company and the Shareholders or the creditors of our Company being proposed in connection with a scheme for the reconstruction of our Company or our amalgamation with any other company or companies pursuant to the Companies Law, our Company shall give notice thereof to all the grantees (or, as the case may be, their legal personal representatives) on the same day as it gives notice of the meeting to the Shareholders or the creditors to consider such a compromise or arrangement and the options (to the extent not already exercised) shall become exercisable in whole or in part on such date not later than 2 business days prior to the date of the general meeting directed to be convened by the court for the purposes of considering such compromise or arrangement ("Suspension Date"), by giving notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given whereupon our Company shall as soon as practicable and, in any event, no later than 3:00 p.m. on the business day immediately prior to the date of the proposed general meeting, allot and issue the relevant Shares to the grantee credited as fully paid. With effect from the Suspension Date, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. Our Board shall endeavour to procure that our Shares issued as a result of the exercise of options hereunder shall for

the purposes of such compromise or arrangement form part of the issued share capital of our Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the court (whether upon the terms presented to the court or upon any other terms as may be approved by such court), the rights of grantees to exercise their respective options shall with effect from the date of the making of the order by the court be restored in full but only up to the extent not already exercised and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme) as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of our officers for any loss or damage sustained by any grantee as a result of such proposal, unless any such loss or damage shall have been caused by the act, neglect, fraud or wilful default on the part of our Company or any of our officers.

*(xx) Lapse of options*

An option shall lapse automatically on the earliest of:

- (aa) the expiry of the period referred to in paragraph (ix) above;
- (bb) the date on which our Board exercises our Company's right to cancel, revoke or terminate the option on the ground that the grantee commits a breach of paragraph (xii);
- (cc) the expiry of the relevant period or the occurrence of the relevant event referred to in paragraphs (xiii), (xiv), (xv), (xvii) and (xviii) above;
- (dd) subject to paragraph (xviii) above, the date of the commencement of the winding-up of our Company;
- (ee) the occurrence of any act of bankruptcy, insolvency or entering into of any arrangements or compositions with his creditors generally by the grantee, or conviction of the grantee of any criminal offence involving his integrity or honesty;
- (ff) where the grantee is only a substantial shareholder of any member of our Group, the date on which the grantee ceases to be a substantial shareholder of such member of our Group;
- (gg) subject to the compromise or arrangement as referred to in paragraph (xix) become effective, the date on which such compromise or arrangement becomes effective.

## APPENDIX V

## STATUTORY AND GENERAL INFORMATION

### *(xxi) Cancellation of options granted but not yet exercised*

Any cancellation of options granted but not exercised may be effected on such terms as may be agreed with the relevant grantee, as our Board may in its absolute discretion sees fit and in manner that complies with all applicable legal requirements for such cancellation.

### *(xxii) Period of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of ten years commencing on the date on the Adoption Date and shall expire at the close of business on the business day immediately preceding the tenth anniversary thereof unless terminated earlier by the Shareholders in general meeting.

### *(xxiii) Alteration to the Share Option Scheme*

- (aa) The Share Option Scheme may be altered in any respect by resolution of our Board except that alterations of the provisions of the Share Option Scheme which alters to the advantage of the grantees of the options relating to matters governed by Rule 23.03 of the [●] shall not be made except with the prior approval of the Shareholders in general meeting.
- (bb) Any amendment to any terms of the Share Option Scheme which are of a material nature or any change to the terms of options granted, or any change to the authority of our Board in respect of alteration of the Share Option Scheme must be approved by Shareholders in general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (cc) Any amendment to any terms of the Share Option Scheme or the options granted shall comply with the relevant requirements of Chapter 23 of the [●].

### *(xxiv) Termination to the Share Option Scheme*

Our Company by resolution in general meeting or our Board may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but options granted prior to such termination shall continue to be valid and exercisable in accordance with provisions of the Share Option Scheme.

### *(xxv) Conditions of the Share Option Scheme*

The Share Option Scheme is conditional on the [●] granting the [●] of, and permission to deal in our Shares may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

## APPENDIX V

## STATUTORY AND GENERAL INFORMATION

### (c) Present status of the Share Option Scheme

Application has been made to the [●] for the [●] of and permission to deal in our Shares which fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme.

As at the date of this [●], no option has been granted or agreed to be granted under the Share Option Scheme.

### E. OTHER INFORMATION

#### 1. [Tax indemnities

Mr. Cai. SY and Mr. Cai SP (the "Indemnifiers") have, pursuant to the deed of indemnity referred to in item [(f)] of the paragraph headed "Summary of material contracts" of this appendix, given indemnities in connection with taxation (including estate duty) resulting from any income, profits or gains earned, accrued or received on or before the date on which the [[●]] becomes unconditional which might be payable by any member of our Group.

The indemnities in the deed of indemnity shall not apply in, among others, the following circumstances:

- (a) to the extent that provision has been made for such taxation in the audited accounts of our Company or any of our subsidiaries for each of the two years ended [31 December 2008] and the [three] months ended [31 March 2009]; or
- (b) to the extent that such liability arises or is incurred as a result of a retrospective change in law (but not implementation of law) and/or rates coming into force after the date of the deed of indemnity; or
- (c) to the extent that such liability fall on any member of our Group in respect of any accounting period commencing after [31 March 2009] unless such taxation or liability would not have arisen but for any act or omission or transaction entered into by any of the Indemnifiers, our Company or any of our subsidiaries (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) otherwise than in the ordinary course of business on or before the date on which the deed of indemnity becomes unconditional; or
- (d) to the extent that any provision or reserve made for such taxation in the audited combined accounts of our Company or any of our subsidiaries up to [31 March 2009] which is finally established to be an over-provision or an excessive reserve as certified by a firm of accountants acceptable to our Company then the Indemnifiers' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such over-provision or excess reserve; or

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## APPENDIX V

## STATUTORY AND GENERAL INFORMATION

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- (e) for which any member of our Group is primarily liable in respect of or in consequence of any event occurring or income, profits or gains earned, accrued or received or transactions in the ordinary course of its business after 31 March 2009.

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands or the PRC is likely to fall on our Group.]

### 2. Litigation

[As at the [●], no member of our Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened against any member of our Group.]

### 3. [●]

[●]

### 4. [●]

[●]

### 5. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately [HK\$31,000] and are payable by our Company.

### 6. Promoters

The promoters of our Company are [Mr. Cai SY and Mr. Cai SP]. Save as disclosed in this [●], within the two years immediately preceding the date of this [●], no cash, securities or other benefit has been paid, allotted or given or is proposed to be paid, allotted or given to the promoters in connection with the [[●]] or the related transactions described in this [●].

### 7. [●]

[●]

### 8. [●]

[●]

### 9. [●]

[●]

## APPENDIX V

## STATUTORY AND GENERAL INFORMATION

### 10. Taxation of holders of Shares

(a) *Hong Kong*

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

(b) *Cayman Islands*

Under the present Cayman Islands law, transfers of Shares are exempt from the Cayman Islands stamp duty.

(c) *Consultation with professional advisers*

Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasized that none of our Company, our Directors or their parties involved in the [[●]] accepts responsibility for any tax effect on, or liabilities of holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

### 11. Miscellaneous

(a) Save as disclosed in this [●]:

(i) within the two years immediately preceding the date of this [●]:

(aa) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash; and

(bb) no discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of our subsidiaries and no commission has been paid or is payable in connection the issue or sale of any capital of our Company or any of our subsidiaries; and

(cc) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.

(b) Our Directors confirm that there has not been any material adverse change in the financial trading position or prospects of our Group since [31 March 2009] (being the date to which the latest audited combined financial statements of our Group were made up).

**APPENDIX V STATUTORY AND GENERAL INFORMATION**

- (c) Save as disclosed in this [●], neither our Company nor any of our subsidiaries has issued or agreed to issue any founders shares, management shares, deferred shares or any debentures.
- (d) Save as disclosed in this [●], none of the persons named in the paragraph headed "Consents of experts" is interested beneficially or non-beneficially in any shares in any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any share in any member of our Group.
- (e) The branch register of members of our Company will be maintained in Hong Kong by [Tricor Investor Services Limited]. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Company's share register in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to ensure our Shares are to be admitted into [●] for clearing and settlement.
- (f) There has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 24 months immediately preceding the date of this [●].
- (g) No company within our Group is presently listed on any [●] or traded on any trading system.
- (h) Our Directors have been advised that, under the Companies Law, the use of a Chinese name pre-approved by the Registrar of Companies in the Cayman Islands by our Company in conjunction with our English name does not contravene the Companies Law.
- (i) [The particulars of the Vendor are set out below:

<b>Name</b>	<b>Description</b>	<b>Address</b>	<b>Number of Sales Shares</b>
Well Bright	[a company incorporated in the BVI]	[263 Main Street, P.O. Box 2196, Road Town, Tortola, BVI]	[37,000,000]

- (j) The English text of this [●] shall prevail over the Chinese text.

## **APPENDIX VI**

## **DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION**

### **DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to the copy of this [●] delivered to the Registrar of Companies in Hong Kong for registration were the written consents referred to in the paragraph headed "[●]" of Appendix V to this [●], the statement of adjustments to the accountants' report set out in Appendix I to this [●], copies of the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix V to this [●].

### **DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of [●] at [●] during normal business hours up to and including the date which is 14 days from the date of this [●]:

- (a) the memorandum and articles of association of our Company;
- (b) the accountants' report of our Company prepared by [●], the text of which is set out in Appendix I to this [●], together with the related statement of adjustments;
- (c) the audited financial statements of companies comprising our Group for the years ended 31 December 2007 and 2008, if any;
- (d) the letter on unaudited pro forma financial information prepared by [●], the text of which is set out in [●] to this [●];
- (e) the PRC legal opinions dated [●] issued by [●], our legal adviser as to PRC laws;
- (f) the letter, summary of valuation and valuation certificates prepared by [●] on the property interests of our Group, the texts of which are set out in Appendix III to this [●];
- (g) the letter of advice prepared by [●] summarising certain aspects of the Companies Law referred to in the paragraph headed "Cayman Islands company law" in Appendix IV to this [●];
- (h) the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix V to this [●];
- (i) [●];
- (j) the rules of the Share Option Scheme;
- (k) [●];
- (l) the Companies Law.