



# Grand Concord International Holdings Limited 廣豪國際控股有限公司

*(Incorporated in the British Virgin Islands with limited liability)*

Stock Code: 844



## Placing and Public Offer

Sponsor, Bookrunner  
and Lead Manager



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## IMPORTANT

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If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



# Grand Concord International Holdings Limited 廣豪國際控股有限公司

(Incorporated in the British Virgin Islands with limited liability)

## LISTING ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF PLACING AND PUBLIC OFFER

<b>Number of Offer Shares</b>	<b>: 100,000,000 Shares (comprising 80,000,000 new Shares and 20,000,000 Sale Shares)</b>
<b>Number of Placing Shares</b>	<b>: 90,000,000 Shares (comprising 70,000,000 new Shares and 20,000,000 Sale Shares, subject to re-allocation)</b>
<b>Number of Public Offer Shares</b>	<b>: 10,000,000 new Shares (subject to re-allocation)</b>
<b>Offer Price</b>	<b>: HK\$0.80 per Offer Share (plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, payable in full upon application in Hong Kong dollars and subject to refund)</b>
<b>Nominal value</b>	<b>: No par value</b>
<b>Stock code</b>	<b>: 844</b>

*Sponsor, Bookrunner and Lead Manager*



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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, together with the documents specified in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any of the other documents referred to above.

The information contained herein does not constitute an offer of securities for sale in the United States. Securities may not be offered or sold in the United States unless they are registered under applicable law or are exempt from registration under the US Securities Act. The securities mentioned herein have not been, and will not be, registered under the US Securities Act. No public offering of securities will be made in the United States.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk factors" of this prospectus.

Prospective investors of the Public Offer Shares should note that the Public Offer Underwriters are entitled to terminate their obligations under the Public Offer Underwriting Agreement by notice in writing to be given by the Lead Manager (on behalf of the Public Offer Underwriters) upon the occurrence of any of the events set forth in the section headed "Underwriting — Grounds for termination" of this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of the terms of the termination provisions are set out in the section headed "Underwriting — Grounds for termination" of this prospectus. Prospective investors should carefully refer to that section for further details.

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## IMPORTANT

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### MIXED MEDIA OFFER

Our Company will be relying on section 9A of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong) and will be issuing the **WHITE** and **YELLOW** Application Forms without them being accompanied by a printed prospectus. The contents of this prospectus are identical to the electronic form prospectus which can be accessed and downloaded from 9:00 a.m. on Monday, 14 November 2011 until 12:00 noon on Thursday, 17 November 2011 from the websites of our Company at [www.grandconcord.com](http://www.grandconcord.com) under the “Investor Relations > Prospectus” section and the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) under the “HKExnews > Listed Company Information > Latest Listed Company Information” section, respectively.

Members of the public who wish to obtain a copy of the printed prospectus may obtain a copy, free of charge, upon request during normal business hours from 9:00 a.m. on Monday, 14 November 2011 until 12:00 noon on Thursday, 17 November 2011 at the following locations:

1. any of the following addresses of the Sponsor and/or the Public Offer Underwriters:

**Celestial Capital Limited**, 21/F, Low Block, Grand Millennium Plaza, 181 Queen’s Road Central, Hong Kong; or

**Berich Brokerage Limited**, 2/F and 3/F Shum Tower, 268 Des Voeux Road Central, Hong Kong; or

**Cinda International Securities Limited**, 45/F, COSCO Tower, 183 Queen’s Road Central, Hong Kong; or

**Grand Vinco Capital Limited**, Units 4909-10, 49/F, The Center, 99 Queen’s Road Central, Hong Kong; or

**SBI E2-Capital (HK) Limited**, Unit A2, 32/F, United Centre, 95 Queensway, Hong Kong;

2. the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong; and

3. any of the following branches of **The Bank of East Asia, Limited**:

	<u>Branch name</u>	<u>Address</u>
<b>Hong Kong Island</b>	Main Branch	10 Des Voeux Road Central, Central
<b>Kowloon</b>	Mongkok Branch	638-640 Nathan Road, Mongkok
<b>New Territories</b>	Tai Wai Branch	16-18 Tai Wai Road, Cheung Fung Mansion, Shatin

During normal business hours from 9:00 a.m. on Monday, 14 November, 2011 until 12:00 noon on Thursday, 17 November 2011, at least three copies of the printed prospectus will be available for inspection at every location where the **WHITE** and **YELLOW** Application Forms are distributed as set out in the section headed “How to apply for the Public Offer Shares — where to collect the Application Forms” in this prospectus.

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## EXPECTED TIMETABLE<sup>(1)</sup>

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We will publish an announcement in Hong Kong in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) if there is any change in the following expected timetable of the Public Offer.

2011

Latest time to complete electronic applications under

**HK eIPO White Form** service through the designated

website at [www.hkeipo.hk](http://www.hkeipo.hk)<sup>(2)</sup> . . . . . 11:30 a.m. on Thursday, 17 November

Application Lists open<sup>(3)</sup> . . . . . 11:45 a.m. on Thursday, 17 November

Latest time to lodge **WHITE** and **YELLOW**

Application Forms . . . . . 12:00 noon on Thursday, 17 November

Latest time to give **electronic application**

**instructions** to HKSCC<sup>(4)</sup> . . . . . 12:00 noon on Thursday, 17 November

Latest time to complete payment of **HK eIPO White Form**

applications by effecting internet bank transfer(s)

or PPS payment transfer(s). . . . . 12:00 noon on Thursday, 17 November

Application Lists close<sup>(3)</sup> . . . . . 12:00 noon on Thursday, 17 November

(1) Announcement of the level of indication

of interest in the Placing, the level

of applications in the Public Offer and the basis

of allotment of the Public Offer Shares to be published

in the South China Morning Post (in English) and

the Hong Kong Economic Times (in Chinese) on or before . . . . . Wednesday, 23 November

(2) Results of allocations of the Public Offer (including successful

applicants' identification document numbers, where appropriate)

to be available through a variety

of channels as described in the section headed

"How to apply for the Public Offer Shares

— Publication of results" of this prospectus from . . . . . Wednesday, 23 November

A full announcement of the Public Offer containing

(1) and (2) above to be published on our Company's website

at [www.grandconcord.com](http://www.grandconcord.com) and the website of the Stock Exchange

at [www.hkexnews.hk](http://www.hkexnews.hk) from . . . . . Wednesday, 23 November

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## EXPECTED TIMETABLE<sup>(1)</sup>

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Despatch of share certificates of the Public Offer Shares  
or deposit of share certificates of the Public Offer Shares  
into CCASS in respect of wholly or partially successful  
applications under the Public Offer on or before<sup>(6)</sup> . . . . . Wednesday, 23 November

Despatch of e-Auto Refund payment instructions and refund cheques  
in respect of wholly or partially successful applications  
(if applicable) or wholly or partially unsuccessful applications  
under the Public Offer on or before<sup>(5) & (6)</sup> . . . . . Wednesday, 23 November

Dealings in the Shares on the Main Board to commence  
at 9:00 a.m. on. . . . . Thursday, 24 November

*Notes:*

1. Unless otherwise stated, all times refer to Hong Kong local times.
2. You will not be permitted to submit your application to the **HK eIPO White Form** Service Provider through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the Application Lists close.
3. If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 17 November 2011, the Application Lists will not open and close on that day. Further information is set out in the section headed “How to apply for the Public Offer Shares — Effect of bad weather on the opening of the Application Lists” of this prospectus.
4. Applicants who apply for the Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to apply for the Public Offer Shares — Applications by giving electronic application instructions to HKSCC” of this prospectus.
5. E-Auto Refund payment instructions and refund cheques will be made/issued in respect of wholly or partially unsuccessful applications pursuant to the Public Offer. Part of the Hong Kong identity card number/passport number of an applicant or, if there are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by the respective applicant may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. The banker of the respective applicant may require verification of his/her Hong Kong identity card number/passport number before encashment of the refund cheque. Inaccurate completion of Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate the refund cheque.
6. If an applicant is using a **WHITE** Application Form or using **HK eIPO White Form** service to apply for 1,000,000 Public Offer Shares or more and has indicated in his/her/its application to collect his/her/its share certificate and/or refund cheque (if any) in person, such share certificate and/or refund cheque may be collected in person from our Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, between 9:00 a.m. and 1:00 p.m. on Wednesday, 23 November 2011 or on the date notified by our Company as the date of despatch of share certificates/refund cheques/e-Auto Refund payment instructions.

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## EXPECTED TIMETABLE<sup>(1)</sup>

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Individual applicants who opt for collection in person must not authorise any other person to make their collection on their behalf. Corporate applicants who opt for collection in person must attend by their authorised representatives bearing letters of authorisation from the corporations stamped with the corporations' chops. Both individuals and authorised representatives, as the case may be, must produce at the time of collection evidence of identity acceptable to our Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. If an applicant has opted for collection in person but does not collect his/her/its share certificate and/or refund cheque (if any) by 1:00 p.m. on Wednesday, 23 November 2011, his/her/its share certificate and/or refund cheque (if any) will be sent to the address as appeared on the relevant Application Form in the afternoon on the date of despatch by ordinary post at the applicant's own risk.

If an applicant has applied for less than 1,000,000 Public Offer Shares or has applied for 1,000,000 Public Offer Shares or more and has not indicated on the relevant Application Form that his/her/its share certificate and/or refund cheque (if any) will be collected in person, then his/her/its share certificate and/or refund cheque (if any) will be sent to the address as appeared on the relevant Application Form on the date of despatch by ordinary post at the applicant's own risk.

E-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications.

If an applicant is using a **YELLOW** Application Form or giving **electronic application instructions** to HKSCC, the relevant arrangements are set forth in the section headed "How to apply for the Public Offer Shares — Despatch/collection of share certificates and refund of application money" of this prospectus.

Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. (Hong Kong time) on the Listing Date provided that (i) the Share Offer has become unconditional; and (ii) the right of termination as described in the section headed "Underwriting — Grounds for termination" of this prospectus has not been exercised and has lapsed.

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*The Offer Shares are offered for subscription solely on the basis of the information contained and the representations made in this prospectus. You should rely only on the information contained in this prospectus and the related Application Forms to make your investment decision.*

*Our Company and the Selling Shareholder have not authorised anyone to provide you with information that is different from what is contained in this prospectus and the related Application Forms. Any information or representation not contained in this prospectus or the related Application Forms must not be relied on by you as having been authorised by our Company, the Selling Shareholder, the Sponsor, Bookrunner and Lead Manager, any of the Underwriters, any of their respective directors, officers, employees, agents, representatives or affiliates, or any other person or party involved in the Share Offer.*

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## SUMMARY

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*This summary aims to give you an overview of the information contained in this prospectus and should be read in conjunction with the full text of this prospectus. As the following is only a summary, it does not contain all the information that may be important to you and you should read the prospectus in its entirety before you decide to invest in the Offer Shares.*

*There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk factors” of this prospectus. You should read that section carefully before making any decision to invest in the Offer Shares.*

*Various expressions used in this summary are defined in the section headed “Definitions” of this prospectus.*

### OVERVIEW

We are a functional fabric and innerwear manufacturer established in the PRC, offering various types of functional fabrics and innerwear for infants, toddlers as well as adults. We manufacture functional and customised fabrics for major lingerie and apparel brands including *Triumph, Wacoal, Embry Form, Maniform* (曼妮芬), *Aimer* (愛慕), *Miiow* (貓人) (previously known as *Maoren*), *Sunlaura* (桑扶蘭) and *VANCL* (凡客誠品), and innerwear products on an OEM basis for major apparel brands including *Outdoor, Ito-Yokado* (伊藤洋華堂), *Pigeon, Lee, Puma, DKNY, Carter’s* and *Orsay*. Our products are mainly sold to (i) the sourcing agents, who then resell to the renowned apparel brands; (ii) the wholesaler, who then resell to retail shops and department stores; and (iii) brand owners directly. To the best of the knowledge of our Directors, we are not aware of any relationship (apart from normal business relationship) between the brand owners and their respective sourcing agents as well as between the wholesaler and its end customers.

We have established a business model integrated with fabric and innerwear manufacturing and sale. We are vertically integrated and highly mechanised, as featured by the following production processes: (i) fabric weaving and knitting; (ii) fabric dyeing and finishing; (iii) fabric printing; and (iv) innerwear cutting and sewing. Our vertically integrated operations allow us to factor in the specific requirements of our customers in each production process. We are therefore able to offer our customers greater flexibility in their order specifications in the textile supply chain.

Our fabrics feature a variety of colours and patterns, and by combining different fibre mixtures, cotton counts and knitting methods, they could satisfy the specifications and functional requirements set by our customers. We make use of functional and chemical fibres, i.e. yarns having special functions such as temperature regulation or moisture absorption, to produce fabrics with such functions. We have also been licensed by Outlast, a worldwide company involved in the research, development, design and marketing of phase-change materials, to manufacture and sell certain Outlast’s fabrics which comprise microencapsulated phase-change materials coated fabrics or fibres in China. During the Track Record Period, sales of fabrics accounted for approximately 17.4%, 13.3%, 31.9% and 32.8% of our revenue respectively.

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## SUMMARY

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In addition, we use our own fabrics in the manufacture of innerwear products, with a growing focus on utilising our functional fabrics for innerwear. Sales of innerwear products contributed to approximately 82.6%, 86.7%, 68.1% and 67.2% of our revenue respectively during the Track Record Period.

Based on the confirmations given by the sourcing agents, our fabrics and innerwear products sold to them are used by relevant brand owners they represent. For our innerwear products, they were labelled or packed with the packaging materials bearing the names and/or logos of the relevant brands provided by the respective sourcing agents or brand owners.

Our production facilities are based in Zhucheng, Shandong, the PRC with an aggregate gross floor area of more than 52,000 sq.m. as at the Latest Practicable Date. Equipped with modern production facilities, our annual production capacity of innerwear was approximately 18.6 million pieces and our annual production capacity of fabrics was approximately 4,000 tons as at the Latest Practicable Date. During the Track Record Period, our revenue grew from approximately RMB136.2 million in 2008 to approximately RMB378.3 million in 2010, representing a CAGR of approximately 66.7%.

We focus on overseas markets for our innerwear products. During the Track Record Period, export sales of our Group amounted to approximately RMB116.1 million, RMB162.6 million, RMB229.4 million and RMB95.0 million respectively, representing a CAGR of approximately 40.6% from 2008 to 2010 and contributed to approximately 85.3%, 83.4%, 60.6% and 67.8% respectively of our revenue during the Track Record Period.

We plan to expand and upgrade our production facilities and capacities in order to enhance our strength in developing and manufacturing functional fabrics, which, our Directors believe, offer higher profit margin. It is our strategy to maintain our continuing focus on the Japanese market and expand further in the PRC and overseas markets. We will also build up our ODM capability so as to strengthen our research and development ability for developing products to be marketed under our own brand “UTEX”. In this way, our Group strives to grow into one of the leading Chinese functional fabric and innerwear manufacturers for major international apparel brands.

Our Directors believe that our close proximity to the ports in Qingdao, Shandong, the PRC, allows us to benefit from the efficient logistics infrastructure available in Qingdao, which was ranked the ninth largest port in the world in terms of container traffic by the American Association of Port Authorities in 2009.

### **EARTHQUAKE IN JAPAN**

We sell both fabrics and innerwear products to our Japanese customers. During the Track Record Period, our revenue generated from sales to the Japanese market contributed approximately 84.4%, 82.4%, 51.9% and 56.0% of the total revenue of our Group respectively. As at 30 June 2011, trade receivables due from our Japanese customers amounted to approximately RMB4.7 million, representing approximately 14.8% of our total trade receivables, and all of which have been settled as at the Latest Practicable Date.

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## SUMMARY

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In March 2011, Japan was hit by the Higashi Nihon Daishinsai (東日本大震災), which was caused by a 9.0-magnitude earthquake occurred in the Tohoku district, northeast of Japan. The earthquake triggered destructive tsunami which struck the northeastern coast of Japan, and led to an explosion at the nuclear power plant in Fukushima, Japan, leading to a public concern on possible nuclear meltdown and radiation leakage. The catastrophe has caused extensive damage and more than 10,000 deaths, and the estimated economic loss is up to approximately US\$300 billion. Our Group has inquired with our Japanese customers as to the impact of the catastrophe on them. Based on the latest information obtained by our Directors, our Japanese customers, being either brand owners, their respective sourcing agents, or the wholesaler (or its end customers which are retail shops and department stores), have not suffered significant loss or damage. Since the occurrence of the catastrophe, we have not received any cancellation of orders from our Japanese customers and have not experienced any material fluctuation in the aggregate volume of orders from them. We also have not received any request from our Japanese customers for deferral of payment to us or any indication as to their inability to pay any amount due to us. In addition, we made enquiries with our major Japanese customers shortly after the earthquake, none of these customers claimed that they suffered from serious damage from the earthquake as their major operations are not in the northeastern part of Japan. Based on the above, our Directors are of the view that our sales to the Japanese customers and the recoverability of the trade receivables from them will not be significantly adversely affected in the near future. Our sales to Japanese customers for the six months ended 30 June 2011 amounted to approximately RMB78.4 million, increased by approximately 37.9% from RMB56.9 million for the corresponding period in 2010.

For a summary of the situation of, and orders from, our major Japanese customers since the earthquake, please refer to the section headed “Business — Earthquake in Japan — Situation of and orders from our major Japanese customers since the earthquake” of this prospectus.

Our Directors expect that the economy of Japan will remain uncertain until the nuclear crisis is settled and the redevelopment plan of the affected area is drawn up. The pace of such recovery is also unclear. Our Directors consider that as the products we sell to our Japanese customers comprise mainly innerwear, which is basic household goods, the demand for our products may increase or decrease at the recovery stage. If the recovery of the Japanese economy is slow which leads to substantially fewer orders from our Japanese customers, our business and financial performance could be materially adversely affected.

Although we have not experienced any significant decreased orders (as compared with those in 2010) or any deferred payment from our major Japanese customers due to the Higashi Nihon Daishinsai, we can give no assurance that we will be able to maintain our sales volume to our Japanese customers at the same level as we had during the Track Record Period, or that we will be able to recover all the trade receivables from them, which can be affected by other factors such as our product mix and the financial condition of our Japanese customers.

We also cannot assure that there will not be any aftershocks, further natural disasters or catastrophes, or any government actions in Japan which are all beyond our control. These may result in material impact on our Japanese customers, which may adversely affect the volume of their orders, and consequently our revenue and profits. Any other detrimental change in the economic, political and social conditions, legal and regulatory requirements or decrease of demand in this market may adversely affect our financial results.

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## SUMMARY

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### LIQUIDITY AND CAPITAL RESOURCES

We had positive operating cash flow of approximately RMB33.1 million and RMB49.1 million for the years ended 31 December 2008 and 2009 respectively, but a negative operating cash flow of approximately RMB4.8 million for the year ended 31 December 2010, which was primarily due to the increases in inventories and trade receivables to cater for our Group's business expansion. The increase in inventories, in particular, the levels of raw materials and work-in-progress was attributable to the additional procurement of certain raw materials as a cost control strategy based on our management's expectation on continuous price increase in raw materials in the near future and increase in work-in-progress to satisfy customers' orders which were due after year end. Trade receivables increased significantly as a result of the increase in sales to domestic customers and a new US customer (through a sourcing agent) who normally settled their payments longer than our Japanese customers. We also recorded a negative operating cash flow for the six months ended 30 June 2011 of approximately RMB11.6 million, which was mainly due to the increase in inventories to cater for our Group's production and delivery of products during the third quarter of 2011. For details of the operating cash flow, please refer to the section headed "Financial Information — Liquidity and capital resources — Net cash generated from (used in) operating activities" of this prospectus.

During the Track Record Period, we funded our growth principally from equity and shareholders' funding as well as net cash generated from our operations and interest-bearing borrowings. Our Directors confirmed that we did not experience any liquidity problems during the Track Record Period and have never experienced any difficulty in meeting our obligations to repay interest-bearing borrowings when they became due. As at 30 June 2011, we had total cash and bank balances of approximately RMB16.7 million. The cash and bank balances are required to finance our working capital and part of our capital expenditure plans in light of our continuing growth and expansion plan.

Our Group estimates that capital expenditures for the two years ending 31 December 2011 and 2012 will be approximately RMB18 million and RMB65 million respectively. Our planned future capital expenditures mainly include the purchase of additional production facilities and construction of factories. We expect to fund these expansion plans with bank financing, cash flow from our operations and the net proceeds to be received by us from the Share Offer.

The actual amounts of expenditures incurred may vary from the estimated amounts of expenditures for a variety of reasons, including changes in market conditions and other factors. Our ability to obtain additional funding required for increased capital expenditure in the future is subject to a variety of uncertainties including the future results of our operations, financial condition and cash flows, and economic, political and other conditions in the PRC.

As at 31 October 2011, being the latest practicable date for ascertaining our indebtedness position, we had in total approximately RMB135.3 million banking facilities available, of which approximately RMB85.3 million had been utilised. Our loans generally range from 1 year to 3 years, and are denominated mainly in RMB.

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## SUMMARY

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It shall be noted that due to the recent European debt crisis and the credit crisis in Wenzhou, Zhejiang Province, the PRC, the liquidity available in the market may be adversely affected, which may consequently affect our ability to obtain bank loans at a reasonable interest rate in the future. As at the Latest Practicable Date, the Directors were not aware of any cancellation or slowing down of orders, default payment by the customers or any difficulties in obtaining banking facilities.

In addition, despite the economic downturn in the fourth quarter of 2011 may pose a downward pricing trend for our products, our Directors expect that our Group's revenue and gross profit for the year ending 31 December 2011 will be in line with year 2010. However, given the estimated increases in administrative expenses mainly attributable to certain one-off listing expenses incurred in 2011, we expect that the net profit of our Group for the year ending 31 December 2011 would be less than that for the year ended 31 December 2010.

We believe that the proceeds to be received by us from the Share Offer, together with our current cash and bank balances, our lines of credit and net cash generated from our operating activities will be sufficient to meet our capital commitments and anticipated cash needs for working capital, capital expenditures, business expansion, investments and debt repayment for at least the next 12 months commencing from the date of this prospectus.

### COMPETITIVE STRENGTHS

We believe the following competitive strengths allow us to achieve sustainable growth of our business:

- Vertically integrated operations
- Advanced and environmental-friendly production facilities
- Established relationships with key customers
- Experienced management team and advanced management system
- In-house fabrics development and testing department
- Strategic location in Shandong, the PRC

For further details of our competitive strengths, please refer the section headed "Business — Competitive strengths" of this prospectus.

### BUSINESS STRATEGIES

Our principal business strategies are:

- Focus on producing high profit margin products and developing innovative products with high added value
- Upgrade and expand our production facilities and ERP system, and improve our production processes to reinforce our one-stop solutions
- Enhance our new high-tech fabrics development capability
- Extend our spring/summer collections of fabrics and innerwear products

## SUMMARY

- Develop our ODM capacity and commence production of high-end fabrics using our brand name “UTEX”
- Market expansion into the PRC and overseas markets
- Enhance collaboration with suppliers

For further details of our business strategies, please refer the section headed “Business — Business strategies” of this prospectus.

### SUMMARY HISTORICAL FINANCIAL INFORMATION

The following tables set forth the summary consolidated financial information of our Group. We have derived the consolidated financial information for the Track Record Period from our financial statements set forth in the Accountants’ Report in Appendix I to this prospectus. The summary consolidated financial information should be read together with, and is qualified in its entirety by reference to, the consolidated financial statements in this prospectus, including the related notes.

Our consolidated financial information was prepared in accordance with HKFRSs.

#### Selected information of consolidated comprehensive income statements

	For the year ended 31 December			For the six months ended	
	2008	2009	2010	30 June 2010	2011
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>	<i>(audited)</i>
Revenue	136,188	194,912	378,289	101,357	140,158
Cost of sales	(102,519)	(127,496)	(272,644)	(72,784)	(93,516)
Gross profit	33,669	67,416	105,645	28,573	46,642
Other income and gains	372	533	3,896	367	110
Selling and distribution expenses	(4,443)	(5,846)	(10,391)	(2,388)	(3,973)
Share-based payment	—	—	—	—	(5,800)
Administrative expenses	(15,777)	(17,720)	(27,984)	(12,174)	(23,536)
Finance costs	(4,371)	(3,646)	(4,761)	(2,099)	(2,777)
Profit before tax	9,450	40,737	66,405	12,279	10,666
Income tax expense	(2,002)	(9,125)	(12,934)	(2,786)	(6,549)
Profit for the year/period	<u>7,448</u>	<u>31,612</u>	<u>53,471</u>	<u>9,493</u>	<u>4,117</u>

## SUMMARY

### *Revenue by products*

The following table sets out the breakdown of our revenue by fabrics and innerwear products during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2008		2009		2010		2010		2011	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
<b>Fabric products</b>										
— General fabrics	23,640	17.4	13,773	7.1	19,911	5.3	8,084	8.0	13,141	9.4
— Functional fabrics	—	—	12,065	6.2	100,692	26.6	27,585	27.2	32,804	23.4
<b>Subtotal</b>	<b>23,640</b>	<b>17.4</b>	<b>25,838</b>	<b>13.3</b>	<b>120,603</b>	<b>31.9</b>	<b>35,669</b>	<b>35.2</b>	<b>45,945</b>	<b>32.8</b>
<b>Innerwear products</b>										
— General innerwear	112,548	82.6	95,218	48.8	121,005	32.0	41,518	41.0	38,181	27.2
— Functional innerwear	—	—	73,856	37.9	136,681	36.1	24,170	23.8	56,032	40.0
<b>Subtotal</b>	<b>112,548</b>	<b>82.6</b>	<b>169,074</b>	<b>86.7</b>	<b>257,686</b>	<b>68.1</b>	<b>65,688</b>	<b>64.8</b>	<b>94,213</b>	<b>67.2</b>
<b>Grand Total</b>	<b>136,188</b>	<b>100.0</b>	<b>194,912</b>	<b>100.0</b>	<b>378,289</b>	<b>100.0</b>	<b>101,357</b>	<b>100.0</b>	<b>140,158</b>	<b>100.0</b>

Revenue generated from sales of fabrics included sales of our general and functional fabrics sold to third parties during the Track Record Period. General fabrics mainly represented fabrics made with pure cotton yarns, while functional fabrics included smart thermal insulation, water resistant, moisture control, anti-microbial and/or anti-odour fabrics made with synthetic yarns.

Revenue generated from sales of innerwear products mainly consisted of sales of men's and women's innerwear, including t-shirts, vests, long-sleeves pullovers, men's briefs and boxer briefs, women's panties, long johns; and also toddlers' and infants' bodysuits and bibs, on an OEM basis. According to our management, these innerwear products can be further classified into two categories, namely general innerwear comprising mainly innerwear made with cotton fabrics, and functional innerwear comprising mainly innerwear made with functional fabrics that incorporate features such as smart thermal insulation, water resistance, moisture control, anti-microbial and/or anti-odour, respectively.

Our customers are mainly (i) sourcing agents; (ii) wholesaler; or (iii) brand owners. Our Directors believe that it is common for brand owners to conduct the fabric procurement and innerwear manufacturing process through sourcing agents and such sourcing agents generally play a key role in selecting fabrics suppliers and garment manufacturers, and thus our long-term and stable business relationships with the sourcing agents of the apparel brands is a critical factor to succeed in our industry and help drive our sales. Apart from our sales to sourcing agents, we also sell some of our innerwear products directly to brand owners, or to the wholesaler, whose end customers are retail shops and department stores.

## SUMMARY

Set out below is the breakdown of the revenue of our Group sold to brand owners and sourcing agents/wholesaler respectively during the Track Record Period:

	For the year ended 31 December					For the six months ended 30 June				
	2008 (RMB'000)	(%)	2009 (RMB'000)	(%)	2010 (RMB'000)	(%)	2010 (RMB'000)	(%)	2011 (RMB'000)	(%)
Sourcing agents/ wholesaler	136,188	100.0	193,740	99.4	355,612	94.0	101,143	99.8	134,102	95.7
Brand owners	—	—	1,172	0.6	22,677	6.0	214	0.2	6,056	4.3
<b>Total</b>	<b>136,188</b>	<b>100.0</b>	<b>194,912</b>	<b>100.0</b>	<b>378,289</b>	<b>100.0</b>	<b>101,357</b>	<b>100.0</b>	<b>140,158</b>	<b>100.0</b>

### *Revenue by geographical locations*

The following table shows the breakdown of our revenue by markets during the Track Record Period:

Countries	For the year ended 31 December					For the six months ended 30 June				
	2008 (RMB'000)	(%)	2009 (RMB'000)	(%)	2010 (RMB'000)	(%)	2010 (RMB'000)	(%)	2011 (RMB'000)	(%)
	<i>(audited)</i>		<i>(audited)</i>		<i>(audited)</i>		<i>(unaudited)</i>		<i>(audited)</i>	
Japan	114,974	84.4	160,595	82.4	196,443	51.9	56,869	56.1	78,428	56.0
The PRC (including Hong Kong)	20,040	14.7	32,289	16.6	148,896	39.4	44,488	43.9	45,159	32.2
The US	—	—	—	—	30,249	8.0	—	—	14,552	10.4
Others <sup>(Note)</sup>	1,174	0.9	2,028	1.0	2,701	0.7	—	—	2,019	1.4
<b>Total</b>	<b>136,188</b>	<b>100.0</b>	<b>194,912</b>	<b>100.0</b>	<b>378,289</b>	<b>100.0</b>	<b>101,357</b>	<b>100.0</b>	<b>140,158</b>	<b>100.0</b>

*Note:* Others include sales made to Canada, Spain, Israel and Korea.

### STATISTICS OF THE SHARE OFFER

	<b>Based on the Offer Price of HK\$0.80</b>
Market capitalisation <sup>(1)</sup>	HK\$304 million
Pro forma adjusted net tangible assets per Share <sup>(2)</sup>	HK\$0.499
Pro forma price/earnings multiple <sup>(3)</sup>	4.8 times



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## SUMMARY

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### *Notes:*

1. The market capitalisation does not take into account any Shares which may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme.
2. The unaudited pro forma adjusted net tangible assets per Share is arrived at after making the adjustments set forth in the section headed “Financial information” of this prospectus and on the basis of a total of 380,000,000 Shares in issue and expected to be issued upon completion of the Share Offer but does not take into account any Shares which may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme or 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 our Shares referred to in the paragraph headed “Resolutions in writing of all the Shareholders passed on 19 August 2011 and 8 November 2011” in Appendix V to this prospectus. No account has been taken of the interests which may have been received on the estimated net proceeds to be received by us from the Share Offer.

Appendix II to this prospectus sets forth the calculation of the unaudited pro forma adjusted net tangible assets per Share.

3. The calculation of the pro forma price/earnings multiple is based on the Offer Price of HK\$0.8 and the earnings per Share on a pro forma basis for the year ended 31 December 2010 and the assumed number of Shares outstanding as set forth in note 2 above.

### **DIVIDEND POLICY**

The amount of any dividends to be declared in the future will depend on, among others, our Group’s results of operations, available cashflows and financial condition, operating and capital requirements, the amount of distributable profits based on the HKFRSs, the Articles of Association, the Companies Act, applicable laws and regulations and any other factors that our Directors deem relevant. The payment of dividends may also be limited by legal restrictions and agreements that our Group may enter into in the future.

Subject to the factors described above, we currently intend to recommend at the next annual general meeting of our Company an annual dividend of approximately 30% of our consolidated profit attributable to equity holders of our Company for the period beginning from the Listing Date and ending on 31 December 2011. The aforementioned annual dividend should not be viewed as an indication of the amount of dividends that our Company may declare or pay in the future.

### **USE OF PROCEEDS**

Our Directors intend to apply the net proceeds to be received by us from the Share Offer to finance our capital expenditure and business expansion, strengthen our capital base and improve our overall financial position.

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## SUMMARY

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We estimate that we will receive net proceeds from the Share Offer of approximately HK\$38.4 million, after deducting the underwriting commissions and estimated expenses payable by us in relation to the Share Offer.

Assuming that we receive the estimated net proceeds as described above, we currently intend to use the net proceeds to be received by us from the Share Offer as follows:

- as to approximately 50%, or HK\$19.2 million, for upgrading and expanding our manufacturing equipment and production plants to enhance our production efficiency (please refer to the section headed “Business — Production — Production facilities and capacity — Expansion” for further details of our Group’s expansion of equipment);
- as to approximately 20%, or HK\$7.7 million, for expanding the sales of our fabrics products in the PRC market and the sales of our innerwear products in the overseas market by establishing and reinforcing the sales channels in these markets and participating in trade exhibitions;
- as to approximately 10%, or HK\$3.8 million, for developing high-margin and innovative products and for enhancement of our new high-tech fabrics development capability;
- as to approximately 10%, or HK\$3.8 million, for developing our ODM capability and for promoting our brand name “UTEX”; and
- the remaining net proceeds for funding our general working capital and other general corporate purposes.

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## SUMMARY

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To the extent that the net proceeds to be received by us from the Share Offer are not immediately required for the above purposes or if we are unable to effect any part of our future development plans as intended, we may hold such funds in short-term deposits with licensed banks and/or authorised financial institutions in Hong Kong and/or the PRC for so long as it is in our best interest.

### **RISK FACTORS**

We consider that there are certain risks involved in our business and operations and in connection with the Share Offer. Such risks can be categorised into (i) risks relating to our business; (ii) risks associated with our industry; (iii) risks associated with the PRC; and (iv) risks relating to the Share Offer. These risks are set out in the section headed “Risk factors” of this prospectus, the headings of which are as follows:

#### **Risks relating to our business:**

- We rely on sales to the Japanese market and any natural catastrophes happening in Japan or significant change in the economic, political and social conditions, legal and regulatory requirements or decrease of demand in this market may adversely affect our financial results.
- Our operating results may be adversely affected by increases in the prices of yarn and other raw materials we use in our production processes.
- We rely on our key management team.
- We have not entered into long-term sales agreement with most of our customers.
- We rely on a stable supply of labour at reasonable cost.
- We rely on a stable supply for our raw materials.
- We rely on our production facilities.
- We rely on a few major customers.
- We relied on bank and other borrowings during the Track Record Period and may continue to depend on bank borrowings in the near future for our operations.
- We had negative operating cash flow for the year ended 31 December 2010 and for the six months ended 30 June 2011, and failure to exercise tight credit and inventory control may adversely affect our operating cash flows.
- We had net current liabilities as at 31 December 2008 and 2009.

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## SUMMARY

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- We may not be able to sustain our rapid business growth in the future.
- It may be difficult to effect service of process upon us or our Directors or senior officers who reside in the mainland China or to enforce against them in the mainland China any judgments obtained from non-PRC courts.
- Our business and reputation may be affected by product liability claims, litigation, complaints or adverse publicity.
- Our insurance coverage may not be sufficient to cover the risks related to our operations and losses.
- We could be involved in intellectual property disputes.
- We did not fully contribute to the mandatory social insurance and housing provident fund.

### **Risks associated with our industry:**

- We operate in a highly competitive industry and we may lose market share if we do not compete successfully.
- Our industry has historically experienced seasonality, which we expect to continue. This could cause our operating results to fluctuate.
- The fabric and innerwear products manufacturing business requires rapid and effective response to the fast changing fashion trends.
- Stringent environmental protection requirements could affect our business.
- Changes in occupational health and safety rules or regulations or human rights laws may adversely affect participants in the fabric and innerwear products manufacturing industry.
- Increased inspection procedures and tighter product safety laws as well as import and export controls could increase the operating costs of our Group and cause disruption to our business.
- Import quotas, higher tariffs or other trade barriers imposed by Japan, the United States, the European Union or other WTO member nations on the textile industry may have a material adverse impact on our results of operations.

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## SUMMARY

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### **Risks associated with the PRC:**

- Uncertainty in the PRC legal system may make it difficult for us to predict the outcome of any disputes that we may be involved in.
- Our results and financial position are highly susceptible to changes in political, economic and social conditions of the PRC as our revenue is mainly derived from our operations in the PRC.
- The preferential tax treatment enjoyed by our Group during the Track Record Period has ended.
- Future movements in exchange rates may adversely affect our financial position and results of operation.
- Restriction on currency conversion may limit our ability to remit dividends and affect our business.
- Any increase in interest rates in the PRC may materially affect our results.
- The outbreak of any severe contagious diseases in the PRC, if uncontrolled, could affect the financial performance and prospects of our Group.
- Payment of, and tax exemptions on, dividends are subject to restriction under the PRC laws.
- Enforcement of judgments obtained from non-PRC courts may be difficult.
- PRC regulations may limit our ability to make additional capital contributions to our subsidiaries in the PRC.
- The new PRC Labour Contract Law may have an impact on our Group's operations and our labour costs may increase as we may be liable to fines and penalties for any material breach of the new law.
- Acts of God, acts of war and other disasters could affect our business.

### **Risks relating to the Share Offer:**

- There has been no prior public market for the Shares.
- The market price of the Shares may be volatile.
- Concentrated ownership and our Controlling Shareholders may exert substantial influence over us and may not act in the best interests of our independent Shareholders.

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## SUMMARY

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- Investors will experience dilution of pro forma adjusted net tangible asset value because the Offer Price is higher than our net tangible book value per Share and may also experience dilution if we issue new Shares in the future.
- There may be dilution of shareholding as a result of additional issue of Shares in the future.
- Our historical financial information may not represent future performance, which may affect our future dividend policy.
- We cannot guarantee the accuracy of the statistics and industry information that are derived from various official sources.

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following terms and expressions shall have the following meanings:*

“affiliate(s)”	with respect to any person(s), any other person(s) directly or indirectly controlling or controlled by or under direct or indirect common control with such specified person
“Application Form(s)”	<b>WHITE, YELLOW</b> and <b>GREEN</b> application form(s) or, where the context so requires, any of them that is used in connection with the Public Offer
“Application Lists”	the application lists for the Public Offer
“Articles of Association” or “Articles”	the articles of association of our Company as amended from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	the British Virgin Islands
“CAGR”	an acronym for compound annual growth rate
“CCASS”	Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant

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## DEFINITIONS

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“Celestial Capital” and/or “Sponsor” and/or “Bookrunner” and/or “Lead Manager”	Celestial Capital Limited, a licensed corporation under the SFO permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities (as defined in the SFO), acting as the bookrunner and lead manager of the Share Offer, and the Sponsor to the Listing
“Companies Act”	the BVI Business Companies Act 2004 and any amendments thereto
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended and supplemented from time to time
“Company” or “our Company”	Grand Concord International Holdings Limited (廣豪國際控股有限公司), a company incorporated in the BVI with limited liability on 8 December 2010
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and, in the context of this prospectus, means Global Wisdom, Mr. Wong and Madam Hung Kin
“Director(s)”	the director(s) of our Company
“EIT”	中華人民共和國企業所得稅 (the enterprise income tax of the PRC*)
“EIT Law”	《中華人民共和國企業所得稅法》 (the Enterprise Income Tax Law of the PRC*)
“GDP”	an acronym for gross domestic product
“Global Wisdom” or “Selling Shareholder”	Global Wisdom Capital Holdings Limited, a company incorporated in the BVI with limited liability on 8 December 2010, which was owned as to 50% by Mr. Wong and 50% by Madam Hung Kin as at the Latest Practicable Date, and the vendor of the Sale Shares
“Grand Concord (BVI)”	Grand Concord Holdings Group Limited, a company incorporated in the BVI with limited liability on 8 December 2010 and our wholly-owned subsidiary
“Grand Concord (HK)”	Grand Concord Trading Limited (廣豪貿易有限公司), a company incorporated in Hong Kong with limited liability on 30 November 1995 and our indirect wholly-owned subsidiary



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## DEFINITIONS

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“Grand Concord Garment”	Grand Concord Garment (Hong Kong) Limited (廣豪服飾(香港)有限公司), a company incorporated in Hong Kong with limited liability on 3 June 2010 and our indirect wholly-owned subsidiary
“GREEN Application Form(s)”	the application form(s) to be completed by the <b>HK eIPO White Form Service Provider</b>
“Group”, “our Group”, “we” or “us”	our Company and our subsidiaries following the completion of the Reorganisation or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their respective predecessors
“HK eIPO White Form”	the application for Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of HK eIPO White Form at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>
“HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company, as specified on the designated website <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>
“HKFRSs”	Hong Kong Financial Reporting Standards
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“independent third party(ies)”	a person(s) or company(ies) who/which is/are independent of and not connected with any member of our Group, our Directors, chief executives and the substantial shareholders of our Company and our subsidiaries and their respective associates
“Japanese yen”	the lawful currency of Japan
“kg”	a metric unit of weight (1 kilogram equals to 1,000 grams)
“Latest Practicable Date”	7 November 2011, being the latest practicable date prior to the publication of this prospectus for ascertaining certain information contained in this prospectus

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## DEFINITIONS

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“Listing”	the listing of our Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Date”	the date on which dealings in the Shares first commence on the Stock Exchange and which is expected to be on or around Thursday, 24 November 2011
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company as amended from time to time
“Mr. S.H. Wang”	Mr. Wang Shao Hua, our executive Director
“Mr. Wong”	Mr. Wong Kin Ling, our co-founder, chairman and executive Director
“Mr. Wei”	Mr. Wei Jin Long, our executive Director
“M&A Regulations”	《關於外國投資者併購境內企業的規定》(The Regulations on the Acquisitions of Domestic Enterprises by Foreign Investors*), which was promulgated by six PRC governmental and regulatory agencies, including the Ministry of Commerce and the China Securities Regulatory Commission on 8 August 2006 and became effective on 8 September 2006 (with subsequent revision on 22 June 2009)
“No. 75 Notice”	《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》(The Notice of SAFE on Issues relating to Foreign Exchange Control on Fund Raising by Domestic Residents through Offshore Special Purpose Vehicles and Round-trip Investments*) promulgated on 21 October 2005
“ODM”	acronym for original design manufacturer, a business model involving designing as well as manufacturing for sale to a client who then resells under the brand name of the client

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## DEFINITIONS

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“OEM”	acronym for original equipment manufacturer, a business model that manufactures or purchases from other manufacturers and possibly modifies goods or equipment for branding and resale by others
“Offer Price”	the offer price of HK\$0.80 per Offer Share (excluding the Stock Exchange trading fee of 0.005%, the SFC transaction levy of 0.003% and brokerage of 1%), at which the Offer Shares are to be subscribed for and issued pursuant to the Share Offer
“Offer Shares”	the Placing Shares and Public Offer Shares
“Outlast”	Outlast Technologies, Inc., a privately held and venture-backed company incorporated in Colorado, the United States, and engaged in the research, development, design and marketing of phase change materials, and an independent third party which has authorised us to manufacture and sell certain products under its name
“Placing”	the conditional placing of the Placing Shares through the Placing Underwriter, acting on behalf of our Company, at the Offer Price, with professional, institutional and individual investors in certain jurisdictions as described in the section headed “Structure and conditions of the Share Offer” of this prospectus
“Placing Shares”	the 90,000,000 Shares which comprise 70,000,000 new Shares being offered by our Company for subscription and 20,000,000 Sale Shares offered by the Selling Shareholder for sale under the Placing (subject to the re-allocation as described in the section headed “Structure and conditions of the Share Offer” of this prospectus)
“Placing Underwriter”	the underwriter of the Placing whose name is set forth in the section headed “Underwriting” of this prospectus
“Placing Underwriting Agreement”	the conditional underwriting agreement dated 11 November 2011 and entered into between our Company, the Selling Shareholder, our Controlling Shareholders and the Placing Underwriter relating to the Placing, details of which are set forth in the section headed “Underwriting” of this prospectus

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## DEFINITIONS

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“PRC” or “China”	the People’s Republic of China, which, for the purposes of this prospectus, excludes Hong Kong, Macau and Taiwan
“Public Offer”	the initial offer of the Public Offer Shares for the subscription by the public in Hong Kong (subject to the re-allocation as described of the section headed “Structure and conditions of the Share Offer” of this prospectus) at the Offer Price (plus the Stock Exchange trading fee of 0.005%, the SFC transaction levy of 0.003% and brokerage of 1%) on and subject to the terms and conditions stated in this prospectus and in the Application Forms as further described in the section headed “Structure and conditions of the Share Offer” of this prospectus
“Public Offer Shares”	the 10,000,000 new Shares initially offered for subscription under the Public Offer (subject to re-allocation as described in the section headed “Structure and conditions of the Share Offer” of this prospectus)
“Public Offer Underwriters”	the underwriters of the Public Offer whose names are set forth in the section headed “Underwriting” of this prospectus
“Public Offer Underwriting Agreement”	the conditional underwriting agreement dated 11 November 2011 and entered into between our Company, the Selling Shareholder, our Controlling Shareholders and the Public Offer Underwriters relating to the Public Offer, details of which are set forth in the section headed “Underwriting” of this prospectus
“Reorganisation”	the reorganisation of our Group in preparation for the Listing, particulars of which are set forth in the section headed “History, Reorganisation and Group Structure — Reorganisation” of this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	中國國家外匯管理局 (State Administration of Foreign Exchange of the PRC*)
“SAIC”	中國國家工商行政管理總局 (State Administration for Industry and Commerce of the PRC*)
“Sale Shares”	the 20,000,000 existing Shares being offered for sale by the Selling Shareholder at the Offer Price under the Placing

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## DEFINITIONS

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“SFC”	the 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
“Shandong Grand Concord”	山東廣豪服飾有限公司 (Shandong Grand Concord Garment Company Limited*), a company established in Zhucheng, Shandong Province, the PRC with limited liability on 9 July 2007 and our indirect wholly-owned subsidiary
“Share(s)”	ordinary share(s) with no par value of our Company
“Share Offer”	the Placing and the Public Offer
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 19 August 2011, the principal terms of which are set forth in the paragraph headed “Share Option Scheme” in Appendix V to this prospectus
“Shareholder(s)”	holder(s) of our Shares
“sq.ft.” and “sq.m.”	square feet and square metres, respectively
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under Section 2 of the Companies Ordinance
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Track Record Period”	the three financial years ended 31 December 2010 and the six months ended 30 June 2011
“Underwriters”	the Placing Underwriter and the Public Offer Underwriters
“Underwriting Agreements”	the Placing Underwriting Agreement and the Public Offer Underwriting Agreement
“United States” or “US”	the United States of America
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States of America

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## DEFINITIONS

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“ <b>WHITE</b> Application Form(s)”	the form(s) of application for the Public Offer Shares for use by the public who require such Public Offer Shares to be issued in the applicants’ own name
“WTO”	the World Trade Organisation
“ <b>YELLOW</b> Application Form(s)”	the form(s) of application for the Public Offer Shares for use by the public who require such Public Offer Shares to be deposited directly into CCASS
“Zhucheng Eternal Knitting”	諸城裕泰針織有限公司 (Zhucheng Eternal Knitting Company Limited*), a company established in Zhucheng, Shandong Province, the PRC with limited liability on 24 October 2000 and our indirect wholly-owned subsidiary
“Zhucheng Yumin Knitting”	諸城裕民針織有限公司 (Zhucheng Yumin Knitting Company Limited*), a company established in Zhucheng, Shandong Province, the PRC with limited liability on 22 November 2004 and our indirect wholly-owned subsidiary
“%”	per cent.
“€” or “Euro”	euro, the lawful currency of the European Union

The English names of the PRC entities, PRC laws or regulations or the PRC government authorities mentioned in this prospectus and marked with “\*” are translation from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese names shall prevail.

Unless the context requires otherwise, translation between HK\$ and RMB is made in this prospectus, for illustration purpose only, at the rate of HK\$1 = RMB0.847.

No representation is made that any amount in HK\$ or RMB could have been or could be converted at the above rate or at any other rate or at all.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

Unless otherwise expressly stated on the context otherwise requires, all data in this prospectus are as of the Latest Practicable Date.

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## GLOSSARY OF TECHNICAL TERMS

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*This glossary of technical terms contains terms used in this prospectus in connection with our Company. The meanings given to these terms may differ from meanings given to them by others in the industry.*

“Agreement on Textiles and Clothing” or “ATC”	an arrangement that imposed textile and clothing quotas on imports from developing countries to industrialised countries that was phased out on 1 January 2005 by the WTO
“cotton”	a unicellular, natural fibre composed of pure cellulose
“cotton fabric”	cloth which is made from cotton yarn knitted together
“cotton yarn”	yarn produced from cotton fibres used in knitting and weaving. For the purposes of this prospectus, cotton yarn includes cotton polyester blend and other cotton blends
“ERP system”	enterprise resource planning system, an accounting-oriented information system for identifying and planning the enterprise-wide resources needed to take, make, distribute, and account for customer orders
“functional fabrics”	fabrics that incorporate value-added features such as moisture management, anti-microbial and/or anti-odour
“greige fabric”	an unprocessed form of fabric just off the loom or knitting machine
“interlock”	a type of double-knit fabric that has a smooth surface on both sides
“stretch fabrics”	fabrics knitted with elastomers to provide stretch properties
“synthetic yarn”	yarn produced from synthetic fibres
“warp”	a sheet of yarns wound together on a beam for the purpose of weaving or warp knitting
“warp knit”	a knitting method that differs from weft knitting in that each needle loops its own thread. The needles produce parallel rows of loops simultaneously that are interlocked in a zigzag pattern
“weft”	yarn that runs crosswise during the knitting process

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## GLOSSARY OF TECHNICAL TERMS

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“weft knit”                      weft knitting uses one continuous yarn to form rows of loops across a fabric

“yarn”                              a long, continuous length of interlocked fibres used to construct a fabric. As used in this prospectus, yarn includes cotton yarn and synthetic yarn



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## FORWARD LOOKING STATEMENTS

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This prospectus contains, and the documents incorporated by reference herein may contain, forward-looking statements representing our goals, and actual results or outcomes may differ materially from those expressed or implied. Such forward-looking statements are subject to certain risks, uncertainties and assumptions. Forward-looking statements typically can be identified by the use of words such as “will”, “expect”, “estimate”, “anticipate”, “plan”, “believe”, “may”, “intend”, “ought to”, “continue”, “project”, “should”, “seek”, “potential” and other similar terms. Although we believe that our expectations are reasonable, we can give no assurance that these expectations will prove to have been correct, and actual results may vary materially. These forward-looking statements include, but are not limited to, statements relating to:

- our business and operating strategies and the various measures we use to implement such strategies;
- our dividend distribution plans;
- our capital commitment plans;
- our operations and business prospects, including development plans for our existing and new businesses;
- the future competitive environment for the industry which we operate in;
- the regulatory environment as well as the general industry outlook for the industry which we operate in;
- future developments in the industry in which we operate; and
- general economic trends in China.

The words “will”, “expect”, “estimate”, “anticipate”, “plan”, “believe”, “may”, “intend”, “ought to”, “continue”, “project”, “should”, “seek”, “potential” and other similar expressions, as they relate to us (other than in relation to our profits, results of operations and earnings), are intended to identify a number of these forward-looking statements. Our Directors confirm that these forward-looking statements are made after due and careful consideration. Such statements which reflect the current views of our management with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Please refer to the sections headed “Risk factors”, “Business” and “Financial information” of this prospectus for more details.

Should one or more of these risks or uncertainties materialise, or should the underlying assumptions prove to be incorrect, our financial condition may be adversely affected and may vary materially from the goals we have expressed or implied in these forward-looking statements. Except as required by applicable laws and regulations, including the Listing Rules, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should not place undue reliance on any forward-looking information.

In this prospectus, statements of or references to our intentions or those of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

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## RISK FACTORS

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*Prospective investors should consider carefully all the information set forth in this prospectus including, in particular, the following risks and special considerations in connection with an investment in our Company before making any investment decision in relation to the Offer Shares. The occurrence of any of the following risks may have a material adverse effect on the business, results of operations, financial conditions and future prospects of our Group.*

*This prospectus contains certain forward-looking statements regarding our plans, objectives, expectations, and intentions which involve risks and uncertainties. Our Group's actual results could differ materially from those discussed in this prospectus. Factors that could cause or contribute to such differences include those discussed below. The trading price of the Offer Shares could decline due to any of these risks and you may lose all or part of your investment.*

### RISKS RELATING TO OUR BUSINESS

**We rely on sales to the Japanese market and any natural catastrophes happening in Japan or significant change in the economic, political and social conditions, legal and regulatory requirements or decrease of demand in this market may adversely affect our financial results.**

We sell both fabrics and innerwear products to our Japanese customers. During the Track Record Period, our revenue generated from sales to the Japanese market contributed to approximately 84.4%, 82.4%, 51.9% and 56.0% of the total revenue of our Group respectively. As at 30 June 2011, trade receivables due from our Japanese customers amounted to approximately RMB4.7 million, representing approximately 14.8% of our total trade receivables, and all of which have been settled as at the Latest Practicable Date.

In March 2011, Japan was hit by the Higashi Nihon Daishinsai (東日本大震災), which was caused by a 9.0-magnitude earthquake occurred in the Tohoku district, northeast of Japan. The earthquake triggered destructive tsunami which struck the northeastern coast of Japan, and led to an explosion at the nuclear power plant in Fukushima, Japan, leading to a public concern on possible nuclear meltdown and radiation leakage. The catastrophe has caused extensive damage and more than 10,000 deaths, and the estimated economic loss is up to approximately US\$300 billion. Our Group has inquired with our Japanese customers as to the impact of the catastrophe on them. Based on the latest information obtained by our Directors, our Japanese customers, being either brand owners, their respective sourcing agents, or the wholesaler (or its end customers which are retail shops and department stores), have not suffered significant loss or damage. Since the occurrence of the catastrophe, we have not received any cancellation of orders from our Japanese customers and have not experienced any material fluctuation in the aggregate volume of orders from them. We also have not received any request from our Japanese customers for deferral of payment to us or any indication as to their inability to pay any amount due to us. In addition, we made enquiries with each of our major Japanese customers shortly after the earthquake, none of these customers claimed that they suffered from serious damage from the earthquake as their major operations are not in the northeastern part of Japan. Based on the above, our Directors are of the view that our sales to the Japanese customers and the recoverability of the trade receivables from them will not be significantly adversely affected in the near future. Our sales to Japanese customers for the six months ended 30 June 2011 amounted to approximately RMB78.4 million, increased by approximately 37.9% from RMB56.9 million for the corresponding period in 2010.

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## RISK FACTORS

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For a summary of the situation of, and orders from, our major Japanese customers since the earthquake, please refer to the section headed “Business — Earthquake in Japan — Situation of and orders from our major Japanese customers since the earthquake” of this prospectus.

Our Directors expect that the economy of Japan will remain uncertain until the nuclear crisis is settled and the redevelopment plan of the affected area is drawn up. The pace of such recovery is also unclear. Our Directors consider that as the products we sell to our Japanese customers comprise mainly innerwear, which is basic household goods, the demand for our products may increase or decrease at the recovery stage. If the recovery of the Japanese economy is slow which leads to substantially fewer orders from our Japanese customers, our business and financial performance could be materially adversely affected.

Although we have not experienced any significant decreased orders (as compared with those in 2010) or any deferred payment from our major Japanese customers due to the Higashi Nihon Daishinsai, we can give no assurance that we will be able to maintain our sales volume to our Japanese customers at the same level as we had during the Track Record Period, or that we will be able to recover all the trade receivables from them, which can be affected by other factors such as our product mix and the financial condition of our Japanese customers.

We also cannot assure that there will not be any aftershocks, further natural disasters or catastrophes, or any government actions in Japan which are all beyond our control. These may result in material impact on our Japanese customers, which may adversely affect the volume of their orders, and consequently our revenue and profits. Any other detrimental change in the economic, political and social conditions, legal and regulatory requirements or decrease of demand in this market may adversely affect our financial results.

**Our operating results may be adversely affected by increases in the prices of yarn and other raw materials we use in our production processes.**

Raw materials used in our Group’s production processes consist principally of cotton and synthetic yarns, greige fabrics, dyes and apparel sewing-related materials such as thread, trimmings, buttons and zippers. In particular, cotton yarns, synthetic yarns and greige fabrics contribute to a substantial portion of our cost of sales. During the Track Record Period, our purchases of cotton yarns accounted for approximately 25.6%, 14.7%, 8.0% and 10.7%, of our cost of sales while our purchases of synthetic yarns accounted for approximately 10.3%, 23.5%, 38.8% and 28.5% of our cost of sales respectively. Our purchases of greige fabrics accounted for approximately 0.3%, 4.4%, 15.0% and 8.7% respectively of our cost of sales during the same periods.

The cost for yarns and greige fabrics can be volatile depending on the cotton and crude oil prices which are largely determined by supply and demand of cotton and crude oil in the commodity market. Prices of cotton, which is the major raw material of cotton yarns, and crude oil, which is the raw material of many kinds of fibre for synthetic yarns, would affect our production costs. During the Track Record Period, our average cost of cotton yarns was approximately RMB21.3, RMB20.7, RMB28.1 and RMB33.7 per kg respectively, and our average cost of synthetic yarns was approximately RMB23.0, RMB28.2, RMB39.0 and RMB50.7 per kg respectively. In particular, in 2010, we experienced an increase by approximately RMB7.4

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## RISK FACTORS

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per kg and RMB10.8 per kg, or 35.7% and 38.3%, respectively in average costs for cotton and synthetic yarns as a result of the increase in average cotton and crude oil prices by 51.3% and 29.3% during the year. In the first half of 2011, our average costs for cotton and synthetic yarns further increased by approximately RMB5.6 per kg and RMB11.7 per kg, or 19.9% and 30.0%, respectively resulting from the increase in average cotton and crude oil prices by approximately 43.7% and 37.9% during the same period. Any substantial increase in our costs of raw materials would affect our costs of sales, and if we are unable to transfer fully such increased costs to our customers, our profit margin may decrease.

In view of the price fluctuation of raw materials, we communicate closely with our customers on the types of raw materials used in our products for the purposes of controlling the costs. Through negotiations with our customers, we were able to shift part of the increase in cost of raw materials to them during the Track Record Period. However, we give no assurance that we can transfer any increased costs to our customers in the future, and thus any further increases in raw material prices may adversely affect our results of operations.

### **We rely on our key management team.**

Our success depends significantly on the management skill and sales and manufacturing experience in fabric and innerwear industry of our key management team, in particular Mr. Wong, our chairman, and other executive Directors, namely Madam Hung Kin, Mr. S.H. Wang and Mr. Wei. They have been playing a significant role in the development and daily operations of our Group and our future development is dependent largely on their involvement, efforts, performance and abilities. Each of our executive Directors has entered into a service contract with our Company for an initial fixed term of three years commencing from the Listing Date. However, if any of them leave our Group, we may be unable to find any suitable replacement easily and our operation and profitability may be materially and adversely affected.

In addition, we rely on the continuous service of our senior management and technical staff. We value the contribution of our senior executives and technical personnel and our remuneration packages and incentive schemes are competitive in order to retain them. Nevertheless, there is no assurance that our Group will be able to retain or hire qualified management and technical personnel at all times in the future. We may need to offer higher compensation and other benefits in order to attract and retain qualified management and technical personnel in the future. If we encounter any difficulty in recruiting or retaining competent personnel to manage our business operation as well as to market and sell our products, our business operations and financial performance may be adversely affected.

### **We have not entered into long-term sales agreement with most of our customers.**

We have not entered into long-term sales agreement with most of our customers and only have verbal discussions with them on the indicative total sales volume during a fixed term, e.g. a year. As a result, such customers do not have any contractual obligation to continue placing orders with us at the same level which they have ordered in the past or at all and hence, no assurance can be given in relation to the amounts of purchase orders in the future. If any of these customers, particularly our major customers, materially reduce their orders to

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## RISK FACTORS

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us or terminate their respective relationships with us at any time without reason or notice, our business and financial performance may be adversely affected. Furthermore, the actual volume of our customers' orders may prove to be inconsistent with our expectations at the time we plan our expenditures. As a result, our results of operations may vary from period to period and may fluctuate significantly in the future.

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

Our production remains highly labour intensive. As at the Latest Practicable Date, we had more than 1,400 employees. Labour costs accounted for approximately 14.6%, 14.0%, 11.4% and 15.5% of our cost of sales during the Track Record Period.

Labour costs in China are affected primarily by demand and supply of labour and other economic factors in China. In view of the economic growth in China, we expect the average salary of labour to rise gradually in the future. There is no guarantee that our supply of labour and average labour cost will continue to be stable. If we fail to retain our existing labour and/or recruit sufficient labour in a timely manner, we may not be able to cope with any sudden increase in demand for our products or our expansion plans. Any increase in our labour costs would also affect our costs of sales and may lower our profit margin.

### **We rely on a stable supply for our raw materials.**

Most of the raw materials used by our Group are purchased from suppliers in the PRC. Approximately 33.1%, 41.6%, 33.4% and 54.5% of our raw materials were sourced from our five largest suppliers during the Track Record Period. The orders of greige fabrics and yarns are on a case by case basis according to the committed orders from our customers with different specifications. To meet our production and delivery schedules, we must timely obtain sufficient quantities of these materials. We have not entered into any long-term supply agreement with any suppliers as most of the raw materials used by our Group are generally available in the PRC. We can give no assurance that our Group will be able to secure stable and sufficient supply of raw materials from our suppliers in the future. The loss of any of these suppliers or interruption of production at one or more of the suppliers could have an adverse effect on the business, financial condition and results of operations of our Group.

### **We rely on our production facilities.**

We rely on the use of machinery in our production process. The machinery is subject to inspection and maintenance during which the production capacity may be affected. In some circumstances, machinery may have to be replaced but we cannot assure that such replacement will be readily available. We may also require maintenance services from external vendors who may or may not provide timely services. In such events, our financial resources will need to be diverted to the servicing and replacement of machinery. Although we have not encountered any significant breakdown of our machinery during the Track Record Period, any significant disruptions arising out of any such event will adversely affect our business and financial performance in a material respect.

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## RISK FACTORS

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### **We rely on a few major customers.**

Our ongoing growth and profitability are significantly dependent on our ability to maintain close and mutual beneficial relationships with our customers. During the Track Record Period, we had 186, 150, 121 and 112 customers respectively. However, we derived a significant portion of our total revenue from a few major customers. In particular, sales to our five largest customers accounted for approximately 69.5%, 63.5%, 59.8% and 54.4% of our revenue during the respective periods.

There is no assurance that any of our major customers will continue to purchase products from us at the same level as they historically have done, or at all. If any of our major customers materially reduce their purchases from us or terminate their business relationships with us, our business and financial performance may be materially and adversely affected.

To reduce reliance on our five largest customers, we have been trying to diversify and broaden our customer base by expanding our domestic sales and selling infants' and toddlers' innerwear products primarily to the US market since 2010. While it is our plan to further expand our sales to these markets, we can give no assurance that such plan could be successfully implemented. Should our plan not materialise as planned, our business operations and financial performance may be adversely affected.

### **We relied on bank and other borrowings during the Track Record Period and may continue to depend on bank borrowings in the near future for our operations.**

During the Track Record Period, our operations were partly financed by bank and other borrowings. As at 31 December 2008, 2009 and 2010 and 30 June 2011, our bank and other borrowings, which included both short-term and long-term borrowings, amounted to approximately RMB60.2 million, RMB62.2 million, RMB85.8 million and RMB131.0 million respectively. We expect to fund our business operations and capital expenditure through internally-generated cashflows from operations as well as bank and other borrowings after the Listing. While our Directors anticipate that with the net proceeds to be received by us from the Share Offer, our reliance on bank and other borrowings would reduce, we may still require bank and other borrowings (either by renewal of the existing short-term and long-term loans or obtaining new facilities) to finance our business operations and expansion plans.

As at 31 October 2011, being the latest practicable date for the purpose of ascertaining our indebtedness position, the amount of our indebtedness amounted to approximately RMB95.3 million. As at 31 December 2008, 2009 and 2010 and 30 June 2011, the gearing ratios of our Group were approximately 41.9%, 32.7%, 31.4% and 39.9% respectively, which were calculated based on the summation of short-term and long-term bank and other borrowings divided by total assets. Our ability to obtain bank borrowings will depend on our financial indicators and results of operations, as well as other factors that may be out of our control, such as general market conditions, the performance of our industry, and political and economic conditions in the markets we operate. It shall be noted that due to the recent European debt crisis and the credit crisis in Wenzhou, Zhejiang Province, the PRC, the liquidity available in the market may be adversely affected, which may consequently affect our ability to obtain bank loans at a

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## RISK FACTORS

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reasonable interest rate in the future. We can give no assurance that we will always be able to obtain third party financings on reasonable terms, or at all, to finance our business, operations and capital expenditure. If additional capital is unavailable when required, our business and financial position may be adversely affected and we may have to curtail our expansion plans, which could result in an inability to successfully implement our business strategy.

**We had negative operating cash flow for the year ended 31 December 2010 and for the six months ended 30 June 2011, and failure to exercise tight credit and inventory control may adversely affect our operating cash flows.**

We had positive operating cash flow of approximately RMB33.1 million and RMB49.1 million for the years ended 31 December 2008 and 2009 respectively, but a negative operating cash flow of approximately RMB4.8 million for the year ended 31 December 2010, which was primarily due to the increases in inventories and trade receivables to cater for our Group's business expansion. The increase in inventories, in particular, the levels of raw materials and work-in-progress was attributable to the additional procurement of certain raw materials as a cost control strategy based on our management's expectation on continuous price increase in raw materials in the near future and increase in work-in-progress to satisfy customers' orders which were due after year end. Trade receivables increased significantly as a result of the increase in sales to domestic customers and a new US customer (through a sourcing agent) who normally settled their payments longer than our Japanese customers. We also recorded a negative operating cash flow for the six months ended 30 June 2011 of approximately RMB11.6 million, which was mainly due to the increase in inventories to cater for our Group's production and delivery of products during the third quarter of 2011. For details of the operating cash flow, please refer to the section headed "Financial Information — Liquidity and capital resources — Net cash generated from (used in) operating activities" of this prospectus.

We may experience negative operating cash flow as we did in 2010 and first half of 2011 in the future. Our Directors consider the exercise of tight credit and inventory control as two of the principal factors which will affect our financial performance including cash flow. In the event of any adverse changes in market conditions of the supply and demand for our Group's principal products or major raw materials which affect our exercise of tight credit or inventory control, the results and cash flow of our Group may be adversely affected.

Moreover, we have since October 2005 installed the ERP system, through which we can plan and monitor properly our production schedules, raw material procurement and inventory management to enhance our inventory control. In the event of any failure in the implementation and continuous use of the ERP system, our inventory management and hence our operation results may be adversely affected.

**We had net current liabilities as at 31 December 2008 and 2009.**

We had net current liabilities of approximately RMB58.1 million and RMB35.1 million as at 31 December 2008 and 2009 respectively, which were primarily due to the utilisation of short-term bank loans from PRC licensed banks and other loans to finance our Group's business and enhancement of our production facilities. The amount of short-term bank loans and other loans amounted to approximately RMB54.2 million and RMB58.2 million as at 31 December 2008 and 2009 respectively.

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## RISK FACTORS

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Although we recorded net current assets of approximately RMB2.8 million as at 31 December 2010 and approximately RMB77,000 as at 30 June 2011, we can give no assurance that we will continue recording net current assets in the future as we may continue using short-term banking facilities to finance our Group's operation and business expansion.

**We may not be able to sustain our rapid business growth in the future.**

During the Track Record Period, our gross profit increased from approximately RMB33.7 million for the year ended 31 December 2008 to approximately RMB105.6 million for the year ended 31 December 2010, representing a CAGR of approximately 77.1%. Our net profit increased from approximately RMB7.4 million for the year ended 31 December 2008 to RMB53.5 million for the year ended 31 December 2010, representing a CAGR of approximately 167.9%. In order to sustain such growth, we would need to implement our business plans effectively, maintain a resilient workforce, manage our costs, and exercise adequate control on our operations. There is no assurance that we will continue to maintain such business growth in the future.

**It may be difficult to effect service of process upon us or our Directors or senior officers who reside in the mainland China or to enforce against them in the mainland China any judgments obtained from non-PRC courts.**

A significant portion of our assets and our subsidiaries are located in the PRC. In addition, some of our Directors and senior officers reside in the PRC and their assets may also be located in the PRC. As a result, it may not be possible to effect service of process outside the PRC upon some of our Directors and senior officers, including with respect to matters arising under applicable securities laws. A judgment of a court of another jurisdiction may be reciprocally recognised or enforced in the PRC if that jurisdiction has a treaty with the PRC or if judgments of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of any other requirements. Recognition and enforcement in the PRC or Hong Kong of judgments of a court in these other jurisdictions in relation to any matter not subject to a binding arbitration award are uncertain.

In addition, our Shareholders will not be able to bring any action on the basis of violations of the Listing Rules and must rely on the Stock Exchange to enforce its rules. Furthermore, the Hong Kong Codes on Takeovers and Mergers and Share Repurchases do not have the force of law and provide only standards of commercial conduct considered acceptable for takeover and merger transactions and share repurchases in Hong Kong.

**Our business and reputation may be affected by product liability claims, litigation, complaints or adverse publicity.**

We believe that our reputation for product quality, on-time delivery and customer service has contributed significantly to the success of our business. Defects in our products and failure to meet delivery schedules would result in damages to our reputation and business relationships and consequently lead to decreased sale and product liability claims and litigation. Should there be a material increase in the number of claims, we may incur significant legal costs regardless of the outcome of any claim of alleged defect. If we face any product liability claims, our business, financial condition and results of operations may be materially and adversely affected.



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## RISK FACTORS

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Apparel brand owners have become increasingly sensitive about their reputations with respect to environmental and social responsibility. Accordingly, our customers may require their suppliers, including us, to fulfill certain environmental standards, and/or corporate social responsibility standards set forth by governmental or non-governmental labour organisations. In the event that we fail to fulfill these standards or if we are publicly perceived to have failed to fulfill those standards or if we are otherwise publicly associated with poor environmental or social responsibility standards, it would affect our business relationships with customers which could adversely affect our operations and profitability.

**Our insurance coverage may not be sufficient to cover the risks related to our operations and losses.**

Our operations are subject to hazards and risks associated with our manufacturing operations, which may cause significant harm to persons or damage to property. We can give no assurance that our operations will be free of accidents or that our insurance policies will be adequate to cover all losses incurred. Losses incurred and associated liabilities may have a material adverse effect on our results of operations if such losses or liabilities are not covered by our insurance policies.

**We could be involved in intellectual property disputes.**

The production and/or sale of our products involves the use of various intellectual property rights. We seek to protect our intellectual property rights by relying on laws and regulations such as trademark law of the PRC.

It may be possible for third parties to use our intellectual property without authorisation. Since we operate in a legal regime that is still developing, the protection and enforcement of our intellectual property rights may not be as effective as in countries with more mature legal systems. The steps we have taken may be inadequate to prevent the misappropriation of our proprietary technology and design. Any unauthorised use or infringement of our Group's intellectual property rights may have an adverse impact on our business. If we have to resort to litigation to enforce our intellectual property rights, significant costs may be incurred.

On the other hand, there is no assurance that infringement claims against us from third parties will not occur. Should any infringement claims be initiated against us, we may incur significant legal expenditure to defend our rights and interests or be required to pay substantial damages and be forced to develop non-infringing technology or obtain licences for such technology. Our Group may not be able to develop non-infringing technology or obtain licences acceptable to our Group and, as a result, the business of our Group may be adversely affected.

**We did not fully contribute to the mandatory social insurance and housing provident fund.**

We obtained confirmations from 諸城市人力資源和社會保障局 (Zhucheng Human Resources and Social Security Bureau\*) (“**Social Security Bureau**”) on 18 February 2011, 6 April 2011 and 18 July 2011 respectively that our PRC subsidiaries have strictly complied with the national and local laws and regulations on social insurance, have paid the social insurance

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## RISK FACTORS

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in full and on time for all employees who declared to join the social insurance since their respective establishment and up to the date of confirmations, and did not have any outstanding payment, penalty, disagreement, dispute and litigation with the Social Security Bureau regarding the social insurance. The Social Security Bureau has acknowledged its awareness that our PRC subsidiaries have not fully contributed to the social insurance for those employees who did not agree to make the contributions and there was no intention of our PRC subsidiaries to evade their respective liability, and has further confirmed its acceptance of the reason therefor as submitted by our PRC subsidiaries. As such, as confirmed by the Social Security Bureau, it will not demand our PRC subsidiaries to make up the shortfall contributions or penalise our PRC subsidiaries.

We also obtained confirmations from 諸城市住房資金管理局 (Zhucheng Housing Provident Fund Management Bureau\*) (“**Housing Provident Fund Bureau**”) on 7 March 2011 and 26 July 2011 respectively that the contribution to housing provident fund is not mandatory in Zhucheng. Our respective PRC subsidiaries have no mandatory obligation to make such contribution for our employees and have not been requested to make any contribution or been penalised. The Housing Provident Fund Bureau has further confirmed that there was no dispute on our respective PRC subsidiaries’ contribution and there will not be any penalty on them. The Housing Provident Fund Bureau has also confirmed that our Group did not have any outstanding payment, penalty, disagreement, dispute and litigation with it.

Our PRC legal advisers have reviewed the abovementioned confirmations from the respective Bureaus and confirmed that each of aforementioned Bureaus had proper authority to issue such confirmations. Based on such confirmations, our PRC legal advisers also advised that our Group had paid sufficient social insurance and housing provident fund respectively since the establishment of the relevant PRC subsidiaries and up to the date of the confirmations, and that our Group did not have any outstanding payment, penalty, disagreement, dispute and litigation with the Bureaus regarding social insurance and housing provident fund.

Although pursuant to 《中華人民共和國勞動法》(Labour Law of the PRC\*) and 《中華人民共和國社會保險法》(Social Insurance Law of the PRC\*), the administrative department of labour security or the relevant tax department has the authority to demand the paying party for payment of any outstanding or shortfall social insurance contributions within a specified period of time, to levy penalty on such outstanding or shortfall contributions and to apply to court for an order for mandatory payment, based on the abovementioned confirmations issued by the Social Security Bureau, our PRC legal advisers advised that it is very improbable that the Social Security Bureau will penalise our PRC subsidiaries for the shortfall in the social insurance contributions. Our PRC legal advisers have also advised that the Social Security Bureau will not investigate any violation of labour protection laws, regulations or rules of behaviour after the lapse of two years of such violation.

It is estimated that the shortfall in the contribution of social insurance amounted to approximately RMB2,100,000, RMB3,316,000, RMB4,532,000 and RMB2,585,000 respectively, and the shortfall in the contribution of housing provident fund amounted to approximately RMB562,000, RMB827,000, RMB1,195,000 and RMB705,000 respectively, during the Track Record Period. As the relevant Bureaus have confirmed that there was no outstanding payment, penalty, disagreement, dispute and litigation from and with our Group, the amount of shortfall

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## RISK FACTORS

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were not provided for in the consolidated financial statements of our Group during the Track Record Period.

Despite obtaining the aforementioned confirmations and legal advice, we cannot rule out the possibility of the PRC government authorities of a higher level taking enforcement actions against us in the future. In the event of any enforcement actions being taken against us, we could be demanded to effect payment of the outstanding contributions by a stipulated deadline and could face court proceedings if we fail to comply with the demand, which might affect our financial performance. As advised by our PRC legal advisers, if we are so demanded by the relevant Bureaus, for social insurance, we will be subject to a daily fine of 0.05% commencing from the defaulting date for any shortfall in contribution (and if such shortfall and fine are not paid within the stipulated deadline, an additional fine amounting to one to three times of the shortfall will be levied), and for housing provident fund, if we fail to meet the demand within the stipulated deadline, we will be subject to a lump sum fine of RMB10,000 to RMB50,000 for any shortfall in contribution. As at the Latest Practicable Date, we had not received any notification from the relevant Bureaus alleging that we had not fully contributed to the social insurance or the housing provident fund and demanding payment of the same before a stipulated deadline. In the event we receive such notification, we undertake to pay the relevant contributions before the stipulated deadline to ensure that we will not be subject to the aforementioned fines.

In the interests of our Group, our Controlling Shareholders have agreed to indemnify our Group, among other things, for any costs, expenses, losses and damages which any member of our Group may suffer as a result of or in connection with any outstanding contributions to social insurance and housing provident fund, claims, potential penalties and fines which might be payable by any member of our Group as a result of or in connection with our PRC subsidiaries' failure to register and/or to contribute to the social insurance and housing provident fund on or before the Listing Date.

As confirmed by our Directors, our Group will discuss with, register and make contributions for our employees who did not agree to make contributions, in order to ensure that all our employees fully comply with the social insurance and housing provident fund requirements under the PRC laws and regulations before end of November 2011. We will liaise with the relevant Bureaus for such registration and contributions and will also keep in contact with the relevant Bureaus to understand the latest legal requirements on the same.

### **RISKS ASSOCIATED WITH OUR INDUSTRY**

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

The fabric and innerwear products manufacturing business is highly competitive. Our Group faces competition from a significant number of domestic and foreign companies offering similar products, which include many companies with larger scale and stronger financial strengths and resources than our Group. Loss of some or all of our competitive strengths, in particular, our vertically integrated business model with fabric and innerwear manufacturing and sale, could adversely impact on the demand for, and the pricing of, our products, and hence affect the growth and market share of our Group.

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## RISK FACTORS

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The principal competitive factors that influence our customers' purchasing decision include the service and product quality and price of the products. In order to gain market share, our competitors may price their products aggressively, resulting in more intense competition. Increase in the number of market players may further result in fierce competition, price reduction, reduced margins and loss of market share, any of which could materially and adversely affect our business and results of operations.

**Our industry has historically experienced seasonality, which we expect to continue. This could cause our operating results to fluctuate.**

The supply and demand for fabric and innerwear products change from season to season and from year to year, based principally on evolving fashion trends as well as other factors. Demand of products in a year can be broadly divided into two fashion seasons: spring/summer and autumn/winter. Based on our experience, our innerwear products recorded higher sales during the second half of the year. Revenue generated in the second half of the year accounted for approximately 54.8%, 61.2% and 73.2% of the total revenue during the financial years ended 31 December 2008, 2009 and 2010 respectively. In addition, average unit price of innerwear for autumn/winter is normally higher than that for spring/summer as customers normally order more functional innerwear for autumn/winter, including smart thermal and insulation innerwear. Weather conditions, such as unusual weather or temperatures, may also affect our sales.

Our operating results may fluctuate from period to period due to changes in fashion trends, consumer demand and the seasonality of consumer spending on the end products of our fabrics and our innerwear products. Therefore, any comparison of our operating results between interim and annual results may not be meaningful. Our results of operations are likely to continue to be affected by seasonality in the future.

It shall also be noted that the economic downturn which poses a downward pricing trend for our products would undermine the performance of our Group.

**The fabric and innerwear products manufacturing business requires rapid and effective response to the fast changing fashion trends.**

The demand for particular fabric and innerwear products change from season to season and from year to year, depending on various factors such as fashion trends and customers' needs. Our success depends upon our ability to anticipate correctly and react quickly to the fashion trends that dictate customer demands and consumer preferences. Any failure to anticipate accurately and respond quickly and effectively to the fast changing fashion trends and customers' demand could result in loss of sales, which would then materially and adversely affect our business and results of operations.

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## RISK FACTORS

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### **Stringent environmental protection requirements could affect our business.**

Pollutants and waste are generated in various stages of our production process, in particular the fabric dyeing process carried out by Zhucheng Yumin Knitting. Under the prevailing laws and regulations in the PRC, an enterprise that discharges pollutants is required to register with the relevant environmental protection authorities regarding the enterprise's pollutants discharging facilities, pollutants treatment facilities, information on pollutants disposal and preventive measures against such pollution. Our operations are subject to periodic inspections by the relevant PRC environmental protection authority, and we have implemented a system to control our pollutant emissions to ensure compliance with the PRC environmental legislation. To the best knowledge of our Directors, our Group has not been in breach of the relevant PRC environmental protection laws or regulations during the Track Record Period. However, we can give no assurance that we will not be in breach of any environmental law or regulation in the future.

The PRC has imposed stricter environmental protection standards and regulations over the last decade and may continue to do so in the future. Our cost of compliance to such laws may increase and there is no assurance that our Group would be able to fully comply with the new legislations. We could also be subject to regulatory or legal action which could result in the imposition of fines or penalties, or where the action resulted in environmental damage, we could be ordered to modify or replace our existing equipment or facilities, suspend our production, install pollution control equipment or perform site clean-up. If any of these events occur, our business, financial condition and results of operations may be materially and adversely affected.

### **Changes in occupational health and safety rules or regulations or human rights laws may adversely affect participants in the fabric and innerwear products manufacturing industry.**

Although machinery and equipment have increased the productivity, the fabric and innerwear products manufacturing industry, to a certain extent, remains to be labour intensive. Our operation is subject to various occupational health and safety laws and regulations and human rights regulations of the PRC relating to employees. To the best knowledge of our Directors, our Group was compliant with the relevant requirements of the Zhucheng government in the PRC during the Track Record Period. We can give no assurance that we will not be in violation of any occupational health and safety laws and regulations in the future. Furthermore, if these requirements change, we may be required to incur substantial additional costs to ensure compliance, which could adversely affect our business, financial condition and results of operations.

### **Increased inspection procedures and tighter product safety laws as well as import and export controls could increase the operating costs of our Group and cause disruption to our business.**

The fabric and innerwear products industry is subject to various customs inspection and related procedures (the “**Inspection Procedures**”) in countries of origin and destination as well as at transshipment points. Such Inspection Procedures can result in the seizure of products, delay in transshipment or delivery of products and the levying of tariffs, fines or other penalties against exporters or importers.

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## RISK FACTORS

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Further, our products may also be subject to the product safety requirements in the PRC and the countries of export. For example, within the PRC, we are required to comply with 《中華人民共和國產品質量法》(Product Quality Law of the PRC\*), which is applicable to all activities of production and sale of any products. In addition, effective from August 2009, manufacturers of any consumer product for export to the US which are primarily intended for children aged twelve or below must provide on such product a tracking label or other distinguishing permanent mark which contains certain basic information, including the source, date of manufacture, and more detailed information on the manufacturing process such as the batch or run number of the product. Shandong Grand Concord, our subsidiary, has already passed the factory audit of Bureau Veritas, an international company specialised in conformity assessment and certification in relation to regulatory or voluntary standards, in the areas of product identification and traceability such that every piece of our products is traceable. We believe that our Group is capable of complying with the product safety requirements in the PRC and other countries of export.

However, if the product safety laws or Inspection Procedures or other controls are further tightened, as in the case of Japan, the US and Europe, there is no assurance that we will be able to meet such new requirements. Further, we may be required to incur substantial costs in order to ensure compliance. In addition, our Group may incur further costs and delays in delivery and our business and results of operations may be adversely affected.

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

Textile products serve as essential foreign trading goods. Prior to China's joining of the WTO, the European Union ("EU") and the US normally imposed quota restrictions on China-made apparel products to protect their domestic textile and apparel manufacturing industries. Since China joined the WTO in November 2001 and reached the Agreement on Textiles and Clothing with members of the WTO, such quota restrictions previously imposed on China-made apparels were gradually removed and finally abolished on 1 January 2005. However, export of textile products from China may still be subject to certain safeguard provisions such as the Product-Specific Safeguard Clause ("PSSC"). Pursuant to PSSC, when products of China, including textile and apparel products, are being imported into any member of the WTO in such increased quantities or under such conditions as to cause or threaten to cause market disruption to the domestic producers of like or directly competitive products, the affected member may request consultations with China and pursue application of a measure. If these bilateral consultations lead to an agreement that imports of Chinese origin are a cause of market disruption, where necessary, China may be required to take action to prevent or remedy the market disruption. If consultations do not lead to any agreement between China and the affected member within 60 days of the receipt of a request for consultations, the affected member has the right, in respect of such products, to withdraw concessions or otherwise limit imports, but only to the extent necessary to prevent or remedy such market disruption.

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## RISK FACTORS

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In addition to the PSSC, China is also subject to the anti-dumping protection for 15 years from the date of WTO accession until 2016. If a company exports a product at a price lower than the price it normally charges in its own home market, it is regarded as “dumping” the product. Under the General Agreement on Trade and Tariffs (“GATT”), it allows importing countries to take action against dumping, including charging extra import duty on a particular product from the particular exporting country in order to bring its price closer to the “normal price”. All anti-dumping measures must expire five years after the date of imposition, unless investigation shows that ending the measure would lead to injury to the domestic market of the importing country. For further information, please refer to the section headed “Industry overview — China textile and apparel export market”.

During the Track Record Period, export sales accounted for approximately 85.3%, 83.4%, 60.6% and 67.8% of our total revenue respectively. Our Directors confirm that currently our products are not subject to any import restrictions by any of our overseas markets. If the countries to which we export were to impose quota restrictions or any other forms of trade restrictions such as annual growth limits on imports, technical regulations and standards on imports and environmental protection requirements against textile products from the PRC, our financial condition and results of operations may be adversely affected by the imposition of any such trade barriers.

### **RISKS ASSOCIATED WITH THE PRC**

#### **Uncertainty in the PRC legal system may make it difficult for us to predict the outcome of any disputes that we may be involved in.**

Most of our business and operations are governed by the PRC legal system. The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, circulars and directives. The PRC is still in the process of developing its legal system so as to meet the needs of investors and to encourage foreign investments. As the PRC economy is undergoing development generally at a faster pace than its legal system, some degree of uncertainty exists on the implementation, interpretation and enforcement of existing laws and regulations.

Some of the laws and regulations, and the interpretation, implementation and enforcement thereof, are subject to policy changes. There is no assurance that the introduction of new laws, changes to existing laws and the interpretation or application thereof will not have an adverse impact on our business or prospects.

Further, precedents on the interpretation, implementation and enforcement of PRC laws and regulations are limited, and unlike other common law jurisdictions, such as Hong Kong, decisions on precedent cases are not binding on lower courts. As such, the outcome of dispute resolutions may not be consistent or predictable as in the other more developed jurisdictions and it may be difficult to obtain swift or equitable enforcement of the laws in the PRC.

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## RISK FACTORS

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**Our results and financial position are highly susceptible to changes in political, economic and social conditions of the PRC as our revenue is mainly derived from our operations in the PRC.**

Since 1978, the PRC government has undertaken various reforms of its economic systems. Such reforms have resulted in economic growth in the PRC in the last three decades. However, there is no assurance that the PRC government will continue to pursue such reforms. Further, many of the reforms are unprecedented or experimental, and are expected to be refined and modified from time to time. Other political, economic and social factors may also lead to further adjustment of the reform measures. This refinement and adjustment process may consequently have a material adverse impact on our operations in the PRC or on our financial performance. Our results and financial position may be adversely affected by changes in the PRC's political, economic and social conditions and by changes in policies of the PRC's government or changes in laws, regulations or the interpretation or implementation thereof as our revenue is mainly derived from our operations in the PRC.

**The preferential tax treatment enjoyed by our Group during the Track Record Period has ended.**

In accordance with the 《中華人民共和國外商投資企業和外國企業所得稅法》(Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises\*) which was effective prior to 1 January 2008, two of our subsidiaries in the PRC were then entitled to full exemption from EIT for the first two years from their respective first profit making year and a 50% reduction in EIT for the next three years (after deducting losses carried forward).

On 16 March 2007, the new EIT Law was promulgated. The new EIT Law imposes a single income tax rate of 25% on most domestic enterprises and foreign invested enterprises provided that various transitional periods for existing preferential tax policies were contemplated for foreign invested enterprises that were entitled to preferential treatments. On 6 December 2007, the implementation rules of the new EIT Law were promulgated and took effect on 1 January 2008 (the “**Implementation Rules**”). According to the new EIT Law and the Implementation Rules, we would be subject to the uniform tax rate of 25% from the implementation date of this law. However, pursuant to 《國務院關於實施企業所得稅過渡優惠政策的通知》(Notice of the State Council on the implementation of transitional preferential policies in respect of the EIT\*) promulgated on 26 December 2007 and took effect on 1 January 2008, two of our subsidiaries in the PRC, namely Zhucheng Eternal Knitting and Zhucheng Yumin Knitting, had continued to enjoy their preferential treatment of tax exemption and tax benefit up to the expiry of their preferential treatment term, that was, 31 December 2008 and 31 December 2010 respectively. Please refer to the section headed “Financial information — Results of our Group's operations — Principal comprehensive income statement components — Income tax expense — Corporate income tax” of this prospectus for the details of the tax benefits enjoyed by us in the PRC during the Track Record Period.

As the tax benefits enjoyed by us during the Track Record Period has ended, our future profit after taxation and financial position may be materially and adversely affected. Our Directors cannot assure you that our future performance will be in line with our historical performance.



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## RISK FACTORS

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### **Future movements in exchange rates may adversely affect our financial position and results of operation.**

During the Track Record Period, a substantial portion of our revenue was generated from our export sales and was denominated in US dollars. Sales denominated in US dollars during the Track Record Period accounted for approximately 85.9%, 85.3%, 64.0% and 67.8% of our total revenue respectively. On the other hand, most of our operating expenses are denominated in Renminbi. Some of our trade payables are denominated in Japanese Yen. Accordingly, our operations are exposed to the fluctuation in exchange rates of RMB against US dollars and Japanese Yen.

On 21 July 2005, the People's Bank of China (the "PBOC") announced that the exchange rate of US dollars to Renminbi would be adjusted from US\$1 to RMB8.27 to US\$1 to RMB8.11, and it ceased to peg Renminbi to the US dollars. Instead, Renminbi is now pegged to a basket of currencies, which components are adjusted based on changes in market demand and supply under a set of systematic principles. On 23 September 2005, the PRC government widened the daily trading band for Renminbi against non-US dollars currencies from 1.5% to 3.0% to increase the flexibility of the new foreign exchange system. Renminbi may be revalued further against the US dollars or other currencies or, may be permitted to enter into a full or limited free float in the future, which may result in an appreciation or depreciation in the value of the Renminbi against the US dollars or other currencies.

During the Track Record Period, we recorded net exchange loss of approximately RMB438,000, RMB236,000, RMB1,449,000 and RMB1,017,000 respectively. There was a decrease in exchange loss for the year ended 31 December 2009 as compared with that of 2008, since the Renminbi exchange rate against the US dollars remained relatively stable during 2009 when compared with that for the year 2008. The exchange loss for the year ended 31 December 2010 and for the six months ended 30 June 2011 has risen to RMB1,449,000 and RMB1,017,000 respectively due to the appreciation of Renminbi during the periods.

Moreover, the relaxation of the RMB-US dollars peg may contribute to the volatility of the value of Renminbi. Further appreciation of the Renminbi may cause our products to become relatively more expensive, which could weaken our products' price competitiveness. This could have a material adverse effect on our business, financial condition, and results of operations. On the contrary, any depreciation of Renminbi would affect the value of the dividends payable on the Shares and other amounts payable by us in foreign currency terms. We have not implemented any formal policies to cover our foreign exchange exposure and, therefore, we will be exposed to fluctuations in the exchange rates of RMB and our results may be adversely affected.

Your attention is also drawn to note 6 — "Financial Instruments — Financial risk management objectives and policies — Foreign currency risk — Sensitivity analysis" to the Accountants' Report set out in Appendix I to this prospectus.

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## RISK FACTORS

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### **Restriction on currency conversion may limit our ability to remit dividends and affect our business.**

Renminbi currently is not a freely convertible currency. Existing restrictions on the conversion of Renminbi into foreign currencies may affect our ability to convert Renminbi into foreign currencies (and thus restrict the subsequent repatriation of those funds). Such restrictions include, among other things, the approval from SAFE or its local branches for the conversion of Renminbi into foreign currency and remittance out of China thereafter. In addition, any tightening of such restrictions, including but not limited to the future imposition of restrictions on foreign exchange transactions for current-account items such as the payment of dividends, may limit our ability to use resources generated in Renminbi to fund our business activities outside China.

Besides, while the proceeds to be raised from the Share Offer will be denominated in HK dollars, our functional currency is Renminbi. There is no assurance that HK dollars can be converted into Renminbi at all times, and any restriction on such conversion may restrict our utilisation of, or even render us unable to utilise, the proceeds to be received by us from the Share Offer for implementation of our future plans and thus our business may be adversely affected.

As most of our operating costs are denominated in Renminbi, our business and operating results may be materially and adversely affected in the event of a severe increase or decrease in the value of Renminbi against other currencies. The value of Renminbi is subject to changes in the PRC's governmental policies and to international economic and political developments. Any significant appreciation of Renminbi would result in an adverse impact on the conversion of the proceeds to be received by us from the Share Offer and future financing into Renminbi for our operations, and any material devaluation of Renminbi against the HK dollars could adversely affect the amount of any cash dividends on our Shares in HK dollars term.

### **Any increase in interest rates in the PRC may materially affect our results.**

As at the Latest Practicable Date, the PBOC set the benchmark interest rate for over five years Renminbi denominated loans to be approximately 7.05% per annum. As at 31 October 2011, being the latest practicable date for the purpose of ascertaining our indebtedness position, we had in aggregate banking facilities of approximately RMB135.3 million, of which approximately RMB85.3 million had been utilised and the amount of our indebtedness was approximately RMB95.3 million. We may in future incur new debt obligations to finance our operations and our borrowings carrying interest at floating rates will expose us to interest rate risk resulting from fluctuations in the relevant reference rates. Any further increase in interest expense may have a material adverse effect on our business, financial position and results of operations.

### **The outbreak of any severe contagious diseases in the PRC, if uncontrolled, could affect the financial performance and prospects of our Group.**

The outbreak of any severe contagious disease in the PRC, if uncontrolled, could have an adverse effect on the overall business sentiments and environment in the PRC.

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## RISK FACTORS

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During the Track Record Period, all of our manufacturing operations were in the PRC. If any of our employees is affected by any severe contagious disease outbreaks, we may be required to temporarily shut down the affected production facilities and quarantine all staff working there to prevent the spread of the disease. This could adversely affect and/or disrupt our production at the relevant plants and impact our financial performance.

### **Payment of, and tax exemptions on, dividends are subject to restriction under the PRC laws.**

The PRC laws require that dividends be paid only out of the net profit calculated according to the generally accepted accounting principles in the PRC, which differ from the generally accepted accounting principles in other jurisdictions. The PRC laws also require our subsidiaries in the PRC to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. As a result, our ability to pay dividends will be restricted by the prevailing PRC laws.

In addition, our Company was incorporated in the BVI and holds interests in our subsidiaries in the PRC through Grand Concord (HK), a Hong Kong incorporated company. As foreign legal entities, dividends derived from our Group's business operations in the PRC for earnings generated prior to 1 January 2008 are currently not subject to income tax under PRC laws. However, we cannot assure you that such dividends will continue to be exempted from EIT. Under the existing EIT Law, if a foreign entity is deemed to be a non-PRC tax resident enterprise without an office or premises in the PRC, a withholding tax at the rate of 10% will be applicable to any dividends for earnings accumulated since 1 January 2008 payable to the foreign entity, unless it is entitled to reduction or elimination of such tax, including by tax treaties or agreements. According to 《内地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》(Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income) signed on 21 August 2006, which in Hong Kong, applies to income derived in any year of assessment commencing on or after 1 April 2007 and in the PRC, in any year commencing on or after 1 January 2007, dividends paid by a foreign-invested enterprise in the PRC to its shareholder(s) in Hong Kong will be subject to withholding tax at a rate of 5% if such Hong Kong shareholder(s) directly holds 25% or more interest in the PRC enterprise. Any increase in the EIT rate applicable to us or discontinuation or reduction of any of the preferential tax treatments or financial incentives currently enjoyed by our subsidiaries in the PRC could adversely affect our business, operating results and financial condition.

Pursuant to 《國家稅務總局關於如何理解和認定稅收協定中“受益所有人”的通知》(Notice of the State Administration of Taxation on How to Understand and Identify the “Beneficial Owner” under the Double Tax Agreement\*) promulgated on 27 October 2009, if the foreign shareholder incorporated or registered in the jurisdiction of the countries with which the PRC has entered into double taxation agreements, including Hong Kong, is an agent, a conduit company or a company that does not carry out substantial business activities in such jurisdiction, it may not be regarded as a “beneficial owner” and thus cannot enjoy the preferential tax treatments under the double taxation agreements. We cannot assure you that Grand Concord (HK) may be recognised by the PRC tax authorities as a “beneficial owner” that is entitled to enjoy the

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preferential withholding tax rate of 5% under the Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income.

In addition, the Implementation Rules currently in force provide that if an enterprise incorporated outside the PRC has its “de facto management organisation” located within the PRC, such enterprise may be recognised as a PRC tax resident enterprise and thus may be subject to EIT at the rate of 25% on its worldwide income. Currently, certain members of our Group’s management are located in the PRC. If the PRC tax authorities consider that any of our non-PRC entities is a deemed PRC tax resident enterprise after the effective date of the EIT Law and its Implementation Rules, such deemed PRC tax resident enterprise would be subject to an EIT of 25% on its worldwide income (including dividend income receivable from its subsidiaries), which excludes the dividends receivable directly from another PRC tax resident. However, there have been no official implementation rules regarding the determination of the “de facto management organisation” for foreign enterprises which are not controlled by enterprises in the PRC (including companies like ourselves). We cannot assure you that we will not be considered as a “resident enterprise” under the EIT Law and not be subject to EIT at the rate of 25% on our income generated both inside and outside the PRC.

### **Enforcement of judgments obtained from non-PRC courts may be difficult.**

Our Company was incorporated in the BVI. A substantial part of our assets and operations are located however within the PRC. The PRC currently does not have effective treaties or arrangements which provide reciprocal recognition and enforcement of judgments of the courts of the United States, the United Kingdom or other countries, and therefore, it may not be possible for investors to effect service of process upon us or to enforce against us any judgments obtained in such jurisdictions.

The PRC is a signatory of the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (“**New York Convention**”) which permits enforcement in the PRC of awards of arbitral bodies located in other New York Convention signatory countries, subject to certain exceptions. Even in cases where enforcement is, in principle, provided for by the New York Convention, practical difficulties are sometimes encountered.

The PRC and Hong Kong entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters, pursuant to which a party with a final court judgment rendered by a Hong Kong court in respect of a judgment sum payable under a civil and commercial action may apply for enforcement of such judgment in the PRC, and vice versa. However, it is impossible to enforce a judgment rendered by the Hong Kong court in the PRC if there is no prior agreement as to the choice of court.

### **PRC regulations may limit our ability to make additional capital contributions to our subsidiaries in the PRC.**

We are an offshore holding company with our businesses substantially in the PRC operated through our subsidiaries in the PRC. For the future expansion of our operations, we may utilise the proceeds we expect to receive from the Offer Shares to make additional capital

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## RISK FACTORS

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contributions or loans to our subsidiaries in the PRC. Under the current PRC regulations, any capital contributions or loans to foreign-invested enterprises in the PRC, depending on the amount of total contribution or advance, require approval by or registration with the relevant governmental authorities in the PRC.

Should we fail to complete all the necessary government registrations or obtain all the necessary government approvals on a timely basis with respect to future capital contributions made or loans advanced by us to our subsidiaries in the PRC, our ability to use the proceeds to be received by us from the Offer Shares to capitalise or otherwise fund our operations in the PRC could be materially and adversely affected. Any such limitation on funding would result in a reduced liquidity and would adversely affect our ability to fund and expand our businesses in the PRC.

**The new PRC Labour Contract Law may have an impact on our Group's operations and our labour costs may increase as we may be liable to fines and penalties for any material breach of the new law.**

The Standing Committee of the National People's Congress adopted 《中華人民共和國勞動合同法》(Labour Contract Law of the PRC\*) (“**Labour Contract Law**”) on 29 June 2007 which became effective on 1 January 2008. The Labour Contract Law imposes requirements relating to, among others, minimum wage, severance payment and non-fixed term employment contracts, and establishes time limits for probation periods as well as the duration and the number of times that an employee can be placed on a fixed term employment contract. It also provides that social insurance is required to be paid on behalf of the employees and the employees are entitled to unilaterally terminate the labour contract if this requirement is not satisfied.

Pursuant to this new law, our subsidiaries in the PRC are required to enter into non-fixed term employment contracts with employees who have worked for them for more than ten years or, unless otherwise provided under the new law, for whom a fixed term employment contract has been concluded for two consecutive terms since 1 January 2008. Our Group may not be able to efficiently terminate non-fixed term employment contracts under the new law without cause. In addition, our Group is required to make severance payments to employees under the fixed term contracts upon the expiration of their employment contracts, unless the employee voluntarily terminates the contract or voluntarily rejects an offer to renew the contract in circumstances where the conditions offered by the employer are the same as or better than those stipulated in the current contract. The amount of severance payment is calculated based on the monthly wage of the employee multiplied by the number of full years that the employee was employed by the employer, unless the employee's monthly wage is three times higher than the average monthly wage in the relevant district or locality, in which case the calculation of the severance payment will be based on a monthly wage equal to three times the average monthly wage multiplied by a maximum of 12 years.

Compliance with the relevant laws and regulations may substantially increase our Group's operating costs and may have a material adverse effect on the results of operations of our Group. In particular, an increase in the labour costs in the PRC will increase our production costs and we may not be able to pass these increases on to our customers due to competitive pricing pressures. We cannot assure you that any employment disputes or strikes will not arise in the future. Increases in our labour costs and future disputes with our employees could adversely affect the business, financial condition or results of operations of our Group.

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## RISK FACTORS

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### **Acts of God, acts of war and other disasters could affect our business.**

Our business is subject to the general economic and social conditions in the PRC and our countries of export. Many major cities in the PRC and Japan, which is our major country of export, are under the threat of flood, earthquake, sandstorm, snowstorm or drought. For instance, the serious earthquakes in Japan in March 2011 and in Sichuan Province in May 2008, and the unexpected snowstorm in the PRC around the Chinese New Year in 2008 had caused disruptions to economic activities in Japan and China respectively. During the Track Record Period, we manufactured, processed and handled all of the fabric and innerwear products in our production facilities in Zhucheng, Shandong, the PRC, and we sold a substantial portion of our products to Japanese customers. Our operations are subject to uncertainties and contingencies beyond our control such as industrial accidents, fires, floods, droughts, natural disasters, epidemics and other catastrophes or acts of God, which may all result in material disruptions, preventing us from meeting customer orders, increasing our costs of production and consequently adversely affecting our revenue and profits. Such events, if happen, will increase our equipment downtimes, and strikes or other labour difficulties and disruptions of public infrastructure such as roads, ports or pipelines may occur in our existing production lines housed in the factory blocks at our principal production base. Acts of war and terrorist attacks may cause damage or disruption to us, our employees, our customers and our markets, any of which could adversely impact our revenue, cost of sales, overall results and financial condition. Potential wars or terrorist attacks may also cause uncertainty and cause our business to suffer.

### **RISKS RELATING TO THE SHARE OFFER**

#### **There has been no prior public market for the Shares.**

Prior to the Share Offer, there was no public market for the Shares. The Offer Price was the result of negotiations between our Company and the Lead Manager (on behalf of the Underwriters). You should not view the Offer Price as any indication of the price that will prevail in the trading market. The market price for the Shares may decline below the Offer Price. We have applied to list and deal in the Shares on the Stock Exchange. However, a listing on the Stock Exchange does not guarantee that an active and liquid trading market for the Shares will develop or be sustained following the Share Offer or in the future.

#### **The market price of the Shares may be volatile.**

The trading price of the Shares could be subject to significant volatility in response to, among other factors:

- investor perceptions of our Group and our future plans;
- variations in our Group's operating results;
- changes in pricing made by us or our competitors;
- technological innovations;

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## RISK FACTORS

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- changes to senior management;
- the depth and liquidity of the market for the Shares; and
- general economic and other factors.

Any material changes in the above factors could cause the market price of the Shares to change substantially.

**Concentrated ownership and our Controlling Shareholders may exert substantial influence over us and may not act in the best interests of our independent Shareholders.**

Immediately upon completion of the Share Offer, our Controlling Shareholders will own approximately 63.42% of our issued Shares. Our Controlling Shareholders will be in a position to exert significant influence over our affairs, and will be able to influence the outcome of any Shareholders' resolution, irrespective of how other Shareholders may vote. The interests of our Controlling Shareholders may not necessarily be aligned with that of independent Shareholders, and this concentration on ownership may also have the effect of delaying, deferring or preventing a change in control of our Company.

**Investors will experience dilution of pro forma adjusted net tangible asset value because the Offer Price is higher than our net tangible book value per Share and may also experience dilution if we issue new Shares in the future.**

As the Offer Price of our Shares is higher than the net tangible book value per Share of our Shares immediately prior to the Share Offer, purchasers of our Shares in the Share Offer will experience an immediate dilution in the pro forma net tangible asset value per Share. We may consider offering and issuing new Shares in the future. Investors of our Shares may experience dilution in the net tangible asset value per share of their Shares if we issue new Shares in the future at a price which is lower than the net tangible asset value per Share at that time.

**There may be dilution of shareholding as a result of additional issue of Shares in the future.**

We may issue additional Shares pursuant to our Share Option Scheme. We may also need to raise additional funds in the future to finance the expansion of our new developments relating to our existing operations or new acquisition through, among other options, the issuance of new equity or equity-linked securities of our Company. If new Shares are issued for such purposes other than on a pro-rata basis to existing Shareholders, the percentage of ownership of our then Shareholders in our Company may be diluted. Such new Shares and/or securities may also have rights, preferences and privileges senior to the Shares.

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## RISK FACTORS

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**Our historical financial information may not represent future performance, which may affect our future dividend policy.**

Our future financial performance, which will directly impact our future dividend policy, is subject to our business performance, future plans and profitability. As a result, we cannot make any prediction as to our future performance nor can we give assurance that our future financial results will reflect our historical and current financial performance, or the financial results we anticipate.

The declaration and payment of dividends and the amount of dividends fall upon the discretion of our Directors. Any proposed dividends by our Directors depend on various factors including, but not limited to, our operating results, future profits, financial position, regulatory capital requirements, working capital requirements, general economic conditions or any other factors which are considered relevant by our Board. As a result, our historical dividend distributions may not reflect our future dividend distribution policy. Potential investors should be aware that the amount of dividends paid previously should not be used as a reference or basis for predicting future dividends. Please refer to the section headed “Financial information — Dividend and dividend policy” of this prospectus for more details.

Our Directors cannot assure that our future performance will be in line with our historical performance, nor can our Directors assure that we will make future dividends payments or our future dividend policy will reflect our historical dividend payments.

**We cannot guarantee the accuracy of the statistics and industry information that are derived from various official sources.**

Certain facts, statistics and data presented under the section headed “Industry overview” and elsewhere in this prospectus relating to the PRC, the textile and garment industry and other relating information have been derived, in part, from various official government publications. Although reasonable steps have been taken by our Directors to ensure that such information and statistics were extracted accurately from reliable official government publications, neither our Group, our Directors, the Sponsor nor any of the parties involved in the Share Offer have independently verified, or make any representation as to, the accuracy of such information and statistics. There is no assurance that statistics derived from multiple official government publications will be prepared on a comparable basis or that such information and statistics will be stated or prepared in the same standard or level of accuracy as, or consistent with, those in other publications within or outside the PRC. Accordingly, such information and statistics may not be accurate and should not be unduly relied upon.



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## INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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### DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (subsidiary legislation V of Chapter 571 of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to our Company. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this prospectus misleading.

The Offer Shares are offered solely on the basis of the information contained and the representations made in this prospectus and the Application Forms. So far as the Share Offer is concerned, no person is authorised to give any information or to make any representation not contained in this prospectus and the Application Forms, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Selling Shareholder, the Sponsor, Bookrunner and Lead Manager, the Underwriters, any of their respective directors (where applicable) or any other parties involved in the Share Offer.

### UNDERWRITING

This prospectus is published solely in connection with the Share Offer. The Share Offer comprises the Placing and the Public Offer subject, in each case, to re-allocation described in the section headed "Structure and conditions of the Share Offer" of this prospectus.

The Listing is sponsored by the Sponsor and the Share Offer is lead managed by the Lead Manager. Subject to the terms of the Underwriting Agreements, the Public Offer Shares are fully underwritten by the Public Offer Underwriters and the Placing Shares are fully underwritten by the Placing Underwriter. For particulars of the Underwriters and the underwriting arrangements, please refer to the section headed "Underwriting" of this prospectus.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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### RESTRICTIONS ON OFFER OF THE OFFER SHARES

No action has been taken to permit the public offering of the Offer Shares or the general distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation nor is it calculated to invite or solicit in any jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such offer or invitation.

Prospective applicants for the Offer Shares should consult their financial advisers and seek legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws, rules and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should also inform themselves as to the relevant legal requirements and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

**Each person acquiring Offer Shares in the Share Offer will be required to confirm, or be deemed by its acquisition of Offer Shares to have confirmed, that it is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.**

### APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer as mentioned in this prospectus (including any Shares to be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme).

No part of the Shares or our Company's loan capital is listed or dealt in on any other stock exchange. At present, our Company is not seeking or proposing to seek listing of, or permission to deal in, its securities on any other stock exchange.

### HONG KONG SHARE REGISTER AND STAMP DUTY

All of the Shares will be registered on our Company's branch register of members to be maintained in Hong Kong by its branch share registrar and transfer office, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

Our Company's principal register of members will be maintained by its principal share registrar and transfer office, Tricor Services (BVI) Limited at P.O. Box 3340, Road Town, Tortola, British Virgin Islands.

Dealings in our Shares registered on our Company's branch register of members in Hong Kong will be subject to Hong Kong stamp duty.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

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Unless determined otherwise by our Company, dividends payable in HK dollars in respect of the Shares will be paid to the Shareholders listed on our Company's branch register of members to be maintained in Hong Kong, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder, or if joint Shareholders, to the first-named therein in accordance with the Articles.

### **STRUCTURE AND CONDITIONS OF THE SHARE OFFER**

Further details of the structure and conditions of the Share Offer are set forth in the section headed "Structure and conditions of the Share Offer" of this prospectus.

### **PROCEDURE FOR APPLICATION FOR THE PUBLIC OFFER SHARES**

The procedure for applying for the Public Offer Shares is set forth in the section headed "How to apply for the Public Offer Shares" of this prospectus and in the Application Forms.

Our Shares registered on our Hong Kong branch register of members constitute Hong Kong property.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

If you are unsure about the taxation implications of subscribing for or purchasing the Offer Shares or holding, disposing of or dealing in the Offer Shares, you should consult an expert. Our Company, the Selling Shareholder, the Sponsor, Bookrunner and Lead Manager, the Underwriters, any of their respective directors or other parties involved in the Share Offer do not accept responsibility for any tax effects on, or liability of, any person resulting from subscribing for or purchasing or holding or disposing of or dealing in any Offer Shares.

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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Sponsor, Bookrunner  
and Lead Manager

Celestial Capital Limited  
21st Floor, Low Block  
Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

Legal advisers to our Company

*As to Hong Kong law*  
Pang & Co. in association with Salans LLP  
Level 76  
International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

*As to PRC law*  
Jingtian & Gongcheng  
34th Floor, Tower 3  
China Central Place  
77 Jianguo Road  
Chaoyang District  
Beijing  
The PRC

*As to BVI law*  
Maples and Calder  
53rd Floor  
The Center  
99 Queen's Road Central  
Hong Kong

Legal advisers to the Sponsor and  
the Underwriters

*As to Hong Kong law*  
Minter Ellison  
15th Floor  
Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

*As to PRC law*  
Zong Heng Law Firm  
Room 500  
Building of Textile Industry Bureau  
No. 12 East Chang-An Avenue  
Beijing  
The PRC

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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Auditors and reporting accountants	SHINEWING (HK) CPA Limited 43rd Floor The Lee Gardens 33 Hysan Avenue Causeway Bay Hong Kong
Independent qualified professional valuer	LCH (Asia-Pacific) Surveyors Limited 17th Floor Champion Building 287-291 Des Voeux Road Central Hong Kong
Receiving banker	The Bank of East Asia, Limited 10 Des Voeux Road Central Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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### DIRECTORS

#### Executive Directors

<b>Name</b>	<b>Address</b>	<b>Nationality</b>
Mr. Wong Kin Ling (王建陵)	Flat A, 22nd Floor Dragon Peak No. 9 Dragon Terrace Hong Kong	Canadian
Madam Hung Kin (洪建)	Flat A, 22nd Floor Dragon Peak No. 9 Dragon Terrace Hong Kong	Canadian
Mr. Wang Shao Hua (王韶華)	Room 601, Unit 4 Building 2 184 Heping Street Zhucheng City Shandong Province The PRC	Chinese
Mr. Wei Jin Long (衛金龍)	Room 901 Nan Dai Building De Fang Si Area Zhongxin Kaixuan Cheng Dongcheng District Dongguan City Guangdong Province The PRC	Chinese

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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### Independent non-executive Directors

<b>Name</b>	<b>Address</b>	<b>Nationality</b>
Mr. Wang Jin Tang (王金堂)	Room 109, Block 1, Wo Long Xiao Qu Economic Development Zone Zhucheng City Shandong Province The PRC	Chinese
Ms. Tay Sheve Li (鄭雪莉)	2nd Floor 5 Wan King Path Sai Kung New Territories Hong Kong	Malaysian
Dr. Chan Ah Pun (陳亞彬)	Flat F, 16th Floor, Block 3 Felicity Garden 111 Shau Kei Wan Road Hong Kong	Chinese

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## CORPORATE INFORMATION

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Registered office	P.O. Box 3340 Road Town, Tortola British Virgin Islands
Principal place of business of our Group in the PRC	No. 102 Renmin Dong Road Zhucheng City Shandong Province The PRC
Headquarters and principal place of business of our Group in Hong Kong	Units 1108-1109, 11th Floor, Tower II Enterprise Square 9 Sheung Yuet Road Kowloon Bay Kowloon Hong Kong
Company's website address	<b><u><a href="http://www.grandconcord.com">www.grandconcord.com</a></u></b> <i>(Information on the website does not form part of this prospectus)</i>
Company Secretary	Mr. Lee Yin Sing, <i>CPA</i>
Audit committee	Ms. Tay Sheve Li ( <i>Chairman</i> ) Mr. Wang Jin Tang Dr. Chan Ah Pun
Remuneration committee	Mr. Wang Jin Tang ( <i>Chairman</i> ) Mr. Wong Kin Ling Ms. Tay Sheve Li Dr. Chan Ah Pun
Authorised representatives (for the purpose of the Listing Rules)	Mr. Wong Kin Ling Flat A, 22nd Floor Dragon Peak No. 9 Dragon Terrace Hong Kong  Madam Hung Kin Flat A, 22nd Floor Dragon Peak No. 9 Dragon Terrace Hong Kong



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## CORPORATE INFORMATION

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Mr. Lee Yin Sing (alternate to Mr. Wong Kin Ling)  
Flat 4, 3rd Floor  
Yu Sin House  
Yu Chui Court  
Shatin  
New Territories  
Hong Kong

Compliance adviser

Celestial Capital Limited

Principal banker

Industrial and Commercial Bank of China  
Zhucheng sub-branch

Principal share registrar and transfer  
office in BVI

Tricor Services (BVI) Limited  
P.O. Box 3340  
Road Town, Tortola  
British Virgin Islands

Branch share registrar and transfer  
office in Hong Kong

Tricor Investor Services Limited  
26th Floor, Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

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## INDUSTRY OVERVIEW

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*This section contains certain information which has been directly or indirectly derived, in part, from various governmental, official, publicly available documents, the Internet or other sources, which was not commissioned by our Group nor the Sponsor. Our Directors believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting, compiling and reproducing such information. Our Directors have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The relevant information has not been independently verified by us, the Sponsor or any of their respective affiliates or advisers, and therefore may not be accurate, complete or updated. We make no representation as to its accuracy, completeness or fairness of such information and accordingly the information contained herein should not be unduly relied upon. The information and statistics may not be consistent with other information or statistics compiled within or outside Japan, the PRC, the US and the EU.*

### CHINA TEXTILE AND APPAREL MANUFACTURING INDUSTRY

Since the initiation of economic reforms and open policies in the late 1970s, China's economy has been among the fastest growing economies in the world. The manufacturing of apparel has also started to shift from developed countries to developing or less developed countries since the cost of production is the critical competitive factor in the industry. Since then, the apparel manufacturing industry has become a pillar industry in the PRC and played a significant role in China's economy.

To take advantage of the abundance of low-cost labour and raw materials across the border, apparel factories were set up in Guangdong province of the PRC by lots of Hong Kong apparel companies in the early 1980s. As a result of the "Open Door Policy" endorsed by the PRC government in the late 1970s, the establishment of special economic zones in four Chinese southern cities, namely Shenzhen, Zhuhai, Shantou and Xiamen, also attracted foreign investments from Taiwan, Japan, South Korea, etc to set up apparel factories in China.

China's apparel industry has long been concentrated in its coastal areas, including Beijing, Fujian, Guangdong, Guangxi, Hainan, Hebei, Jiangsu, Liaoning, Shandong, Shanghai, Tianjin and Zhejiang. Coastal concentration continued after the introduction of market reforms due to the region's experience in managing apparel production, including convenient transportation and communication, good infrastructure, and "external economies of scale" such as easy access to financial institutions, trading companies, and export agents. However, the rising labour costs and the instability of raw materials supply along the coast have driven the apparel industry from coastal areas to inland locations, forming a more geographically dispersed industry. Coastal manufacturers have been compelled to move inland to achieve lower labour costs as manufacturers in other Asian countries (as well as inland Chinese manufacturers) become more competitive in the apparel industry. Furthermore, the coastal areas have been among the earliest regions in China to implement economic reforms, resulting in increased competition from Chinese private investors and foreign investors in the apparel industry in that area. Privately-owned enterprises, with their modern equipment and greater flexibility in product types, distribution channels, and types of incentive systems, are particularly fierce competitors.

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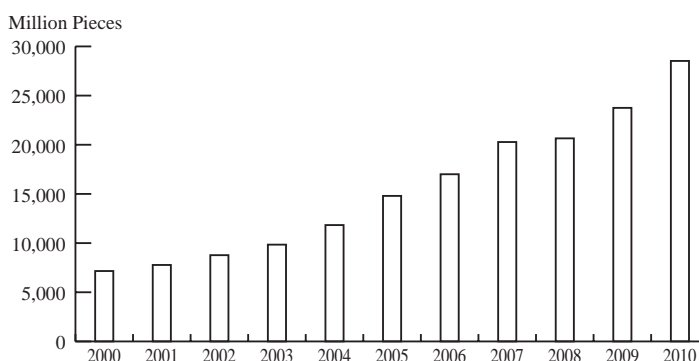
## INDUSTRY OVERVIEW

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Since then, China became the largest apparel manufacturer and exporter in the world. At that time, the majority of China's apparel exports were designed by foreign customers and made from imported fabrics. Most of these apparel products were intended for mass markets and charged at moderate or low prices.

Over the past 10 years, the production of apparel in China increased from approximately 7,159 million pieces in 2000 to approximately 28,523 million pieces in 2010, representing a CAGR of approximately 14.82%.

### China's production of Apparel from 2000 to 2010



*Source: Wind Info (a financial data and software service provider in the PRC)*

In 1992, China initiated efforts to establish a market economy. Reforms were expanded further to areas that were not covered previously, e.g. foreign retailers were allowed entry into China for the first time, major changes were introduced in the structure and role of financial institutions, and government policies that disallowed forward and backward integration in the fibre-fabric-apparel-retail channel were removed.

These reforms improved the flexibility and responsiveness of the Chinese apparel industry. Since the 21st century, the integrated production chain from fibre processing and dyeing at the upstream, down to fabrics and apparel production at the downstream has been formed in the PRC.

Nowadays, the China textile and apparel industry possesses an advantage in the international apparel markets in terms of low manufacturing cost and product design. Currently, most of the apparel manufacturers in the PRC still focus on the production of low to medium end products on OEM basis to take advantages of the low labour costs and scale of production or work with brand owners or retailers to design the fabric and apparel, while some of the manufacturers are moving forward and start shifting their focus from undertaking OEM to the building of their own brands and own domestic market for the domestic-made fabrics and apparel. The PRC government has also adopted policies to foster the building of own Chinese brands, to raise the proportion of export to international markets under domestic brand names as well as to boost the domestic consumption of domestic-made apparel.

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## INDUSTRY OVERVIEW

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According to 《紡織工業“十二五”科技進步綱要》(Summary of Technological Improvements of the Textile Industry in the 12th Five-Years\*) (“**Summary**”) issued in November 2010 by the China National Textile and Apparel Council (中國紡織工業協會), the technology used in developing functional and differentiated fabrics has been improved during the 11th five-years. In particular, the improvements in the weaving and dyeing processes enhanced the quality and stability of the fabrics and hence added value thereon. The fabrics have also been developed from uni-functional (such as anti-bacteria or anti-wrinkles) to multi-functional for enhancing the added-value of apparel. As set out in the Summary, the self-sufficiency rate of fabrics within the PRC achieved 95% and the export amounts of fabrics grew at a CAGR of over 10% as compared to year 2000.

As the consumption demand for the functional knitwear has been increasing in recent years, functional knitwear such as waterproof, anti-bacteria, moisture-absorbing etc, has been marketed to the consumers continually. In light of this, the PRC textile industry in the coming few years, pursuant to the Summary, will continue to focus on the research and development of the textile products in order to popularise the application of the differentiated and functional fibres as well as to enhance the quality, class and added-value of the fabrics through diversification and individualisation.

The economic growth over the recent years in the PRC has also fueled the growth in China’s textile and apparel industry. However, the global financial crisis in 2008 slowed down the consumer demand globally, which in turn deteriorated the development of the China textile and apparel industry. To safeguard the healthy development of the industry in light of the global financial crisis, the PRC government has included the textile and apparel industry as one of the top ten-industry in its revitalisation plan and implemented favourable policies to support the textile and apparel manufacturers, including the tax rebate for export of apparel products since 1 August 2008, which has encouraged the textile and apparel enterprises and lifted profits of the whole industry. With the gradual recovery of the global and the PRC economy since 2009, both the exports and the domestic sales in the textile and apparel industry have revitalized. Yet, the potential increase in the cost of raw materials (in particular of cotton) and labour and the appreciation of RMB have become a challenge to the textile and apparel industry in the future.

### CHINA TEXTILE AND APPAREL EXPORT MARKET

Textile products serve as essential foreign trading goods. Prior to China’s joining of the WTO, the EU and the US normally imposed quota restrictions on China-made apparel products to protect their domestic textile and apparel manufacturing industries. Since China has joined the WTO in November 2001 and reached the ATC with members of the WTO, such quota restrictions previously imposed on China-made apparels were gradually removed and finally abolished on 1 January 2005.

According to the ATC, trade in apparel came under the rules of the GATT on 1 January 2005. Under the GATT, members of WTO are generally prohibited from using quotas to regulate trade, but they are permitted to use the tariffs in a non-discriminatory way. Accordingly, since 2005, after the abolition of the quota restrictions on 1 January 2005, the only restrictions left on China-made apparel products were the two transitional China-specific safeguard clauses

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## INDUSTRY OVERVIEW

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(detailed below) restraining China imports from disrupting the WTO members' markets until 31 December 2008 and 2013 respectively and the anti-dumping protection from China-made goods for 15 years from the date of WTO accession of China, in November 2001.

In order to avoid a sudden influx of China-made textile and apparel, there were two transitional China-specific safeguard clauses under the current WTO rules allowing members of the WTO to restrict the imports of China-made textile and apparel. The first one is the Textile-Specific Safeguard Clause (“**TSSC**”), which was effective until 31 December 2008 and could be invoked by any member of the WTO who is able to show “market disruption” by Chinese textile imports serious enough to “impede the orderly development” of their own textile trade and request consultations with China, and China has to limit its shipments of the products cited to the level of the first twelve of the fourteen months prior to the complaint, plus 7.5% (6% for wool products) until agreement between the two parties is reached. If this is not effectively done, such member of the WTO can impose quantitative restrictions on imports of those products at the abovementioned levels. Such measures may be in place for only one year, although they can be reapplied after the expiry of that period.

Although, the TSSC has expired as of 31 December 2008, China is still subject to the second transitional China-specific safeguard clause, namely Product-Specific Safeguard Clause (“**PSSC**”), which will only expire on 10 December 2013 and apply to all products, including all textile and apparel products. When products of China are being imported into any member of the WTO in such increased quantities or under such conditions as to cause or threaten to cause market disruption to the domestic producers of like or directly competitive products, the affected member may request consultations with China and pursue application of a measure. If these bilateral consultations lead to an agreement that imports of Chinese origin are a cause of market disruption, where necessary, China may be required to take action to prevent or remedy the market disruption. If consultations do not lead to any agreement between China and the affected member within 60 days of the receipt of a request for consultations, the affected member has the right, in respect of such products, to withdraw concessions or otherwise limit imports, but only to the extent necessary to prevent or remedy such market disruption.

In addition to the PSSC, China is also subject to the anti-dumping protection for 15 years from the date of WTO accession until 2016. If a company exports a product at a price lower than the price it normally charges in its own home market, it is regarded as “dumping” the product. Under the GATT, it allows importing countries to take action against dumping, including charging extra import duty on a particular product from the particular exporting country in order to bring its price closer to the “normal price”. All anti-dumping measures must expire five years after the date of imposition, unless investigation shows that ending the measure would lead to injury to the domestic market of the importing country.

Notwithstanding the abovementioned trading restrictions left on China-made products, China continues to be the largest apparel exporter in the world.

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## INDUSTRY OVERVIEW

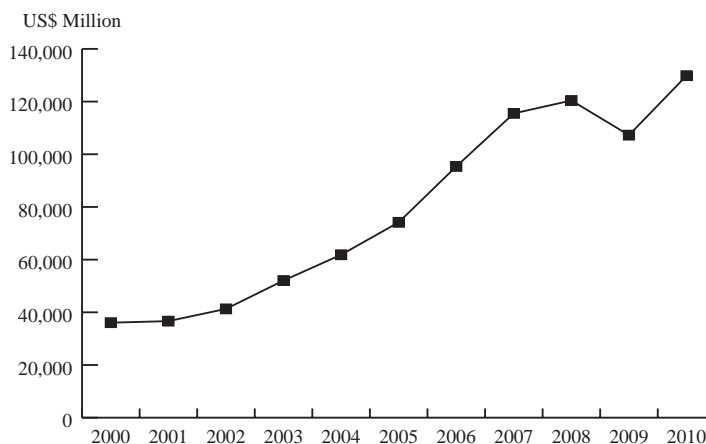
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### Exports from China

Being one of the world's largest export countries, the exports of textile and clothing from China have demonstrated an increasing trend over the last 10 years. Particularly since 2002 (the year after China joined the WTO), apparel exports from China showed a significant growth upon the removal of key tariffs and quotas. According to the PRC government, about 30% of the products from the textile industry have been exported to the international markets and the market share of China's export has ranked first in the last 10 years.

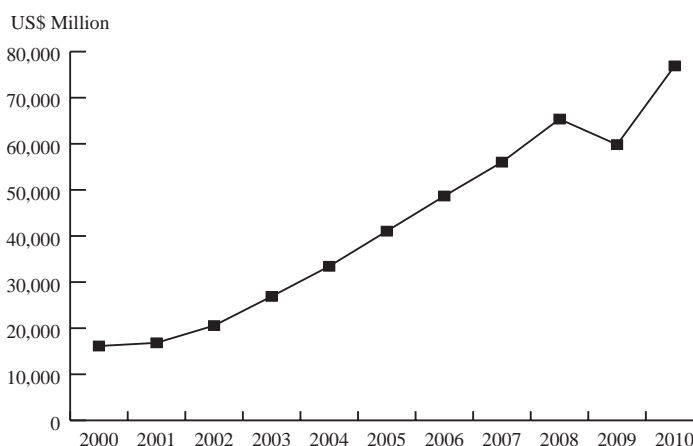
As illustrated in the charts below, China's exports of clothing to the world increased from approximately US\$36,071 million in 2000 to approximately US\$129,838 million in 2010, represented a CAGR of approximately 13.66%, its exports of textile to the world also increased from approximately US\$16,135 million in 2000 to approximately US\$76,900 million in 2010, represented a CAGR of approximately 16.90%.

#### China's Exports of Clothing to the World from 2000 to 2010



Source: WTO

#### China's Exports of Textile to the World from 2000 to 2010



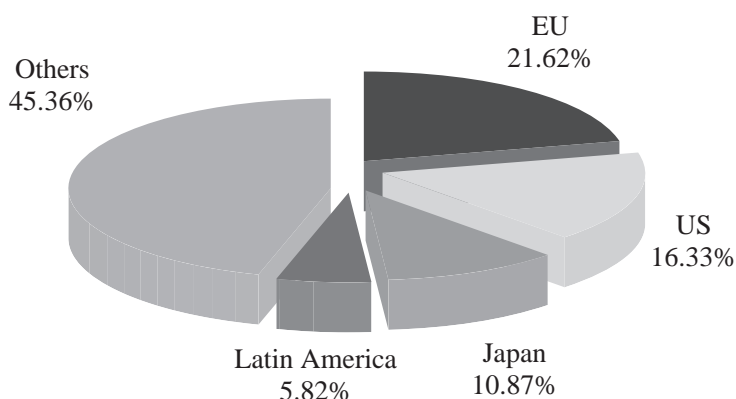
Source: WTO

## INDUSTRY OVERVIEW

### Exports by Countries

In 2010, the EU was the largest importer of China's textile and apparel, which accounted for approximately 21.62% of the total export of China of approximately US\$206.53 billion. The US and Japan ranked the second and third largest importers respectively, and accounted for approximately 16.33% and 10.87% of the total export of China respectively. Latin America ranked fourth of the largest importers and accounted for approximately 5.82% of the total export of China. Imports of these top four importers represented approximately 54.64% of China's total exports of textile and apparel products in 2010.

#### China's Exports of Textile and Apparel by Countries in 2010



*Source: China Customs Statistics of China*

### EU Market

China has been the leading exporter of textile to the EU over the past years. In 2009, China ranked first in both the exports of apparel and apparel accessories; as well as textile yarn, fabrics and related products, followed by Turkey. China's market share of exports to EU is far ahead of other countries'.

#### Top 5 Exporters of Textile and Apparel to EU in 2009

Rank	Apparel and Apparel Accessories			Textile Yarn, Fabrics and Related Products		
	Country	Export value (€ million)	% of share (%)	Country	Export value (€ million)	% of share (%)
1	China	27,296	44.8	China	5,034	31.0
2	Turkey	7,147	11.7	Turkey	2,840	17.5
3	Bangladesh	5,126	8.4	India	1,780	11.0
4	India	4,530	7.4	Pakistan	1,338	8.2
5	Tunisia	2,283	3.7	Switzerland	709	4.4

*Source: Statistical yearbook, European Commission*

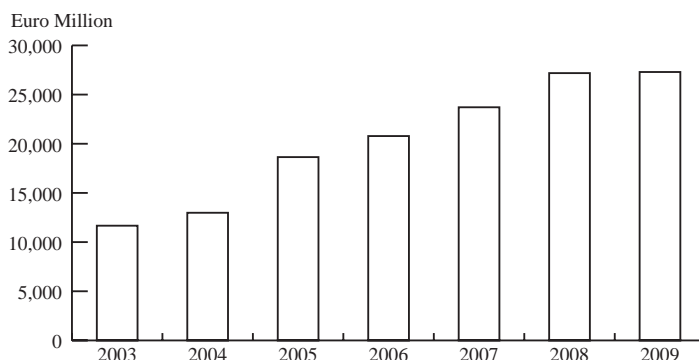
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## INDUSTRY OVERVIEW

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According to the statistics yearbook of European Commission, the import of apparel and apparel accessories by the EU from China showed a CAGR of approximately 15.22% from 2003 to 2009. In 2009, the total import value of apparel and apparel accessories from China amounted to approximately €27,296 million, accounting for approximately 44.8% of the EU's total imports.

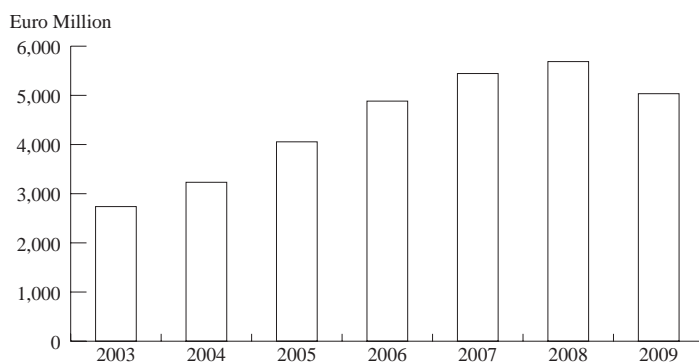
### EU's Imports of Apparel and Apparel Accessories from China from 2003 to 2009



Source: Statistical yearbook, European Commission

The textile yarn, fabrics and related products imported by the EU from China, according to the statistics yearbook of European Commission, increased from approximately €2,738 million in 2003 to approximately €5,034 million in 2009, representing a CAGR of approximately 10.68%. The market share of China's export increased from approximately 16.8% in 2003 to approximately 31% in 2009.

### EU's Imports of Textile Yarn, Fabrics and Related Products from China from 2003 to 2009



Source: Statistical yearbook, European Commission



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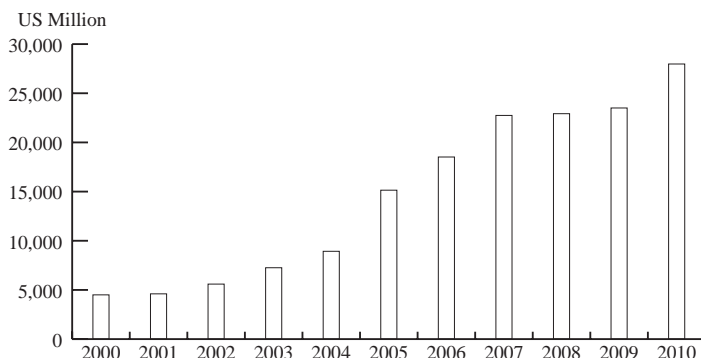
## INDUSTRY OVERVIEW

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### US Market

China is also the largest exporter of apparel to the US. In 2010, the imports of apparel from China accounted for about 39.18% of total apparel imports of the US in 2010. According to the US Office of Textiles and Apparel, the apparel imported by the US from China grew from approximately US\$4,498.97 million in 2000 to approximately US\$27,975.01 million in 2010, representing a CAGR of approximately 20.05%.

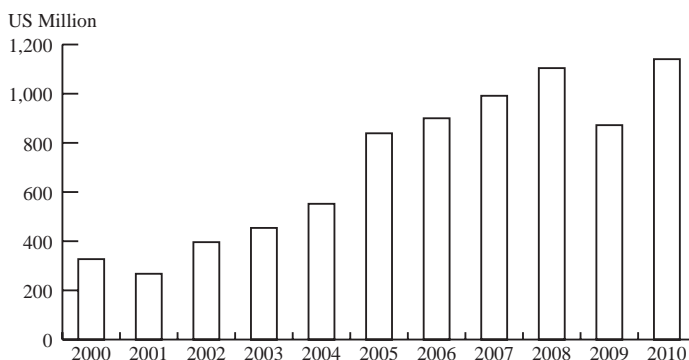
#### US's Imports of Apparel from China from 2000 to 2010



Source: US Office of Textiles and Apparel

Apart from importing apparel, the US has also imported fabrics from China over the last ten years. In accordance with the US Office of Textiles and Apparel, China has been the major exporter of fabrics to the US and the fabrics imported from China by the US accounted for approximately 23.91% of the total fabrics imported in 2010. The fabrics imported by the US from China increased from approximately US\$327.10 million in 2000 to approximately US\$1,140.48 million in 2010, representing a CAGR of approximately 13.30%. Despite there was a decrease in import of fabrics from China in 2009, the import has bounced back and increased by approximately 30.78% in 2010.

#### US's Imports of Fabrics from China from 2000 to 2010



Source: US Office of Textiles and Apparel

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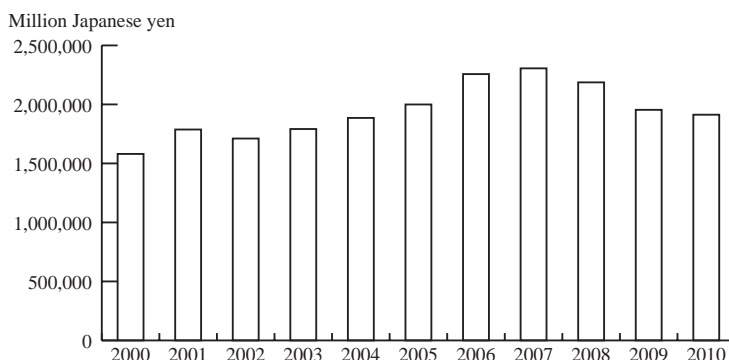
## INDUSTRY OVERVIEW

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### Japan Market

According to the Ministry of Finance, Japan, imports of apparel and accessories from China to Japan were relatively stable during the period from 2000 to 2010. In 2010, Japan imported approximately 1,912,729 million Japanese yen of apparel and accessories from China.

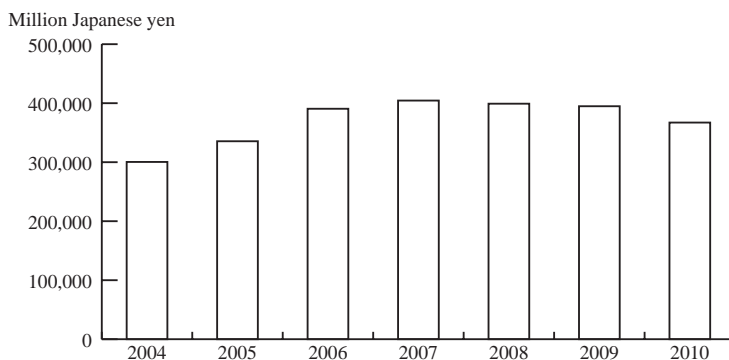
#### Japan's Imports of Apparel and Accessories from China from 2000 to 2010



Source: Ministry of Finance, Japan

In addition to apparel and accessories, Japan also imported textile yarn and fabrics from China. In 2010, textile yarn and fabrics amounting to approximately 367,159 million Japanese yen were imported to Japan from China.

#### Japan's Imports of Textile Yarn and Fabrics from China from 2004 to 2010



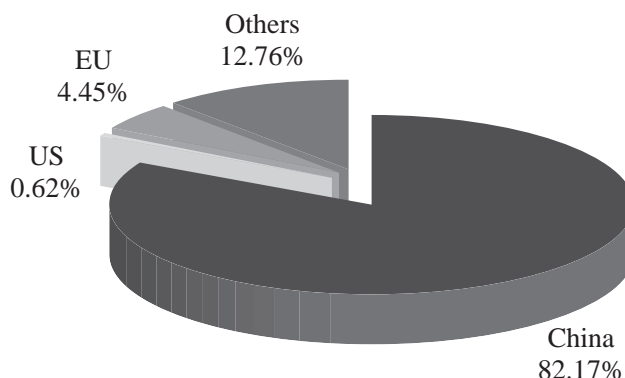
Source: Ministry of Finance, Japan

Although total volume of imports dropped slightly by approximately 2.12% from approximately 1,954,083 million Japanese yen in 2009 to approximately 1,912,729 million Japanese yen in 2010 for apparel and accessories and approximately 7.01% from approximately 394,844 million Japanese yen in 2009 to approximately 367,159 million Japanese yen in 2010 for textile yarn and fabrics, China remained as the single largest import market of Japan

## INDUSTRY OVERVIEW

and accounted for market shares of approximately 82.17% of its total imports of apparel and accessories and approximately 58.91% of its total imports of textile yarn and fabrics respectively, as illustrated in the chart and table below.

### Japan's Imports of Clothing and Accessories by Countries in 2010



*Source: Ministry of Finance, Japan*

### Japan's Import of Textile Yarn and Fabrics by Countries in 2010

Countries	Value (Million Japanese yen)	Market Share (%)
<b>China</b>	<b>367,159</b>	<b>58.91</b>
EU	46,302	7.43
US	18,043	2.89
Others	191,799	30.77
<b>Total</b>	<b>623,303</b>	<b>100.00</b>

*Source: Ministry of Finance, Japan*

## TEXTILE AND APPAREL INDUSTRY IN SHANDONG PROVINCE, THE PRC

Nowadays, about 80% of the textile factories in the PRC are located in the major coastal provinces. Equipping with well-established infrastructure, highly efficient logistics and transport as well as well-developed industry auxiliaries, the coastal areas in the PRC are the production bases for apparel worldwide. The top five provinces, namely Zhejiang, Guangdong, Jiangsu, Shanghai and Shandong, accounted for approximately 75.63% of the total apparel exports of China in 2010 with an export value amounted to approximately US\$156.20 billion.

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Shandong is one of the traditional apparel exporting provinces and ranked among the top five in the PRC, which recorded an export value of approximately US\$17.32 billion for the year 2010. Besides, Shandong is also one of the major consumption provinces in the PRC with its population of about 96 million at the end of 2010. As a result, demands for both overseas and domestic textile and apparel products are expected to be immense and provide an advantageous potential for the development of textile and apparel industry in Shandong. The 2009 Exhibition of Fabrics, Yarns and Accessories held in Shandong, the PRC, which was organised by various apparel associations, such as 山東省紡織工業協會 (Shandong Textile and Apparel Association\*) and 山東省服裝行業協會 (Shandong Provincial Garment Association\*), expected that the demands for textile yarn and accessories for production of textile will increase on an annual rate of about 20% per year.

### Top Five Apparel Exporting Provinces in China

Rank	Province	2009		2010	
		Export Value (US\$ billion) (Approximate)	% to total export	Export Value (US\$ billion) (Approximate)	% to total export
1	Zhejiang	39.75	23.8	49.76	24.1
2	Guangdong	30.99	18.6	37.69	18.3
3	Jiangsu	26.71	16.0	33.58	16.3
4	Shanghai	15.29	9.2	17.85	8.6
5	Shandong	14.19	8.5	17.32	8.4
	Other province	40.09	23.9	50.33	24.3
	Total	167.02	100%	206.53	100%

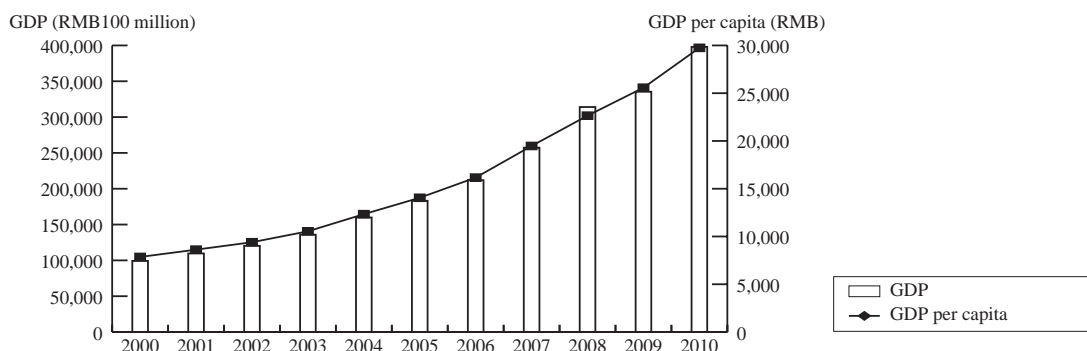
Source: China Customs Statistics

## CHINA DOMESTIC CONSUMER MARKET

With the rapid economic growth and large population, China has become an important consumer market. According to 中華人民共和國國家統計局 (National Bureau of Statistics of China), China has grown substantially over the last 10 years with GDP growing at a CAGR of approximately 14.90% from approximately RMB9,921.5 billion in 2000 to approximately RMB39,798.3 billion in 2010. The GDP per capita has also grown from approximately RMB7,858 in 2000 to approximately RMB29,748 in 2010, represented a CAGR of approximately 14.24%, implying that the domestic consumers have been fast gaining the financial ability to spend on consumption. The International Monetary Funds (“IMF”) also forecasts an optimistic outlook on the economic growth of China with an approximately 9.4% growth in GDP and approximately 8.9% growth in GDP per capita per annum for the years from 2011 to 2016.

# INDUSTRY OVERVIEW

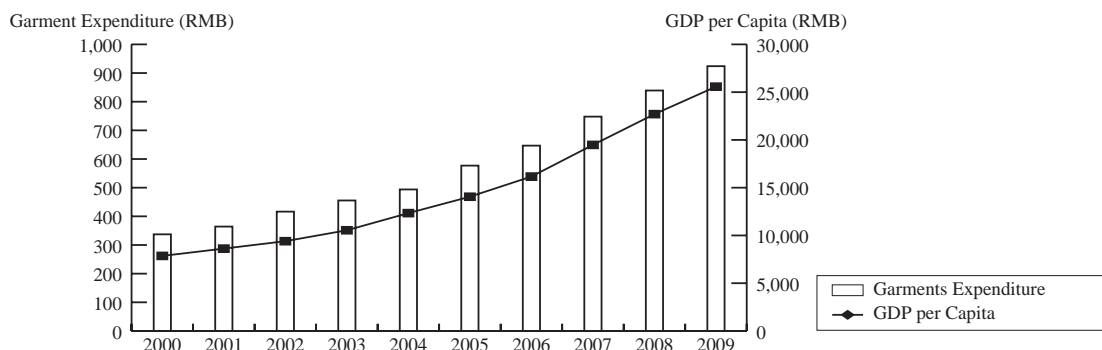
## China's GDP and GDP per Capita from 2000 to 2010



*Source: National Bureau of Statistics of China*

The improving economic conditions in China and the supporting policies from the PRC government enhance the importance of domestic consumer market of China, including domestic apparel market. The global financial crisis in 2008 has also led to the Chinese textile and apparel manufacturers to shift their focus from the overseas markets to the domestic markets. As illustrated in the chart below, over the past 10 years, the per capita annual garments expenditure in urban area has grown steadily, and aligned with the growth in GDP per capita.

## China's Per Urban Household Capita Annual Garments Expenditure from 2000 to 2009



*Source: National Bureau of Statistics of China*

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## INDUSTRY OVERVIEW

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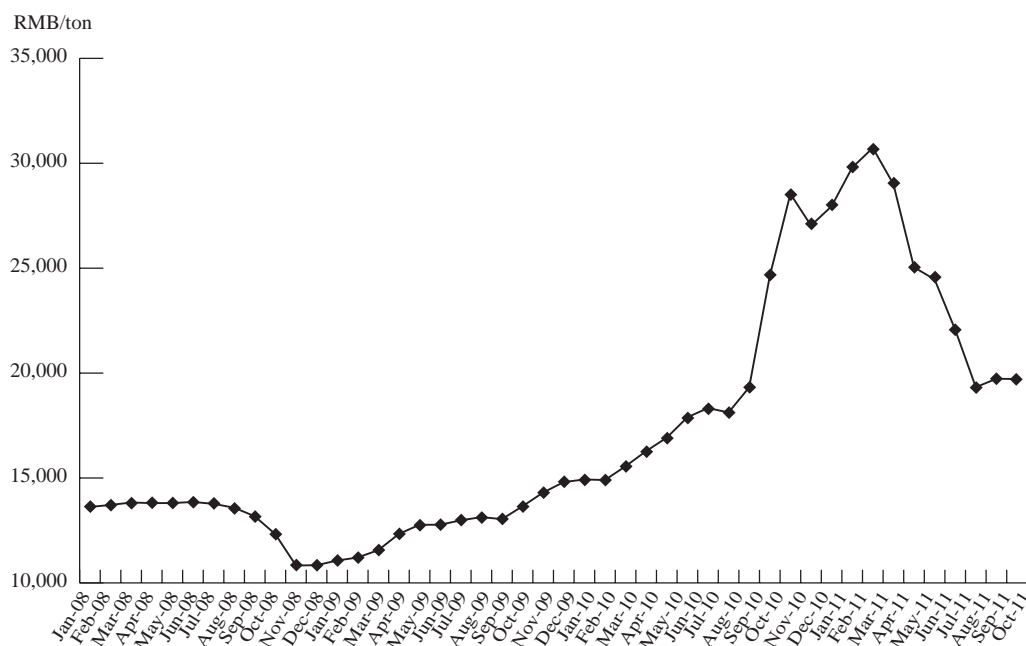
### KEY RAW MATERIALS CONSUMED BY OUR GROUP

Cotton yarns, synthetic yarns and greige fabrics are the major raw materials consumed for the manufacturing of our Group's general and functional innerwear and fabrics. The costs of both cotton yarns and synthetic yarns can be volatile depending on the cotton and crude oil prices which are largely determined by the supply and demand of cotton and crude oil price in the commodity markets. The price trends of cotton and crude oil from January 2008 to October 2011 are set out in the charts below.

#### Cotton yarns and cotton price trend in the PRC

Since cotton yarns and greige fabrics are among the major raw materials for our Group's manufacturing, the price fluctuation on cotton was one of the key factors which affected our Group's cost of production. The China Cotton Index, which is the price of cotton per ton in RMB delivered to mills for manufacturing cotton fabric, as quoted by the China Cotton Association can be used as a reference for the price of cotton fabric procured in the PRC. During the Track Record Period, the monthly average price of cotton decreased since July 2008 which was mainly due to the fact that demand for cotton significantly decreased as a result of the global financial crisis in 2008 and reached its bottom of RMB10,830 per ton in November 2008. However, since early 2009, the monthly average price of cotton increased substantially and reached its highest at RMB30,732 per ton in March 2011 during the Track Record Period. The average cotton prices during the Track Record Period were approximately RMB13,096, RMB12,804, RMB19,373 and RMB27,832 per ton respectively while our average cost of cotton yarns was approximately RMB21.3, RMB20.7, RMB28.1 and RMB33.7 per kg respectively.

#### China Cotton Index



Source: China Cotton Association (The above China Cotton Index is for cotton of 328 grading)

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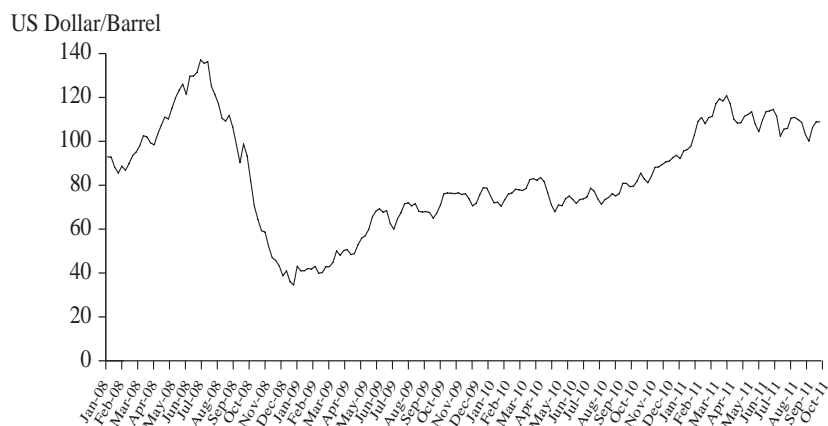
## INDUSTRY OVERVIEW

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### Synthetic yarns and crude oil price trend

Synthetic yarns are the major raw materials for our production of functional fabrics. We purchased over 500 kinds of synthetic yarns during the Track Record Period with an average cost of approximately RMB23.0, RMB28.2, RMB39.0 and RMB50.7 per kg respectively. There are numerous types of synthetic yarns available in the market and prices of these synthetic yarns vary based on their respective chemical compositions and functions. However, the price trend of synthetic yarns can be reflected from the cost of crude oil, which is the key component of many kinds of fibre for synthetic yarns that in turn affects our production costs. During the Track Record Period, the crude oil price reached its highest in July 2008 at approximately US\$137 per barrel according to the world crude oil price as illustrated in the figure below. The crude oil price then decreased substantially to its lowest in January 2009 and began to increase steadily since then. The average crude oil prices during the Track Record Period were approximately US\$95.62, US\$60.07, US\$77.68 and US\$107.09 per barrel, respectively.

#### Crude Oil Price



Source: Energy Information Administration

### COMPETITION IN THE OEM APPAREL INDUSTRY IN THE PRC

The PRC is one of the world's key producers and exporters of apparels. Characterised by the low capital requirement and labour-intensive nature, the entry barrier of the OEM apparel industry is low. Most of the PRC apparel manufacturers mainly focus on low and medium end garment products and engage principally in export-oriented OEM segment of the industry. As a result, the OEM apparel industry is highly fragmented with intense competition due to the abundance of labour with low cost and skills. In view of this industry environment, our Group represents a mere fraction of the overall OEM apparel industry of the PRC with our total unit of innerwear production for the year ended 31 December 2010 of approximately 18.717 million pieces representing only approximately 0.066% of the total production of the apparel in the PRC amounted to 28,523 million pieces. Our Directors believe that there is no particular player in the market that is capable of dominating the industry given such a high fragmentation rate within the OEM apparel industry in the PRC.

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Despite we only represent a small market share within the whole apparel industry, our Directors believe that the established relationships with the customers and proven track record provide continuous support to our Group's growth with our aim to pursue differentiation in high-value added products and continuous quality improvement.



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## REGULATORY OVERVIEW

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### INTRODUCTION

This section sets out summaries of certain aspects of PRC laws and regulations, which are relevant to our Group's operation and business.

### ESTABLISHMENT, OPERATION AND MANAGEMENT OF A WHOLLY FOREIGN-OWNED ENTERPRISE

The establishment, operation and management of corporate entities in China are governed by 《中華人民共和國公司法》(Company Law of the PRC\*) (“**Company Law**”), which was adopted by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) on 29 December 1993 and became effective on 1 July 1994. It was amended on 27 October 2005 and became effective from 1 January 2006. Companies are classified into two categories — limited liability companies and limited companies by shares. The Company Law also applies to foreign-invested limited liability companies. According to the Company Law, where laws on foreign investment have other stipulations, such stipulations shall apply.

The establishment procedures, approval procedures, registered capital requirement, foreign exchange, accounting practices, taxation and labour matters of a wholly foreign-owned enterprise are regulated by 《中華人民共和國外資企業法》(Wholly Foreign-owned Enterprise Law of the PRC\*) (“**Wholly Foreign-owned Enterprise Law**”), which was promulgated on 12 April 1986 and amended on 31 October 2000, and 《中華人民共和國外資企業法實施細則》(the Implementation Regulation of the Wholly Foreign-owned Enterprise Law\*), which was promulgated on 12 December 1990 and amended on 12 April 2001.

Investment in the PRC conducted by foreign investors and foreign-owned enterprises is governed by 《外商投資產業指導目錄》(Guidance Catalogue of Industries for Foreign Investment\*) (“**Catalogue**”), which was amended and promulgated by the Ministry of Commerce of the PRC (中華人民共和國商務部) and the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) on 31 October 2007. The Catalogue is a long-standing tool that PRC policy makers have used to manage and direct foreign investment. Similar to the 2002 and 2004 editions, the Catalogue divides industries into three basic categories: encouraged, restricted, and prohibited. Industries not listed in the Catalogue are generally open to foreign investment unless specifically barred in other PRC regulations. Foreign-invested enterprises in encouraged industries are often permitted to establish wholly foreign-owned enterprises. Parts of the industries in the restricted category may be limited to equity or contractual joint ventures, in some cases with the Chinese partner as the majority shareholder. Restricted category projects are also subject to higher-level government approvals. Industries in the prohibited section are closed to foreign investment. According to the Catalogue, the PRC government encourages foreign investments in the production of textiles with new and advanced technologies, weaving and dyeing processes as well as the post refining process of high-end fabric materials.

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### IMPORTATION AND EXPORTATION OF GOODS

Pursuant to 《中華人民共和國對外貿易法》(Foreign Trade Law of the PRC\*) (“**Foreign Trade Law**”), which was promulgated on 6 April 2004 and became effective on 1 July 2004, foreign trade dealers engaged in import and export of goods or technologies shall register with the authority responsible for foreign trade under the State Council of the PRC (中華人民共和國國務院) (“**State Council**”) or its authorised bodies unless laws, regulations and the authority responsible for foreign trade under the State Council do not so require. Where foreign trade dealers fail to register as required, the customs authority shall not process the procedures of declaration, examination and release for the imported and exported goods.

Pursuant to 《中華人民共和國海關對報關單位註冊登記的管理規定》(Administrative Provisions for the Registration of Customs Declaration Agents by the PRC Customs Authorities\*), which was promulgated on 31 March 2005 and became effective on 1 June 2005, as one type of declaration agents, “consignor or consignee of export or import goods” used in it means any legal person, other organisation or individual that directly imports or exports goods within the territory of the PRC. Consignors and consignees of import and export goods shall go through declaration agent registration formalities with their local customs authorities in accordance with the applicable provisions. After going through the registration formalities with customs authorities, consignors and consignees of import and export goods may handle their own declarations at any customs port or any locality where customs supervisory affairs are concentrated within the customs territory of the PRC. A PRC Customs Declaration Enterprise Registration Certificate is valid for a period of two years.

Pursuant to 《中華人民共和國貨物進出口管理條例》(Regulations of the PRC on the Administration of Import and Export of Goods\*), the administrative measures that China adopts to control exporting goods mainly include export quotas, export licenses, state-operated trade restrictions, designated trading and passive export quotas. Since China’s admission into the WTO in 2001, the above administrative measures to control textile export have been gradually abolished.

Pursuant to 《出口國營貿易管理貨物目錄》(Catalogue of Goods Subject to State-operated Export Trade Administration\*) and 《出口指定經營管理貨物目錄》(The Catalogue of Goods Subject to Export Designated Trade Administration\*), China no longer implements state-operated trade controls and designated trading on the export of textile products.

Pursuant to 《關於簽發2009年度紡織品出口許可證件的通知》(Circular on Issues Concerning Textile export license in 2009\*), China no longer implements export quotas and export licenses controls on the export of textile products.

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## REGULATORY OVERVIEW

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### TAXATION

#### Income tax

##### *General provisions*

Prior to 1 January 2008, income tax payable by foreign-invested enterprises in the PRC was governed by 《中華人民共和國外商投資企業和外國企業所得稅法》(Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises\*) (“**FIE Tax Law**”), which was promulgated on 9 April 1991 and became effective on 1 July 1991, and the related implementation rules. Pursuant to the FIE Tax Law, a foreign-invested enterprise was subject to a national income tax at the rate of 30% and a local tax at the rate of 3% unless a lower rate was provided by other laws or administrative regulations. The income tax on foreign-invested enterprises established in Special Economic Zones, foreign enterprises which have establishments or places in Special Economic Zones engaged in production or business operations, and on foreign-invested enterprises of a production nature in Economic and Technological Development Zones, was levied at the reduced rate of 15%. The income tax on foreign-invested enterprises of a production nature established in coastal economic open zones or in the old urban districts of cities where the Special Economic Zones or the Economic and Technological Development Zones are located, was levied at the reduced rate of 24%. Any foreign-invested enterprise of a production nature scheduled to operate for a period of not less than ten years was exempted from income tax for two years commencing from the first profit-making year (after offsetting all tax losses carried forward from previous years) and allowed a 50% reduction in the following three consecutive years.

According to the new EIT Law, which was promulgated on 16 March 2007, the income tax for both domestic and foreign-invested enterprises will be at the same rate of 25% effective from 1 January 2008. In order to clarify some provisions in the EIT Law, 《中華人民共和國企業所得稅法實施條例》(Implementation Rules to the EIT Law\*) (“**Implementation Rules**”) was promulgated on 6 December 2007 and became effective on 1 January 2008. The EIT Law provides certain relief during the transition period to enterprises that were established prior to 16 March 2007: (i) if foreign-invested enterprises enjoyed preferential tax treatment under the then effective laws and regulations, their applicable tax rate will be gradually increased to coincide with the new tax rate within five years starting from 2008; and (ii) if foreign-invested enterprises were enjoying the preferential tax treatment period under the then effective laws and regulations, such foreign-invested enterprises can continue to enjoy the preferential treatment until its expiry. However, if an enterprise has not started to enjoy the tax preferential treatment, year 2008 will be deemed as the first profit-making year in which the tax preferential treatment period commenced.

##### *Special provisions*

Pursuant to the EIT Law and its Implementation Rules, where non-resident enterprises that have not set up institutions or establishments in China, or where institutions or establishments are set up but there is no actual relationship with the income obtained by the institutions or establishments set up by such enterprises, they shall pay enterprise income tax in relation to the income originating from China. The incomes originating from China include income from transfer of property such as equity.

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## REGULATORY OVERVIEW

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Furthermore,《關於企業重組業務企業所得稅若干處理問題的通知》(Circular on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business\*), which was promulgated on 30 April 2009 and became effective on 1 January 2008, shall be observed by parties involved in the equity acquisition. According to the aforesaid circular, “equity acquisition” refers to a transaction that an enterprise (hereinafter referred as the acquiring enterprise) purchases the equities of another enterprise (hereinafter referred to as the acquired enterprise) to realise the control over the acquired enterprise. The forms of the consideration payment by the acquiring enterprise include equity payment, non-equity payment or combination of both. As a result of the application of general tax process (tax process in connection with enterprise restructuring applies general tax process provisions and special tax process provisions respectively based on different conditions), in enterprise equity acquisition, and asset acquisition and restructuring, relevant transactions shall be processed as follows: (1) the acquired enterprise shall determine the gains or losses from transfer of equities and assets; (2) the tax base for the equities or assets obtained by the acquiring party shall be determined on the basis of fair value; and (3) other relevant issues on income tax payment by the acquired enterprise remain unchanged in principle.

The matters concerning enterprise income tax on incomes from non-resident enterprises’ equity transfers is particularly governed by《國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知》(Circular of the State Administration of Taxation on Strengthening the Administration of Enterprise Income Tax on Incomes from Non-resident Enterprises’ Equity Transfers\*), which was promulgated on 10 December 2009 and became effective on 1 January 2008. According to this circular, “equity transfer income” refers to the income obtained by the non-resident enterprises from their transfers of the equity of Chinese resident enterprises (excluding the stocks of Chinese resident enterprises that are purchased from and sold in the open securities markets). Where the withholding agent fails to withhold legally or it is impossible to perform the withholding obligation, the non-resident enterprise in question shall file tax return and pay the enterprise income tax to the competent tax authorities at the locality of the Chinese resident enterprise whose equity has been transferred within seven days upon the date of equity transfer as agreed in relevant contracts and/or agreements (where the transferring party obtains the equity transfer income in advance, the date of actual obtaining of equity transfer income shall prevail). Where the non-resident enterprise fails to file tax return on time and accurately, the relevant regulations of the taxation collection and administration laws shall be referred to for handling of the same. In addition, where the non-resident enterprise transfers the equity of a Chinese resident enterprise to its affiliate(s) and the transfer price thereof is not in consistent with the arm’s length principle and thus the taxable income amount is reduced, the tax authorities shall have the right to adjust the same in light of reasonable methods.

### **Value-added tax**

Pursuant to《中華人民共和國增值稅暫行條例》(Provisional Regulations on Value-added Tax of the PRC\*) (“**VAT Law**”) latest amended on 5 November 2008 and which became effective from 1 January 2009 and its implementation rules, all entities or individuals in the PRC engaging in the sale of goods, the provision of processing services, repairs and replacement

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services, and the importation of goods are required to pay value-added tax. VAT payable is calculated as “output VAT” minus “input VAT”. The rate of VAT is 17% for those engaging in the sale or importation of goods except otherwise provided by paragraph (2) and paragraph (3) of Article 2 in the VAT Law and is 17% for those providing processing services, repairs and replacement services.

Pursuant to 《關於提高輕紡、電子信息等商品出口退稅率的通知》(Circular on Issues Concerning increase the export tax refund rate of Textile and Electronic information industry\*), from 1 April 2009, the refund rate for exporting textile products has been increased to 16%.

### FOREIGN CURRENCY EXCHANGE AND DIVIDEND DISTRIBUTION

#### Foreign currency exchange

The principal regulation governing foreign currency exchange in China is 《中華人民共和國外匯管理條例》(Foreign Exchange Administration Rules of the PRC\*) (“**Foreign Exchange Administration Rules**”). It was promulgated by the State Council on 29 January 1996, became effective on 1 April 1996 and was amended on 14 January 1997 and 1 August 2008. Under these rules, RMB is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loan unless prior approval of the SAFE is obtained.

Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for paying dividends by providing certain evidencing documents (board resolutions, tax certificates, etc.), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a cap approved by SAFE) to satisfy foreign exchange liabilities. In addition, foreign exchange transactions involving overseas direct investment or investment and exchange in securities, derivative products abroad are subject to registration with SAFE and approval or file with the relevant governmental authorities (if necessary).

#### Dividend distribution

Prior to the promulgation of the EIT Law, the principal regulations governing distribution of dividends paid by wholly foreign-owned enterprises was the Wholly Foreign-owned Enterprise Law and the Implementation Regulation of the Wholly Foreign-owned Enterprise Law.

Under these regulations, wholly foreign-owned enterprises in China may only pay dividends from accumulated after-tax profit, if any, determined in accordance with PRC accounting standards and regulations. Dividends paid to its foreign investors are exempt from withholding tax. However, this provision has been revoked by the EIT Law. The EIT Law prescribes a standard withholding tax rate of 20% on dividends and other China-sourced passive income of non-resident enterprises. However, the Implementation Rules reduced the rate from 20% to 10%, effective on 1 January 2008.

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The Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income was executed on 21 August 2006 (“**Arrangement**”). According to the Arrangement, no more than 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident, provided that the recipient is a company that holds at least 25% of the capital of the PRC company. The 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if the recipient is a company that holds less than 25% of the capital of the PRC company.

### PRODUCT QUALITY

The principal legal provisions governing product liability are set out in 《中華人民共和國產品質量法》(Product Quality Law of the PRC\*) (“**Product Quality Law**”), which was promulgated on 22 February 1993 and amended on 8 July 2000.

The Product Quality Law is applicable to all activities of production and sale of any product within the territory of the PRC, and the producers and sellers shall be liable for product quality in accordance with the Product Quality Law.

### CONSUMER PROTECTION

The principal legal provisions for the protection of consumer interests are set out in 《中華人民共和國消費者權益保護法》(Consumer Protection Law of the PRC\*) (“**Consumer Protection Law**”), which was promulgated on 31 October 1993 and came into effect on 1 January 1994.

According to the Consumer Protection Law, the rights and interests of the consumers who purchase or use commodities for the purposes of daily consumption or those who receive services are protected and all manufacturers and distributors involved must ensure that the products and services will not cause damage to persons and properties.

### Anti-Monopoly Law

Pursuant to 《中華人民共和國反壟斷法》(Anti-Monopoly Law of the PRC\*) (“**Anti-Monopoly Law**”), which was promulgated on 30 August 2007 and became effective on 1 August 2008, “dominant market position” shall refer to a position in which a market participant can control the prices and supplies of products, and other terms of trade within the relevant markets as well as obstruct or otherwise affect the entry of other operators into the relevant markets. Market participants who hold a dominant market position shall be prohibited from engaging in practices which may be classified as an abuse of said position such as selling products at unfairly high or purchasing products at unfairly low prices, selling products at a price lower than cost without legitimate grounds, refusing to conduct transactions with relevant trading partners without legitimate grounds, forcing trading partners to conduct transactions only with said market participant or a group of market participants specified by said market participant without legitimate grounds, conducting tie-in sales or adding other unreasonable conditions on a transaction without legitimate grounds, discriminating between trading partners of the same qualifications with regards to transaction price, etc. without legitimate grounds, or other practices recognised by the Anti-Monopoly Law enforcement authorities as abuse of dominant

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## REGULATORY OVERVIEW

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market position. Furthermore, where an operator violates the provisions of this law by abusing its dominant market position, the Anti-Monopoly Law enforcement authorities shall order a halt to the offending behavior, confiscate the illegal earnings, and impose a fine between 1 and 10 percent of the previous year's sales volume.

### COMPETITION LAW

The principal legal provisions governing the competition among the business operators are set out in 《中華人民共和國反不正當競爭法》(Law of the PRC for Anti-Unfair Competition\*) (**“Anti-Unfair Competition Law”**). According to the Anti-Unfair Competition Law, in carrying on transactions in the market, market participants shall follow the principle of voluntariness, equality, fairness, honesty and credibility, and observe generally recognised business ethics. Any acts of market participants which contravene the provisions of this law, with a result of damaging the lawful rights and interests of other operators, and disturbing the socio-economic order shall constitute unfair competition. When the lawful rights and interests of a market participant are damaged by the acts of unfair competition, it may institute proceedings in a people's court. In comparison, where a market participant commits unfair competition in contravention of the provisions of this law and causes damage to another market participant, it shall bear the responsibility for compensating the damages. Where the losses suffered by the non-defaulting market participant are difficult to quantify, the amount of damages shall be the profit gained by the infringer during the period of infringement through the infringing act. The infringer shall also bear all reasonable costs paid by the injured operator in investigating the acts of unfair competition committed by the market participant suspected of infringing its lawful rights and interests.

### PRICING LAW

Pursuant to 《中華人民共和國價格法》(Pricing Law of the PRC\*) (**“Pricing Law”**), which was promulgated on 29 December 1997 and became effective from 1 May 1998, the market participants shall, in determining prices, abide by the principle of fairness, being in conformity with law, honesty and credibility. And production and management costs and market supply and demand situation shall be the fundamental basis for the determination of prices by the operators.

Market participants shall, in selling, procuring commodities and providing services, display the clearly marked price in accordance with the provisions of the competent departments of price of the government. Market participants shall not sell commodities with additional price on top of the marked price and shall not collect any fee not indicated. Furthermore, market participants shall not commit such unfair price acts as manipulating market price in collusion to the detriment of the lawful rights and interests of other operators or consumers and so on. Any market participants who commit any of the unfair price acts prescribed in the Pricing Law shall be ordered to make a rectification, confiscated of the illegal gains and may be concurrently imposed a fine of less than five times of the illegal gains; where the circumstances are serious, an order shall be issued for the suspension of business operations, or the business license shall be revoked by the agency of industry and commerce administration. In addition, any market participants who cause consumers or other operators to pay more than the market prices should

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## REGULATORY OVERVIEW

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refund the overpaid portion; where damage has been caused, liability for compensation shall be borne according to this law. And any operator who violates the provision of clearly marked prices shall be ordered to make a rectification, confiscated of the illegal gains and may be concurrently imposed a fine of less than RMB5,000.

### INTELLECTUAL PROPERTY RIGHTS

#### Trademarks

Pursuant to 《中華人民共和國商標法》(Trademark Law of the PRC\*) (“**Trademark Law**”), which was revised on 27 October 2001 and became effective on 1 December 2001, the right to exclusive use of a registered trademark shall be limited to trademarks which have been approved for registration and to goods on which the use of a trademark has been approved. The period of validity of a registered trademark shall be ten years commencing from the date the registration is approved. According to the Trademark Law, using a trademark that is identical with or similar to a registered trademark in connection with the same or similar goods without the authorisation of the owner of the registered trademark constitutes an infringement of the exclusive right to use a registered trademark. When a dispute arises after a party commits any of the acts infringing upon another party’s exclusive right to use a registered trademark as enumerated in the Trademark Law, the parties involved shall settle the dispute through consultation. Where the parties refuse to pursue consultation or where consultation has failed, the trademark registrant or any interested party may institute legal proceedings with the people’s court or ask the administrative authorities for industry and commerce to handle the matter upon determining that trademark infringement has taken place.

According to 《中華人民共和國商標法實施條例》(Implementation Rules of the Trademark Law\*) (“**Implementation Rules of the Trademark Law**”), which was promulgated on 3 August 2001 and became effective on 15 September 2001, the trademark office shall examine the applications for trademark registration that it has accepted according to the relevant provisions of the Trademark Law and the present Implementation Rules of the Trademark Law, and grant preliminary approval by public announcement to those applications that meet the requirements and those applications that meet the requirements for registration of trademarks to be used on some of the designated commodities. If the application does not meet the requirements or the application for registration of a trademark to be used on some of the designated commodities does not meet the requirements, it shall be rejected, and the applicant shall be informed with an explanation of the reasons.

#### Patent

Pursuant to 《中華人民共和國專利法》(Patent Law of the PRC\*) (“**Patent Law**”), which was revised on 27 December 2008 and became effective on 1 October 2009, the term “invention” refers to any new technical solution relating to a product, a process or improvement thereof, and the term “utility model” used therein refers to any new technical solution relating to the shape, the structure, or their combination, of a product, which is fit for practical use, while the term “design” refers to any new design of the shape, pattern or their combination and the combination of color and shape or pattern, of a product, which creates an aesthetic feeling and is fit for industrial application.



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## REGULATORY OVERVIEW

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After the grant of the patent right for an invention or utility model, except where otherwise provided for in the Patent Law, no entity or individual may, without the authorisation of the patent owner, exploit the patent, that is, make, use, offer to sell, sell or import the patented product, or use the patented process, and use, offer to sell, sell or import the product directly obtained by the patented process, for production or business purposes. After a patent right is granted for a design, no entity or individual shall, without the permission of the patent owner, exploit the patent, that is, for production or business purposes, manufacture, offer to sell, sell, or import any product containing the patented design.

The scope of protection for the patent right for an invention or utility model shall be subject to the contents of its claims and the description and drawings attached thereto may be used to explain the contents of the claims. The scope of protection of the patent right for a design shall be subject to the design of a product displayed in pictures or photographs and the brief description may be used to explain such design. The duration of patent right for inventions shall be 20 years and the duration of patent right for utility models and designs shall be ten years, both commencing from the date of application. Where a dispute arises as a result of the exploitation of a patent without the authorisation of the patent owner, that is, the infringement of the patent right of the patent owner, it shall be settled through consultation by the patent owner. Where the parties are not willing to consult with each other or where the consultation fails, the patent owner or any interested party may institute legal proceedings in the people's court, or request the administrative authority for patent affairs to handle the matter.

### ENVIRONMENTAL PROTECTION

According to 《中華人民共和國環境保護法》(Environmental Protection Law of the PRC\*) (“**Environmental Protection Law**”), which was promulgated and became effective on 26 December 1989:

- any entity that discharges pollutants must establish environmental protection rules and adopt effective measures to control or properly treat waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation and other hazards it produces;
- any entity that discharges pollutants must report to and register with the relevant environmental protection authorities; and
- any entity that discharges pollutants in excess of the prescribed national or local standards must pay a fee therefor.

The purposes of the Environmental Protection Law are to protect and enhance living environment, prevent and cure contamination and other public hazards, and safeguard human health. The Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部) implements uniform supervision and administration of environmental protection work nationwide and formulates the national waste discharge standards. Local environmental protection bureaus at county level and above are responsible for the environmental protection

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## REGULATORY OVERVIEW

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in their jurisdictions. Government authorities shall impose different penalties against persons or enterprises in violation of the Environmental Protection Law depending on the individual circumstances and the extent of contamination. Such penalties include warnings, fines, decisions to impose deadlines for cure, orders to stop production, orders to re-install contamination prevention and cure facilities which have been removed or left unused, imposition of administrative actions against relevant responsible persons, or orders to close down those enterprises or authorities.

Pursuant to 《中華人民共和國水污染防治法》(Law on Prevention and Control of Water Pollution of the PRC\*) (“**Water Pollution Preventive Law**”) which was promulgated on 11 May 1984 and amended on 28 February 2008 to establish legal standards for the prevention and control of the pollution of river, lakes and other surface water bodies and of underground water bodies within China, government authorities shall impose different penalties against persons or enterprises in violation of the Environmental Protection Law depending on the individual circumstances and the extent of contamination. Such penalties include warnings, fines, decisions to impose deadlines for cure, orders to stop production, orders to re-install contamination prevention and cure facilities which have been removed or left unused, imposition of administrative actions against relevant responsible persons, or orders to close down those enterprises or authorities.

According to 《建設項目環境保護管理條例》(Administration Rules of Construction Project Environmental Protection\*), which was promulgated and became effective on 29 November 1998, the state practises the construction project environmental impact evaluation system. A construction unit should, in the phase of construction project feasibility study, submit the construction project environmental impact report, environmental impact statement or environmental impact registration form for approval. For a construction project that necessitates no feasibility study pursuant to relevant state provisions, the construction unit should, prior to the start of the construction of the construction project, submit the construction project environmental impact report, environmental impact statement or environmental impact registration form for approval. Besides, the construction unit should, upon the completion of the construction project, file an application with the competent department of environmental protection administration that examined and approved the said construction project environmental impact report, environmental impact statement or environmental impact registration form for acceptance checks on completion of matching construction of environmental protection facilities required for the said construction project. For construction projects that are built in phases, go into production or are delivered for use in phases, acceptance checks for their corresponding environmental protection facilities should be conducted in phases.

## LABOUR CONTRACTS AND OCCUPATIONAL PROTECTION

Pursuant to 《中華人民共和國勞動合同法》(Labour Contract Law of the PRC\*) (“**Labour Contract Law**”), which was adopted by the Standing Committee of the National People’s Congress on 29 June 2007 and became effective on 1 January 2008, to establish a labour relationship, a written labour contract should be concluded. In the event that no written labour contract is concluded at the time when a labour relationship is established, such a written

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## REGULATORY OVERVIEW

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contract should be concluded within one month as of the date when the employing unit employs a worker. Where an employing unit fails to conclude a written labour contract with a worker for more than one month but less than a year from the date it starts employing him, it shall pay the workers two times his salary for each month. In addition, if an employing unit fails to conclude a written labour contract with a worker within one year as of the date when it employs the worker, it shall be deemed to have concluded an open-ended contract with the latter.

Pursuant to 《中華人民共和國職業病防治法》(Law on Prevention and Control of Occupational Diseases of the PRC\*) (“**Law on Prevention and Control of Occupational Diseases**”), which was adopted by the Standing Committee of the National People’s Congress on 27 October 2001 and became effective on 1 May 2002, for construction projects, including projects to be constructed, expanded and reconstructed, and projects for technical updating and instruction, which may produce occupational diseases hazards, the unit responsible for the construction project shall, during the period of feasibility study, submit to the public health administration department a preliminary assessment report on the hazards. The said department shall, within 30 days from the date the reports received, make a decision upon examination and inform the unit of the decision in writing. Where a unit fails to submit such a report to or obtain approval by the public health administration department after examination of the report, the authority concerned may not grant approval to the construction project. Furthermore, for construction projects that produce serious occupational diseases hazards, the design of the protective facilities shall be subject to examination by the public health administration department. Only when the design conforms to the national norm for occupational health and meets the requirements for occupational health, construction can be started. Before the construction project is completed for inspection and acceptance, the construction unit shall assess the effect of the control of occupational disease hazards when the project is completed and ready for inspection and acceptance. The facilities for prevention of occupational diseases may be put into formal operation and use only after they pass the inspection by the public health administration department.

### SOCIAL INSURANCE AND HOUSING PROVIDENT FUND

According to 《中華人民共和國保險法》(Social Insurance Law of PRC\*), which was promulgated on 28 October 2010 and became effective from 1 July 2011, enterprises with foreign investment fall into the collection and payment scope of basic pensions, basic medical insurance and unemployment insurance (collectively referred to as “**social insurance**”). Enterprises with foreign investment shall, within 30 days of the date of their establishment, apply for social insurance registration at the local social insurance agencies which may be the taxation departments or the social insurance agencies established by the administrative department of labour security according to the provisions of the State Council, on the basis of their business licences, registration certificates or other such relevant certificates. After verification, the social insurance agencies shall issued to them a social insurance registration certificate. Furthermore, these enterprises shall, on a monthly basis, report to the social insurance agency the amount of the social insurance premiums payable and, after assessment by the social insurance agency, pay their social insurance premiums within the prescribed time period.

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## REGULATORY OVERVIEW

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《住房公積金管理條例》(Administration Rules of the Housing Provident Fund\*), which were promulgated on 3 April 1999 and amended on 24 March 2002, were applicable to enterprises with foreign investment. Newly established enterprises with foreign investment shall attend the housing provident fund management center to undertake housing provident fund payment and deposit registration within 30 days from the date of their establishment, and attend a commissioned bank to go through the formalities of opening housing provident fund accounts on behalf of their staff and workers within 20 days from the date of the registration with the verified documents of the housing provident fund management center. When employing new staff or workers, these enterprises shall undertake housing provident fund contribution and deposit registration at a housing provident fund management center within 30 days from the date of the employment, and shall go through the formalities of opening or transferring housing provident fund accounts of staff and workers at a commissioned bank with the verified documents of the housing provident fund management center. Furthermore, according to said Rules, the housing provident fund to be paid and deposited by an individual staff member or worker shall be withheld from his salary by the enterprise for which he serves, and the enterprise itself shall pay and deposit housing provident fund on schedule and in full, and may not be overdue in the payment and deposit or underpay the housing provident fund. The payment and deposit rates for housing provident fund of both staff and workers and enterprises shall not be less than 5% of the average monthly salary of an individual staff member or worker in the previous year.

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# HISTORY, REORGANISATION AND GROUP STRUCTURE

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## OUR CORPORATE HISTORY

### Introduction

The history of our Group can be traced back to 2000 when Mr. Wong and his wife, Madam Hung Kin established our first operating subsidiary, Zhucheng Eternal Knitting, in Zhucheng, Shandong, the PRC, through their then investment vehicle, Grand Concord (HK). Since the establishment of our innerwear production business in Zhucheng, Shandong, the PRC, our Group has developed into a sizeable operation, with three manufacturing subsidiaries in the PRC and one trading subsidiary in Hong Kong. We consider ourselves a functional fabric and innerwear manufacturer, striving to grow into one of the leading fabric and innerwear manufacturers in the PRC for major international apparel brands.

### Milestones in our business development

The following is a summary of the milestones in our business development:

<b>Year</b>	<b>Event</b>
2000	Following the establishment of Zhucheng Eternal Knitting, we purchased our first manufacturing premises with a total gross floor area of approximately 15,084.48 sq.m. in Zhucheng, Shandong, the PRC for use as a production plant.
2001	Zhucheng Eternal Knitting commenced its innerwear manufacturing operation in the PRC.
2002	Zhucheng Eternal Knitting obtained the first batch of orders from Sumikin Bussan Corporation, a company listed on the stock exchange of Tokyo in Japan which signified the recognition of the quality of our products by this important customer in Japan.
2004	Zhucheng Yumin Knitting was established in the PRC initially to engage in the manufacture and sale of fabrics and garment. The business scope was subsequently extended to cover fabric dyeing and processing services in 2005.
2005	Zhucheng Eternal Knitting constructed our second manufacturing premises with a total gross floor area of approximately 24,108.17 sq.m. which premises have also been occupied by Zhucheng Yumin Knitting for our fabric manufacturing operation in Zhucheng, Shandong, the PRC.
2006	Zhucheng Yumin Knitting commenced our fabric weaving and knitting production which was an important step of our Group to implement the strategy of vertical integration as our business model.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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<b>Year</b>	<b>Event</b>
2007	<p>Zhucheng Yumin Knitting commenced our fabric dyeing and printing operation.</p> <p>Shandong Grand Concord was established in the PRC to engage in the manufacture of innerwear.</p>
2009	<p>We set up our in-house product development department to develop functional fabrics.</p> <p>Shandong Grand Concord commenced the construction of our third manufacturing premises, with an estimated total gross floor area of approximately 29,844.79 sq.m., of which approximately 13,201.54 sq.m. was completed in 2010, for our innerwear manufacturing operation in Zhucheng, Shandong, the PRC.</p> <p>We obtained sales orders for more than 2 million pieces of garments made with our own functional fabrics from Toray Group, a company listed on the stock exchange of Tokyo in Japan, for Ito Yokado Group, an established retail group in Japan.</p>
2010	<p>We commenced our sales of infants' innerwear to the US market.</p> <p>The annual sale orders from Toray Group increased to over 4.5 million pieces of garments.</p> <p>We registered the trademark “UTEX (优特适)” in the PRC.</p> <p>Grand Concord Garment was incorporated in Hong Kong with a view to consolidating the sales operations of our products to the markets in the US and Europe.</p>

### **Our Group members**

#### **A. Our operating subsidiaries**

##### *(1) Zhucheng Eternal Knitting*

Zhucheng Eternal Knitting, the first operating subsidiary of our Group, was established by Grand Concord (HK) in Zhucheng, Shandong on 24 October 2000 as a wholly foreign owned enterprise to engage in manufacturing of innerwear products.

Zhucheng Eternal Knitting had a registered capital of US\$1.3 million at the time of its establishment which amount remained unchanged during the Track Record Period and as at the Latest Practicable Date. According to the capital verification reports issued by 諸城正本有限責任會計師事務所 (Zhucheng Zhengben Certified Public Accountants Co.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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Ltd.\*) dated 8 December 2000, 26 December 2001, 18 October 2002, 3 March 2003, 26 August 2003, 24 December 2003 and 29 October 2004, the registered capital of Zhucheng Eternal Knitting was fully paid up as at 29 October 2004.

The main products of Zhucheng Eternal Knitting are innerwear for export to overseas markets, in particular to Japan.

### (2) *Zhucheng Yumin Knitting*

To secure a stable supply of fabrics for our innerwear products and to provide our customers with greater flexibility in the textile supply chain, Grand Concord (HK) established Zhucheng Yumin Knitting in Zhucheng, Shandong on 22 November 2004 to commence our own fabric weaving and knitting production. In October 2005, Zhucheng Yumin Knitting decided to expand its business scope to cover fabric printing and dyeing, which expansion was approved by 濰坊市對外貿易經濟合作局 (Weifang Municipal Bureau of Foreign Trade and Economic Cooperation\*) on 11 November 2005 and registered with 濰坊市工商行政管理局 (Weifang Municipal Administration for Industry and Commerce\*) on 21 November 2005.

The registered capital of Zhucheng Yumin Knitting was US\$350,000 at the time of its establishment. On 30 August 2006, Zhucheng Yumin Knitting proposed to increase its registered capital from US\$350,000 to US\$2.6 million to cater for its expansion. 濰坊市對外貿易經濟合作局 (Weifang Municipal Bureau of Foreign Trade and Economic Cooperation\*) approved such increase on 12 September 2006 and the increase of registered capital was also registered with 濰坊市工商行政管理局 (Weifang Municipal Administration for Industry and Commerce\*) on 7 December 2006. According to the capital verification reports issued by 諸城千禧有限責任會計師事務所 (Zhucheng Qianxi Certified Public Accountants Co. Ltd.\*) dated 17 February 2005, 15 April 2005, 23 November 2006 and 31 October 2008, the registered capital of Zhucheng Yumin Knitting was fully paid up as at 30 October 2008.

Zhucheng Yumin Knitting is equipped with technically advanced machinery, in particular, weaving machines, dyeing machines, pre-shrinking machines, stentering machines and flat screen and rotary screen printing machines. Our Directors consider the establishment of Zhucheng Yumin Knitting and its pursuit in the fabric weaving, printing and dyeing operations the first step of our vertical integration strategy. Currently, it provides in-house fabric weaving, knitting and dyeing services to the innerwear manufacturing division of our Group as well as supplies fabrics to other manufacturers of innerwear brands.

### (3) *Shandong Grand Concord*

Considering that the manufacturing capacity of Zhucheng Eternal Knitting have been largely occupied by OEM orders from Japanese customers, Grand Concord (HK) established Shandong Grand Concord in Zhucheng, Shandong on 9 July 2007 to increase our Group's manufacturing capacity of garment products for customers in the US and Europe.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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Shandong Grand Concord had a registered capital of US\$350,000 at the time of its establishment. On 2 November 2009, Shandong Grand Concord proposed to increase its registered capital from US\$350,000 to US\$850,000. 濰坊市對外貿易經濟合作局 (Weifang Municipal Bureau of Foreign Trade and Economic Cooperation\*) approved such increase on 15 December 2009 and the increase of registered capital was also registered with 濰坊市工商行政管理局 (Weifang Municipal Administration for Industry and Commerce\*) on 13 January 2010. According to the capital verification reports issued by 諸城千禧有限責任會計師事務所 (Zhucheng Qianxi Certified Public Accountants Co. Ltd.\*) dated 24 July 2007, 27 July 2007, 1 July 2009 and 5 January 2010, the registered capital of Shandong Grand Concord was fully paid up as at 24 December 2009.

As advised by our PRC legal advisers, save for the non-registration and non-payment of the contributions to social insurance and housing provident fund as disclosed in the paragraph headed “Risk factors — We did not fully contribute to the mandatory social insurance and housing provident fund” of this prospectus, our subsidiaries in the PRC have obtained all necessary licences, approvals and permits from the authorities for their business operations in the PRC and have complied with all relevant laws and regulations in relation to environmental protection, health and production safety and taxation matters.

#### (4) *Grand Concord Garment*

Grand Concord Garment was incorporated on 3 June 2010 in Hong Kong as a limited liability company with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. Grand Concord (HK) subscribed for one share which represented the entire issued share capital of Grand Concord Garment at its incorporation. Since its incorporation, Grand Concord Garment has been principally engaging in the trading of garment.

### **B. *Our investment holding members***

#### (1) *Grand Concord (HK)*

Grand Concord (HK) was incorporated on 30 November 1995 in Hong Kong as a limited liability company with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. In February 1996, Mr. Wong and Madam Hung Kin acquired the entire issued share capital of Grand Concord (HK) from two independent third parties with a view to taking Grand Concord (HK) as their investment vehicle for trading or investment purposes. Since 2000, Grand Concord (HK) has been acting as the investment holding company for holding the equity interests in all our PRC subsidiaries and Grand Concord Garment.

Pursuant to the Reorganisation, Grand Concord (HK) becomes an indirectly wholly-owned subsidiary of our Company.



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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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### (2) *Grand Concord (BVI)*

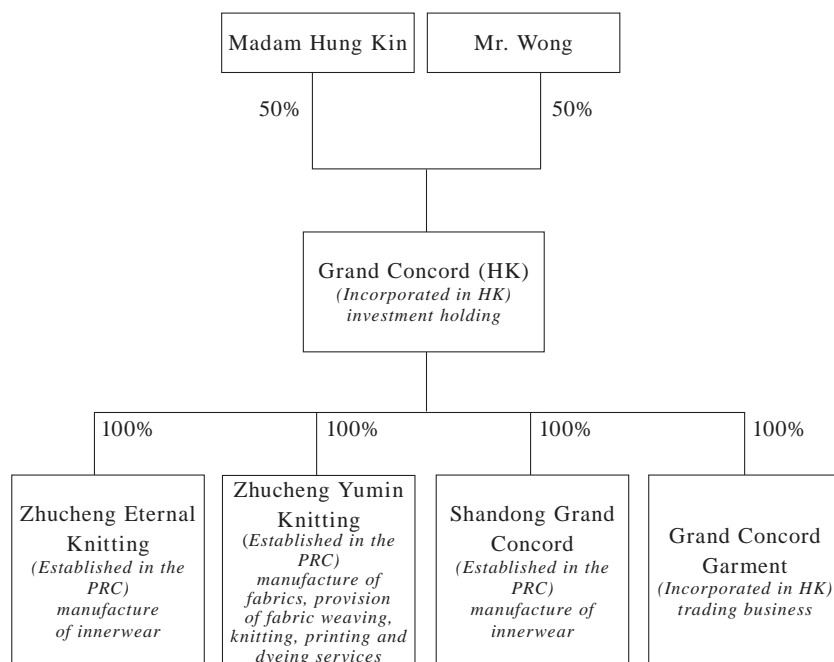
Grand Concord (BVI) was incorporated in BVI on 8 December 2010 as a wholly-owned subsidiary of our Company for the purpose of acting as the intermediate holding company of our Group.

### (3) *Our Company*

Our Company was incorporated in BVI on 8 December 2010. As the final step of the Reorganisation, our Company, Mr. Wong and Madam Hung Kin entered into a share swap transaction, further details of which are set out in the paragraph headed “Reorganisation” in this section. In brief, the purpose of the Reorganisation is to rationalise the corporate structure of our Group by transferring the entire direct interest in Grand Concord (HK) and also the entire indirect interest in each of Grand Concord Garment, Zhucheng Eternal Knitting, Zhucheng Yumin Knitting and Shandong Grand Concord held by Mr. Wong and Madam Hung Kin to our Company (held through Grand Concord (BVI)) in return for new Shares issued to Global Wisdom (an investment holding company of Mr. Wong and Madam Hung Kin) in preparation for the Listing.

## REORGANISATION

The corporate structure of our Group during the Track Record Period and before completion of the Reorganisation is set out below:



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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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### The Reorganisation

Prior to and in preparation for the Listing, our Group underwent the Reorganisation, which involves the following steps:

*(a) Incorporation of our intermediate holding company*

Grand Concord (BVI) was incorporated in BVI on 8 December 2010 and is authorised to issue a maximum of 50,000 shares of US\$1.00 each. On 9 December 2010, one share of US\$1.00 of Grand Concord (BVI) was allotted and issued to our Company. Please refer to the paragraph headed “Changes in authorised and issued shares or share capital of our subsidiaries” in Appendix V to this prospectus for the details regarding the changes in the authorised shares of Grand Concord (BVI).

*(b) Incorporation of our Company*

Our Company was incorporated in BVI on 8 December 2010 and was initially authorised to issue a maximum of 39,000,000 shares of HK\$0.01 each. On the same date, one Share was allotted and issued to Global Wisdom. Please refer to the paragraph headed “Changes in authorised and issued shares of our Company” in Appendix V to this prospectus for the details regarding the changes in the authorised shares of our Company.

*(c) Acquisition of Grand Concord (HK)*

On 22 February 2011, Grand Concord (BVI), at the direction of our Company, acquired from Mr. Wong and Madam Hung Kin their respective 50% shareholding in Grand Concord (HK) (being in aggregate the entire issued share capital of Grand Concord (HK)) in consideration of and exchange for which our Company allotted and issued, credited as fully paid, an aggregate of 9,999,999 Shares to Global Wisdom.

As a result of the above steps of the Reorganisation, our Company became the holding company of our Group, holding through Grand Concord (BVI) the entire equity interest in Grand Concord (HK) which in turn holds the entire equity interest in each of Grand Concord Garment, Zhucheng Eternal Knitting, Zhucheng Yumin Knitting and Shandong Grand Concord.

### PRE-LISTING SHARE COMPENSATION TO OUR MANAGEMENT

On 7 March 2011, Global Wisdom entered into a deed for sale and purchase of and lock-up undertakings relating to the Shares (the “**Deed**”) with Mr. S.H. Wang and Mr. Wei, pursuant to which Global Wisdom sold and transferred 500,000 Shares to Mr. S.H. Wang and 800,000 Shares to Mr. Wei (the “**Share Compensation**”), representing approximately 5% and 8% of the then issued Shares respectively and in consideration of RMB11,815,000 and RMB18,904,000 respectively. The consideration for the Share Compensation was determined with reference to the valuation conducted by an independent valuer in February 2011 without any guaranteed discount to the Offer Price and is payable in cash by three instalments.

## HISTORY, REORGANISATION AND GROUP STRUCTURE

Mr. S.H. Wang joined our Group in 2004 and is responsible for our innerwear segment. He has been the general manager of Zhucheng Eternal Knitting since 26 May 2004 and was appointed as its director on 2 December 2009. He is also a director of Zhucheng Yumin Knitting since 10 November 2004 and a director of Shandong Grand Concord since its establishment on 9 July 2007. He has contributed to the stable growth of our Group's innerwear businesses over the years, as reflected by the growth of revenue from the segment from approximately RMB112.5 million for the year ended 31 December 2008 to approximately RMB257.7 million for the year ended 31 December 2010. Mr. Wei joined our Group in 2009 and is responsible for our fabrics segment. He has been the general manager of Zhucheng Yumin Knitting since 1 April 2009. He plays a major role in introducing our functional fabrics businesses, and maintains good relationships with some customers, which contributed to the strong performance of our Group's fabrics businesses during the Track Record Period, as reflected by the growth of revenue from the segment from approximately RMB23.6 million for the year ended 31 December 2008 to approximately RMB120.6 million for the year ended 31 December 2010. Our Controlling Shareholders have confirmed that the Share Compensation, which did not involve any issue of new Shares, were initiated by them in recognition of the significant contribution of Mr. S.H. Wang and Mr. Wei as senior management of our Group and were intended as an incentive to them for contributing to the long term growth and profitability of our Group.

The following table sets forth the details of the Share Compensation:

	<b>Mr. S.H. Wang</b>	<b>Mr. Wei</b>
Date of the Share Compensation	7 March 2011	7 March 2011
Amount and payment date of consideration	<i>RMB'000</i>	<i>RMB'000</i>
<b>1st instalment:</b>		
Paid on 7 March 2011	3,000	5,000
<b>2nd instalment:</b>		
Payable on 7 March 2012	3,000	5,000
<b>3rd instalment:</b>		
Payable on 7 March 2013	5,815	8,904
<b>Total:</b>	<u>11,815</u>	<u>18,904</u>
Cost per Share <sup>(Note)</sup>	HK\$0.93	HK\$0.93
Premium to the Offer Price of HK\$0.80 per Share <sup>(Note)</sup>	16.25%	16.25%
Use of proceeds from the Share Compensation	To be retained by Global Wisdom	To be retained by Global Wisdom
Shareholding in our Group upon Listing <sup>(Note)</sup>	3.95%	6.31%

*Note:* The calculations are based on 15,000,000 and 24,000,000 Shares held by Mr. S.H. Wang and Mr. Wei respectively upon completion of the Share Offer, and does not take into account any Shares which may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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The relevant Shares had been transferred to Mr. S.H. Wang and Mr. Wei immediately after signing of the Deed on 7 March 2011. The arrangement for the consideration to be paid in instalments is purely to facilitate the payment by Mr. S.H. Wang and Mr. Wei, and will not create any exit option for them. In the event Mr. S.H. Wang or Mr. Wei fails to make his second and/or third instalment(s) to Global Wisdom, he will be liable to Global Wisdom for the unpaid amount and damages (if any). The Deed contains no provision that allows rescission or unwinding of the Share Compensation by either Mr. S.H. Wang or Mr. Wei without assuming contractual liability.

Following completion of the issue of further Shares by our Company described in the paragraph headed “Increase in authorised Shares and Pre-Listing Share Allotment” below, Mr. S.H. Wang and Mr. Wei hold 15,000,000 Shares and 24,000,000 Shares respectively, representing approximately 5% and 8% of the issued Shares of our Company immediately before Listing respectively, and approximately 3.95% and 6.31% of the enlarged issued Shares after completion of the Share Offer, without taking into account of any Shares which may be allotted and issued upon the exercise of any option which may fall to be granted under the Share Option Scheme.

Pursuant to the terms of the Deed, both Mr. S.H. Wang and Mr. Wei have agreed to be subject to a lock-up period of three years commencing from the Listing Date, or up to 31 December 2014, whichever is earlier, with respect to the Shares owned or thereafter acquired by each of them respectively. Mr. S.H. Wang and Mr. Wei have not been granted any special rights and will not be taking instructions from our Controlling Shareholders in relation to the acquisition, disposal, voting or other disposition of the Shares held by them. In addition, pursuant to the terms of the Deed, neither Mr. S.H. Wang nor Mr. Wei is required to compensate our Group or return the Shares if they cease their employment with our Group in the future. Being executive Directors, both Mr. S.H. Wang and Mr. Wei will not be treated as members of the public for the purpose of satisfying the minimum public float requirements under the Listing Rules. Save for the aforementioned lock-up arrangement, the Shares held by each of them shall rank *pari passu* in all respects with all Shares in issue and the Shares to be issued pursuant to the Share Offer.

The Share Compensation is regarded as employee compensation and will be accounted for as expenses for share-based payment in the financial statements of our Group under HKFRS 2. Based on the independent valuation obtained by our Company, the expenses in relation to the Share Compensation are RMB5.8 million, which was fully accounted for in the financial statements of our Group for the six months ended 30 June 2011.

### **REDESIGNATION OF SHARES**

Pursuant to a resolution in writing passed by all the then Directors on 10 March 2011, our Company re-designated all our authorised shares of HK\$0.01 each, including the 10,000,000 issued shares of HK\$0.01 each, as Shares with no par value in compliance with the Companies Act.

### **INCREASE IN AUTHORISED SHARES AND PRE-LISTING SHARE ALLOTMENT**

Pursuant to the resolutions in writing passed by all the Shareholders on 15 August 2011, our Company increased its maximum number of authorised Shares from 39,000,000 Shares to 1,000,000,000 Shares.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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On 31 August 2011, our Company allotted and issued an aggregate of 290,000,000 new Shares to our then Shareholders at an issue price of HK\$0.0000001 per Share, as to 252,300,000 Shares allotted and issued to Global Wisdom for HK\$25.23, 14,500,000 Shares allotted and issued to Mr. S.H. Wang for HK\$1.45 and 23,200,000 Shares allotted and issued to Mr. Wei for HK\$2.32.

### PRC LEGAL COMPLIANCE

#### (a) No. 75 Notice

Pursuant to No. 75 Notice, domestic residents establishing or taking control of a special purpose company abroad and domestic enterprises receiving round-trip investments from funds raised by an offshore special purpose company controlled by domestic residents are required to effect foreign exchange registration with the local foreign exchange bureau.

Our PRC legal advisers have advised us that Mr. Wong and Madam Hung Kin do not qualify as “domestic residents” within the meaning ascribed thereto in the No. 75 Notice and are therefore not subject to the requirements under the No. 75 Notice by virtue of the Reorganisation and the Listing.

Our PRC legal advisers have further advised us that as both Mr. S.H. Wang and Mr. Wei are PRC residents, they are subject to the registration and filing requirements under No. 75 Notice following their becoming Shareholders by the acquisition of Shares of our Company from Global Wisdom as disclosed in the paragraph headed “Pre-Listing Share compensation to our management” above and that both Mr. S.H. Wang and Mr. Wei are in the process of applying for registration under the No. 75 Notice.

#### (b) M&A Regulations

Pursuant to the M&A Regulations, where a domestic individual intends to take over his/her related domestic company in the name of an offshore vehicle which he/she lawfully established or controls, such takeover shall be subject to the examination and approval of the Ministry of Commerce of the PRC; and the M&A Regulations require an offshore special purpose vehicle formed for overseas listing purposes and controlled directly or indirectly by PRC entities or individuals shall obtain the approval of the China Securities Regulatory Commission prior to the listing and trading of the securities of such offshore special purpose vehicle on an overseas stock exchange.

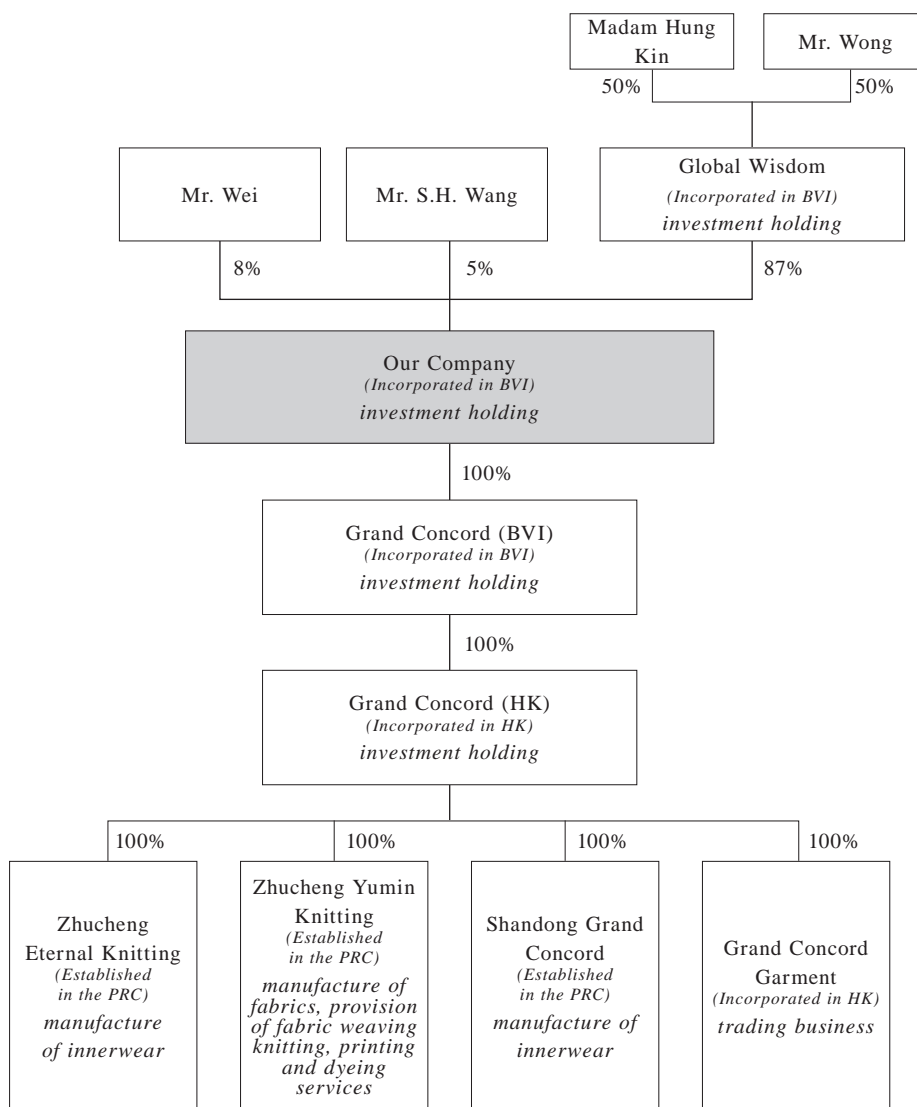
The M&A Regulations further provide the definition of “takeover of a domestic enterprise by a foreign investor”. According to Article 2 of the M&A Regulations, “takeover of a domestic enterprise by a foreign investor” is defined as a situation where a foreign investor purchases by agreement the equity interests in a domestic non-foreign-invested enterprise (a “**domestic enterprise**”) or subscribes for the increased capital of a domestic enterprise, and thus changes the domestic enterprise into a foreign-invested enterprise; or a foreign investor establishes a foreign invested enterprise, and through which it purchases by agreement the assets of a domestic enterprise and operates its 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 the assets.

## HISTORY, REORGANISATION AND GROUP STRUCTURE

We have been advised by our PRC legal advisers that (i) since no part of the Reorganisation and the Listing has involved any merger or acquisition of domestic enterprises through the acquisition of equity or asset by foreign investors within the ambit of the provisions of M&A Regulations, such provisions are not applicable insofar as the Reorganisation and the Listing are concerned; and (ii) the Reorganisation and the Listing comply with applicable PRC laws and regulations and no approval, consent, filing or registration is required from the PRC regulatory authorities.

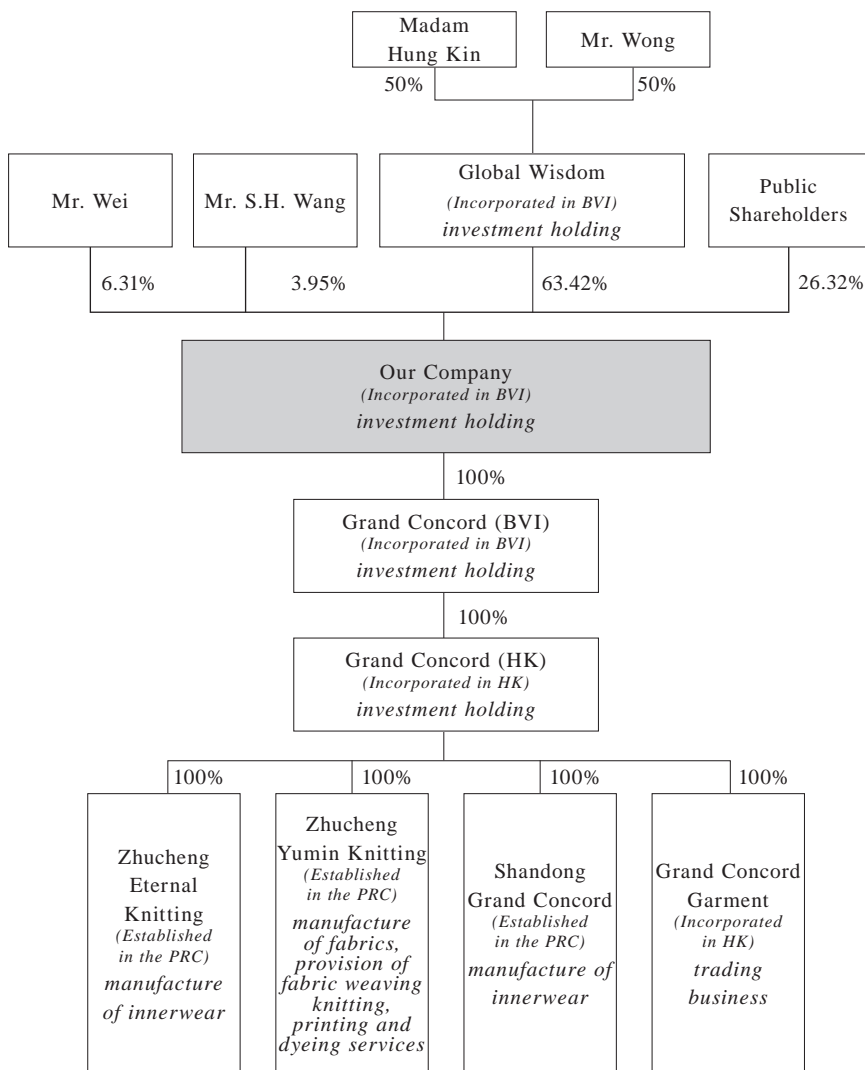
### GROUP STRUCTURE

The corporate structure and the principal activities of the members of our Group as at the Latest Practicable Date are set out below:



## HISTORY, REORGANISATION AND GROUP STRUCTURE

The corporate structure and the principal activities of the members of our Group immediately following completion of Share Offer (without taking into account of any Shares which may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme) are set out below:



**OVERVIEW**

We are a functional fabric and innerwear manufacturer established in the PRC, offering various types of functional fabrics and innerwear for infants, toddlers as well as adults. We manufacture functional and customised fabrics for major lingerie and apparel brands including *Triumph*, *Wacoal*, *Embry Form*, *Maniform* (曼妮芬), *Aimer* (愛慕), *Miow* (猫人) (previously known as *Maoren*), *Sunlaura* (桑扶蘭) and *VANCL* (凡客誠品), and innerwear products on an OEM basis for major apparel brands including *Outdoor*, *Ito-Yokado* (伊藤洋華堂), *Pigeon*, *Lee*, *Puma*, *DKNY*, *Carter's* and *Orsay*. Our products are mainly sold to (i) the sourcing agents, who then resell to the renowned apparel brands; (ii) the wholesaler, who then resell to retail shops and department stores; and (iii) the brand owners directly. To the best of the knowledge of our Directors, we are not aware of any relationship (apart from normal business relationship) between the brand owners and their respective sourcing agents as well as between the wholesaler and its end customers.

We have established a business model integrated with fabric and innerwear manufacturing and sale. We are vertically integrated and highly mechanised, as featured by the following production processes: (i) fabric weaving and knitting; (ii) fabric dyeing and finishing; (iii) fabric printing; and (iv) innerwear cutting and sewing. Our vertically integrated operations allow us to factor in the specific requirements of our customers in each production process. We are therefore able to offer our customers greater flexibility in their order specifications in the textile supply chain.

Our fabrics feature a variety of colours and patterns, and by combining different fibre mixtures, cotton counts and knitting methods, they could satisfy the specifications and functional requirements set by our customers. We make use of functional and chemical fibres, i.e. yarns having special functions such as temperature regulation or moisture absorption, to produce fabrics with such functions. We have also been licensed by Outlast, a worldwide company involved in the research, development, design and marketing of phase-change materials, to manufacture and sell certain Outlast's fabrics which comprise microencapsulated phase-change materials coated fabrics or fibres in China. During the Track Record Period, sales of fabrics accounted for approximately 17.4%, 13.3%, 31.9% and 32.8% of our revenue respectively.

In addition, we use our own fabrics in the manufacture of innerwear products, with a growing focus on utilising our functional fabrics for innerwear. Sales of innerwear products contributed to approximately 82.6%, 86.7%, 68.1% and 67.2% of our revenue respectively during the Track Record Period.

Based on the confirmations given by the sourcing agents, our fabrics and innerwear products sold to them are used by relevant brand owners they represent. For our innerwear products, they are labelled or packed with the packaging materials bearing the names and/or logos of the relevant brand provided by the respective sourcing agents or brand owners.

Our production facilities are based in Zhucheng, Shandong, the PRC with an aggregate gross floor area of more than 52,000 sq.m. as at the Latest Practicable Date. Equipped with modern production facilities, our annual production capacity of innerwear was approximately



## BUSINESS

18.6 million pieces and our annual production capacity of fabrics was approximately 4,000 tons as at the Latest Practicable Date. During the Track Record Period, our revenue grew from approximately RMB136.2 million in 2008 to approximately RMB378.3 million in 2010, representing a CAGR of approximately 66.7%.

The following table sets forth our selected financial information and operating data for the Track Record Period:

### Selected income statement data:

	For the year ended 31 December			For the six months ended 30 June	
	2008	2009	2010	2010	2011
	(RMB'000) (audited)	(RMB'000) (audited)	(RMB'000) (audited)	(RMB'000) (unaudited)	(RMB'000) (audited)
Revenue	136,188	194,912	378,289	101,357	140,158
Gross Profit	33,669	67,416	105,645	28,573	46,642
Profit before tax	9,450	40,737	66,405	12,279	10,666
Total comprehensive income	8,046	31,446	53,666	9,585	4,187

### Selected operating data:

	For the year ended 31 December			For the six months ended 30 June	
	2008	2009	2010	2010	2011
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Gross profit margin	24.7%	34.6%	27.9%	28.2%	33.3%
Profit margin based on profit before tax	6.9%	20.9%	17.6%	12.1%	7.6%
Profit margin based on total comprehensive income	5.9%	16.1%	14.2%	9.5%	3.0%

	For the year ended 31 December			For the six months ended 30 June	
	2008	2009	2010	2010	2011
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Sales volume					
— Fabrics (tons)	584	566	1,718	584	594
— Innerwear (thousand pieces)	12,028	14,697	19,794	6,333	6,799

We focus on overseas markets for our innerwear products. During the Track Record Period, export sales of our Group amounted to approximately RMB116.1 million, RMB162.6 million, RMB229.4 million and RMB95.0 million respectively, representing a CAGR of approximately 40.6% and contributed to approximately 85.3%, 83.4%, 60.6% and 67.8% respectively of our revenue during the Track Record Period.

We plan to expand and upgrade our production facilities and capacities in order to enhance our strength in developing and manufacturing functional fabrics, which, our Directors believe, offer higher profit margin. It is our strategy to maintain our continuing focus on the Japanese market and expand further in the PRC and overseas markets. We will also build up our ODM capability so as to strengthen our research and development ability for developing products to be marketed under our own brand “UTEX”. In this way, our Group strives to grow into one of the leading Chinese functional fabric and innerwear manufacturers for major international apparel brands.

Our Directors believe that our close proximity to the ports in Qingdao, Shandong, the PRC, allows us to benefit from the efficient logistics infrastructure available in Qingdao, which was ranked the ninth largest port in the world in terms of container traffic by the American Association of Port Authorities in 2009.

### **EARTHQUAKE IN JAPAN**

We sell both fabrics and innerwear products to our Japanese customers. During the Track Record Period, our revenue generated from sales to the Japanese market contributed to approximately 84.4%, 82.4%, 51.9% and 56.0% of the total revenue of our Group respectively. As at 30 June 2011, trade receivables due from our Japanese customers amounted to approximately RMB4.7 million, representing approximately 14.8% of our total trade receivables and all of which have been settled as at the Latest Practicable Date.

In March 2011, Japan was hit by the Higashi Nihon Daishinsai (東日本大震災), which was caused by a 9.0-magnitude earthquake occurred in the Tohoku district, northeast of Japan. The earthquake triggered destructive tsunami which struck the northeastern coast of Japan, and led to an explosion at the nuclear power plant in Fukushima, Japan, leading to a public concern on possible nuclear meltdown and radiation leakage. The catastrophe has caused extensive damage and more than 10,000 deaths, and the estimated economic loss is up to approximately US\$300 billion. Our Group has inquired with our Japanese customers as to the impact of the catastrophe on them. Based on the latest information obtained by our Directors, our Japanese customers, being either brand owners, their respective sourcing agents, or the wholesaler (or its end customers which are retail shops and department stores), have not suffered significant loss or damage. Since the occurrence of the catastrophe, we have not received any cancellation of orders from our Japanese customers and have not experienced any material fluctuation in the aggregate volume of orders from them. We also have not received any request from our Japanese customers for deferral of payment to us or any indication as to their inability to pay any amount due to us. In addition, we made enquiries with our major Japanese customers shortly after the earthquake, none of these customers claimed that they suffered from serious damage from the earthquake as their major operations are not in the northeastern part of Japan. Based on the above, our Directors are of the view that our sales to the Japanese customers and the recoverability of the trade receivables from them will not be significantly adversely affected in the near future. Our sales to Japanese customers for the six months ended 30 June 2011 amounted to approximately RMB78.4 million, increased by approximately 37.9% from RMB56.9 million for the corresponding period in 2010.

***Situation of, and orders from, our major Japanese customers since the earthquake*****Toray Trading (Shanghai) Co. Ltd. (“Toray Shanghai”)**

Toray Shanghai, a subsidiary of Toray Group, our largest customer for 2009, 2010 and the six months ended 30 June 2011, is the sourcing agent of Ito-Yokado Group, an established retail group in Japan. Based on the inquiry with Toray Shanghai, our Directors understand that only 3 (out of 174) outlets of Ito-Yokado Group have been damaged during the Higashi Nihon Daishinsai and the earthquake has not caused any material adverse impact on Toray Group. Toray Shanghai has indicated that the Higashi Nihon Daishinsai has not significantly adversely affected its customers’ demands. In early April 2011, our Group obtained request from Toray Shanghai to reserve adequate innerwear production capacity to satisfy potential orders from it in the remaining months of 2011. The total confirmed sales orders thus far received by our Group from Toray Shanghai for the year 2011 have been increased by approximately 30% over the preliminary sales orders received for the year 2010. Our sales to Toray Group increased by approximately 104.3% from approximately RMB18.7 million for the six months ended 30 June 2010 to approximately RMB38.1 million for the same period in 2011.

**Itochu Textile (China) Co. Ltd. (“Itochu Textile”)**

Itochu Textile, not our top five customers during the Track Record Period, whose major business includes, among others, manufacturing and exporting textile products to Japan, mainly purchases functional fabrics for innerwear from our Group. Based on the inquiry with Itochu Textile, our Directors understand that Itochu Textile’s parent company is based in Osaka and has no branch in northeast Japan, and as such its operations remain normal after the Higashi Nihon Daishinsai. During the first half 2011, our sales to Itochu Textile amounted to approximately RMB222,000 represented a decrease of approximately 74.4% from approximately RMB867,000 for the corresponding period in 2010. Despite the decrease in sales in the first half 2011, our Group has continued to receive orders from Itochu Textile. In view of the above, our Directors are of the view that the Higashi Nihon Daishinsai has no significant adverse effects on the sales to this customer.

**Growly Co. Ltd. (“Growly Co.”)**

Growly Co., which is one of our top five customers in 2008 and 2009 and the sourcing agent of various brands. eg., *Lee*, mainly purchases functional innerwear from our Group. Based on the inquiry with Growly Co., we understand that the Higashi Nihon Daishinsai has caused limited impact on it as its operations are mainly located in central Japan, which is far away from the main disaster areas. Growly Co. further indicated that the earthquake has not caused any material adverse impact on its customers, who are located all around Japan. Given the disruption of electricity supply in northeast Japan caused by the Higashi Nihon Daishinsai, Growly Co. expects the demand for functional innerwear in northeast Japan to increase in the coming winter. As such, it is expected by our Directors that Growly Co.’s purchase order with our Group for the winter series will be at least maintained at similar level in 2010. During the six months ended 30 June 2011, our sales to Growly Co. amounted to approximately RMB5.8 million, representing an increase of approximately 4.4% as compared to that of approximately RMB5.5 million sales in the first half of 2010.

**Qingdao Jyunsei International Trade Co. Ltd. (“Qingdao Jyunsei”)**

Qingdao Jyunsei, one of our top five customers in 2008 and 2009, is the sourcing agent of *Outdoor*. Based on the inquiry with Qingdao Jyunsei, our Directors understand that it is based in Osaka and has no operations in northeast Japan. In addition, most of its customers are located in south of Tokyo, which are not directly affected by the Higashi Nihon Daishinsai. Separately, Qingdao Jyunsei has also indicated its intention to extend the orders with our Group to brands other than *Outdoor*. In view of the above, our Directors are of the view that sales to this customer will not be significantly adversely affected in the near future. During the six months ended 30 June 2011, our sales to Qingdao Jyunsei amounted to approximately RMB2.5 million, which have decreased by approximately 69.2% from approximately RMB8.2 million for the corresponding period in 2010. Our Directors confirmed that the decrease in sales to Qingdao Jyunsei was not related to the Higashi Nihon Daishinsai, but our Group’s strategy to focus on functional products. As Qingdao Jyunsei’s orders were mainly general innerwear, our sales to it decreased in line with the decrease in our total sales of general innerwear in the first half 2011 as compared to that of 2010.

**Nishimatsuya Chain Co. Ltd. (“Nishimatsuya Chain”)**

Based on the inquiry with the sourcing agent of Nishimatsuya Chain, one of our top five customers in 2008 and 2009 and a large scale retailer of children’s clothing, our Directors understand that the Higashi Nihon Daishinsai has not caused material impact on the operations of Nishimatsuya Chain although Nishimatsuya Chain has branches in northeast Japan. The sourcing agent of Nishimatsuya Chain has also indicated that it has no plan to reduce the amount of planned orders to our Group. Our sales to Nishimatsuya Chain in the first half of 2011 amounted to approximately RMB7.6 million, represented an increase of approximately 141.2% as compared to approximately RMB3.1 million in the same period of 2010.

### **Shinei Corporation**

Based on the inquiry with Shinei Corporation, one of our top five customers in 2008 and 2009 and a wholesaler of garments products, our Directors understand that Shinei Corporation has no branch in northeast Japan, and the Higashi Nihon Daishinsai has not significantly affected its production and operations. Shinei Corporation has also confirmed that it does not expect any notable changes in its customers' demand and its orders with our Group in the near future notwithstanding the Higashi Nihon Daishinsai as it indicated that the earthquake has not caused any material adverse impact on its customers, which are retail shops and department stores around Japan. Our sales to Shinei Corporation for the six months ended 30 June 2011 amounted to approximately RMB3.9 million, represented a decrease of approximately 32.8% as compared to approximately RMB5.7 million in the corresponding period of 2010. Our Directors confirmed that the decrease in sales to Shinei Corporation was not related to the Higashi Nihon Daishinsai but our Group's strategy to focus on functional products. As Shinei Corporation's orders were mainly general innerwear, our sales to it for the first half of 2011 decreased in line with the decrease in our total sales of general innerwear in the same period as compared to that of 2010.

### **Chaoriwu Group**

During the six month ended 30 June 2011, our sales to Chaoriwu Group (including 湖南朝日五內衣有限公司 and 青島朝日五內衣有限公司 (Hunan Chaoriwu Innerwear Co., Ltd.\* and Qingdao Chaoriwu Innerwear Co. Ltd.\*)), one of the five largest customers of our Group for the year of 2010 which manufactures and sells garments mainly to Japanese customers, decreased from approximately RMB10.3 million in the first half 2010 to approximately RMB5.0 million, represented a decrease of approximately 50.9%. Despite the decrease in sales in the first half 2011, our Group has continued to receive orders from Chaoriwu Group. Chaoriwu Group indicated that the earthquake has not caused any material adverse impact as its operations are mainly located in Osaka and Tokyo of Japan, which are far away from the main disaster areas.

Our Directors expect that the economy of Japan will remain uncertain until the nuclear crisis is settled and the redevelopment plan of the affected area is drawn up. The pace of such recovery is also unclear. Our Directors consider that as the products we sell to our Japanese customers comprise mainly innerwear, which is basic household goods, the demand for our products may increase or decrease at the recovery stage. If the recovery of the Japanese economy is slow which leads to substantially fewer orders from our Japanese customers, our business and financial performance could be materially adversely affected.

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## BUSINESS

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Although we have not experienced any significant decreased orders (as compared with those in 2010) or any deferred payment from our major Japanese customers due to the Higashi Nihon Daishinsai, we can give no assurance that we will be able to maintain our sales volume to our Japanese customers at the same level as we had during the Track Record Period, or that we will be able to recover all the trade receivables from them, which can be affected by other factors such as our product mix and the financial condition of our Japanese customers.

We also cannot assure that there will not be any aftershocks, further natural disasters or catastrophes, or any government actions in Japan which are all beyond our control. These may result in material impact on our Japanese customers, which may adversely affect the volume of their orders, and consequently our revenue and profits. Any other detrimental change in the economic, political and social conditions, legal and regulatory requirements or decrease of demand in this market may adversely affect our financial results.

### **COMPETITIVE STRENGTHS**

We believe the following competitive strengths allow us to achieve sustainable growth of our business:

#### **Vertically integrated operations**

Our Group provides one-stop services from fabrics development to manufacture of innerwear products. Our services principally include (i) fabric weaving and knitting; (ii) fabric dyeing and finishing; (iii) fabric printing; and (iv) innerwear cutting and sewing. Our Directors believe that such vertically integrated operations enable our Group to effectively reduce lead time and logistics costs as well as to provide our customers with a more flexible textile supply chain solution which optimises our profitability. Our Directors believe that this vertically-integrated operation model is one of the core competitive strengths of our Group among domestic and overseas competitors.

### **Advanced and environmental-friendly production facilities**

Our production is equipped with technically advanced machinery. In particular, our weaving machines, dyeing machines, pre-shrinking machines, stentering machines and flat screen and rotary screen printing machines, were procured from machinery manufacturers in Japan, Germany, Italy, Hong Kong and Taiwan. In January 2010, we purchased eight sets of high-temperature airflow dyeing machines, which enable us to reduce up to two-third of water consumption in the dyeing process. In the same year, we also introduced two sets of clothing hanging pipeline systems to enhance our innerwear serving process which enabled us to improve the logistics in serving pipelines. We also imported three sets of automatic cutting beds in 2010 and first half of 2011 to improve the precision and efficiency of our cutting process. We maintain our own sewage treatment facilities and closely monitor the level of hazardous chemicals in our sewage so as to comply with relevant environmental protection regulations. With the growing public concern in environmental protection, we believe our attention to the environmental impact in our production process would provide us a positive image as a responsible corporate and lead us to more sustainable growth in the future.

### **Established relationships with key customers**

We believe that, as a result of our efforts devoted in quality control and on-time delivery, our Group has established long term and stable business relationships with our customers, in particular the sourcing agents of a broad range of apparel brands, including *Outdoor*, *Pigeon* and *Lee*, and has been able to secure new customers over the years, including *Triumph*, *Wacoal*, *Embry Form*, *Maniform* (曼妮芬), *Miiow* (猫人) (previously known as *Maoren*) and *Sunlaura* (桑扶蘭). Our business relationships with our major customers range from one to ten years, within which our business relationships with our top five customers for the year ended 31 December 2010 have lasted for approximately two years. We exported a substantial portion of our products during the Track Record Period to apparel retailers or their sourcing agents in Japan who we believe have traditionally set relatively strict product quality standards on apparel manufacturers. We have worked closely with such customers and adopted stringent quality control measures in each of the production processes to ensure that our products match their needs and specifications.

Our Directors believe that our reliable and high-quality products and dedicated customer services are essential for our future expansions, and we can capitalise on our experience in serving Japanese customers to further expand into the European and US markets, in which the product quality standards are equally stringent. In 2010, we were appointed as an authorised manufacturer of *Puma* and believe that our production process has complied with its prescribed requirements on safety, quality and environmental protection, etc. In the same year, our Group has been engaged by sourcing agents of certain US and European apparel brands to manufacture apparel on their behalf including *DKNY*, *Carter's* and *Orsay*. Our Directors believe that this reflects the quality of our Group's products is able to meet the standards expected in these mature markets.

Our Directors believe that our relationship with our customers has been close, which has enabled us, and will continue to enable us, to understand the market trend and introduce new products to cater such demand in a timely manner.

### **Experienced management team and advanced management system**

Our Group is led by our management team consisting of Mr. Wong, Madam Hung Kin, Mr. S.H. Wang and Mr. Wei, each of whom has extensive experience in the fabrics and innerwear manufacture and/or the relating trading industry. In particular, Mr. S.H. Wang, our executive Director and general manager of Zhucheng Eternal Knitting, has more than 20 years of experience in the knitwear industry. Mr. Wei, our executive Director and general manager of Zhucheng Yumin Knitting, has been engaged in the manufacturing and sale of fabrics since 1999.

We have adopted an ERP system to manage our production process since 2005. Every production process, starting from acceptance of orders from customers to the sale of products, is under the control of the ERP system. Our Directors believe that the ERP system enables our management team to monitor the whole production process so as to effectively shorten the turn-around time and maintain inventory of raw materials and finished goods at a reasonable level.

### **In-house fabrics development and testing department**

Our Group has a dedicated team of fabrics development and testing staff to develop and test our new functional fabrics in order to cater the needs of our customers. Our Directors believe that with our in-house product development capability and focus on manufacturing of functional fabrics and innerwear, we were able to achieve growing average selling prices during the Track Record Period as the average selling prices of our functional fabrics and innerwear produced with such fabrics were generally higher than those of our general fabrics and innerwear produced with general fabrics. We will continue our focus on manufacturing and developing different kinds of functional fabrics and innerwear, so as to sustain the business growth that we enjoyed during the Track Record Period and maintain our competitive strength.

### **Strategic location in Shandong, the PRC**

Our principal production facilities are located in Zhucheng, Shandong, a city west of Qingdao, Shandong, and one of the major textile manufacturing bases in the PRC. Our Directors believe that, given its proximity to Japan and the historical background, Shandong has become a popular location in the PRC where many Japanese firms and enterprises set up their representatives and liaison offices. Taking advantage of this strategic location, we have successfully established business with some Japanese apparel brands or their sourcing agents through their offices in the area. We have also established a liaison office in Qingdao for better on-going communication with our Japanese customers. Our Directors believe that our close proximity to the ports in Qingdao also allows us to benefit from the efficient logistics infrastructure available in Qingdao, which was ranked the ninth largest port in the world in terms of container traffic by the American Association of Port Authorities in 2009.



### BUSINESS STRATEGIES

Our principal business strategies are:

#### **Focus on producing high profit margin products and developing innovative products with high added value**

Given our experience and capability, we intend to focus on producing products that we consider to have higher profit margin in the coming years. We believe that in order to achieve continuous growth, it is essential for our Group to distinguish ourselves from our competitors by focusing on developing innovative products with high added-value and higher profit margin.

Over the past few years, we have introduced various kinds of functional fabrics. For instance, we introduced our temperature-regulating fabrics in 2010 by using Outlast's patented temperature-regulating fibres. Our Directors believe that such fabrics have great market potential and will sustain further sales growth in the future.

#### **Upgrade and expand our production facilities and ERP system, and improve our production processes to reinforce our one-stop solutions**

Our Group vertically integrates the production processes from fabric development to innerwear OEM production, which we believe would enable us to achieve a higher profit margin and contribute to the establishment of a stable business relationship with our customers. We plan to reinforce our one-stop solution services by forming a centralised administrative headquarters to strengthen our control over different processes. We will continue to upgrade and expand our production machinery and facilities to enhance our production efficiency, reduce energy and water consumption costs and increase production capacity for higher margin products. For details of our expansion plan, please refer to the paragraph headed "Production – Production facilities and capacity – Expansion" in this section.

In line with the public attention to global warming and environmental protection, we intend to devote resources on pursuing a more environmental-friendly manufacturing process in the near future. Currently, textile product productions in the PRC are not subject to any carbon emission standard as China has yet to formulate such standard. However, at the United Nations Climate Change Conference 2009 in Copenhagen, China announced that it targets to reduce carbon emissions per unit of GDP in 2020 by 40% to 45% with respect to 2005 level. We consider that this shows China's intention to regulate its carbon emission and eventually will lead to the establishment of relevant carbon emission standards. Such standards will in turn affect manufacturing industries, guiding them towards low-carbon production. As to fabric and innerwear production, our Directors believe that low-carbon production can be implemented throughout the design stage to the production stage. We intend to achieve this by using energy or resources saving equipment during the manufacturing process, as well as taking into account the level of carbon emission when selecting raw materials and fabrics. We believe that by being "green", we can lower our production cost especially in terms of energy and water consumption. Besides, we believe that we can also market our products with the "green" concept at a higher price to markets which are environmentally aware. Our aim is to achieve a higher sales volume and realise a higher return by developing environmental-friendly products.

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As our dedication to enhance our information technology infrastructure, we intend to upgrade our ERP system by adopting a new set of tracking procedure, so that our customers would be able to track the progress of their orders through our system. Our Directors believe that these upgrades and expansions will lead to greater economies of scale for the operation of our Group and therefore improve our competitiveness and profitability as well as fulfill our commitment to reinforce our one-stop solutions.

### **Enhance our new high-tech fabrics development capability**

Our Directors believe that the future growth of our Group depends on our ability to develop advanced and high quality fabric products according to changing market demand. Moreover, we have conducted fabric development using fibre and yarn provided by Daiichibo Co., Ltd. (第一紡織株式會社) and Toyobo Co., Ltd. (東洋紡織株式會社) since 2010 on a standalone basis. The resulting products, in the form of developed fabrics or garment manufactured therefrom, were sold to our own customers, or back to Daiichibo Co., Ltd. and Toyobo Co., Ltd. In view of growing customers' demand and in order to strengthen our competitiveness in the market, we intend to devote more resources on the development of new functional fabrics and innerwear products with higher profit margin. We intend to expand the capability of our product development team by purchasing new testing equipment, recruiting industry experts and providing technical trainings to our technicians.

### **Extend our spring/summer collections of fabrics and innerwear products**

The demand for fabrics and innerwear products can be broadly divided into two fashion seasons: spring/summer and autumn/winter. According to our experiences, higher sales are normally recorded during the second half of each year. Our Directors consider that apart from focusing on the autumn/winter products, we shall extend our spring/summer products in the future, which will enable our Group to mitigate the effects of seasonality on our sales, strengthen our income base and solicit more customers. In view of this, we took an initiative role to hold an exhibition in Zhucheng, Shandong in April 2011 together with our customers and suppliers to promote our spring/summer collections of fabrics and innerwear products. We also participated in exhibitions in Shenzhen in May and in Shanghai in August this year. We intend to organise and participate in different trade exhibitions regularly in the future. Our Directors believe that by doing so and leveraging on our existing capability of fabrics development, we are able to manufacture fabrics and innerwear products with functions specialised for the spring/summer collections that meet our customers' expectation and requirement.

### **Develop our ODM capacity and commence production of high-end fabrics using our brand name “UTEX”**

We will devote resources in developing our ODM capacity by cooperating with other leading brands in China, with the aim to market our products under our own brands eventually. During this process, we will continue to reinforce our efforts of providing personalised and professional service to our customers and promote our corporate profile in the market.

We registered our “UTEX” trademark in 2010 but had not commenced producing or marketing our products under this brand name up to the Latest Practicable Date. To solidify our vertically integrated operations, we intend to produce and market our self-designed fabric products under our own brand name “UTEX” in the future. Our vision is to position the “UTEX” brand for relatively high-end fabrics that are produced with distinctive or special functions to be developed by our Group, and with stringent quality control and standard, with a view to obtaining a comparatively higher margin than our other products. To achieve this, we will make use of our experience in the incubating ODM production for domestic and international brand owners to develop and strengthen our research capability, with which we will then develop new types of fabrics which are distinguishable from those of our competitors and could meet market demand. We intend to launch our “UTEX” branded fabrics only after our research capability enables us to operate our branded products in a sustainable manner. Our Directors believe that our “UTEX” branded fabrics will in the long run gradually become one of the major components of our product mix.

### **Market expansion into the PRC and overseas markets**

During the Track Record Period, our sales were made primarily to the Japanese market, which accounted for approximately 84.4%, 82.4%, 51.9% and 56.0% of our revenue respectively. We have been selling our products in the PRC since our establishment, and have also commenced selling primarily infants’ innerwear to the US since 2010 to diversify our customer base. Our strategy is to further increase our sales effort to the PRC and overseas markets, and we intend to achieve this by organising and participating in different product exhibitions in the PRC. We took an initiative role to hold an exhibition in Zhucheng, Shandong in April this year to promote our fabrics and also participated in exhibitions in Shenzhen in May and in Shanghai in August this year. For overseas market, we will solidify our existing relationship with our customers and attempt to obtain business referrals from them. We have been successful in obtaining innerwear orders from a Korean brand owner in the first half of 2011, whom we understand was referred to us by an existing customer. Our Directors believe that such strategy would enable our Group to expand beyond the Japanese market which is beneficial to the organic growth of our Group.

### **Enhance collaboration with suppliers**

We have entered into an exclusive cooperation agreement with one of our fibre and yarn suppliers for the development of new fabrics, details of which is set out in the paragraph headed “Suppliers” in this section. We realise the ability to keep abreast of the latest development in technology is essential for our business growth. We intend to reinforce our collaboration with our suppliers in the future. Our Directors believe that collaboration with the upstream companies will allow us to have better control over our raw material costs and enhance our Group’s product development capability. Our Group also intends to extend our cooperation with universities in the PRC.

### **PRODUCTS**

We are a vertically integrated manufacturer of functional fabrics and innerwear products. Our products are mainly supplied to various renowned apparel brands in the world, their respective sourcing agents or the wholesaler.

Based on the confirmations given by the sourcing agents, our fabrics and innerwear products sold to them are used by the relevant brand owners they represent. For our innerwear products, they were labelled or packed with the packaging materials bearing the names and/or logos of the relevant brand owners provided by the respective sourcing agents or brand owners.

Our Group manufactures two types of products: (i) fabric products, and (ii) innerwear products. We manufacture an assortment of functional fabrics, and work with our customers to produce fabrics that meet their specific order requirements. In essence, we make use of new fibres available in the market to develop fabrics that we consider would meet the market demand, and market such fabrics to the apparel brand owners. Our customers will then revert with the compositions, designs and specifications they require, with which we will customise the fabrics to meet such requirements. Our customers who are garment manufacturers in turn use our fabrics to produce finished garments for sale to apparel brand owners.

We also manufacture innerwear on an OEM basis, using fabrics either produced by ourselves or third party suppliers. Our customers provide samples and drawings based on their requirements, and we will produce the innerwear based on the same. Throughout this process, we may also assist our customers on the design of the innerwear and advise them on the use of different types of fabrics.

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The following table sets out the breakdown of the revenue of our Group sold to our customers by product during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2008		2009		2010		2010		2011	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
<b>Fabric products</b>										
— General fabrics	23,640	17.4	13,773	7.1	19,911	5.3	8,084	8.0	13,141	9.4
— Functional fabrics	—	—	12,065	6.2	100,692	26.6	27,585	27.2	32,804	23.4
<b>Subtotal</b>	<b>23,640</b>	<b>17.4</b>	<b>25,838</b>	<b>13.3</b>	<b>120,603</b>	<b>31.9</b>	<b>35,669</b>	<b>35.2</b>	<b>45,945</b>	<b>32.8</b>
<b>Innerwear products</b>										
— General innerwear	112,548	82.6	95,218	48.8	121,005	32.0	41,518	41.0	38,181	27.2
— Functional innerwear	—	—	73,856	37.9	136,681	36.1	24,170	23.8	56,032	40.0
<b>Subtotal</b>	<b>112,548</b>	<b>82.6</b>	<b>169,074</b>	<b>86.7</b>	<b>257,686</b>	<b>68.1</b>	<b>65,688</b>	<b>64.8</b>	<b>94,213</b>	<b>67.2</b>
<b>Grand Total</b>	<b>136,188</b>	<b>100.0</b>	<b>194,912</b>	<b>100.0</b>	<b>378,289</b>	<b>100.0</b>	<b>101,357</b>	<b>100.0</b>	<b>140,158</b>	<b>100.0</b>

### Fabric segment

Our Group manufactures a wide range of general and functional fabrics for sale to garment manufacturers and also for the production of our innerwear products. We are capable of producing customised fabrics that meet specific requirements of our customers. We understand the garment manufacturers will in turn process our fabrics into finished garments for sale.

Our Group specialises in producing weft knitted fabrics, meaning that the warp is perpendicularly attached to the loom, and that the weft runs in rows back and forth through the warp to make the fabric. This makes the fabric stretchy and comfortable.

### Major fabrics categories

Our Group produces a wide range of fabrics which are classified according to their knitting structure, type of finish and usage. Our products can be classified into two broad categories, namely general fabrics and functional fabrics. General fabrics are primarily made with cotton yarns, while functional fabrics are mainly made with synthetic yarns. By combining different fibre mixtures, cotton counts and using specific knitting methods, functional fabrics carry features such as smart thermal insulation, water resistance, moisture control, anti-microbial and/or anti-odour. We make use of the functional and chemical fibres, i.e. yarns having special functions such as temperature regulation or moisture absorption available in the market, to produce fabrics with different functions. For example, we make use of certain patented temperature-regulating fibres produced by Outlast, a worldwide company involved in

the research, development, design and marketing of phase-change materials, and produce our temperature-regulating fabrics. Our functional fabrics mainly offer various functions, namely smart thermal insulation, water resistance, moisture control, anti-microbial and/or anti-odour etc. During the Track Record Period, we developed approximately 100 varieties of functional fabrics with different compositions, designs and specifications.

We are also an authorised manufacturer of Outlast products. We have been granted a non-exclusive licence by Outlast to manufacture and sell certain Outlast's fabrics which comprise microencapsulated phase change materials coated fabrics or fibres in China to third parties who are themselves trademark licensees of Outlast. Outlast has also granted us a non-exclusive licence to use its Outlast trademark in connection with the manufacture, promotion, distribution and sale of such products. We are not required to pay any license fee to Outlast. In order to ensure the quality of our products meets Outlast's standard, our Group may only obtain the microencapsulated phase change materials from Outlast or its certified suppliers, and is required to submit sample of Outlast's fabrics to Outlast for certification prior to sale. According to the licensing agreement between Outlast and our Group, there are no prescribed terms for the purchase or sales of Outlast's fabrics to be obtained or sold by our Group. Instead, the terms of such sale or purchase, including price and volume, are to be negotiated on an individual basis. The licences from Outlast were effective from 5 April 2010 and are valid until 30 September 2013. For the year ended 31 December 2010, being the year in which the relevant licences were granted, we obtained materials from Outlast or its certified suppliers for an amount of approximately RMB2.3 million, representing 0.8% of our total costs of sales, and sold more than 40,000 kg of Outlast's fabrics for an amount of approximately RMB3.9 million, representing approximately 1.0% of our total revenue in the same year. For the six months ended 30 June 2011, our purchases from Outlast amounted to approximately RMB1.9 million, representing approximately 2.0% of our total costs of sales, and we have sold more than 45,000 kg Outlast's fabrics for approximately RMB3.9 million, representing approximately 2.8% of our total revenue for the period.

In addition to providing plain fabrics, we are capable of dyeing fabrics into different colours and printing patterns onto the fabrics according to our customers' requirements. The dyed fabrics may have pre-designed patterns added by pressing and calendering under high temperature. Our design studio will use the pre-designed patterns from our customers and produce print screens accordingly. Patterns are separated by colours such that one pattern usually requires multiple screens. These screens are either rotary or flat depending on the design specifications. Fabric is laid under the screens and sent through the printing machine for printing.

### **Innerwear segment**

We offer a wide range of innerwear for men, women, toddlers and infants, including t-shirts, vests, long-sleeves pullover, men's briefs and boxer briefs, women's panties, long johns, toddlers' and infants' body suits and bibs with different designs, colour and materials. Our Group manufactures innerwear on an OEM basis for major apparel brands such as *Outdoor*, *Ito-Yokado* (伊藤洋華堂), *Pigeon*, *Lee*, *Puma*, *DKNY*, *Carter's* and *Orsay* through engagement by their respective sourcing agents. According to our management, these innerwear products can be

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further classified into two categories, namely general innerwear comprising mainly innerwear made with cotton fabrics, and functional innerwear, comprising mainly innerwear made with functional fabrics that incorporate features such as smart thermal insulation, water resistance, moisture control, anti-microbial and/or anti-odour, respectively. Our innerwear products are mainly exported to Japan.

### PRODUCT DEVELOPMENT

The apparel industry is constantly subject to change in terms of fashion trends and demand for new fabrics and innerwear. We have our own product development team to develop new products to cope with the changing market demand. As at the Latest Practicable Date, our product development team consisted of 23 members.

For fabrics, our product development team is responsible for improving existing fabrics as well as developing new functional fabrics with other specific properties and style to meet the demand of the market or the requirements of our customers as well as improving product quality and production efficiency. We have equipment in our in-house laboratory dedicated to sample manufacturing where we test the attributes of the fabrics, such as insulation, weight, strength, colours, pattern and textures. We also collaborate with our suppliers in developing new functional fabrics. During the Track Record Period, our Group has developed approximately 100 varieties of fabrics. Moreover, we have conducted fabric development using fibre and yarn provided by Daiichibo Co., Ltd. (第一紡織株式會社) and Toyobo Co., Ltd. (東洋紡織株式會社) since 2010. The resulting products, in the form of developed fabrics or garment manufactured therefrom, were sold to our own customers, or back to Daiichibo Co., Ltd. and Toyobo Co., Ltd.

For innerwear, we focus on improving our innerwear quality by attending exhibitions in and out of China, exchanging ideas with our customers and suppliers and conducting market research in the major cities in China to collect first-hand information on the market trends.

During the Track Record Period, we provided financial aid to six students. We target to continue providing financial aid to three students per year in the future, for attending textile and apparel engineering and design courses in 河北科技大學紡織服裝學院 (Institute of Textiles and Apparel of Hebei University of Technology\*) in return for the commitment of these students, upon their graduation, to join and work in our Group for a minimum term of six years. Through this financial aid programme, we believe that we could secure a stable supply of skilled workers and engineers to contribute to our operations and business.

In addition to developing new products, we have been making effort to improve our processing technology. Our Directors expect that such efforts will eventually lead to higher customer satisfaction on our product quality, improve production efficiency and techniques, and lower the rate of raw materials consumption, waste discharge and production costs.

### SALES AND MARKETING

#### Sales and marketing strategy

We emphasise on our “customer-oriented” principle in our operations and our sales staff are required to act proactively in satisfying customers’ needs in order to maintain a stable relationship with our customers.

Our Group has sales and marketing teams in the PRC and Hong Kong, responsible for conducting marketing activities and soliciting new customers. Our sales efforts primarily target at established brands in domestic and international markets. We visit our customers’ offices and retail outlets in order to gain a better understanding of the markets in which our customers operate. On the other hand, our customers also visit our production facilities. We believe that our customers could have a better understanding of our product development capability, production process, quality control mechanisms, and employee care standards through such visits. We establish close contacts with our customers so that we can assist them in responding to change in market demands. We also have a liaison office in Qingdao where representatives of most of our Japanese customers are located. Our Directors believe that by locating sales representatives near our Group’s customers, our Group is able to respond to customers’ inquiries promptly.

In addition, we have entered into a master cooperation agreement with 武漢貓人製衣有限公司 (Wuhan Maoren Garment Co. Ltd.\*) (“**Wuhan Maoren**”) as part of our strategy to maintain customer loyalty and secure its order quantity. Pursuant to the agreement, Wuhan Maoren has the right to request us to grant an exclusive right to use any fabrics custom-designed for it within an agreed period, during which we will not offer such fabrics to other customers, and Wuhan Maoren shall place order for at least 50 tons for each type of such fabrics. Wuhan Maoren also agreed to engage our Group for innerwear production in the event such fabrics are designed for innerwear. The cooperation agreement had a term of one year until 25 June 2011 and had been then automatically renewed for another year until 25 June 2012. The price and terms of each sales order under the cooperation agreement are to be determined by various factors, such as composition of the fabrics demanded by Wuhan Maoren, production process and costs of raw materials. As advised by our PRC legal advisers, the master cooperation agreement with Wuhan Maoren is legally binding. During the Track Record Period, sales to Wuhan Maoren contributed to approximately nil, 0.6%, 5.0% and 1.3% of our total revenue respectively. We are also in discussion with another customer on entering into framework sales and purchase agreement. We will continue to look for further cooperation opportunities with our customers and we expect that they will help boost our sales performance in the future.

Furthermore, we carry out our marketing activities through other means, including promoting the latest information on our Group and our products through our website, to enhance our profile. We also carry out marketing activities together with our customers and suppliers through participating in trade exhibitions with them. We believe that this allows us to leverage on the scale and reputation of our suppliers and customers in marketing our products. We held an exhibition in Zhucheng, Shandong in April 2011 to promote our spring/summer collections of fabrics and innerwear to our customers, and participated in large scale exhibitions within the



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PRC such as the fabrics exhibitions in Shenzhen in May and in Shanghai in August this year. In addition to the abovementioned sales and marketing channels, we secure new customers through referrals from our existing customers. Our Directors believe that such referrals reflected our customers' positive views on our product quality, efficient services and competitive pricing.

### Sales team

As at the Latest Practicable Date, our Group had a sales team consisting of 33 personnel. One of the focuses of the sales team is to gain an early understanding of the proposed new designs and ideas of our customers before each new season. Meetings with major customers are held prior to the commencement of each season in order to formulate the production and sales plan for the coming season. With this information, the sales team can then suggest the customer about the selection of fabrics, trimming, washing or printing techniques or designs to fit that customer's specific design and fabric requirements as well as production budget. Our Directors believe that these personalised services are important for us in obtaining and securing orders from our customers as well as maintaining long term relationships with them.

### Customers

Our customers are mainly (i) sourcing agents; (ii) wholesaler; or (iii) brand owners. As at the Latest Practicable Date, we had over 10 customers who are sourcing agents representing more than 15 brands. Our business relationships with our major customers range from one to ten years, within which our business relationships with our top five customers for the year ended 31 December 2010 have lasted for approximately two years. The table below sets out some of our key customers:

	Name of customer	Brand	Length of relationship
<b>Fabrics</b>	Chaoriwu Group <sup>#</sup> (including 湖南朝日五內衣有限公司 and 青島朝日五內衣有限公司 (Hunan Chaoriwu Innerwear Co., Ltd.* and Qingdao Chaoriwu Innerwear Co. Ltd.*))	N/A (Note)	Since 2009
	上海廣裕紡織品有限公司 <sup>#</sup> (Shanghai Guangyu Textile Co. Ltd.*)	Triumph, Wacoal Embry Form, Sunlaura (桑扶蘭)	Since 2009
	武漢貓人製衣有限公司 <sup>#</sup> (Wuhan Maoren Garment Co. Ltd.*)	Miiow (貓人)	Since 2009
	青島紡聯集團進出口有限公司 (Qingdao Textile Union Group Import-Export Co. Ltd.*)	N/A (Note)	Since 2010
	撫順小寶寶夢衣有限公司 (Fushun Dreamy Baby Wear Co. Ltd.*)	N/A (Note)	Since 2008
	伊藤忠纖維貿易(中國)有限公司 (Itochu Textile (China) Co. Ltd.*)	Maniform (曼妮芬), Wacoal	Since 2009

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	Name of customer	Brand	Length of relationship
<b>Innerwear</b>	Toray Group <sup>#</sup>	<i>Ito-Yokado</i>	Since 2009
	CFI Hong Kong Limited <sup>#</sup>	<i>Carter's</i>	Since 2010
	Growly Co., Ltd.	<i>Lee</i>	Since 2005
	青島純青國際貿易有限公司 (Qingdao Jyunsei International Trade Co. Ltd.*)	<i>Outdoor</i>	Since 2007
	Nishimatsuya Chain Co., Ltd.	N/A (Note)	Since 2006
	Shinei Corporation	N/A (Note)	Since 2001

*Note: Our Group is not responsible for the labeling and packing of the products for these customers and hence no information is available for the relevant branding of the products.*

<sup>#</sup> Top five customers of our Group for the year ended 31 December 2010.

\* For identification purpose only.

Our Directors believe that it is common for brand owners to conduct the fabric procurement and innerwear manufacturing process through sourcing agents and such sourcing agents generally play a key role in selecting fabrics suppliers and garment manufacturers, and thus our long-term and stable business relationships with the sourcing agents of the apparel brands is a critical factor to succeed in our industry and help drive our sales. Apart from our sales to sourcing agents, we also sell some of our innerwear products directly to brand owners, or to the wholesaler, whose end customers are retail shops and department stores.

Set out below is the breakdown of the revenue of our Group sold to brand owners and sourcing agents/wholesaler respectively during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2008	2009		2010		2010		2011		
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Sourcing agents/wholesaler	136,188	100.0	193,740	99.4	355,612	94.0	101,143	99.8	134,102	95.7
Brand owners	—	—	1,172	0.6	22,677	6.0	214	0.2	6,056	4.3
<b>Total</b>	<b>136,188</b>	<b>100.0</b>	<b>194,912</b>	<b>100.0</b>	<b>378,289</b>	<b>100.0</b>	<b>101,357</b>	<b>100.0</b>	<b>140,158</b>	<b>100.0</b>

Although in general we do not enter into long-term agreement with most of our customers, we discuss with our customers the estimated production volume that they expect to order at the beginning of each season. We utilise such information for our production planning and procurement purposes. Upon receiving purchase orders from our customers, our sales team together with our production department will assess our production capacity before accepting the orders. We generally enter into written contracts with our customers, which are mostly on a standalone basis without any prescribed minimum purchase commitment. Once the order is confirmed, it could only be cancelled by mutual consent. Our production of fabrics will only

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commence after written contracts have been entered into. Depending on the type and size of products ordered, the finished products are ready for delivery to our customers within 60 days in average after the purchase orders are confirmed.

During the Track Record Period, sales to our top five customers accounted for approximately 69.5%, 63.5%, 59.8% and 54.4% respectively of our total revenue. Sales to our largest customer for each of the three years ended 31 December 2010 and the six months ended 30 June 2011 accounted for approximately 16.6%, 31.6%, 33.8% and 27.2% respectively of our total revenue in such year/period. Mr. Wei, our executive Director, was interested in 75% equity interest in 上海廣裕紡織品有限公司 (Shanghai Guangyu Textile Co. Ltd.\*) (“**Shanghai Guangyu**”), one of our top five customers for the year ended 31 December 2010 and for the six months 30 June 2011 and contributed to approximately nil, 1.9%, 5.7% and 11.0% of our revenue during the Track Record Period respectively. As confirmed by Mr. Wei, he disposed of all his interest in Shanghai Guangyu in March 2011 to Mr. Xu Nai Feng (許乃峰), an independent third party, at the consideration of RMB750,000, being the initial contribution amount of such equity interests and represented a discount of approximately 1.3% to the then net asset value of such interests. The disposal by Mr. Wei is to avoid any potential conflict of interests between his interests in our Group and Shanghai Guangyu subsequent to our Listing. After the disposal, Mr. Wei ceased to have any equity interest in Shanghai Guangyu. Our Directors understand that Shanghai Guangyu is owned as to 75% by Mr. Xu Nai Feng and as to the remaining 25% by another independent third party after the disposal by Mr. Wei. According to the articles of association and the business licence of Shanghai Guangyu, it is engaged in, among other things, the sale of knitted wear, fabrics, clothes and household goods. As Shanghai Guangyu is the fabrics sourcing agent for brands such as *Triumph*, *Wacoal* and *Embry Form*, Shanghai Guangyu remained as our customer as at the Latest Practicable Date and our Directors intend to continue such relationship after the Listing. Given there is no non-competition agreement between Shanghai Guangyu and our Group or Mr. Wei, our Directors intend to leverage on the experience of Mr. Wei to develop direct customer relationships with the aforementioned brand owners in longer run. Save as aforesaid, none of our Directors, chief executive, their respective associates or, any Shareholder who, so far as our Directors are aware owns more than 5% of our issued Shares or any of our subsidiaries, or their respective associates had any interest in any of the five largest customers of our Group during the Track Record Period.

Our Group has focused on export sales historically. We entered into the Japanese innerwear market in 2001 and have since 2010 commenced selling our products into the US market. With the increase in GDP and the increasingly strong sentiment towards the overall economic conditions in the PRC, we plan to increase our sales and marketing efforts in the PRC market.

As detailed in the section headed “Financial Information — Factors affecting our results of operations — Product mix” of this prospectus, our management has begun shifting our business focus from general fabrics to functional fabrics, and from general innerwear to functional innerwear. Our Directors believe that such positioning has great potential and differentiates us from our major competitors.

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The following table shows the breakdown of our revenue by markets during the Track Record Period:

Countries	For the year ended 31 December						For the six months ended 30 June			
	2008		2009		2010		2010		2011	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
	(audited)		(audited)	(audited)		(unaudited)		(audited)		
Japan	114,974	84.4	160,595	82.4	196,443	51.9	56,869	56.1	78,428	56.0
The PRC (including Hong Kong)	20,040	14.7	32,289	16.6	148,896	39.4	44,488	43.9	45,159	32.2
The US	—	—	—	—	30,249	8.0	—	—	14,552	10.4
Others <sup>(Note)</sup>	1,174	0.9	2,028	1.0	2,701	0.7	—	—	2,019	1.4
<b>Total</b>	<b>136,188</b>	<b>100.0</b>	<b>194,912</b>	<b>100.0</b>	<b>378,289</b>	<b>100.0</b>	<b>101,357</b>	<b>100.0</b>	<b>140,158</b>	<b>100.0</b>

*Note:* Others include sales made to Canada, Spain, Israel and Korea.

### Pricing and credit control

The prices of our Group's products are determined by our senior management after taking into account, among others, the complexity, technology and features of the products, the size of the order, the timing of the delivery, the prevailing market conditions including competition, our cost of sales and expected profit margin. For innerwear products, selling prices of items with complex embroidery or sewing or made with functional fabrics are generally higher than items made with general fabrics or items which require less cutting and sewing steps and techniques. Average selling prices of fabrics are affected by the function of, and complexity in producing, such fabrics. The profit margins of our functional fabrics and innerwear produced with such fabrics are generally higher than those of general fabrics and innerwear produced with general fabrics respectively.

We do not price each order on a standalone basis. All of the services required by a customer are factored in by the planning and merchandising staff when pricing apparel for that customer. Prices for orders are negotiated on an individual basis for each customer. Generally, any increase in the price of raw materials and any appreciation in Renminbi are factored into the pricing consideration for the orders.

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The following table sets out the total units sold and average selling prices of our innerwear products and fabrics during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2008		2009		2010		2010		2011	
	Total	Average	Total	Average	Total	Average	Total	Average	Total	Average
	units	selling	units	selling	units	selling	units	selling	units	selling
	sold	prices	sold	prices	sold	prices	sold	prices	sold	prices
	(tons)	(RMB)	(tons)	(RMB)	(tons)	(RMB)	(tons)	(RMB)	(tons)	(RMB)
General fabrics	584	40,480	340	40,520	401	49,710	174	46,540	195	67,290
Functional fabrics	—	—	226	53,280	1,317	76,430	410	67,240	399	82,170
<b>Total</b>	<b>584</b>		<b>566</b>		<b>1,718</b>		<b>584</b>		<b>594</b>	
	(pieces)		(pieces)		(pieces)		(pieces)		(pieces)	
General innerwear	12,028,000	9.36	10,788,000	8.83	12,699,000	9.53	4,506,000	9.21	3,369,000	11.33
Functional innerwear	—	—	3,909,000	18.89	7,095,000	19.26	1,827,000	13.23	3,430,000	16.33
<b>Total</b>	<b>12,028,000</b>		<b>14,697,000</b>		<b>19,794,000</b>		<b>6,333,000</b>		<b>6,799,000</b>	

Our Group's sales are mainly settled in US dollars and Renminbi. Set out below are the respective percentages of the settlement currencies of our Group's sales during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June	
	2008	2009	2010	2010	2011
	%	%	%	%	%
US dollars	85.9	85.3	64.0	64.0	67.8
Renminbi	14.1	14.7	36.0	36.0	32.2

Most of our customers settle their payment by way of letters of credit, while a small portion of them pay us through telegraphic transfer or by cash upon delivery. We generally provide our customers with trade credit period of 30 to 60 days, depending on our Group's assessment of the creditworthiness of the individual customer. For new customers, we usually collect a deposit of 20% to 30% prior to our production.

As at 31 December 2008, 2009 and 2010 and 30 June 2011, the average trade receivables turnover days of our Group were 22 days, 20 days, 33 days and 56 days respectively. We monitor the amount due from customers on a daily basis. Our provision policy for doubtful accounts receivables is based on the length of time a particular sum has become overdue. During the Track Record Period, the provisions for doubtful accounts receivables amounted to approximately RMB28,000, nil, nil and nil respectively.

### **Logistics**

Depending on the terms of the purchase orders, we deliver our products to our overseas customers either to their warehouses in the PRC or the port of shipment in the PRC or ship them to the country where the customer locates. In most cases, we deliver our products to our overseas customers by way of cargo shipment, mainly shipped via the Qingdao Port, Shandong.

As regard to domestic sales, our Group's products are delivered by trucks to our customers across the PRC. To facilitate such deliveries, our Group maintains our own trucks and also engages the services of third party delivery companies.

During the Track Record Period, we had not experienced any material disruption in the logistics services provided by third party logistics operators for the delivery of our products.

### **After-sale services**

We provide our dedicated and proactive support to our customers based on our “customer-oriented” principle. Our sales team primarily focuses on confirming orders and product specifications with our customers, and is also responsible for the provision of after-sale services to our customers as well as handling claims or complaints from our customers. Our sales team also coordinates with the production team for any necessary reprocessing of orders. We also invite our customers to visit our manufacturing plants from time to time.

During the Track Record Period and up to the Latest Practicable Date, our Group had not received any material complaints and claims from our customers in relation to quality of products, nor had we experienced any material products recall.

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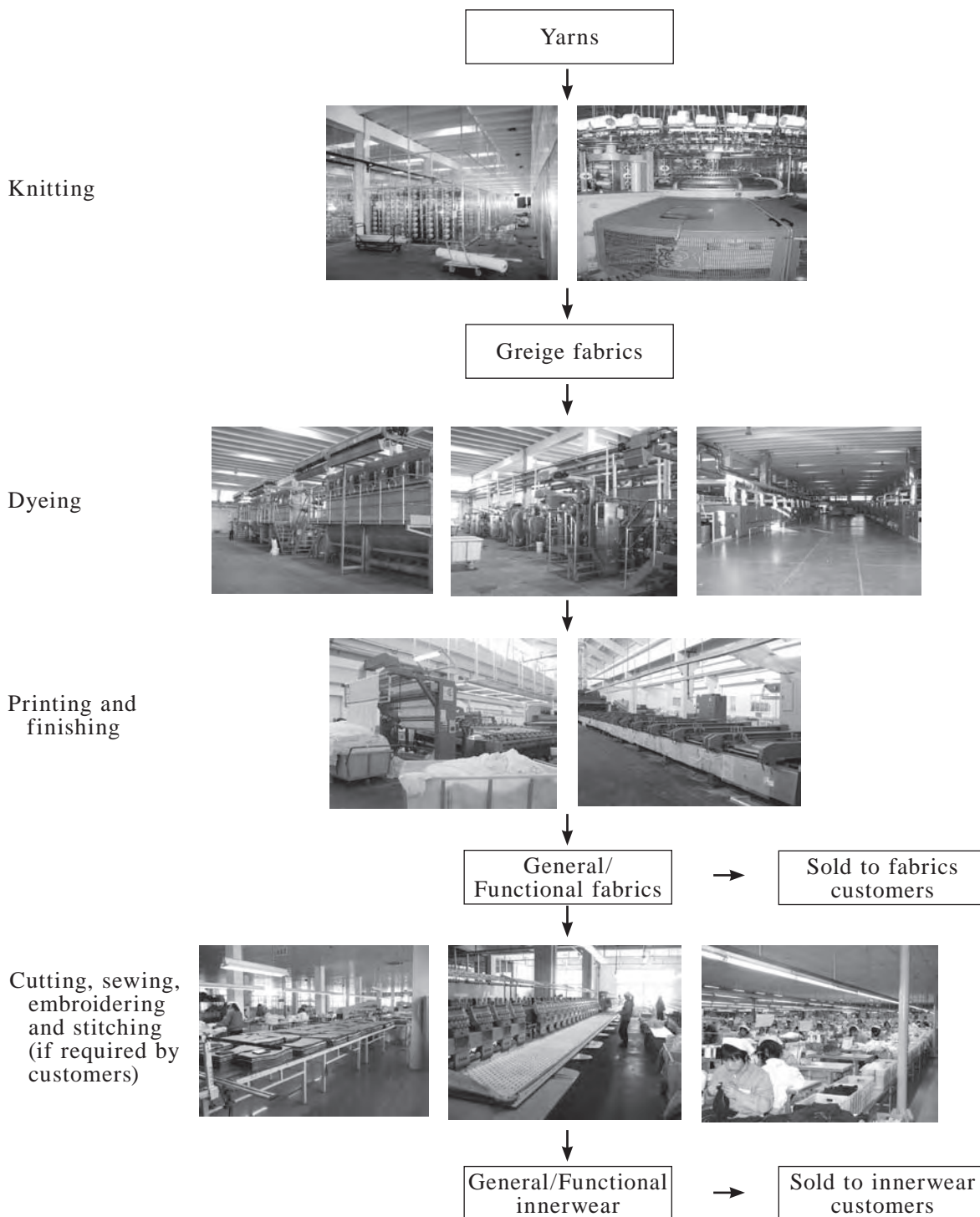
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## PRODUCTION

### Production process

Our production process is vertically integrated and highly mechanised, which can generally be divided into four processes: knitting, dyeing, printing and finishing of fabrics, and cutting and sewing of knitted innerwear, which are illustrated in the following diagrams:



### *Knitting*

Raw materials, including yarns, are first being sample-checked by our quality control staff to ensure their quality standards before production. General and functional fabrics are produced using various kinds of yarns, i.e. general fabrics are made with cotton yarns, while functional fabrics are made with synthetic yarns. Before the yarns are being knitted, they are required to go through the pre-processing stage during which they will be treated by different chemicals. For instance, cotton yarns used for production of general fabrics will be bleached by hydrogen peroxide and sodium hydroxide to reduce the level of alkali, and synthetic yarns used for production of functional fabrics will be treated by chemicals mixed with specific formula which match their properties. Cones of yarn, after winding, are then arranged in the cylindrical knitting machine for knitting. The knitted greige fabrics are inspected by the quality control staff before they are transported to the dyeing process.

### *Dyeing*

In preparation for the dyeing process, fabrics are first treated in a scouring process to remove dirt and impurities. Chemicals and dyes are then added onto the scoured fabric for the dyeing or bleaching process.

We employ both airflow and waterflow dyeing methods. Fabrics are dyed and dehydrated in the centrifugal spinning process and dried according to the requirements of specific fabrics. Dried fabrics are then inspected by our quality control staff. Fabrics that do not require printing will then be processed through the finishing step.

### *Printing and finishing*

We make use of the patterns provided by our customers to make print screens for use in the printing process. Patterns are separated by colours such that one pattern usually requires multiple screens. These screens are either rotary or flat depending on the design specifications. Fabrics are laid under the screens and sent through the printing machine.

The fabrics are then finished by treatment at high temperature to meet customers' requirements on the width, weight and shrinkage allowance of each order. The fabrics are then inspected and shipped to our fabric customers or are transferred to our innerwear factories for cutting and sewing.

### *Cutting and sewing (for innerwear)*

We use both self-manufactured fabrics and external-sourced fabrics. When the fabrics are delivered to the cutting and sewing department for processing, they are first inspected by the quality control staff who will inspect the textures and colour of the fabrics for defect identification. After inspection and testing by the quality control staff, raw materials qualified for processing are then prepared for cutting and sewing. Computer-aided design equipment is used to prepare customised markers. Markers are used to guide workers in cutting the fabric into separate pieces which are subsequently sewn together to produce an innerwear. To preserve



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the shape and appearance of the finished products, ironing might be necessary. In order to ensure high product quality, finished innerwear are inspected for sewing and overall quality before they are packaged and delivered to our customers.

### Production facilities and capacity

Our production base is located in Zhucheng, Shandong, with an aggregate gross floor area of more than 52,000 sq.m. as at the Latest Practicable Date. Our Group's production machinery are mainly imported from Japan, Germany and Italy, Hong Kong and Taiwan. As at the Latest Practicable Date, we had 31 sets of dyeing machines (including 8 sets of high-temperature airflow dyeing machines), 34 sets of knitting machines, 3 sets of stentering machines, 2 sets of printing machines, 7 sets of embroidering machines and 26 sets of cutting machines.

Actual production volume is dependent upon a number of factors, including fabric specifications and types, complexity of design and quality requirements.

The table below sets out our processing capacity, processing output and utilisation rates of our production lines during the Track Record Period:

Process	For the year ended 31 December									For the six months ended 30 June		
	2008			2009			2010			2011		
	Designed capacity (Note 1)	Actual processed	Utilisation rate (Note 2) (%)	Designed capacity (Note 1)	Actual processed	Utilisation rate (Note 2) (%)	Designed capacity (Note 1)	Actual processed	Utilisation rate (Note 2) (%)	Designed capacity (Note 1)	Actual processed	Utilisation rate (Note 2) (%)
Weaving and knitting (in tons) (Note 3)	200	138	69.0	500	533	106.6	1,200	1,278	106.5	600	558	93.0
Dyeing and finishing (in tons)	1,500	996	66.4	2,400	2,055	85.6	3,600	3,280	91.1	2,000	1,233	61.7
Printing (in tons)	650	594	91.4	650	421	64.8	650	474	72.9	325	178	54.8
Cutting and sewing (in thousand pieces of apparel) (Note 4)	13,000	12,756	98.1	15,000	14,584	97.2	18,000	18,717	104.0	9,300	8,030	86.3

#### Note:

- The designed capacity of each production line was derived on the assumption that the production line is being operated on a continuous basis (16 working hours a day for weaving and knitting and dyeing and finishing, and 8 hours a day for printing and cutting and sewing) throughout the year/period except for maintenance purposes and on certain public holidays and using the production capacity available at the end of the respective year/period. Therefore, the utilisation rate for certain process in a year/period may be affected if additional machineries for such process have been installed in later part of that year/period. Moreover, the designed capacity set out above is also calculated based on the product mix of our Group. Given that product of same weight but with more complicated knitting, cutting and/or dyeing requirements would occupy more of our production time than products with less complicated processing requirements, the designed capacity of our production lines would vary if we focus more on producing complex or simple products in the future.
- Utilisation rate of each production line was derived by dividing the actual processed volume/quantity of a particular process during the relevant year/period by the designed capacity during the relevant year/period.
- Utilisation rates of weaving and knitting in 2009 and 2010 exceeded 100% for the respective years as over-time work was noted during the peak seasons.
- Utilisation rate of cutting and sewing in 2010 exceeded 100% as our Group's actual production capacity was more than the designed capacity.

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### *Expansion*

In view of the high utilisation rates of our production lines during the Track Record Period, our Group has invested in upgrading our equipment to enhance our production efficiency and competitiveness. For example, in 2010, we purchased eight sets of high-temperature airflow dyeing machines, which enable us to reduce up to two-third of water consumption for dyeing process. In 2010 and first half of 2011, we purchased three sets of automatic cutting beds which enhance the efficiency of our cutting process by approximately 30% (in terms of production volume per person). We also introduced two sets of clothing hanging pipeline systems to enhance our innerwear sewing process. The use of such hanging pipeline systems increased our production efficiency by over 10% (in terms of number of innerwear processed).

In the near future, we intend to expand our knitting and dyeing capacity according to the following schedule:

	As at the Latest Practicable Date	2012				
		2011 Q4	Q1	Q2	Q3	Q4
<b>Machines</b>						
<i>Knitting machines</i>						
Current number of sets/Number of sets to be acquired	34	2	6	7	7	7
Current capacity/expected increase in capacity (tons)	1,750	100	300	350	350	350
Total capacity (tons)	1,750	1,850	2,150	2,500	2,850	3,200
<i>Dyeing machines</i>						
Current number of sets/Number of sets to be acquired	31	2	—	—	6	—
Current capacity/expected increase in capacity (tons)	4,000	1,000	—	—	2,100	—
Total capacity (tons)	4,000	5,000	5,000	5,000	7,100	7,100

We also intend to expand our cutting and sewing capacity by purchasing more cutting and sewing machines. As cutting and sewing machines are relatively less costly, our Directors will monitor the utilisation rate of these machines and make appropriate purchases when required.

We estimate that the capital expenditures for the two years ending 31 December 2011 and 2012 will be approximately RMB18 million and RMB65 million respectively. Our planned future capital expenditures mainly include the purchase of additional production facilities and construction of factories. Our Group expects to fund these expansion plans with bank financing, cash flow from our operations and the net proceeds to be received by us from the Share Offer. Please also refer to the section headed “Future plans and use of proceeds” of this prospectus for more details.

### **Third party outsourcing**

We occasionally outsource certain production processes, in particular, sewing and knitting processes, to third-party sub-contractors when demand exceeds our production capacity. We generally supply them with materials in the outsourced production.

The costs incurred by us in respect of third-party outsourcing arrangements during the Track Record Period were approximately RMB8.3 million, RMB11.9 million, RMB22.0 million and RMB8.1 million respectively, accounting for approximately 8.1%, 9.4%, 8.1% and 8.7% of our total cost of sales for the respective periods. We select third-party sub-contractors based on the quality and cost of their works. We do not enter into long-term agreements with any third-party sub-contractors so as to maintain flexibility. During the Track Record Period, we had not experienced any difficulty in identifying and engaging sub-contractors. Our Directors are of the view that there are no associated risks with outsourcing arrangements as there are a number of sub-contractors available in Zhucheng, Shandong. It is expected that such outsourcing arrangements will be continued to optimise our production capacities.

### **ENVIRONMENTAL PROTECTION**

Manufacturing enterprises in the PRC are subject to various PRC environmental protection laws and regulations. Under current PRC national and local environmental protection laws and regulations, any enterprise which discharges waste water is required to seek approval from the relevant environmental protection authorities as part of the approval process for setting up such an enterprise in China. The relevant PRC laws and regulations also require such enterprise to have waste water treatment facilities that meet the relevant environmental standards and to have the pollutants treated before discharge. In addition, current PRC national and local environmental protection laws and regulations impose fees for the discharge of polluted water and fines, and in certain events, order the suspension of operation by the relevant enterprise, for the discharge of pollutants which are insufficiently treated. Details in relation to environmental matters are set out in the section headed “Regulatory overview — Environmental protection” of this prospectus.

We are committed to operate in compliance with applicable environmental laws and regulations and have taken steps to ensure that any waste and by-products produced as a result of our operations are properly treated and discharged so as to minimise the adverse effects to the environment. We have an on-site sewage treatment plant in Zhucheng, Shandong that treats sewage generated from our production process, in particular, dyeing and printing processes, by chemical and biological treatments. Processed sewage is required to meet certain chemical standards prescribed by the environmental protection department before it is discharged to the municipal sewage treatment network. The environmental protection department has set up monitoring equipment at our sewage treatment plant to ensure the processed sewage meets the prescribed standard before discharged. Officers of the government’s environmental protection department also visit us on a regular basis to inspect our plant and equipment. Since the

commencement of our operation and up to the Latest Practicable Date, we had not been subject to any penalty or fines imposed by the environmental protection authorities. Our cost of compliance with the relevant environmental protection laws and regulations during the Track Record Period has been minimal and we expect this will remain to be the case going forward.

As confirmed by our PRC legal advisers, prior to the commencement of our operations, we had complied with the relevant environmental protection laws and regulations in the PRC by submitting an environmental impact assessment to the local environmental protection bureau for approval and have passed inspections for our environmental protection facilities upon completion of construction. According to the written confirmation from the local authority, we have neither committed any non-compliance nor been charged for, or incurred any penalties or fines, as a result of having violated any relevant environmental protection laws and regulations. Our PRC legal advisers further advised that we had complied with all relevant PRC laws and regulations regarding environmental protection in all material respects in the locations at which our production plants operated during the Track Record Period.

We have been devoting resources to minimise the use of water in our production process. In particular, we introduced eight sets of high-temperature airflow dyeing machines from Germany in 2010 which enable us to substantially reduce the consumption of water and generation of sewage in the dyeing process. We also intend to devote resources on deploying more environmental-friendly manufacturing process in the future, thereby making ourselves an environmental-friendly fabrics and innerwear manufacturer.

### INFORMATION SYSTEM

Our existing information management system incorporates an ERP system, a software application that is co-developed by us and a software company, which integrates various information in relation to, among other things, our procurement, production and sales under one system. The centralisation of such data enables us to thoroughly manage our manufacturing process, supply chain, logistics, information flow, fund flows and inventory control through real time input, payroll and status checks of our purchases and orders, raw materials and inventory level, accounts receivables and accounts payables, as well as to monitor our production schedule, logistics support and warehousing needs.

With effect from August 2009, manufacturers of any consumer product for export to the US which are primarily intended for children aged twelve or below must provide on such product a tracking label or other distinguishing permanent mark which contains certain basic information, including the source, date of manufacture, and more detailed information on the manufacturing process such as the batch or run number of the product. Our ERP system records information of every piece of our products, including its manufacturing date and time, the raw materials used in its production, and details of the purchaser of the product. In such a way, we can then easily identify the relevant piece of products in the event of any product recall by us, our supplier or customer, and thus reducing our quality control costs. In January 2011, Shandong Grand Concord, our subsidiary mainly engaging in the export of our products to the US and Europe, passed the factory audit of Bureau Veritas, an international company specialising in conformity assessment and certification in relation to regulatory or voluntary standards, in the

areas of product identification and traceability, document control, product analysis and testing. Our other PRC operating subsidiaries, i.e. Zhucheng Eternal Knitting and Zhucheng Yumin Knitting, currently are not required to undergo such factory audit by Bureau Veritas as they are not involved in the export of children wear to the US. Depending on our business needs, these two subsidiaries may also apply for similar factory audits from third party assessors in the future. Our Directors believe that our Group, through Shandong Grand Concord, is ready for the implementation of the new regulatory requirements in the US.

### SAFETY ISSUES

Pursuant to 《中華人民共和國勞動法》 (Labour Law of the PRC\*) (“**PRC Labour Law**”) promulgated on 5 July 1994, employers are required to establish and improve their labour safety and health care system, to strictly implement the labour safety and health care regulations, to carry out labour safety and health care education among their workers and to prevent accidents during work and reduce occupational hazards. We have complied with the PRC Labour Law and other relevant applicable laws and regulations in relation to labour management. Pursuant to 《中華人民共和國安全生產法》 (Work Safety Law of the PRC\*) promulgated on 29 June 2002, which became effective on 1 November 2002, enterprises operating production activities within the PRC are required to observe laws and regulations concerning production safety, strengthen their administration of, establish and improve a system of responsibility for, and improve, facility conditions to ensure production safety. During the Track Record Period and up to the Latest Practicable Date, save for the regular inspections by local authorities, we were not involved in any production safety matter which had to be approved and examined by the government.

We are required to comply with 《企業職工勞動安全衛生教育管理規定》 (Regulation Governing the Corporate Labour, Safety and Hygiene Educational Management\*) formulated pursuant to the PRC Labour Law. In this connection, a production safety committee has been established by us for the administration of production safety. In addition, we provide safety education to our employees and have established safety standards in connection with matters such as the usage of fire protection equipment, the operation of vehicles and the mechanism of reporting industrial accidents with a view to enhancing occupational safety and minimising the possibility of work-related accidents and injuries as well as occupational illness.

Our Group regularly receives safety inspection from our customers, such as *Carter’s*, *Puma*, etc. The scope of such safety inspection depends on the request of our customers, which usually includes safety production procedures, the safety equipment maintained by our Group, other welfare of our employees and fire control. It is a pre-condition for us to pass the safety inspection in order to cooperate with these customers. During the Track Record Period, we did not receive any adverse comments from these customers during the course of factory safety inspection and have continued to receive orders from them.

We had not committed any material non-compliance in relation to health and safety matters during the Track Record Period. As advised by our PRC legal advisers, we had been in compliance with the relevant laws, rules and regulations in relation to health and safety matters in the PRC during the Track Record Period.

## **PROCUREMENT OF RAW MATERIALS AND SUPPLIERS**

Our ERP system has enabled us to plan ahead for raw material procurement to ensure a steady and timely supply of principal raw materials. By monitoring the data in the ERP system, our procurement team forms a procurement plan according to each manufacturing order and submits the procurement plan to our internal audit team for approval. Our internal audit team is responsible for finalising the procurement plan and selecting suitable suppliers. Our internal audit team is also responsible for coordinating with our quality control team in relation to the quality of raw materials.

### **Raw materials**

Raw materials used in our Group's production process consist principally of yarns, greige fabrics, dyes and apparel sewing-related materials such as thread, trimmings, buttons and zippers. Raw materials costs comprise the largest portion of our cost of sales. During the Track Record Period, raw materials costs accounted for approximately 51.7%, 57.7%, 68.9% and 60.2% respectively of our total cost of sales. Subject to price and quality requirements, we purchase yarns and greige fabrics from local suppliers mainly in Zhucheng, Shandong, the PRC. During the Track Record Period, we did not experience any shortage of supply of raw materials.

Our demand for raw materials is subject to various market factors. To the best knowledge and belief of our Directors, the prices of cotton yarns, synthetic yarns and greige fabrics are generally affected by the commodity prices of cotton and crude oil, and the prices of yarns and greige fabrics have increased steadily and moderately during the Track Record Period. During the Track Record Period, our purchases of cotton yarns accounted for approximately 25.6%, 14.7%, 8.0% and 10.7% of our cost of sales respectively while our purchases of synthetic yarns accounted for approximately 10.3%, 23.5%, 38.8% and 28.5% of our cost of sales respectively. Our purchases of greige fabrics accounted for approximately 0.3%, 4.4%, 15.0% and 8.7% respectively of our cost of sales during the same periods. For details of the price trend of cotton and crude oil during the Track Record Period, please refer to the section headed "Industry Overview — Key raw materials consumed by our Group" of this prospectus.

Although the prices of yarns and greige fabrics have increased steadily and moderately during the Track Record Period, such increment was partially shifted to our customers. In line with our business strategy, we aim to produce more functional and specialised products which are generally of a higher profit margin, such that we can achieve a better control in our pricing and raw material costs.

### **Electricity and steam**

Continuous and steady supply of electricity is important for our Group's operations. Our Group also needs continuous and steady supply of steam during the dyeing process to maintain optimal and consistent product colour and quality because humidity and temperature could affect the physical conditions, such as strength, extension, conductivity and softness, of the fibres.

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During the Track Record Period, our Group secured electricity supply from the public power supply network and steam supply from independent third parties. Our Group intends to continue obtaining supply of electricity and steam from these sources after the Listing.

During the Track Record Period, our Group had not experienced any material interruption of operation as a result of electricity or steam suspension. During the Track Record Period, our costs for electricity and steam accounted for about approximately 8.7%, 7.3%, 4.9% and 6.1% of our cost of sales respectively.

### Suppliers

Our Group considers that it is commercially beneficial to build up a stable and close business relationship with our suppliers. It is also our strategy to concentrate our purchases from a few reliable suppliers such that we will be able to increase our bargaining power with these suppliers by ordering sufficient or bulk quantities. Therefore, we procured a substantial portion of the raw materials from a couple of major suppliers during the Track Record Period. However, we also secure a list of readily available alternative suppliers by diversifying our sources of supply and maintaining at least a small proportion of raw material supplies from suppliers other than the major suppliers for each type of raw materials, in particular, yarns. We believe that we have a supplier base which is sufficiently large for mitigating any risk of over-reliance on our major suppliers.

Our major suppliers are located in the PRC. We order raw materials from our suppliers through purchase agreements, which are mostly on a standalone basis without any prescribed minimum purchase commitment. Once the order is confirmed, it is only cancellable by mutual consent. We generally purchase raw materials when we receive orders from our customers in order to control our inventory risk. In addition, we also purchase basic types of cotton and synthetic yarns and common materials regularly based on our forecast of orders. Some of our suppliers offer us credit terms ranging from 30 to 120 days. Our purchases are mainly made in RMB and we normally settle our invoices with our suppliers twice a month by telegraphic transfer.

When selecting suppliers, members of our procurement team will evaluate the quality and cost of raw materials, the payment terms and the delivery lead-time. Our procurement team also conducts periodic assessment of the on-time delivery performance of our suppliers, the quality of the materials they supply, and their overall cooperation with our Group.

We also enter into cooperation or long term supply agreements with certain suppliers to ensure a stable supply of our raw materials. For instance, we have entered into a tri-partite cooperation agreement with a fibre supplier and a textile company in 2010. Pursuant to the agreement, the fibre supplier shall provide the two agreed types of fibres to the textile company exclusively, and the textile company shall provide yarns produced using those fibres for our Group's exclusive use. The fibre supplier has the right to request the textile company and us to consume at least 50 tons, 100 tons and 150 tons respectively fibres for each of the three years commencing from the date of the agreement. The cooperation agreement has a term of three years and will expire on 15 September 2013 and shall be renewed upon agreement by

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the parties. There are no prescribed terms of pricing for each transaction to be made under this cooperation agreement. Such terms will be separately negotiated by the parties. As this agreement was entered into in second half of 2010, we have not made purchases under this cooperation agreement up to the end of the Track Record Period. Our Directors believe that such arrangements would secure our source of raw materials in the future, and enhance our cooperation with our suppliers, such that they will be able to respond swiftly and supply and develop raw materials of various specifications and style for our use according to changing market demands.

During the Track Record Period, purchases from our five largest suppliers accounted for approximately 33.1%, 41.6%, 33.4% and 54.5% of our total cost of sales respectively, and purchases from our largest supplier for each of the three years ended 31 December 2010 and the six months ended 30 June 2011 accounted for approximately 17.3%, 15.4%, 10.4% and 13.1% of our total cost of sales in such year/period respectively. None of our Directors, chief executive, their respective associates or any Shareholder who, to the knowledge of our Directors, owns more than 5% of our issued Shares or any of our subsidiaries or their respective associates had any interest in any of our five largest suppliers during the Track Record Period.

Our Directors consider that we have established good relationship with our suppliers. Although we do not normally enter into long term supply contracts with our suppliers, we had not experienced any major difficulties in procuring raw materials to meet our production requirements during the Track Record Period.

### INVENTORY CONTROL

Our Group manufactures innerwear products and fabrics largely on individual purchase order basis. Therefore, our effective management of inventory of raw materials plays a substantial role in our inventory control. We monitor and control the levels and ages of our raw materials by implementing an inventory management policy through our ERP system in order to enhance the smooth running of our operations and to minimise wastage.

It is our practice to purchase raw materials based on our production schedule and the manufacturing order monitored by our ERP system. The general lead time for raw materials ordered to be delivered ranges from 1 to 30 days. We may also increase our stocks of raw materials at times when our management, with reference to the market information gathered by our procurement team, anticipates that the price of the raw materials will increase. If any circumstances arise which require us to change our usual stock level, such issue will be discussed amongst our Board and the head of each department. Our Board confirms that during the Track Record Period, our Group had not experienced any circumstances that required us to change our inventory level in usual practice.

During the Track Record Period, we were able to maintain a reasonable level of inventory because most of the fabrics used in our innerwear products are manufactured by us. We produced the fabrics upon receiving confirmed orders for innerwear products from our customers, which effectively reduced excess inventory of unused fabrics.

We also carry out stock-take semi-annually to ensure the quantity of our inventory and identify any obsolete stock.



### QUALITY CONTROL

#### **Fabric manufacturing segment**

In order to ensure the provision of reliable and high-quality fabrics to our customers, we perform quality inspection and testing at different stages throughout our manufacturing process, from procurement of raw materials to packaging of finished products. Our quality control standards enable us to maintain the reprocessing ratio of our products at a low level.

#### *Procurement of raw materials*

It is our procurement policy that we obtain and test samples of raw materials before we confirm the purchase orders. Our warehouse staff check the quantity of raw materials delivered prior to confirming the receipt of raw materials. Raw materials are tested when they reach our warehouse. Yarns, greige fabrics and semi-finished fabrics are physically inspected and tested by our quality assurance team for eligibility. Chemicals such as dyes and dyeing auxiliaries must be chemically certified for eligibility through quality inspection by our chemical testing centre. Quality of packaging materials will be inspected through conventional viewing as defects can be identified easily through appearance inspection. Any raw materials which fail the inspection will not be accepted and will be returned to our suppliers for replacement.

#### *Production*

At each of our production steps, comprehensive inspections on the quality of the semi-finished and finished fabrics are conducted to ensure compliance with customers' order specifications. The semi-finished and finished fabrics need to go through three quality testing points. Preliminary inspection is carried out on greige fabrics before dyeing. Intermediate inspection is performed after the dyeing procedure to ensure the colours and quality of the dyed fabrics are in compliance with our customers' order specifications. During the final inspection, fabrics are put onto a stentering machine for, on the one hand, cleaning, wringing and drying and on the other hand, screening knitting patterns and colours of the fabrics, identifying flaws in thickness and for physical touch inspection. The fabrics will then go through physical, chemical and bacteria testing before a quality inspection report is issued by our quality assurance staff. Thereafter the fabrics will be transported to the warehouse.

#### **Innerwear segment**

We start our quality control procedures at an early stage in our raw material procurement upon our receipt of raw materials. Our quality assurance staff inspects and tests the fabrics by putting them onto a stentering machine for checking their colours, knitting patterns, thickness and texture. Other raw materials are inspected through an appearance inspection to ensure that they comply with our quality standards. Our quality assurance staff also carries out appearance inspection on the semi-finished components at each stage of the manufacturing process. Only qualified semi-finished components are allowed for the next manufacturing stage. During the ironing stage, our quality assurance team conducts appearance inspection on the innerwear, sewing crafts and supplementary sewing materials of the semi-finished components. During

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the packaging stage, our quality assurance staff performs appearance inspection on the supplementary packaging materials such as price tags and care labels to ensure that they are appropriately attached to the right innerwear products, which are then packaged according to customers' requirements. If requested by our customers, we will send samples of the finished products to certified laboratories in Qingdao for quality compliance testing before the finished products are shipped to our customers.

### INSURANCE

We maintain insurance coverage for our factories, manufacturing facilities and inventories, covering losses owing to fire, flood, earthquake and hurricane. We also maintain insurance covering risks such as employee injury and loss and theft of, and damage to, our properties. In 2010, we expended an aggregate of approximately RMB834,000 on maintaining insurance policies. We do not maintain business interruption insurance. Significant damage to any of our manufacturing facilities or buildings, whether as a result of fire or other causes, would have a material adverse effect on our results of operations. Furthermore, we do not maintain insurance against product liability for products we sell, since our standard purchase contracts obligate the suppliers to bear this risk, and it is not compulsory to maintain product liability insurance under the PRC law.

For products we export, we maintain export credit insurance with China Export and Credit Insurance Corporation (中國出口信用保險公司), which insures us against non-payment by our customers after delivery of our goods.

We consider that our insurance coverage is adequate and in line with industry norm. During the Track Record Period and up to the Latest Practicable Date, we had not made any material insurance liability claims and we had not received any material claims from third parties in relation to the use of our products or third-party liability.

### INTELLECTUAL PROPERTY

We rely on a combination of trade secret laws, as well as enter into non-disclosure agreements, implement internal security systems and policies and employ other methods to protect our intellectual property. Our employees are required to sign an employment agreement which prohibits the disclosure of any of our proprietary intellectual property to any third parties.

As of the Latest Practicable Date, we were the owner of five registered trademarks in the PRC and two registered trademarks in Hong Kong. For more information, please see the paragraph headed "Intellectual property rights of our Group" in Appendix V to this prospectus.

We have also been licensed by Outlast to manufacture and sell certain Outlast's fabrics which comprise microencapsulated phase-change materials coated fabrics or fibres in China to third parties who are themselves trademark licensees of Outlast. In addition, Outlast has granted us a non-exclusive licence to use its Outlast trademark in connection with the manufacture, promotion, distribution and sale of such products.

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Our Group has not obtained and does not intend to obtain any patent in respect of the functional fabrics we developed. This is because our Directors believe that fabrics trend is always changing in line with fashion trend while application for patent can be a lengthy process and the results of such application are unpredictable. Further, our Directors understand that if our Group's functional fabrics are patented, we would be required to publicise the relevant formula in producing such fabrics. As the functional fabrics developed by our Group are distinguishable in respect of their ingredients and the way the yarns are composed, our Directors are concerned that our competitors could slightly deviate from the relevant formula to produce products with similar attributes and functions, in which case it would be difficult for our Group to prove any infringement of patent. As such, our Directors believe that instead of devoting resources in applying for patent rights, it is more cost-effective to better serve our customers and enhance our production capability at this stage of corporate development. Our Directors will review the need and feasibility for application for patent and will make application for future developed fabrics if and when appropriate and possible.

### AWARDS AND RECOGNITIONS

Since the establishment of our Group, we have been granted a number of significant awards and recognitions by the PRC government authorities and recognised organisations. These awards and recognitions, we believe, signify our position in the fabric and innerwear production industry in the PRC:

<b>Awards and recognitions</b>	<b>Year of grant</b>	<b>Award/grant/issuing organisation</b>
2003年度外貿出口先進單位 (Export Trade Advanced Entity in 2003*)	2004	中共濰坊市委 (Weifang Municipal Committee of the Chinese Communist Party*) 濰坊市人民政府 (Weifang Municipal People's Government*)
2004年度外貿出口先進單位 (Export Trade Advanced Entity in 2004*)	2005	中共諸城市委 (Zhucheng Municipal Committee of the Chinese Communist Party*) 諸城市人民政府 (Zhucheng Municipal People's Government*)
2005年度全市外貿工作先進單位 (Citywide Foreign Trade Work Advanced Entity in 2005*)	2006	中共濰坊市委 (Weifang Municipal Committee of the Chinese Communist Party*) 濰坊市人民政府 (Weifang Municipal People's Government*)

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Awards and recognitions	Year of grant	Award/grant/issuing organisation
2005年度外貿工作先進單位 (Foreign Trade Work Advanced Entity in 2005*)	2006	中共諸城市委 (Zhucheng Municipal Committee of the Chinese Communist Party*) 諸城市人民政府 (Zhucheng Municipal People's Government*)
濰坊市誠信民營企業 (Weifang Municipal Integrity Private Enterprise*)	2006	濰坊市誠信民營企業評審委員會 (Weifang Municipal Integrity Private Enterprise Evaluation Committee*)
2006年度外貿工作先進單位 (Foreign Trade Work Advanced Entity in 2006*)	2007	中共諸城市委 (Zhucheng Municipal Committee of the Chinese Communist Party*) 諸城市人民政府 (Zhucheng Municipal People's Government*)
2006年度招商引資先進單位 (Advanced Entity for Attracting Businesses and Foreign Capitals in 2006*)	2007	中共諸城市委 (Zhucheng Municipal Committee of the Chinese Communist Party*) 諸城市人民政府 (Zhucheng Municipal People's Government*)
2008年度森林青島流通中心第5屆品質改善會議 — 品質管理優秀獎 (Honourable Mention for Quality Management — The Fifth Session of Quality Improvement Conference of Moririn's Qingdao Circulation Centre in 2008*)	2008	モリリン株式会社 (Moririn Co. Ltd.) — a Japanese global sourcing company
勞動保障誠信示範單位 (Model Credit Entity for Employee Protection)	2010	濰坊市人力資源和社會保障局 (Weifang City Human Resources and Social Security Bureau*)
2010年度企業財務會計信息工作先進單位 (Advanced Entity for Finance and Accounting Information in 2010)	2010	濰坊市財政局 (Weifang City Finance Bureau*)

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Awards and recognitions	Year of grant	Award/grant/issuing organisation
Best of the Best Award <i>(for achieving and maintaining a quality standard as top among vendors for 2010)</i>	2011	Carter's/OshKosh — a US leading provider of apparel and related products exclusively for babies and young children
5 Banner Award <i>(for maintaining an observed quality level of less than 0.5% for 2010)</i>	2011	Carter's/OshKosh

None of the above awards or certificates obtained by our Group was revoked or terminated as at the Latest Practicable Date.

### LEGAL PROCEEDINGS, CLAIMS AND COMPLIANCE

As at the Latest Practicable Date, we were not involved in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim was known to the Board to be pending or threatened by or against us, that would have a material adverse effect on our operation result of financial condition.

Our Board considers that during the course of our Group's daily operation as a fabrics and innerwear manufacturing company, our Group is in full compliance with the obligations as to environmental protection.

### NON-COMPLIANCES OF THE COMPANIES ORDINANCE

Mr. Wong and Madam Hung Kin, both being executive Directors of our Company, are the only directors of Grand Concord (HK), a subsidiary of our Company, since its incorporation. They had failed to lay audited accounts of Grand Concord (HK) before its annual general meetings for the periods from 30 November 1995 to 31 March 1996, and from 1 April 2004 to 31 December 2004; for the years ended 31 March 1997, 1998, 1999, 2000, 2001, 2002, as well as for the years ended 31 December 2005, 2006, 2007 and 2008. They had instead approved the relevant accounts of Grand Concord (HK) by way of written resolutions of shareholders on 18 August 2010. Further, Mr. Wong and Madam Hung Kin had laid the audited accounts of Grand Concord (HK) for the years ended 31 March 2003 and 2004 only at the general meeting held on 30 November 2005. The aforesaid constituted non-compliances of section 122 of the Companies Ordinance.

As advised by Mr. Wong and Madam Hung Kin, such non-compliances occurred as Grand Concord (HK) did not receive competent and timely professional advice on the ongoing compliance requirements under the Companies Ordinance, in particular, the requirements under section 122 of the Companies Ordinance, from the then auditor and secretarial firm engaged by Grand Concord (HK) for accounting and company secretarial matters.

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To rectify such non-compliances, Mr. Wong and Madam Hung Kin filed an application to the Court of First Instance of the High Court of Hong Kong on 15 October 2010 applying for an order of the court to substitute the aforesaid annual general meetings by written resolutions of shareholders and extend the time for approving the abovementioned accounts of Grand Concord (HK). The Court of First Instance heard the application on 5 November 2010 and granted an order in the terms of the application.

Given the Court of First Instance has already granted an order allowing the time for approving the abovementioned accounts of Grand Concord (HK) be extended, Grand Concord (HK) was advised that the non-compliances have been duly rectified.

In order to avoid any further or other non-compliance, Grand Concord (HK) has appointed a professional company secretarial firm to attend to the compliance matters under the Companies Ordinance. Our Company Secretary, Mr. Lee Yin Sing, who is a member of the Hong Kong Institute of Certified Public Accountants with over 8 years of auditing experience in finance control and accounting, together with the Board, will also oversee the compliance matters of our Company and our subsidiaries pursuant to the relevant laws. Professional accountants and legal advisers will be retained to advise our Group on compliance and accounting matters where required.

### APPROVALS AND PERMITS

We have been advised by our legal advisers as to Hong Kong laws and PRC laws that we have obtained all requisite permits, licences and approvals from relevant authorities to legitimately conduct our businesses and operations in accordance with all relevant laws and regulations in Hong Kong and the PRC. Set out below are the major approval, permits, licences and certificates required for our manufacturing operations:

No.	Name of document	Issuer	Registration/ approval/ document no.	Date of issue/ renewal	Validity
<i>Zhucheng Eternal Knitting</i>					
1.	企業法人營業執照 (Enterprise Legal Person Business License*)	濰坊市工商行政 管理局 (Weifang Municipal Administration for Industry and Commerce*)	370700400006495	29 June 2011	24 October 2000 to 23 October 2050
2.	中華人民共和國外商投資企業 批准證書 (Certificate of Approval for Establishment of Enterprises with Foreign Investment in the PRC*)	山東省人民政府 (Shandong Provincial People's Government*)	商外資魯府濰字[2000] 1233號 (Shang Wai Zi Lu Fu Wei Zi [2000] No. 1233*)	23 June 2011	Valid, subject to annual review

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No.	Name of document	Issuer	Registration/ approval/ document no.	Date of issue/ renewal	Validity
3.	城市排水許可證 (Municipal Sewage Disposal Permit*)	諸城市市政管理局 (Zhucheng Municipal Affairs Administration*)	2007字第0020號 (2007 Zi No. 0020)	15 November 2007	15 November 2007 to 14 November 2012
<i>Zhucheng Yumin Knitting</i>					
4.	企業法人營業執照 (Enterprise Legal Person Business Licence*)	濰坊市工商行政 管理局 (Weifang Municipal Administration for Industry and Commerce*)	370700400008419	1 December 2008	22 November 2004 to 21 November 2054
5.	中華人民共和國外商投資企業 批准證書 (Certificate of Approval for Establishment of Enterprises with Foreign Investment in the PRC*)	山東省人民政府 (Shandong Provincial People's Government*)	商外資魯府濰字[2004] 3140號 (Shang Wai Zi Lu Fu Wei Zi [2004] No. 3140*)	12 September 2006	Valid, subject to annual review
6.	中華人民共和國取水 許可證 (The PRC Water Drawing Permit*)	諸城市水利水產局 (Zhucheng Municipal Water Conservation and Water Product Bureau*)	取水魯諸字 [2007] 第016號 (Qu Shui Lu Zhu Zi [2007] No. 016*)	27 November 2007	27 November 2007 to 31 December 2011 ( <i>Note</i> )
7.	排放污染物許可證 (Pollutants Discharge Permit*)	諸城市環境保護局 (Zhucheng Municipal Environmental Protection Bureau*)	魯環許字臨 3707820022號 (Lu Huan Xu Zi Lin No. 3707820022)	1 November 2010	November 2010 to November 2011 ( <i>Note</i> )

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No.	Name of document	Issuer	Registration/ approval/ document no.	Date of issue/ renewal	Validity
<i>Shandong Grand Concord</i>					
8.	企業法人營業執照 (Enterprise Legal Person Business Licence*)	濰坊市工商行政 管理局 (Weifang Municipal Administration for Industry and Commerce*)	370700400007772	22 July 2010	9 July 2007 to 8 July 2057
9.	中華人民共和國外商投資企業 批准證書 (Certificate of Approval for Establishment of Enterprises with Foreign Investment in the PRC*)	山東省人民政府 (Shandong Provincial People's Government*)	商外資魯府濰字[2007] 0981號 (Shang Wai Zi Lu Fu Wei Zi [2007] No. 0981*)	20 July 2010	Valid, subject to annual review
10.	城市排水許可證 (Municipal Sewage Disposal Permit*)	諸城市市政管理局 (Zhucheng Municipal Affairs Administration*)	2009字第0008號 (2009 Zi No. 0008)	25 February 2009	25 February 2009 to 24 February 2014

*Note:* As advised by our PRC legal advisers, based upon the existing information and documents of our Group, there is no legal impediment to renew the permits.

## PROPERTIES

### Owned properties

As at the Latest Practicable Date, our Group owned three parcels of land with buildings erected thereon in the PRC. These three parcels of land have a total site area of approximately 106,180.53 sq. m. and the major buildings erected thereon with a total gross floor area of approximately 52,394.19 sq. m.. Our existing production lines and head office premises are currently housed in these buildings. In addition, our Group also owns the land use right of a parcel of land at Zhucheng, Shandong with a site area of approximately 30,798.00 sq. m. for our development. In addition to the above manufacturing sites, we own two residential apartments for senior staff dormitory purpose. Details of these owned properties are set out in the section headed “Group I — Properties held and occupied by our Group under various long-term title certificates in the PRC and valued on market value basis” in Appendix III to this prospectus.



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According to our PRC legal advisers, we have obtained all relevant approvals and title documents, including land use rights and building ownership certificates, of these parcels of land and buildings and own the full legal rights to use and assign these properties. The current usages of these properties are in compliance with the approved usages prescribed in the title documents. Our Board considers that these properties are crucial to our operations since all of our existing operational and production facilities are housed therein.

LCH (Asia-Pacific) Surveyors Limited, an independent Professional Surveyor, has reported and valued the property interests of our Group as at 31 August 2011. The texts of the letter, summary of values and the valuation certificate issued by LCH (Asia-Pacific) Surveyors Limited for this purpose are set out in Appendix III to this prospectus.

### **Leased properties**

We lease properties for use in our business operations.

As at the Latest Practicable Date, we rented four properties which were used as offices and workshop from independent third parties in the PRC with a total gross floor area of approximately 2,150.14 sq.m. and in Hong Kong with a total saleable area of approximately 264.03 sq.m.. LCH (Asia-Pacific) Surveyors Limited, an independent Professional Surveyor, has reported the property interests of our Group as at 31 August 2011. The texts of the letter, summary of values and the valuation certificates issued by LCH (Asia-Pacific) Surveyors Limited for this purpose are set out in Appendix III to this prospectus. Details of these leased properties are set out in the section headed “Group II — Properties occupied by the Group under an operating lease in Hong Kong” and “Group III — Properties occupied by the Group under various operating leases in the PRC” in Appendix III to this prospectus.

As to the three properties with a total gross area of approximately 2,150.14 sq.m. which we rented in the PRC, the landlords of such properties had not obtained building ownership certificates. Our Directors have decided not to renew such tenancy agreements upon their expiry, and our Directors also confirm that the lack of building ownership certificates will not have a material adverse impact on our results of operations given that these leased properties are not irreplaceable.

In addition, certain tenancy agreements in respect of the properties we rented in the PRC and used as factory, office and staff dormitory had not been registered with the relevant PRC authorities during the Track Record Period. As advised by our PRC legal adviser, the non-registration during the term of the tenancy would not affect the validity of the tenancy agreements. We will use our best endeavours to urge the landlords of other properties (details of which are set out in the section headed “Group III — Properties occupied by the Group under various operating leases in the PRC” in Appendix III to this prospectus) to attend to the required registration of the relevant tenancy agreements.

### COMPETITION

The fabric and innerwear products manufacturing business is highly competitive. Our Group faces competition from a significant number of domestic and foreign companies offering similar products, which include many companies with larger operating scale and which have stronger financial strengths and resources than our Group. The principal competitive factors that influence our customers' purchasing decision include product quality, price, and the provision of additional apparel-related services such as design, printing and embroidery, and product development services. Please also refer to the section headed "Industry overview — Competition in the OEM apparel industry in the PRC" of this prospectus for more details.

In view of this highly competitive environment, our Directors believe that it is crucial for us to develop and maintain long-term business relationships with our key customers, in particular, the sourcing agents and brand owners. Further, by leveraging on our vertically integrated operation, good relationship with our suppliers and existing customers, the expertise of our management team, and our constant effort in developing different kinds of functional fabrics and innerwear, we believe that we will be able to sustain and grow in the highly fragmented and competitive fabrics and knitwear manufacturing industry in China. Please refer to our competitive strengths as set forth in the paragraph headed "Competitive strengths" in this section for more details.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Share Offer (without taking into account the Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), Mr. Wong and Madam Hung Kin, through their interests in Global Wisdom, will become our Controlling Shareholders, holding in aggregate approximately 63.42% of the entire issued Shares of our Company.

### Independence from the Controlling Shareholders

As at the Latest Practicable Date, none of Global Wisdom, Mr. Wong or Madam Hung Kin was engaged, or interested, in any business which, directly or indirectly, competes or may compete with our business which is discloseable under Rule 8.10 of the Listing Rules. Our Directors believe that our Group is capable of carrying on our business independently of and does not place undue reliance on our Controlling Shareholders, taking into consideration the following factors:

- *Management independence*

Mr. Wong has been leading our operations and businesses, and responsible for overseeing the overall strategic development and soliciting business opportunities for our Group, while Madam Hung Kin oversees our Group's operations and has been involved in the management and operational decisions of our Group. Each of them has entered into a service agreement with our Company for a term of three years and is committed to devote substantially all of their time to our Group. Save as aforesaid, our Directors believe that our Group had not relied on our Controlling Shareholders or their associates to carry on our business during the Track Record Period.

Further, save for the related party transactions disclosed under note 37 to the Accountants' Report of our Company set out in Appendix I to this prospectus, there have been no business dealings between our Group and our Controlling Shareholders or their associates. Besides, our two other executive Directors, Mr. S.H. Wang and Mr. Wei, are experienced in the innerwear and fabrics manufacturing industry respectively. With their involvement and the assistance of our own senior management members, who have served our Company and/or our subsidiaries for a substantial period of time and are seasoned in the industry, our Directors are of the view that we do not rely on our Controlling Shareholders to access customers, suppliers and production facilities.

Having considered the above factors, and in light of the non-competition undertakings given by our Controlling Shareholders in favour of our Group (as more particularly disclosed in the paragraph headed "Non-competition undertakings" below), our Directors are satisfied that they are able to perform their roles in our Group independently and are of the view that they are capable of managing the business of our Group independently after the Listing.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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- *Administrative independence*

Save for Mr. Wong (being our chairman and an executive Director) leading the overall strategic development and Madam Hung Kin (being an executive Director) involving in the management and operational decisions of our Group, all essential management functions (such as financial and accounting management, invoicing and billing, research and development, human resources and information technology) have been and will be overseen by the other Directors and senior management of our Group (whose biographies are more particularly disclosed in the section headed “Directors, senior management and employees” of this prospectus), without unduly requiring the support of Mr. Wong and Madam Hung Kin or their respective associates.

In addition to Mr. Wong and Madam Hung Kin, our Board also comprises two other executive Directors and three independent non-executive Directors, who would take collective responsibility for the overall corporate strategies and policies making of our Group. Each of our Directors is aware of his or her fiduciary duties as a director of a listed issuer which require that, among other things, he or she acts in the best interests of our Group and does not allow any conflict between his or her duties as a Director and his or her personal interests. As stipulated under the Articles of Association, the interested Directors shall abstain from voting and not be counted in the quorum on any resolution of the Board in respect of any transaction or matter in which such Directors or their respective associates has any material interest.

Our Directors consider that our Group can operate independently from Mr. Wong and Madam Hung Kin and their associates.

- *Financial viability and independence*

Our Directors confirm that our Company has the ability to operate independently of Mr. Wong and Madam Hung Kin or their respective associates from the financial perspective. During the Track Record Period and up to the Latest Practicable Date, we had our own internal control and accounting system, accounting and finance department, treasury function for cash receipts and payments and access to third party financing. We make financial decisions according to our own business requirements.

During the Track Record Period, our Group obtained a loan from Madam Hung Kin. Such loan has been settled by us in full during the same period.

Our Directors confirm that as at the Latest Practicable Date, (i) all loans from/to our Controlling Shareholders and their associates to/from our Group had been repaid or settled in full, and (ii) all guarantee from our Controlling Shareholders will be released upon the Listing.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### Non-competition undertakings

Each of Mr. Wong and Madam Hung Kin has confirmed that, none of them is engaged in, or interested in any business which, directly or indirectly, competes or may compete with our business. In accordance with the non-competition undertakings (“**Non-Competition Undertakings**”) contained in the sale and purchase agreement dated 22 February 2011 and made between our Company as purchaser and Mr. Wong and Madam Hung Kin as vendors for the acquisition of the entire issued share capital in Grand Concord (HK) (being the material contract referred to in paragraph 9 of Appendix V to this prospectus), each of our Controlling Shareholders has undertaken, jointly and severally, that during the period in which any of them and their respective associates (including Global Wisdom), individually or taken as a whole, remains as a controlling shareholder (as defined under the Listing Rules) of our Company:

- (a) if there is any project or new business opportunity that relates to the business activities engaged by our Group from time to time, he or she shall within a reasonable period of time (and in any event not more than 15 days after such opportunity being aware of by the relevant Controlling Shareholders or his/her associates) refer such project or new business opportunity to us for consideration;
- (b) he/she will not, either on his/her own or on behalf of or as agent of any person, directly or indirectly invest or be employed or otherwise engage, be interested or participate (in any capacity), whether for reward or otherwise, in any project or business opportunity that competes or may compete, directly or indirectly, with the business activities (or any part of it) engaged by our Group from time to time;
- (c) he/she will procure his or her associates (excluding our Group) not to invest or participate in any project or business opportunity mentioned above, unless such project or business opportunity shall have been rejected by us in Board meeting(s) with participation of the independent non-executive Directors having been allowed a period of not less than seven days to consider the subject matters and without the attendance by any Directors with any direct or indirect interest in such project or business opportunity, in which resolutions have been duly passed by the majority of the independent non-executive Directors that our Company or relevant member of our Group has rejected such project or business opportunity and that the relevant associate(s) of our Controlling Shareholder(s) (excluding our Group) shall be entitled to accept or engage in such opportunities; and
- (d) he/she shall not and shall procure his or her associates not to directly or indirectly, engage or be employed or otherwise be interested in the business which is the same or similar to that carried on by our Group (otherwise than through our Group), whether for reward or otherwise.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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The Non-Competition Undertakings are conditional on (i) the Listing Committee granting listing of, and permission to deal in, all the Shares in issue and the new Shares to be issued pursuant the Share Offer and the Shares which may be issued upon the exercise of options that may be granted under the Share Option Scheme; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant as a result of the waiver of any condition(s) by the Underwriters) and that the Underwriting Agreements not being terminated in accordance with their terms or otherwise.

The Non-Competition Undertakings will cease to have effect on the earlier of the date on which: (a) our Controlling Shareholders and their respective associates (individually or taken as a whole) cease to own 30% or more of the then issued shares of our Company directly or indirectly or cease to be deemed as controlling shareholder of our Company (within the meaning ascribed to it under the Listing Rules from time to time) and do not have power to control the Board and there is at least one other independent Shareholder holding more Shares than our Controlling Shareholders and their associates taken together; or (b) the Shares cease to be listed on the Stock Exchange.

In addition, each of Mr. Wong and Madam Hung Kin has undertaken under the Non-Competition Undertakings that he or she shall provide to our Company and/or our Directors (including the independent non-executive Directors) from time to time all information necessary for annual review by the independent non-executive Directors with regard to compliance of the terms of the Non-Competition Undertakings. Each of Mr. Wong and Madam Hung Kin has also undertaken to issue an annual confirmation to us on compliance with the terms of the Non-Competition Undertaking and consenting to the disclosure of such confirmation in the annual reports of our Company. Such disclosure is in line with the recommendation of making voluntary disclosures (especially regarding the internal controls of our Group) in the corporate governance report section of annual report, as set out in Appendix 23 to the Listing Rules.

### CORPORATE GOVERNANCE

We are committed to the view that our Board should include a balanced composition of executive and non-executive Directors (including the independent non-executive Directors) so that there is a strong element on the Board which can effectively exercise independent judgment. We are also committed to the view that our independent non-executive Directors should be of sufficient caliber and number for their views to carry weight. Our independent non-executive Directors, details of whom are set forth in the section headed “Directors, senior management and employees” of this prospectus, are free of any business or other relationships with our Group which could interfere in any material manner with the exercise of their independent judgment.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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Our Company will adopt the following measures in respect of the enforceability of the Non-Competition Undertakings and to strengthen our corporate governance practice to safeguard the interests of our Shareholders:

- the Articles of Association provide that any interested Directors shall abstain from voting and not be counted in the quorum on any resolution of the Board in respect of any transaction or matter in which such Directors or their respective associates has any material interest. In the event that any of our Directors is required to abstain from participating in any relevant Board meetings as aforesaid, the other executive and independent non-executive Directors will maintain the effective functioning of the Board by leveraging on their collective expertise and business acumen;
- our independent non-executive Directors will review, on an annual basis, the compliance with the Non-Competition Undertakings by our Controlling Shareholders and to evaluate the effective implementation of the Non-Competition Undertakings;
- we will disclose decisions on matters reviewed by our independent non-executive Directors relating to the enforcement of the Non-Competition Undertakings (if any) in our annual report(s) or, where the Board considers it appropriate, by way of an announcement; and
- our Company shall disclose in the corporate governance report of its annual reports on how the terms of the Non-Competition Undertakings are complied with and enforced.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### DIRECTORS

Our Board consists of seven members, four of whom are executive Directors and three of whom are independent non-executive Directors. The table below shows certain information in respect of our Directors:

Name	Age	Position	Principal responsibilities	Appointment date of Director
Mr. WONG Kin Ling	57	Chairman and executive Director	Overall corporate strategies, planning, management and business development of our Group	8 December 2010
Madam HUNG Kin	57	Executive Director	Management and making operation decisions for our Group	8 December 2010
Mr. WANG Shao Hua	44	Executive Director	Overseeing the innerwear business of our Group	15 August 2011
Mr. WEI Jin Long	40	Executive Director	Overseeing the fabrics business of our Group	15 August 2011
Mr. WANG Jin Tang	53	Independent non-executive Director	Overseeing management independently	15 August 2011
Ms. TAY Sheve Li	39	Independent non-executive Director	Overseeing management independently	15 August 2011
Dr. CHAN Ah Pun	36	Independent non-executive Director	Overseeing management independently	15 August 2011

### Executive Directors

**Mr. WONG Kin Ling (王健陵)** is the co-founder of our Group. Mr. Wong was initially appointed as a Director of our Company on 8 December 2010 and was subsequently designated as an executive Director on 19 August 2011. He is the spouse of our executive Director, Madam HUNG Kin. Mr. Wong is primarily responsible for the overall corporate strategies, planning, management and business development of our Group. Mr. Wong has been the chairman of Zhucheng Eternal Knitting, Zhucheng Yumin Knitting and Shandong Grand Concord since their establishment, overseeing their overall strategic development, soliciting business opportunities, having regular meetings with senior management and staff and conducting site visits at the production factories so as to keep close track with the said companies' latest development. Mr. Wong accrued over 10 years of experience in the manufacturing and trading operations of the



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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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knitted fabrics and knitwear industries. Prior to establishing our Group, Mr. Wong had worked in Nanjing City 2nd Steel Plant (南京市第二鋼鐵廠), a state-owned entity, from 1970 to 1987, and the China & South Sea Bank (中南銀行) in Hong Kong from 1987 to 1989.

Mr. Wong is a committee member of the 11th Session of the Chinese People's Political Consultative Conference in Weifang, Shandong (中國人民政治協商會議山東省濰坊市第十一屆委員會委員). Mr. Wong was awarded as one of the "Ten Best Committee Members" by the Committee of the Communist Party of China in Zhucheng, Shandong (中共諸城市委) in 2009, and is also an Honorary Citizen of Zhucheng, Shandong, PRC (諸城榮譽市民). He was appointed the vice president and the standing member of the Knitwear Exporting Enterprises Branch of the Shandong International Trade Federation (山東省國際貿易聯合會針織品出口企業分會) in 2008. He was honoured as an Excellent Textile Entrepreneur of Shandong Province under the Eleventh Five-Year Plan ("十一五"山東紡織優秀創業企業家) and a Model Worker of Zhucheng City (諸城市勞動模範) in 2011.

**Madam HUNG Kin (洪建)** is the co-founder of our Group. Madam Hung was initially appointed as a Director of our Company on 8 December 2010 and was subsequently designated as executive Director on 19 August 2011. She is the spouse of our chairman and executive Director, Mr. Wong. Madam Hung has been the director of Zhucheng Eternal Knitting, Zhucheng Yumin Knitting and Shandong Grand Concord since their establishment. Madam Hung is primarily responsible for the daily management and operations of our Group, including financial management and accounting matters. Madam Hung obtained certificates in statistics (統計專業單科合格證書) between 1985 to 1988 by attending Jiangsu Provincial Self-Learning Higher Education Examinations (江蘇省高等教育自學考試) organised by Jiangsu Provincial Education Examination Authority (江蘇省教育考試院). Madam Hung was an officer at Xuzhou Ice Factory (徐州冰廠) from 1970 to 1977, and an industrial statistician at the Xuzhou City Statistics Bureau (徐州市統計局) from 1978 to 1982.

**Mr. WANG Shao Hua (王韶華)** is our executive Director. Mr. Wang was initially appointed as a Director of our Company on 15 August 2011 and was subsequently designated as an executive Director on 19 August 2011. Mr. S.H. Wang has over 20 years of experience in the knitting industry. He has been the general manager of Zhucheng Eternal Knitting since 26 May 2004 and was also appointed as its director on 2 December 2009. He is also a director of Zhucheng Yumin Knitting since 10 November 2004 and a director of Shandong Grand Concord since its establishment on 9 July 2007. Prior to his joining our Group, Mr. S.H. Wang assumed various positions at Shandong Lanfeng Knitting Group Co. Ltd. (山東蘭鳳針織集團) including deputy general manager, director and the general manager in charge of import and export and enterprise management functions from 1987 to 2004.

Mr. S.H. Wang graduated from Shandong Textile Industry School (山東省紡織工業學校) and obtained his junior college degree in textile (針織專業大學專科) in July 1987. He completed the part-time course in Shandong Provincial Party School of the Communist Party of China (中共山東省委黨校) during September 1993 to June 1996 in economic management and obtained his certificate.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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**Mr. WEI Jin Long (衛金龍)** is our executive Director. Mr. Wei was initially appointed as a Director of our Company on 15 August 2011 and was subsequently designated as an executive Director on 19 August 2011. In addition to his directorship with our Company, he has also been the general manager of Zhucheng Yumin Knitting since 1 April 2009. Prior to his joining our Group, he was a deputy general manager of a company in the PRC principally engaged in trading of fabrics and garment from January 2007 to March 2009. Mr. Wei also has over eight years of experience in the knitting and dyeing industry, and has engaged in the production, management and sales process of such industry. Mr. Wei obtained his certificate in business administration from Xi'an University of Science and Technology (西安電子科技大學) in 2011 through distance learning.

Each of the executive Directors has entered into a service contract with our Company for a period of three years commencing from the Listing Date. Under such contract, each Director will receive a fixed monthly salary and may receive a discretionary bonus. Further details of the terms of the service contracts of the executive Directors are set out under the paragraph headed "Particulars of service contracts" in Appendix V to this prospectus.

### Independent non-executive Directors

**Mr. WANG Jin Tang (王金堂)** is our independent non-executive Director. Mr. Wang was initially appointed as a Director of our Company on 15 August 2011 and was subsequently designated as an independent non-executive Director on 19 August 2011. He is currently the vice president of the People's Political Consultative Conference (政治協商會議) of Zhucheng City. Mr. Wang Jin Tang has over 20 years of experience in accounting and finance. He obtained bachelor's degree in economic management from the Shandong Provincial School of the Chinese Communist Party (中共山東省委黨校) in 1998 and has thereafter obtained the qualification as a senior accountant in 2002. In May 2001 he was appointed as the president in the Finance Bureau of Zhucheng City (諸城市財政局). Prior to this, he worked as the vice president of the Finance Bureau of Zhucheng City and the president of the State-owned Assets Administration Bureau of Zhucheng City (諸城市國有資產管理局) starting from 1990 and 1995 respectively. Mr. Wang Jin Tang was awarded as an national advanced individual of technological work (county/city level) (全國縣(市)科技進步工作先進個人) by Ministry of Science and Technology (科學技術部) in 2008, and he was also a representative in the 14th and 15th People's Conference of Zhucheng City (諸城市人大代表).

**Ms. TAY Sheve Li (鄭雪莉)** is our independent non-executive Director. Ms. Tay was initially appointed as a Director of our Company on 15 August 2011 and was subsequently designated as an independent non-executive Director on 19 August 2011. She was the president of finance and capital management department in Centron Telecom International Holding Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1155), from October 2010 to June 2011. Ms. Tay has over 13 years of experience in accounting and auditing. She worked at Ernst & Young as a senior manager in audit assurance from November 1997 to September 2007 and as a senior manager in finance from October 2007 to September 2010. Ms. Tay has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants and the fellow of Association of Chartered Certified Accountants since 2002. She graduated from the University of Strathclyde, United Kingdom, in 1994 with a bachelor's degree in arts. In 2004, she obtained a master's degree in applied finance from University of Western Sydney.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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**Dr. CHAN Ah Pun (陳亞彬)** is our independent non-executive Director. Mr. Chan was initially appointed as a Director of our Company on 15 August 2011 and was subsequently designated as an independent non-executive Director on 19 August 2011. He has been the executive director of Miracle International Corporation Limited (“**Miracle**”) since 2009. From 2006 to 2009, Dr. Chan was the operations manager of ACE Style Intimate Apparel Limited, a company engaging in the business of underwear manufacturing, where Dr. Chan was responsible for its budget, production planning, process and quality control, as well as its production and quality assurance management. From 2005 to 2006, he was the production manager of Tavistock Springs (HK) Limited, where he was responsible for production management and monitoring the business of bra pad molding. Dr. Chan was a visiting lecturer of apparel technology at the Hong Kong Polytechnic University from 2009 to 2011. He obtained a Ph.D. in 2005, with research areas in garment fitting and pattern fitting, and a first class honours bachelor’s degree in clothing studies in 2000, both from the Hong Kong Polytechnic University. Dr. Chan was also a co-author for a number of academic journals in the area of clothing science and technology.

Based on the information provided by Dr. Chan, Miracle is solely owned by Dr. Chan and is mainly engaged in the trading of bras and swimwear in Europe. Miracle has not had any business dealings with our Group. As the products that Miracle currently trades are different from the products of our Group, Dr. Chan is not considered to be interested in a business which is likely to compete with our business.

Our Company has invited Dr. Chan to be our independent non-executive Director in the belief that his experience and academic pursuit in the garment industry will provide our Board with insight in strategic planning and positioning of our Group. As an independent non-executive Director, Dr. Chan will not be involved in the day-to-day operations and management of our Group.

Save as disclosed above, each of our Directors (i) did not hold other positions in our Company or other members of our Group as at the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management or substantial or Controlling Shareholders of our Company as at the Latest Practicable Date; and (iii) did not hold any other directorships in listed public companies in the three years prior to the Latest Practicable Date. As at the Latest Practicable Date, save as disclosed in the paragraph headed “Interest discloseable under the SFO and substantial Shareholders” and the paragraph headed “Further information about Directors, management and staff and experts” in Appendix V to this prospectus, each of our Directors did not have any interest in the Shares within the meaning of Part XV of the SFO.

Each of our Directors has confirmed that he/she does not have any interest in a business apart from ours which competes or is likely to compete, directly or indirectly, with us which is discloseable under Rule 8.10 of the Listing Rules.

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

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### SENIOR MANAGEMENT

Our senior management comprises our executive Directors and the following persons:

Name	Age	Position
Mr. LEE Yin Sing	31	Chief Financial Officer and Company Secretary
Mr. LIU Xin De	45	Director and manager of Zhucheng Eternal Knitting, director of Zhucheng Yumin Knitting and supervisor of Shandong Grand Concord
Ms. JI Tai Mei	41	Deputy general manager of Zhucheng Eternal Knitting
Ms. ZHOU Li	38	Deputy general manager of Zhucheng Eternal Knitting

**Mr. Lee Yin Sing (李彥昇)** is our Chief Financial Officer and Company Secretary. Mr. Lee is responsible for overseeing our Group's financial planning and management. Mr. Lee has over eight years of experience in finance control and accounting through his prior employments. He acquired auditing experience through his prior employment with an audit firm of international repute from 2002 to 2007. Prior to joining our Group as its chief financial officer in August 2010, he worked as the financial manager of Proview International Holdings Limited, a company listed on the Stock Exchange (stock code: 334), in 2009 during which he acquired experience in finance control, accounting and company secretarial matters. In 2008, he served as the consultant in Convoy Financial Services Ltd., a subsidiary of Convoy Financial Services Holdings Limited, a company listed on the Stock Exchange (stock code: 1019), and was responsible for providing financial advice to clients. Mr. Lee graduated from the City University of Hong Kong in 2002 with a bachelor's degree in accounting. He has been a member of the Hong Kong Institute of Certified Public Accountants since 2008.

**Mr. LIU Xin De (劉心德)** is a director of Zhucheng Eternal Knitting and Zhucheng Yumin Knitting. He joined Zhucheng Eternal Knitting in March 2001 as merchandiser and was promoted as an office manager in June 2003. He was also appointed in November 2004 as the deputy general manager of Zhucheng Yumin Knitting in charge of equipment administration. In April 2006, he was promoted as a director of Zhucheng Yumin Knitting. Further, in December 2009, he was also appointed as director of Zhucheng Eternal Knitting. Mr. Liu obtained his bachelor's degree in national economic management from Shandong University (山東大學) in July 1989.

**Ms. JI Tai Mei (季太梅)** is the deputy general manager in charge of product management of Zhucheng Eternal Knitting. Prior to her appointment as the deputy general manager in April 2010, she served as the head of product planning department and concurrently as the assistant of general manager of Zhucheng Eternal Knitting from June 2004 until April 2010. Prior to joining our Group, she worked for Shandong Lanfeng Knitting Group Co. Ltd. (山東蘭鳳針織集團) from September 1989 to May 2004 and assumed the position of manager of the garment workshop from July 1999. Ms. Ji obtained her junior college degree in accounting from Shandong TV University (山東廣播電視大學) in July 1994.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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**Ms. ZHOU Li (周麗)** is the deputy general manager of Zhucheng Eternal Knitting. Prior to her appointment as the deputy general manager in April 2010, she served as the sales manager of Zhucheng Eternal Knitting since 26 December 2005 and was also appointed as assistant of general manager of Zhucheng Eternal Knitting on 15 August 2007. Before her engagement with our Group, she worked for Shandong Lanfeng Knitting Group Co. Ltd. (山東蘭鳳針織集團) from August 1992 to October 2005 and was the deputy general manager of import and export department before she left the same. Ms. Zhou graduated from Shandong Textile Industry School (山東省紡織工業學校) and obtained her degree of secondary vocational school diploma in textile on July 1992. She also obtained junior college degree in economic management (經濟管理大學專科) after completing the 3-year distance learning course from Shandong Cadres Correspondence College (山東省幹部函授大學) in June 1996.

### COMPANY SECRETARY

Mr. Lee Yin Sing (李彥昇) was appointed as our Company Secretary on 19 August 2011. For details of Mr. Lee's background, please refer to the paragraph headed "Senior management" in this section above.

### AUDIT COMMITTEE

We established an audit committee on 19 August 2011 in compliance with Rules 3.21 and 3.23 of the Listing Rules. The audit committee consists of three independent non-executive Directors, namely Mr. Wang Jin Tang, Ms. Tay Sheve Li and Dr. Chan Ah Pun. Ms. Tay Sheve Li is the chairman of the audit committee. The primary duties of the audit committee are to review and supervise the financial reporting process and the internal control procedures of our Group.

### REMUNERATION COMMITTEE

We established a remuneration committee on 19 August 2011 in compliance with Appendix 14 to the Listing Rules. The remuneration committee consists of four members, namely Mr. Wong Kin Ling, Mr. Wang Jin Tang, Ms. Tay Sheve Li and Dr. Chan Ah Pun. Mr. Wang Jin Tang is the chairman of the remuneration committee. The primary duties of the remuneration committee are to make recommendations to our Board on the remuneration of our Directors and senior management and determine on behalf of the Board specific remuneration packages and conditions of employment for our Directors and senior management. The remuneration policy of our Directors and senior management both before and after the Listing is and will continue to be determined based on their seniority, qualification and contribution to our Group, having regard to our Group's operating results and comparable market benchmark. After the Listing, the exact percentage of increase will be considered and recommended by our remuneration committee (comprised of independent non-executive Directors in majority) to our Board for consideration, while the relevant Director has to abstain from voting in relation to the resolution for considering his own pay rise. Furthermore, such percentage of increase will be subject to the limit imposed under the respective service contract entered into between the executive Directors and our Company.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### STAFF

As at the Latest Practicable Date, we had 1,453 full-time staff in the PRC and 8 full-time staff in Hong Kong. The following sets forth the total number of our staff by responsibilities:

	<b>Total number</b>
Production	1,097
Quality Control	52
Product development and chemical testing	69
Management & administration	52
Sales and marketing	33
Finance & accounting	29
Others <sup>(Note)</sup>	129
	<hr/>
<b>Total</b>	<b>1,461</b>

*Note:* Others comprise security guards, drivers, technicians, canteen and dormitory staff, warehouse staff, etc.

### Relationships with our employees

Since our inception in 2000, we have not experienced any significant problems with our employees or disruptions to our operations due to labour disputes, nor have we experienced any difficulties in the recruitment and retention of experienced employees. We believe we have a good working relationship with our employees.

### Compensation

Compensation of our employees primarily includes salaries, discretionary bonus, contributions to social insurance and retirement benefit scheme. During the Track Record Period, our Group incurred staff costs (including Directors' remuneration) of approximately RMB23.6 million, RMB28.8 million, RMB44.7 million and RMB31.6 million respectively, representing approximately 17.3%, 14.8%, 11.8% and 22.5% of our Group's revenue for the respective periods.

The aggregate amount of remuneration paid by us to our Directors, including salaries, contributions to retirement benefit plans and discretionary bonuses, during the Track Record Period was approximately RMB266,000, RMB262,000, RMB260,000 and RMB321,000 respectively.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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The five individuals whose emoluments were the highest in our Group included two Directors for each of the three years ended 31 December 2008, 2009 and 2010 and one Director for the six months ended 30 June 2011, respectively. The aggregate amount of emoluments payable to the other three highest paid individuals for each of the three years ended 31 December 2010 and the other four highest paid individuals for the six months ended 30 June 2011 (who are not Directors), including salaries, contributions to retirement benefit plans and discretionary bonuses, during the Track Record Period was approximately RMB144,000, RMB272,000, RMB1,920,000 and RMB1,647,000 respectively.

We have not paid any remuneration to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the Track Record Period. None of our Directors has waived or agreed to waive any remuneration during the same period.

Save as disclosed above, no other payments have been made or are payable by us or any of our subsidiaries to our Directors in respect of the Track Record Period. Under the arrangements currently in force, we estimate that we will pay an aggregate amount of approximately RMB8.9 million to our Directors as remuneration in respect of the year ending 31 December 2011, excluding any discretionary bonuses which may be paid to our Directors.

### Other benefits

Our employees in the PRC participate in various social security plans enacted in China, which cover pension, medical and other welfare benefits, such as insurance premiums paid pursuant to 《中華人民共和國社會保險法》(Social Insurance Law of the PRC\*) which took effect on 1 July 2011; 《工傷保險條例》(Regulation on Work-Related Injury Insurances\*) which took effect on 1 January 2004; 《企業職工生育保險試行辦法》(Trial Measures for Maternity Insurance for Enterprise Workers\*) which took effect on 1 January 1995. We are required to make contributions to the plans based on a percentage of the monthly compensation of employees, subject to a certain ceiling, and are paid to the respective labour and social welfare authorities in accordance with the applicable PRC rules and regulations, such as 《住房公積金管理條例》(Administration Rules of the Housing Provident Fund\*). The local government is responsible for the planning, management and supervision of the scheme, including collecting and investing the contributions, and paying out the pension to the retired employees.

We obtained confirmations from 諸城市人力資源和社會保障局 (Zhucheng Human Resources and Social Security Bureau\*) (“**Social Security Bureau**”) on 18 February 2011, 6 April 2011 and 18 July 2011 respectively that our PRC subsidiaries have strictly complied with the national and local laws and regulations on social insurance, have paid the social insurance in full and on time for all employees who declared to join the social insurance since their respective establishment and up to the date of confirmations, and did not have any outstanding payment, penalty, disagreement, dispute and litigation with the Social Security Bureau regarding the social insurance. The Social Security Bureau has acknowledged its awareness that our PRC subsidiaries have not fully contributed to the social insurance for those employees who did not agree to make the contributions and there was no intention of our PRC subsidiaries to evade their respective liability, and has further confirmed its acceptance of the reason therefor as

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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submitted by our PRC subsidiaries. As such, as confirmed by the Social Security Bureau, it will not demand our PRC subsidiaries to make up the shortfall contributions or penalise our PRC subsidiaries.

We also obtained confirmations from 諸城市住房資金管理局 (Zhucheng Housing Provident Fund Management Bureau\*) (“**Housing Provident Fund Bureau**”) on 7 March 2011 and 26 July 2011 respectively that the contribution to housing provident fund is not mandatory in Zhucheng. Our respective PRC subsidiaries have no mandatory obligation to make such contribution for our employees and have not been requested to make any contribution or been penalised. The Housing Provident Fund Bureau has further confirmed that there was no dispute on our respective PRC subsidiaries’ contribution and there will not be any penalty on them. The Housing Provident Fund Bureau has also confirmed that our Group did not have any outstanding payment, penalty, disagreement, dispute and litigation with it.

Our PRC legal advisers have reviewed the abovementioned confirmations from the respective Bureaus and confirmed that each of aforementioned Bureaus had proper authority to issue such confirmations. Based on such confirmations, our PRC legal advisers also advised that our Group had paid sufficient social insurance and housing provident fund respectively since the establishment of the relevant PRC subsidiaries and up to the date of the confirmations, and that our Group did not have any outstanding payment, penalty, disagreement, dispute and litigation with the Bureaus regarding social insurance and housing provident fund.

Although pursuant to 《中華人民共和國勞動法》 (Labour Law of the PRC\*) and 《中華人民共和國社會保險法》 (Social Insurance Law of the PRC\*), the administrative department of labour security or the relevant tax department has the authority to demand the paying party for payment of any outstanding or shortfall social insurance contributions within a specified period of time, to levy penalty on such outstanding or shortfall contributions and to apply to court for an order for mandatory payment, based on the abovementioned confirmations issued by the Social Security Bureau, our PRC legal advisers advised that it is very improbable that the Social Security Bureau will penalise our PRC subsidiaries for the shortfall in the social insurance contributions. Our PRC legal advisers have also advised that the Social Security Bureau will not investigate any violation of labour protection laws, regulations or rules of behaviour after the lapse of two years of such violation.

It is estimated that the shortfall in the contribution of social insurance amounted to approximately RMB2,100,000, RMB3,316,000, RMB4,532,000 and RMB2,585,000 respectively, and the shortfall in the contribution of housing provident fund amounted to approximately RMB562,000, RMB827,000, RMB1,195,000 and RMB705,000 respectively, during the Track Record Period. As the relevant Bureaus have confirmed that there was no outstanding payment, penalty, disagreement, dispute and litigation from and with our Group, the amount of shortfall were not provided for in the consolidated financial statements of our Group during the Track Record Period.



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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Despite obtaining the aforementioned confirmations and legal advice, we cannot rule out the possibility of the PRC government authorities of a higher level taking enforcement actions against us in the future. In the event of any enforcement actions being taken against us, we could be demanded to effect payment of the outstanding contributions by a stipulated deadline and could face court proceedings if we fail to comply with the demand, which might affect our financial performance. As advised by our PRC legal advisers, if we are so demanded by the relevant Bureaus, for social insurance, we will be subject to a daily fine of 0.05% commencing from the defaulting date for any shortfall in contribution (and if such shortfall and fine are not paid within the stipulated deadline, an additional fine amounting to one to three times of the shortfall will be levied), and for housing provident fund, if we fail to meet the demand within the stipulated deadline, we will be subject to a lump sum fine of RMB10,000 to RMB50,000 for any shortfall in contribution. As at the Latest Practicable Date, we had not received any notification from the relevant Bureaus alleging that we had not fully contributed to the social insurance or the housing provident fund and demanding payment of the same before a stipulated deadline. In the event we receive such notification, we undertake to pay the relevant contributions before the stipulated deadline to ensure we will not be subject to the aforementioned fines.

In the interests of our Group, our Controlling Shareholders have agreed to indemnify our Group, among other things, for any costs, expenses, losses and damages which any member of our Group may suffer as a result of or in connection with any outstanding contributions to social insurance and housing provident fund, claims, potential penalties and fines which might be payable by any member of our Group as a result of or in connection with our PRC subsidiaries' failure to register and/or to contribute to the social insurance and housing provident fund on or before the Listing Date.

As confirmed by our Directors, our Group will discuss with, register and make contributions for our employees who did not agree to make contributions, in order to ensure that all our employees fully comply with the social insurance and housing provident fund requirements under the PRC laws and regulations before the end of November 2011. We will liaise with the relevant Bureaus for such registration and contributions and will also keep in contact with the relevant Bureaus to understand the latest legal requirements on the same.

We participate in a provident fund scheme registered under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all of our employees in Hong Kong. Contributions from us are made based on a percentage of the employees' basic salaries, subject to the statutory maximum.

Save as disclosed above, during the Track Record Period, our Group complied with all applicable laws and regulations in relation to the social security and retirement contribution in the jurisdictions where we operate.

### **PRC labour contract law**

《中華人民共和國勞動合同法》(Labour Contract Law of the PRC\*) (“**Labour Contract Law**”) of the PRC, which took effect on 1 January 2008, stipulates certain requirements in relation to, among others things, the signing of labour contracts between enterprises and

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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employees, dissolving labour contracts, the payment of remuneration and compensation as well as the employee social security. In addition, the Labour Contract Law requires employers to provide remuneration packages which are not lower than the respective local minimum standards.

Our Directors consider that the implementation of the Labour Contract Law has not given rise to any material and adverse impact on the operations and businesses of our Group as the remuneration package we offered to our staff is in general higher than the respective minimum standards prescribed by the local authorities and the terms of the labour contracts we entered into with our employees are on terms no less favourable than those prescribed by the Labour Contract Law.

Our Directors confirm that we had complied with all relevant requirements in relation to human resources management under the Labour Contract Law during the Track Record Period.

### Share Option Scheme

We have conditionally adopted the Share Option Scheme whereby selected classes of participants (as more particularly described in Appendix V to this prospectus) may be granted options to subscribe for Shares at the discretion of the Board. The principal terms of the Share Option Scheme are summarised under the paragraph headed “Share Option Scheme” in Appendix V to this prospectus.

### COMPLIANCE ADVISER

We will appoint Celestial Capital as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated including shares issues and shares repurchases;
- where we propose to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

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## SUBSTANTIAL SHAREHOLDERS

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So far as is known to our Directors, immediately following completion of the Share Offer (but without taking into account of any Shares which may be taken up under the Share Offer or any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), the following persons will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to us 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 nominal value of any class of shares carrying rights to vote in all circumstances at general meetings of our Company:

Name	Capacity	Class and number of securities <i>(Note 1)</i>	Approximate percentage of shareholding
Global Wisdom	Beneficial owner <i>(Note 2)</i>	241,000,000 Shares (L)	63.42%
Mr. Wong	Interest of controlled corporation <i>(Note 2)</i>	241,000,000 Shares (L)	63.42%
Madam HUNG Kin	Interest of controlled corporation <i>(Note 2)</i>	241,000,000 Shares (L)	63.42%
Mr. Wei	Beneficial owner	24,000,000 Shares (L)	6.31%

*Notes:*

- (1) The letter “L” denotes the entity/person’s long position in the Shares.
- (2) All the issued shares in Global Wisdom is solely and beneficially owned by Mr. Wong and Madam Hung Kin, who are spouses, in equal shares. Accordingly, each of Mr. Wong and Madam Hung Kin is deemed under the SFO to be interested in all the Shares held by Global Wisdom on the Listing Date.

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## SUBSTANTIAL SHAREHOLDERS

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### RESTRICTIONS ON DISPOSAL OF SHARES

Pursuant to Rule 10.07(1) of the Listing Rules, our Controlling Shareholders have undertaken to our Company, the Stock Exchange, the Sponsor and the Lead Manager (for itself and on behalf of the Underwriters) that, save as pursuant to the Share Offer, they will not and will procure the relevant registered holder not to:

- (i) in the period commencing from the date of this prospectus and ending on the date which is six months from the Listing Date (“**First Six-Month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares (or any interest therein) in respect of which they are shown in this prospectus to be the beneficial owner immediately after completion of the Share Offer; and
- (ii) in the period of six months commencing on the date falling the expiration of the First Six-Month Period, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, the Shares (or any interest therein) in respect of which they are shown in this prospectus to be the beneficial owner if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, taken as a whole would cease to be our Controlling Shareholders.

Pursuant to note 3 to Rule 10.07(2) of the Listing Rules, our Controlling Shareholders have also undertaken to our Company and the Stock Exchange that, within 12 months from the Listing Date, they will:

- (i) when they or the registered owner pledge or charge any securities or interests in the securities of our Company beneficially owned by them, whether directly or indirectly, in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform our Company of such pledge or charge together with the number of securities so pledged or charged; and
- (ii) when they receive indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be disposed of, immediately inform our Company of such indications.

Our Company will inform the Stock Exchange as soon as practicable after it has been informed of the matters referred to in (i) or (ii) above by our Controlling Shareholders and disclose such matters by way of an announcement in compliance with the Listing Rules.

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## SHARES

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### AUTHORISED AND ISSUED SHARES

The following table is prepared on the basis that the Share Offer becomes unconditional and does not take into account Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme.

*Authorised Shares:*

1,000,000,000 Shares

*Shares in issue or to be issued, paid-up or credited as fully paid:*

300,000,000 Shares in issue

80,000,000 new Shares to be issued pursuant to the Share Offer

380,000,000 Shares

### Ranking

The new Shares to be issued pursuant to the Share Offer will rank pari passu in all respects with all Shares in issue and/or to be allotted and issued and will qualify for all dividends or other distributions hereafter declared, paid or made on our Shares on or after the date on which they are issued.

### GENERAL MANDATE GIVEN TO OUR DIRECTORS TO ISSUE NEW SHARES

Subject to the Share Offer becoming unconditional, a general unconditional mandate has been granted to our Directors to allot, issue and deal with Shares of not more than the sum of:

- 20% of the number of Shares in issue immediately following completion of the Share Offer (excluding the Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme), and
- the number of Shares repurchased by our Company under the authority referred to under the paragraph headed “General mandate given to our Directors to repurchase our Shares” in this section below.

This mandate does not apply to situations where our Directors allot, issue or deal with the Shares under a rights issue, scrip dividend schemes or similar arrangements providing for the allotment and issue of the Shares in lieu of the whole or part of a dividend in accordance with the Articles or pursuant to the exercise of any subscription or conversion rights attaching to any warrants or any securities which are convertible into Shares or in issue prior to the date of the passing of the relevant resolution, or the Shares to be issued upon the exercise of options to be granted under the Share Option Scheme.

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## SHARES

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This mandate will expire:

- at the conclusion of our Company's next annual general meeting; or
- at the date by which our Company is required by any applicable laws or the Articles to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

Particulars of this general mandate are set forth under the paragraph headed "Resolutions in writing of all the Shareholders passed on 19 August 2011 and 8 November 2011" in Appendix V to this prospectus.

### **GENERAL MANDATE GIVEN TO OUR DIRECTORS TO REPURCHASE OUR SHARES**

Subject to the Share Offer becoming unconditional, a general unconditional mandate has been granted to our Directors to exercise all the powers of our Company to repurchase Shares of up to 10% of the number of Shares in issue immediately following completion of Share Offer (excluding the Shares which may be issued pursuant to the exercise of options that may be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Main Board, or on any other stock exchange on which our Shares are listed (and which are recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules are set forth under the paragraph headed "Repurchase by our Company of our own securities" in Appendix V to this prospectus.

This mandate will expire:

- at the conclusion of our Company's next annual general meeting; or
- at the date by which our Company is required by any applicable laws or the Articles to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

Particulars of this general mandate are set forth under the paragraph headed "Resolutions in writing of all the Shareholders passed on 19 August 2011 and 8 November 2011" in Appendix V to this prospectus.

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## FINANCIAL INFORMATION

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*You should read this section in conjunction with our audited consolidated financial statements, including the notes thereto, as set forth in the Accountants' Report in Appendix I to this prospectus. We have prepared the audited consolidated financial information on the basis set out in Section B of Appendix I and in accordance with HKFRSs.*

*This section contains certain forward-looking statements relating to our plans, objectives, expectations and intentions, which involve risks and uncertainties. For such risks and uncertainties, please refer to the section headed "Risk factors" of this prospectus.*

### OVERVIEW

We are a functional fabric and innerwear manufacturer established in the PRC, offering various types of functional fabrics and innerwear for infants, toddlers as well as adults. We manufacture functional and customised fabrics for major lingerie and apparel brands including *Triumph*, *Wacoal*, *Embry Form*, *Maniform* (曼妮芬), *Aimer* (愛慕), *Miiow* (猫人) (previously known as *Maoren*), *Sunlaura* (桑扶蘭) and *VANCL* (凡客誠品), and innerwear products on an OEM basis for major apparel brands including *Outdoor*, *Ito-Yokado* (伊藤洋華堂), *Pigeon*, *Lee*, *Puma*, *DKNY*, *Carter's* and *Orsay*. Our products are mainly sold to (i) the sourcing agents, who then resell to the renowned apparel brands; (ii) the wholesaler, who then resell to retail shops and department stores; and (iii) brand owners directly. To the best of the knowledge of our Directors, we are not aware of any relationship (apart from the normal business relationship) between the brand owners and their respective sourcing agents as well as between the wholesaler and its end customers.

We have established a business model integrated fabric weaving and knitting; dyeing and finishing; printing; and innerwear cutting and sewing in one stop, and therefore are able to offer our customers with greater flexibility in the textile supply chain.

Our fabrics feature a variety of colours and patterns, and by combining different cotton counts, fibre mixture and knitting methods, they meet different specifications and functional requirements set by our customers. We make use of functional and chemical fibres, i.e. yarns having special functions such as temperature regulation or moisture absorption available in the market to produce fabrics with such functions. In addition, we also use our own fabrics in the manufacture of innerwear products, with a growing focus on utilising our functional fabrics for innerwear.

Based on the confirmations given by the sourcing agents, our fabrics and innerwear products sold to them are used by relevant brand owners they represent. For our innerwear products, they were labelled or packed with the packaging materials bearing the names and/or logos of the relevant brand owners provided by the respective sourcing agents or brand owners.

Our production facilities are based in Zhucheng, Shandong, PRC with an aggregate gross floor area of more than 52,000 sq.m. as at the Latest Practicable Date. Equipped with the modern production facilities, as at the Latest Practicable Date, our annual production capacity

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## FINANCIAL INFORMATION

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of innerwear was approximately 18.6 million pieces and our annual fabric weaving and knitting, dyeing and finishing, and printing capacity were approximately 1,200 tons, 4,000 tons and 650 tons respectively.

### **BASIS OF PRESENTATION OF FINANCIAL INFORMATION**

In preparation of the Listing, we underwent the Reorganisation, as detailed in the section headed “History, reorganisation and group structure” of this prospectus and the paragraph headed “Reorganisation” in Appendix V to this prospectus.

The consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows of our Group for the Track Record Period as set out in Appendix I to this prospectus are prepared as if the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation/establishment or acquisition, where this is a shorter period. The consolidated statements of financial position of our Group as at 31 December 2008, 2009 and 2010 and 30 June 2011 have been prepared to present the assets and liabilities of the companies now comprising our Group as if our current group structure had been in existence at those dates.

The Reorganisation completed on 22 February 2011.

As Mr. Wong and Madam Hung Kin remained our Directors and ultimately controlled our Group’s business before and after the Reorganisation and, consequently there was a continuation of the risks and benefits to the ultimate shareholders, the financial information of our Group has been prepared by applying the principles of the merger accounting as if our Company had always been the holding company of our Group throughout the Track Record Period. The net assets of the companies now comprising our Group are combined using the existing book values from the ultimate shareholder perspective.

The financial information of our Group as set out in Appendix I to this prospectus has been prepared in accordance with HKFRSs. Throughout the Track Record Period, our Group has applied all of the new or revised Hong Kong Accounting Standards, HKFRSs, amendments and interpretations issued by the HKICPA that are relevant to our operations and effective for annual reporting periods commencing on or after 1 January 2010, except for those new or revised standards, amendments and interpretations that have been issued but not yet effective as at the date of this prospectus, details of which is set out in note 2 to the financial information in Section B of Appendix I to this prospectus.

In addition, the financial information of our Group also includes applicable disclosures required by the Listing Rules and the Companies Ordinance.



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## FINANCIAL INFORMATION

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### FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our financial condition and results of operations have been and are expected to be continuously affected by a number of principal factors as described below:

#### **Our ability to maintain/establish our relationships with existing/new customers for our products**

Our ongoing growth and profitability are significantly dependent on our ability to maintain close and mutual beneficial relationships with our existing customers and expand to new customers. Currently, sales of our innerwear products are primarily made to the sourcing agents of certain renowned apparel brands. Since only one of the major customers entered into a long term agreement with our Group, it is very important for us to maintain good relationships with our customers. We emphasise on our “customer-oriented” principle in our operation and believe that by visiting our customers regularly and inviting our customers to visit our production plants, our customers will better understand our products, development capability, production process and quality control measurements, and we will also understand the markets in which our customers operates, their specific requirements and collect their feedbacks on our products. Besides, it is also very important for us to expand our business to new customers, especially those looking for either high performance functional fabrics or innerwear made with such fabrics. These customers are normally willing to pay higher premium for products with high performance and better quality. We will continue to secure new customers through referrals from our existing customers. Our Directors believe that many of them have made their referrals as a result of their positive views on our product quality, efficient services and competitive pricing. Since our fabrics segment is still in a relatively early stage of development comparing to our innerwear segment, in order to heighten customer recognition, we plan to officially launch our brand “UTEX” to market our self-designed functional fabrics in the future.

In 2010, we have successfully entered into a strategic cooperation agreement and/or certain exclusive sale agreements with some of our fabrics customers, which we believe, is a result of our commitment to offer them with high standard and quality products and customers’ past positive experience in doing business with us. We expect this mode of cooperation will form part of our marketing strategy in the future to maintain customer loyalty and secure their orders. Therefore, we are now also in discussion with another fabrics customer on entering into strategic cooperation agreement and/or exclusive sale agreement with us.

#### **Demands for our products**

A key driver of our revenue is customer demand for our fabrics and innerwear products. As we manufacture our innerwear products on an OEM basis, key factors, including consumer preferences and consumption patterns on the apparels of our OEM customers, affect demand for our OEM innerwear products, which also affect demand for the fabrics we manufactured for our innerwear products and supply to other lingerie and apparel manufacturers. General economic conditions, particularly that of Japan, where majority of our innerwear products were exported to, the PRC, where majority of our fabrics were sold in, and the US and Europe, which are our new developing markets, also affect the demand of our products.

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Since Japan is our major export country, the recent catastrophe in Japan may affect the demand of our Japanese customers for our products. For details of such impact, please refer to the section headed “Business — Earthquake in Japan” of this prospectus.

### **Product mix**

The selling prices of our products and the mixture of product types also affect our revenue. Our product pricing heavily depends on the complexity and function of innerwear and fabrics we produce. For innerwear products, selling prices of items with complex embroidery or sewing or made with functional fabrics are generally higher than items made with general fabrics or items which require less cutting and sewing steps and techniques. However, the product mix of our innerwear products highly depends on orders from our OEM customers. Average selling prices of fabrics are affected by the mix of general and functional fabrics we sell as each type of fabrics, depending on its function and complexity, commands a different selling price. The profit margins of our functional fabrics and innerwear produced with such fabrics are generally higher than those of our innerwear produced with general fabrics. Therefore, starting from April 2009, we have adjusted our product mix and focus on manufacturing functional fabrics and innerwear. We are also expanding our fabric development capability and production capacity to cope with the change in product mix mentioned above.

In addition to the above, our Directors are also of the view that the potential of infants’ innerwear market is huge given that the parents nowadays are willing to spend more on their children. Therefore, starting from 2010, we commenced selling primarily infants’ and toddlers’ innerwear to the US market.

### **Production volume**

Our revenue is affected by the volume of our sales, which is linked to the volume of innerwear and fabrics we produce. We have experienced growth in production volume during the Track Record Period. During the Track Record Period, we have produced innerwear of approximately 12.8 million pieces, 14.6 million pieces, 18.7 million pieces and 8.0 million pieces and fabrics of approximately 996 tons, 2,055 tons, 3,280 tons and 1,233 tons respectively which represented approximately 98.1%, 97.2%, 104.0% and 86.4% of our innerwear production capacity and approximately 66.4%, 85.6%, 91.1% and 61.6% of our fabric production capacity during the Track Record Period. In view of the high utilisation rates of our production capacity, we have invested in some environmentally-friendly and technically-advanced machinery in 2010 and 2011 and will continue to upgrade and expand our production facilities to cater for the increasing demand from our customers. Our Directors believe that these upgrades and expansions will lead to greater economies of scale for the operation of our Group and therefore improve our efficiency, competitiveness and profitability. For details of our expansion plan, please refer to the section headed “Business — Production — Production facilities and capacity — Expansion” of this prospectus.

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### **Prices of certain raw materials**

The cost of manufacturing fabrics mainly includes the costs of cotton yarns, synthetic yarns and dyes while the cost of innerwear products includes principally the cost of greige fabrics. During the Track Record Period, the cost of raw materials accounted for approximately 51.7%, 57.7%, 68.9% and 60.2% of our total cost of sales respectively. The price of the raw materials may be volatile and beyond our control as they are subject to a number of key factors, including fluctuations in commodity prices (mainly for cotton and crude oil, price trend of which during the Track Record Period is set out in the section headed “Industry Overview — Key raw materials consumed by our Group” of this prospectus), quality of raw materials and availability of alternative raw materials. We have to obtain sufficient high-quality raw materials in a timely manner and at competitive prices from our suppliers for production. We do not normally enter into long-term supply contract with our suppliers of raw materials. Hence, our cost of sales and gross profit margins may be subject to the fluctuations in the cost of raw materials. However, our Directors are of the view that in case the cotton and crude oil prices increase in the future, we shall be able to partially shift the increase in cost to our customers.

### **Cost of labour**

Although our production of innerwear is labour intensive, labour costs represent a relatively small proportion of our total cost of sales, representing 14.6%, 14.0%, 11.4% and 15.5% of our total of cost of sales respectively during the Track Record Period, as compared to that of our cost of raw materials. Our relatively low cost of labour provides us with a competitive advantage compared to manufacturers operating in higher-wage locations. Notwithstanding that the cost of labour has been on an upward trend in the recent years, our Directors believe that northern China continues to offer an adequate supply of labour at an attractive cost. In anticipation that the labour costs will continue to be subject to upward pressure, we seek to mitigate increases in labour cost by enhancing our production process and technology through introducing more automated machinery in order to increase worker’s productivity.

### **Our ability to design and produce high-quality innovative and trendy products in line with consumers’ expectations**

We have an optimistic view on the future of the fabrics industry and believe that we could enhance our competitiveness by developing our own brand. In 2010, we registered the “UTEX” trademark and intend to use it as our own brand for fabrics. We had not commenced producing or marketing our products under this brand name up to the Latest Practicable Date. To solidify our vertically integrated operations, we intend to produce and market our self-designed fabric products under our own brand name “UTEX” in the future. Our vision is to position the “UTEX” brand for relatively high-end fabrics that are produced with peculiar functions to be developed by us, stringent quality control and standard, with a view to obtaining a comparatively higher margin than our other products. To achieve this, we will make use of our experience in the incubating ODM production for the domestic and international brand owners to develop and strengthen our research capability, with which we will then develop new types of fabrics which are distinguishable from those of our competitors and could meet market demand. We intend

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to launch our “UTEX” branded fabrics only after our research capability enables us to operate the branded products in a sustainable manner. Our Directors believe that our “UTEX” branded fabrics will in long run gradually become one of the major components of our product mix.

### **Seasonality**

Our results of operations are affected by seasonality. Approximately 82.6%, 86.7%, 68.1% and 67.2% of our revenue were generated from sales of innerwear products during the Track Record Period. Our Directors confirmed that our innerwear products record higher sales during the second half of the year. Sales generated in the second half of the year accounted for approximately 54.8%, 61.2% and 73.2% of the total revenue during the three years ended 31 December 2010. Our Directors attributed that to the nature of major products we sell. Average unit price of innerwear for winter is normally higher than that for summer as customers normally order more functional innerwear for winter, including smart thermal and insulation innerwear.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

We have identified below the accounting policies that have been applied consistently throughout the Track Record Period which, we believe, are the most critical factors to our consolidated financial statements.

In the application of these accounting policies, our Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Estimates, judgments and associated assumptions are continually evaluated and are based on historical experience and other factors that may have a significant effect on the carrying amounts of assets and liabilities of our Group, are discussed below.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that period, or in the year of the revision and future periods if the revision affects both the current and future periods.

### **Basis of consolidation**

The financial information of our Group incorporates the financial statements of our Company and entities controlled by our Company (our subsidiaries). Control is achieved where our Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the Track Record Period are included in the consolidated statements of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

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Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of our Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

### **Merger accounting for business combinations involving entities under common control**

The financial information incorporates the financial statement items 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.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised 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 consolidated statement 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.

All intra-group transactions, balances, income and expenses are eliminated.

### **Revenue recognition**

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

Revenue from the sales of goods is recognised when the goods are delivered and title has passed.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

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, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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### 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 that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial information of our Group, the assets and liabilities of our Group's foreign operations are translated into the presentation currency of our Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the exchange reserve.

On the disposal of a foreign operation (i.e. a disposal of our Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of our Company are reclassified to profit or loss.

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of our Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of our Company are reclassified to profit or loss. In addition, in relation to a partial disposal that does not result in our Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

### Leasehold land for own use

When a lease includes both land and building elements, our Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to our Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

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To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statements of financial position and is amortised over the lease term on a straight-line basis.

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

Property, plant and equipment, including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Construction in progress includes property, plant and equipment in the course of construction for production or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with our Group’s accounting policy. Such properties are classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method.

An item of property, plant and equipment is derecognised 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 an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period in which the item is derecognised.

### ***Useful lives and residual values 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 our management’s estimation. Our 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 charged in the year and the estimate will be changed in the future period.

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### *Impairment of property, plant and equipment and prepaid lease payments*

Our Group assesses annually whether property, plant and equipment and prepaid lease payments have any indication of impairment in accordance with the accounting policy. The recoverable amounts of property, plant and equipment and prepaid lease payments have been determined based on value-in-use calculations. Their calculations require the use of judgement and estimates.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs are determined on a weighted average basis.

### *Impairment of inventories*

We review an aging analysis at the end of each reporting period, and make impairment for obsolete and slow-moving inventory items. Our management estimates the net realisable value for such inventories based primarily on the latest invoice prices.

### **Financial instruments**

Financial assets and financial liabilities are recognised on the consolidated 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.

### *Financial assets*

Our Group's financial assets comprise loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All 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.



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### *Effective interest method*

The effective interest method is a method of calculating the amortised 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 to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, restricted bank deposits, cash and bank balances, amount due from Shareholders/a related party) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

### *Impairment of 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 other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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For certain categories of financial asset, such as trade 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 our Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, other receivables and amount due from a related party, where the carrying amount is reduced through the use of an allowance account. When trade receivables, other receivables and amount due from a related party are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets carried at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised 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 amortised cost would have been had the impairment not been recognised.

### *Financial liabilities and equity instruments*

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 an 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. Our Group's financial liabilities are generally classified into other financial liabilities.

### *Effective interest method*

The effective interest method is a method of calculating the amortised 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 expense is recognised on an effective interest basis.

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### *Other financial liabilities*

Other financial liabilities, including trade and bill payables, accruals and other payables, amounts due to a shareholder/related parties and interest-bearing borrowings, are subsequently measured at amortised cost, using the effective interest rate method.

### *Equity instruments*

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

### *Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and our Group has transferred substantially all the risks and rewards of ownership of the financial assets. If our Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, our Group recognises the retained interest in the asset and an associated liability for amounts we may have to pay. If our Group retains substantially all the risks and rewards of ownership of a transferred financial asset, our Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, 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 recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

### **Impairment loss on tangible assets**

At the end of the reporting period, our Group reviews the carrying amounts of our tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, our Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### **Impairment of trade receivables and other receivables**

Our Group makes impairment based on assessment of the recoverability of trade and other receivables. We make estimates based on the aging of the trade and other receivable balances, debtors' creditworthiness, and historical write-off experience. If the financial condition of our debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss may be required.

### **Share-based payments**

#### *Shares transferred to employees*

The fair value of services received are determined by reference to the fair value of our Company's shares received by the employees of our Company and net with the net present value of the consideration paid by the employees, and is recognised as an expense when the shares transferred immediately, with a corresponding increase in equity (other reserve).

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### RESULTS OF OUR GROUP'S OPERATIONS

#### Selected information of consolidated comprehensive income statements

The table below sets forth the selected information of our Group's audited consolidated comprehensive income statements for each of the financial years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, which are also set forth in the Accountants' Report in Appendix I to this prospectus.

	For the year ended 31 December			For the six months ended	
	2008	2009	2010	30 June	
	(RMB'000) (audited)	(RMB'000) (audited)	(RMB'000) (audited)	(RMB'000) (unaudited)	(RMB'000) (audited)
Revenue	136,188	194,912	378,289	101,357	140,158
Cost of sales	<u>(102,519)</u>	<u>(127,496)</u>	<u>(272,644)</u>	<u>(72,784)</u>	<u>(93,516)</u>
Gross profit	33,669	67,416	105,645	28,573	46,642
Other income and gains	372	533	3,896	367	110
Selling and distribution expenses	(4,443)	(5,846)	(10,391)	(2,388)	(3,973)
Share-based payment	—	—	—	—	(5,800)
Administrative expenses	(15,777)	(17,720)	(27,984)	(12,174)	(23,536)
Finance costs	<u>(4,371)</u>	<u>(3,646)</u>	<u>(4,761)</u>	<u>(2,099)</u>	<u>(2,777)</u>
Profit before tax	9,450	40,737	66,405	12,279	10,666
Income tax expense	<u>(2,002)</u>	<u>(9,125)</u>	<u>(12,934)</u>	<u>(2,786)</u>	<u>(6,549)</u>
Profit for the year/period	<u><u>7,448</u></u>	<u><u>31,612</u></u>	<u><u>53,471</u></u>	<u><u>9,493</u></u>	<u><u>4,117</u></u>

#### Principal comprehensive income statement components

##### *Revenue*

Our revenue mainly consists of sales of fabrics and innerwear products. Our sales volume is mainly driven by customer demands, our average selling prices, and our ability to maintain a product mix that satisfies customers' preference. For overseas customers, sales revenue is recognised when goods are either delivered to the designated local ports, mainly Qingdao port, loaded on board or placed at customers' warehouses at the ports (normally known as "Free on board" or "FOB") or shipped to the designated overseas ports (by ways of "cost, insurance and freight" or "CIF" and "free carrier" or "FCA") based on our contracts with overseas customers. For domestic customers, sales revenue is recognised when we deliver the goods to their premises directly. Our sales are mainly denominated and settled in USD and RMB.

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### *Revenue by products*

The following table sets out the breakdown of our revenue by fabrics and innerwear products during the Track Record Period:

Revenue	For the year ended 31 December						For the six months ended 30 June			
	2008 (RMB'000)	(%)	2009 (RMB'000)	(%)	2010 (RMB'000)	(%)	2010 (RMB'000)	(%)	2011 (RMB'000)	(%)
General fabrics	23,640	17.4	13,773	7.1	19,911	5.3	8,084	8.0	13,141	9.4
Functional fabrics	—	—	12,065	6.2	100,692	26.6	27,585	27.2	32,804	23.4
Sub-total	23,640	17.4	25,838	13.3	120,603	31.9	35,669	35.2	45,945	32.8
General innerwear	112,548	82.6	95,218	48.8	121,005	32.0	41,518	41.0	38,181	27.2
Functional innerwear	—	—	73,856	37.9	136,681	36.1	24,170	23.8	56,032	40.0
Sub-total	112,548	82.6	169,074	86.7	257,686	68.1	65,688	64.8	94,213	67.2
Total	136,188	100.0	194,912	100.0	378,289	100.0	101,357	100.0	140,158	100.0

Revenue generated from sales of fabrics included sales of our general and functional fabrics to third parties during the Track Record Period. General fabrics mainly represented fabrics made with cotton yarns, while functional fabrics included smart thermal insulation fabrics, water resistant fabrics, moisture control, anti-microbial and/or anti-odour made with synthetic yarns.

Revenue generated from sales of innerwear products mainly consisted of sales of men's and women's innerwear, including t-shirts, vests, long-sleeves pullovers, men's briefs and boxer briefs, women's panties, long johns; and also toddlers' and infants' bodysuits and bibs, on an OEM basis. According to our management, these innerwear products can be further classified into two categories, namely general innerwear comprising mainly innerwear made with cotton fabrics, and functional innerwear comprising mainly made with functional fabrics that incorporate features such as moisture control, anti-microbial and/or anti-odour respectively.

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### *Revenue by geographical locations*

The table below shows our revenue by geographical locations which are determined by the final destination to which our innerwear products and fabrics are delivered:

Revenue	For the year ended 31 December					For the six months ended 30 June				
	2008 (RMB'000) (audited)	(%)	2009 (RMB'000) (audited)	(%)	2010 (RMB'000) (audited)	2010 (RMB'000) (unaudited)	(%)	2011 (RMB'000) (audited)	(%)	
Japan	114,974	84.4	160,595	82.4	196,443	51.9	56,869	56.1	78,428	56.0
PRC (including Hong Kong)	20,040	14.7	32,289	16.6	148,896	39.4	44,488	43.9	45,159	32.2
US	—	—	—	—	30,249	8.0	—	—	14,552	10.4
Others (Note)	1,174	0.9	2,028	1.0	2,701	0.7	—	—	2,019	1.4
<b>Total</b>	<b>136,188</b>	<b>100.0</b>	<b>194,912</b>	<b>100.0</b>	<b>378,289</b>	<b>100.0</b>	<b>101,357</b>	<b>100.0</b>	<b>140,158</b>	<b>100.0</b>

*Note:* Others represented sales made to Canada, Spain, Israel and Korea during the Track Record Period.

Majority of our sales were made to Japan during the Track Record Period with sales within the PRC gradually increased in 2009 and substantially increased in 2010. Started from 2010, we started to expand our business in the US. As a result, sales of approximately RMB30,249,000 and RMB14,552,000 to the US was recorded in 2010 and in the first half of 2011 respectively. It is estimated by our Directors that Japan and the PRC will continue to be our major sales markets in the near future and our Group will continue to develop our presence in other overseas markets, including the US and Europe.

### *Total units sold and average selling prices*

The following table sets out the total units sold and average selling prices of our innerwear products and fabrics during the Track Record Period:

	For the year ended 31 December					For the six months ended 30 June				
	2008		2009		2010		2010		2011	
	Total units sold	Average selling prices (RMB)	Total units sold	Average selling prices (RMB)	Total units sold	Average selling prices (RMB)	Total units sold	Average selling prices (RMB)	Total units sold	Average selling prices (RMB)
General fabrics (tons)	584	40,480	340	40,520	401	49,710	174	46,540	195	67,290
Functional fabrics (tons)	—	—	226	53,280	1,317	76,430	410	67,240	399	82,170
<b>Total</b>	<b>584</b>		<b>566</b>		<b>1,718</b>		<b>584</b>		<b>594</b>	
General innerwear (pieces)	12,028,000	9.36	10,788,000	8.83	12,699,000	9.53	4,506,000	9.21	3,369,000	11.33
Functional innerwear (pieces)	—	—	3,909,000	18.89	7,095,000	19.26	1,827,000	13.23	3,430,000	16.33
<b>Total</b>	<b>12,028,000</b>		<b>14,697,000</b>		<b>19,794,000</b>		<b>6,333,000</b>		<b>6,799,000</b>	

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### **Fabrics — total units sold**

There was a slight decrease of about 18 tons, or 3.1% in our Group's aggregate sales volume of general and functional fabrics in 2009 as compared to that in 2008, which was a result of our change of product mix by focusing on the functional products starting from April 2009. During the year 2009, we were able to secure orders on functional fabrics from new customers who were looking for high performance functional fabrics and willing to pay higher premium. In view of the high utilisation rates of our weaving and knitting production capacity, we reserved our production capacity for such new orders and reduced our production of general fabrics in 2009. As a result, the total sales volume of our general fabrics decreased by approximately 41.8% from 584 tons for the year ended 31 December 2008 to 340 tons for the year ended 31 December 2009, while the total sales volume of our functional fabrics increased from nil to approximately 226 tons for the same period.

Our Group's aggregate sales volume of general and functional fabrics in 2010 increased significantly from around 566 tons in 2009 to 1,718 tons in 2010. Both sales volume of general and functional fabrics increased. The total sales volume of our general fabrics in 2010 increased by approximately 17.9% to 401 tons, while the total sales volume of our functional fabrics in 2010 increased by approximately 4.8 times to 1,317 tons. In addition to the customers we solicited in 2009, who continued to place and increase their orders to us in 2010, we were able to obtain orders from new customers. To cater for the increasing demands from our customers, we doubled our weaving and knitting production capacity in 2010.

For the six months ended 30 June 2011, our Group's aggregate sales volume of general and functional fabrics were 594 tons, representing a slight increase of 10 tons as compared to the corresponding period in 2010. The sales volume of general fabrics increased from 174 tons in the first half of 2010 to 195 tons in the same period of 2011, represented an increase of approximately 12.1% only. It was mainly due to the expansion of our operations in terms of production capacity and sales activity.

The sales volume of functional fabrics was comparable for both the six months ended 30 June 2010 and 2011 and amounted to approximately 410 tons and 399 tons respectively. The sales for the first half of both 2010 and 2011 were relatively low since our Group's functional fabrics mainly focus on functions of thermal insulation, which normally recorded higher sales in the second half of the year.

### **Innerwear — total units sold**

There was an increase of about 2,669,000 pieces, or 22.2% in our Group's aggregate sales volume of general and functional innerwear in 2009 as compared to that in 2008, which was a result of our change of product mix by focusing on the functional products starting from April 2009. We were able to secure orders on functional innerwear from new customers during 2009. In view of the high utilisation rates of our production capacity, we reserved our cutting and



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sewing production capacity for such new orders and reduced our production of general innerwear in 2009. As a result, the total sales volume of our general innerwear decreased by approximately 10.3% from 12,028,000 pieces for the year ended 31 December 2008 to 10,788,000 pieces for the year ended 31 December 2009, and the total sales volume of our functional innerwear increased from nil for the year ended 31 December 2008 to approximately 3,909,000 pieces for the year ended 31 December 2009.

Our Group's aggregate sales volume of general and functional innerwear in 2010 increased from approximately 14,697,000 pieces in 2009 to approximately 19,794,000 pieces in 2010. Both sales volume of general and functional innerwear increased. The total sales volume of our general innerwear in 2010 increased by approximately 17.7% to 12,699,000 pieces, while the total sales volume of our functional innerwear in 2010 increased by approximately 81.5% to 7,095,000 pieces. In addition to the customers we solicited in 2009, who continued to place and increase their orders to us in 2010, we were able to obtain orders from new customers. To cater for the increasing demands from our customers, we increased our cutting and sewing production capacity in 2010.

For the six months ended 30 June 2011, our Group's aggregate sales volume of general and functional innerwear amounted to approximately 6,799,000 pieces, representing a slight increase of about 7.4% as compared to approximately 6,333,000 pieces in the same period of 2010. The sales volume of general innerwear decreased by approximately 25.2% from approximately 4,506,000 pieces for the first half of 2010 to approximately 3,369,000 pieces for the same period in 2011 while our sales volume of functional innerwear increased from approximately 1,827,000 pieces to approximately 3,430,000 pieces, representing an increase of about 87.7%. Such changes were mainly due to the result of our Group's continuous efforts on manufacturing functional products since such strategy was firstly adopted in April 2009. In particular, those customers we solicited in 2009 and 2010 increased their orders in 2011 and hence increased our sales volume of functional innerwear.

### **Fabrics — average selling prices**

The average selling price of our general fabrics was maintained at a similar level of RMB40,480 per ton for the year ended 31 December 2008 and RMB40,520 per ton for the year ended 31 December 2009, then increased by 22.7% to RMB49,710 per ton for the year ended 31 December 2010, and further increased by 35.4% to RMB67,290 per ton for the six months ended 30 June 2011. The increase in the average selling price of our general fabrics in 2010 and 2011 was primarily because of partial increment in our cost of raw materials, in particular cotton yarns, were transferred to our customers.

The average selling price of our functional fabrics also increased by approximately 43.4% from RMB53,280 per ton for the year ended 31 December 2009 to RMB76,430 per ton for the year ended 31 December 2010, and further increased by 7.5% to RMB82,170 per ton for the six months ended 30 June 2011. This increase was primarily attributed to the expansion of our range of product offerings and improvement in the quality of our fabrics, which allowed us to increase overall prices of our functional fabrics. Besides, part of the increase in cost of raw materials, including synthetic yarns and dyes, were transferred to our customers.

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### Innerwear — average selling prices

The average selling price of our general innerwear products decreased by approximately 5.7% from RMB9.36 per piece for the year ended 31 December 2008 to RMB8.83 per piece for the year ended 31 December 2009, then increased by approximately 7.9% to RMB9.53 per piece for the year ended 31 December 2010 and further increased by 18.9% to RMB11.33 per piece for the six months ended 30 June 2011. Despite the fluctuation on our cost of raw materials, only slight fluctuation was noted for the average unit price of our general innerwear products during the three years ended 31 December 2010. Unlike our fabric segment, most of the customers of these products have long-established relationships with us, therefore, only part of the increase in cost of raw materials were transferred to them in 2010. Since our cost of cotton yarns increased continuously in first quarter of 2011, we therefore further transferred the increase in costs to our customers.

Despite there was an increase in cost of raw materials of our functional innerwear in 2010, we only partially shifted such increment to our customers in order to maintain the long-term relationships with them. Therefore, no material fluctuation was noted for the average selling prices of our functional innerwear products for the two years ended 31 December 2009 and 2010, which were RMB18.89 per piece and RMB19.26 per piece respectively. However, the average selling price for our functional innerwear decreased from RMB19.26 per piece for the year ended 31 December 2010 to RMB16.33 per piece for the six months ended 30 June 2011, representing a decrease of approximately 15.2%. Such decrease was mainly attributable to the different product mix for the whole year of 2010 and first half of 2011. As the average selling price for autumn/winter functional innerwear is normally higher than that for spring/summer functional innerwear, higher average selling price for the whole year of 2010 was noted as it was calculated based on the selling price of both autumn/winter and spring/summer functional innerwear while the average selling price for the first half 2011 was calculated based on the selling price of spring/summer functional innerwear only.

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### *Cost of sales*

The key components of our cost of sales are cost of raw materials, direct labour costs, subcontracting charges and production overheads, including spare parts and consumables of machinery and depreciation.

	For the year ended 31 December						For the six months ended 30 June			
	2008		2009		2010		2010		2011	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
	(audited)		(audited)	(audited)		(unaudited)		(audited)		
Raw materials	52,949	51.7	73,503	57.7	187,828	68.9	41,837	57.5	56,255	60.2
Direct labour costs	14,997	14.6	17,857	14.0	31,205	11.4	11,414	15.7	14,510	15.5
Subcontracting charges	8,301	8.1	11,932	9.4	22,016	8.1	5,569	7.7	8,096	8.7
Fuel charges	8,952	8.7	9,353	7.3	13,384	4.9	6,850	9.4	5,717	6.1
Depreciation	4,730	4.6	5,693	4.4	7,580	2.8	3,357	4.6	3,879	4.1
Spare parts and consumables	1,085	1.1	1,378	1.1	3,031	1.1	773	1.1	1,208	1.3
Input VAT	5,722	5.6	2,115	1.7	2,288	0.8	631	0.9	920	1.0
Others	5,783	5.6	5,665	4.4	5,312	2.0	2,353	3.1	2,931	3.1
<b>Total</b>	<b>102,519</b>	<b>100.0</b>	<b>127,496</b>	<b>100.0</b>	<b>272,644</b>	<b>100.0</b>	<b>72,784</b>	<b>100.0</b>	<b>93,516</b>	<b>100.0</b>

Our Group's cost of sales primarily consisted of (i) cost of raw materials, including cotton yarns, synthetic yarns, greige fabrics, dyes and also accessories, e.g. thread, trimmings, buttons and zippers, etc.; (ii) direct labour costs incurred for our own manufacturing operations; (iii) subcontracting charges for outsourcing part of the production processes, mainly knitting, sewing and embroidery, to subcontractors; (iv) fuel charges; (v) depreciation; (vi) spare parts and consumables of machinery; (vii) input VAT and (viii) miscellaneous production overheads.

Cost of sales for the financial years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 represented approximately 75.3%, 65.4%, 72.1% and 66.7% of our revenue for the corresponding periods.

Set out below is the breakdown of raw materials purchased by our Group during the Track Record Period.

	For the year ended 31 December			For the six months ended 30 June	
	2008	2009	2010	2010	2011
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Cotton yarns	26,289	18,792	21,946	8,143	10,044
Synthetic yarns	10,510	30,010	105,728	23,519	26,644
Greige fabrics	281	5,627	40,809	4,163	8,106
Others	15,869	19,074	19,345	6,012	11,461
<b>Total</b>	<b>52,949</b>	<b>73,503</b>	<b>187,828</b>	<b>41,837</b>	<b>56,255</b>

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Cotton yarn is the major raw material for manufacturing general fabrics, and hence general innerwear. As our Group has changed the product mix since April 2009 as detailed in the paragraph headed “Factors affecting our results of operations — Product mix” in this section, the amounts of purchases of cotton yarns decreased in the years 2009 and 2010 when compared to that of year 2008 as we shifted our focus on manufacturing functional fabrics and innerwear instead of general ones. On the other hand, the amounts of our Group’s purchases of synthetic yarns, which are the major material for manufacturing functional fabrics, increased by approximately 1.9 times from RMB10,510,000 for the year ended 31 December 2008 to RMB30,010,000 for the year ended 31 December 2009, and further increased by approximately 2.5 times to RMB105,728,000 for the year ended 31 December 2010. For the six months ended 30 June 2011, the purchases of synthetic yarns amounted to approximately RMB26,644,000, representing an increase of approximately 13.3% from approximately RMB23,519,000 for the corresponding period in 2010 and the purchases of cotton yarns increased by approximately 23.3% to approximately RMB10,044,000 for the six month ended 30 June 2011 from approximately RMB8,143,000 for the same period in 2010. Such increases were primarily due to the increases in crude oil price and cotton price in the first quarter of 2011. Besides, the increase in sales volume of general fabrics in the first half of 2011 also led to the increase in purchase amounts of cotton yarns. Details of the increase in sales volume was set out in the paragraph headed “Total units sold and average selling prices — Fabrics — total units sold” above.

Fabrics are the key raw material for manufacturing innerwear. We used both self-manufactured fabrics and external-sourced fabrics for the production of our innerwear. Fabrics purchased by us from external suppliers are mainly general fabrics without special function. The amounts of fabrics purchased by us from external suppliers increased during the Track Record Period which was a result of shifting our focus on manufacturing functional fabrics and innerwear since April 2009. In order to develop our fabrics segment, we solicited new fabric customers and hence increased our external sales of functional fabrics to these customers instead of occupying limited fabric production capacity to supply general fabrics for our Group’s self consumption. In addition, the increase in the price of yarns also increased our cost of fabrics purchased. As such, the amounts of our purchases of fabrics increased by approximately 19.0 times from RMB281,000 for the year ended 31 December 2008 to RMB5,627,000 for the year ended 31 December 2009, and further increased by approximately 6.3 times to RMB40,809,000 for the year ended 31 December 2010. For the six months ended 30 June 2011, the purchases of greige fabrics amounted to RMB8,106,000, representing an increase of approximately 94.7%, as compared to approximately RMB4,163,000 for the same period of 2010.

Other raw materials include dyes and apparel sewing-related materials such as thread, trimmings, buttons and zippers.

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### *Gross profit and gross profit margins*

	For the year ended 31 December						For the six months ended 30 June			
	2008		2009		2010		2010		2011	
	Gross profit (RMB'000)	Gross profit margin (%)	Gross profit (RMB'000)	Gross profit margin (%)	Gross profit (RMB'000)	Gross profit margin (%)	Gross profit (RMB'000)	Gross profit margin (%)	Gross profit (RMB'000)	Gross profit margin (%)
General fabrics	2,998	12.7	4,172	30.3	2,904	14.6	1,174	14.5	2,155	16.4
Functional fabrics	—	—	4,539	37.6	27,329	27.1	6,815	24.7	10,755	32.8
Sub-total	2,998		8,711		30,233		7,989		12,910	
General innerwear	30,671	27.3	29,459	30.9	24,043	19.9	9,294	22.4	7,787	20.4
Functional innerwear	—	—	29,246	39.6	51,369	37.6	11,290	46.7	25,945	46.3
Sub-total	30,671		58,705		75,412		20,584		33,732	
	33,669	24.7	67,416	34.6	105,645	27.9	28,573	28.2	46,642	33.3

### **Three years ended 31 December 2010**

The gross profit margin for our general fabrics increased from approximately 12.7% for the year ended 31 December 2008 to approximately 30.3% for the year ended 31 December 2009 primarily because the cost of dyes decreased during the year 2009 which was affected by the decrease in average crude oil price from US\$95.62 per barrel in 2008 to US\$60.07 per barrel in 2009.

The gross profit margin for our general fabrics decreased from approximately 30.3% for the year ended 31 December 2009 to approximately 14.6% for the year ended 31 December 2010, whilst the gross profit margin for our functional fabrics also decreased from approximately 37.6% for the year ended 31 December 2009 to approximately 27.1% for the year ended 31 December 2010. It was largely due to the significant increase in the costs of raw materials, particularly for cotton yarns, synthetic yarns, greige fabrics and dyes during the year 2010. Average cotton price increased from RMB12,804 per ton in 2009 to RMB19,373 per ton in 2010, whilst average crude oil price also increased from US\$60.07 per barrel in 2009 to US\$77.68 per barrel in 2010.

The gross profit margin for our general innerwear increased from approximately 27.3% for the year ended 31 December 2008 to approximately 30.9% for the year ended 31 December 2009, which was mainly due to the decrease in cost of dyes mentioned above.

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The gross profit margin for our general innerwear decreased from approximately 30.9% for the year ended 31 December 2009 to approximately 19.9% for the year ended 31 December 2010 whilst our functional innerwear decreased from approximately 39.6% for the year ended 31 December 2009 to approximately 37.6% for the year ended 31 December 2010. It was largely due to the increase in the costs of raw materials in 2010.

Despite the increase in cost of raw materials in 2010 led to the decrease in gross profit margins of both our innerwear and fabrics, the decrease in gross profit margins of our innerwear was less than that of our fabrics. Most of the increase in prices of raw materials was absorbed by our fabrics products as cotton yarns and synthetic yarns are the key raw materials for the manufacturing of general and functional fabrics respectively. Accordingly, the increase in prices of cotton yarns and synthetic yarns in 2010 had a greater and direct impact on the gross profit margin of our fabrics products. Our innerwear products, however, are mainly made of fabrics and only need certain accessories such as zippers, tags and labels, and thus are not directly affected by the increase in prices of cotton yarns and synthetic yarns as much as that on our fabrics products. Besides, we normally add extra margin on innerwear on top of the margin on fabrics for additional production process, therefore, the decrease in gross profit margins of innerwear was less than that of our fabrics.

### **Six months ended 30 June 2011**

The gross profit margins of our general and functional fabrics increased from approximately 14.5% and 24.7% for the six months ended 30 June 2010 to 16.4% and 32.8% for the six months ended 30 June 2011 respectively. The increase was primarily due to the expansion of our range of product offerings and improvement in our fabric quality. Prices of our functional fabrics generally increased, as certain customers were willing to pay more for that.

The gross profit margins of our general and functional innerwear slightly decreased from approximately 22.4% and 46.7% for the six months ended 30 June 2010 to approximately 20.4% and 46.3% for the corresponding period ended 30 June 2011 as a result of increases in raw material cost and labour cost.

### ***Other income and gains***

For the three years ended 31 December 2010, other income and gains comprised interest income from bank deposits, rental income generated from an investment property held by our Group in Hong Kong before the property was sold in 2010 and gain on disposal of the same investment property in 2010. For the six months ended 30 June 2011, other income and gains mainly represent interest income from bank deposits.

### ***Selling and distribution expenses***

Selling and distribution expenses consisted principally of transportation costs, salaries and commission paid, inspection fee, cargo insurance and port expenses, e.g. declaration and customs charges, storage and transportation fee incurred in ports. Selling and distribution

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expenses amounted to approximately RMB4,443,000, RMB5,846,000, RMB10,391,000 and RMB3,973,000 for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 respectively and approximately 3.3%, 3.0%, 2.7% and 2.8% of our revenue for the corresponding periods.

### *Share-based payment*

For the six months ended 30 June 2011, a one-off share-based payment of RMB5,800,000 in relation to the Share Compensation (details of which is set out in the paragraph headed “History, reorganisation and group structure — Pre-listing Share compensation to our management” of this prospectus) was incurred.

### *Administrative expenses*

Administrative expenses consisted mainly of salaries, staff benefits and social insurance, travelling expenses, depreciation of office equipment, amortisation of prepaid lease payments of leasehold lands and ERP system, motor vehicles expenses, bank charges, exchange difference, office expenses, and other taxes, including stamp duties, house tax, land use tax and individual income tax withheld during the Track Record Period. In addition, for the six months ended 30 June 2011, certain one-off professional fees in relation to the Listing were incurred and accounted as part of the administrative expenses. Administrative expenses were approximately RMB15,777,000, RMB17,720,000, RMB27,984,000 and RMB23,536,000 for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 respectively and represented approximately 11.6%, 9.1%, 7.4% and 16.8% of our revenue for the corresponding periods.

### *Finance costs*

Finance costs consisted of interest expenses from bank loans and other loans.

### *Income tax expense*

Income tax expense represented the corporate income tax paid and deferred tax provided by us during the Track Record Period.

#### *(i) Corporate income tax*

Pursuant to the rules and regulations of the BVI, our Group is not subject to any income tax in the BVI.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, the applicable tax rate for the subsidiaries incorporated in Hong Kong is 16.5% for the year ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011.

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No provision for Hong Kong Profits Tax has been made as our Hong Kong subsidiary has unused tax loss available to offset against assessable profits for the years ended 31 December 2008 and 2009.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year ended 31 December 2010.

No provision for Hong Kong Profits Tax has been made as there was no estimated assessable profit derived from Hong Kong subsidiaries for the six months ended 30 June 2010 and 30 June 2011.

Pursuant to the EIT Law and other relevant tax rules and regulations of the PRC, our PRC companies comprising our Group are subject to EIT in the PRC as follows:

	<b>For the year ended 31 December</b>			<b>For the six months ended 30 June</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Zhucheng Eternal Knitting <i>(notes 1, 2, 3 &amp; 4)</i>	12.5%	25%	25%	25%
Zhucheng Yumin Knitting <i>(notes 1, 2, 3 &amp; 5)</i>	12.5%	12.5%	12.5%	25%
Shandong Grand Concord <i>(notes 1, 2 &amp; 6)</i>	25%	25%	25%	25%

*Notes:*

1. Prior to 1 January 2008, EIT payable by foreign investment enterprises in the PRC was governed by the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises (promulgated on 9 April 1991 and became effective on 1 July 1991). Pursuant to this tax law, EIT on foreign investment enterprises of a production nature established in coastal economic open zones or in the old urban districts of cities where the special economic zones or the economic and technological development zones are located, was levied at the reduced rate of 24%. Any foreign investment enterprises of a production nature scheduled to operate for a period of not less than 10 years was exempted from EIT for the first 2 financial years commencing from the first profit-making year and allowed a 50% reduction in the subsequent 3 financial years.
2. On 16 March 2007, the new EIT Law was promulgated by Order No.63 of the President of the PRC. In order to clarify certain provisions in the new EIT Law, the State Council of the PRC issued the Implementation Rules on 6 December 2007. Both of the new EIT Law and the Implementation Rules became effective on 1 January 2008. A single EIT rate of 25% would be imposed on both domestic enterprises and foreign investment enterprises starting from 1 January 2008. Nevertheless, certain relief was provided during the transitional periods for enterprises established before 16 March 2007. Pursuant to 《國務院關於實施企業所得稅過渡優惠政策的通知》(Notice of the State Council on the implementation of transitional preferential policies in respect of the EIT\*) promulgated on 26 December 2007 and also took effect on 1 January 2008, foreign investment enterprises which were established before 16 March 2007 and were enjoying preferential tax treatment at the time when the new EIT Law promulgated would continue to enjoy the tax exemption or tax benefit up to the expiry of its preferential treatment term or till the financial year ended 31 December 2012, whichever is earlier.



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3. Zhucheng Eternal Knitting and Zhucheng Yumin Knitting were established as foreign investment enterprises on 24 October 2000 and 22 November 2004 respectively, each of them continued to enjoy the tax exemption for the first 2 financial years commencing from the first profit-making year and tax reduction of 50% in the subsequent 3 financial years up to its expiry.
4. The first profit-making year of Zhucheng Eternal Knitting was 2004. The applicable tax rate of Zhucheng Eternal Knitting was 12.5% for the year 2008 and 25% for the remaining Track Record Period.
5. The first profit-making year of Zhucheng Yumin Knitting was 2006. The applicable tax rate of Zhucheng Yumin Knitting was 12.5% for the years 2008, 2009 and 2010 and 25% for the remaining Track Record Period.
6. Shandong Grand Concord was established as foreign investment enterprise on 9 July 2007, therefore, no preferential treatment of tax exemption and tax benefit was granted to Shandong Grand Concord and the applicable tax rate of Shandong Grand Concord was 25% during the Track Record Period. However, no provision of EIT has been made for Shandong Grand Concord as it did not has any assessable profits subject to EIT for the Track Record Period.

### (ii) Withholding tax

According to joint circular of the Ministry of Finance and State Administration of Taxation — Cai Shui 2008 No. 1, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred tax liabilities of approximately RMB191,000, associated with the undistributed earnings of PRC subsidiaries have been charged to the consolidated statements of comprehensive income for the year ended 31 December 2008. Deferred taxation has not been provided for the years ended 31 December 2009 and 2010 and the six months ended 30 June 2011 in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB25,637,000, RMB81,083,000 and RMB95,012,000 as at 31 December 2009 and 2010 and 30 June 2011 as our Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such temporary differences will not reverse in the foreseeable future.

The taxation for the Track Record Period can be reconciled to the profit before tax per the consolidated statements of comprehensive income as follows:

	For the year ended 31 December			For the six months ended 30 June	
	2008 (RMB'000)	2009 (RMB'000)	2010 (RMB'000)	2010 (RMB'000)	2011 (RMB'000)
Profit before tax	9,450	40,737	66,405	12,279	10,666
Tax at the domestic tax rate of 25%	2,363	10,184	16,601	3,070	2,666
Tax effect of non-taxable income	—	—	(823)	—	(4)
Tax effect of non-deductible expenses	439	158	307	851	2,947
Deferred tax liabilities associated with undistributed profit of PRC subsidiaries	191	—	—	—	—
Effect of different tax rates of subsidiaries' operations in other jurisdictions and tax on concessionary tax rate	(1,555)	(1,908)	(5,791)	(1,230)	(220)
Withholding tax on distributed profit	—	—	—	—	358
Tax effect of tax losses not recognised	564	691	2,640	95	802
Tax charge for the year/period	<u>2,002</u>	<u>9,125</u>	<u>12,934</u>	<u>2,786</u>	<u>6,549</u>

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### PERIOD TO PERIOD/YEAR TO YEAR COMPARISON OF RESULTS OF OUR GROUP'S OPERATIONS

*Six months ended 30 June 2011 compared with six months ended 30 June 2010*

#### Revenue

For the six months ended 30 June 2011, our Group recorded a revenue of approximately RMB140,158,000, representing an increase of approximately RMB38,801,000, or 38.3%, from approximately RMB101,357,000 for the six months ended 30 June 2010 as our Group continued the business strategy of focusing on manufacturing functional innerwear and fabrics, which was firstly adopted in April 2009. In addition, our Group was able to maintain stable relationships with those customers who were newly-solicited in 2009 and 2010 and continued doing business with and even, increased our sales to them in the first half of 2011. The sales volume of general fabrics, functional fabrics, general innerwear and functional innerwear for the six months ended 30 June 2011 were 195 tons, 399 tons, 3,369,000 pieces and 3,430,000 pieces respectively, while the sales volume of these products for the six months ended 30 June 2010 were 174 tons, 410 tons, 4,506,000 pieces and 1,827,000 pieces respectively.

Our sales of fabrics amounted to approximately RMB45,945,000 for the six months ended 30 June 2011, representing an increase of approximately RMB10,276,000, or 28.8%, when compared to the corresponding period in 2010, which was mainly due to the increase in the average selling prices of both general and functional fabrics for the six months ended 30 June 2011 despite the aggregate sale volume of general and function fabrics only increased by 10 tons during the period of 2011. Details of the average selling price for fabrics are set out in the paragraph headed “Results of our Group’s operations — Principal comprehensive income statement components — Total units and average selling price — Fabrics — average selling prices” in this section. Sales of fabrics for the six months ended 30 June 2011 accounted for approximately 32.8% of our total revenue during the same period.

Sales of innerwear products amounted to RMB94,213,000, representing approximately 67.2% of our revenue for the six months ended 30 June 2011, while sales of innerwear products for the six months ended 30 June 2010 amounted to RMB65,688,000, representing approximately 64.8% of our revenue during the same period. The increase in sales of innerwear products in the amount of approximately RMB28,525,000 or approximately 43.4% for the six months ended 30 June 2011 was mainly due to the increase in the average selling price of both general and functional innerwear for the six months ended 30 June 2011 as compared to the same period in 2010 despite the aggregate sale volume of general and function innerwear only increased by 7.4% during the comparison period of 2011. Details of the average selling price for innerwear are set out in the paragraph headed “Results of our Group’s operations — Principal comprehensive income statement components — Total units and average selling price — Innerwear — average selling prices” in this section.

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### **Cost of sales**

For the six months ended 30 June 2011, our cost of sales amounted to approximately RMB93,516,000, representing an increase of approximately RMB20,732,000 or 28.5%, from approximately RMB72,784,000 for the six months ended 30 June 2010. It was mainly due to the increase in sales volume in the first half of 2011, and hence costs of raw materials (which was also affected by the increases in crude oil price and cotton price in the first quarter of 2011), direct labour cost and subcontracting charges increased in this period.

### **Gross profit and gross profit margin**

Our gross profit amounted to approximately RMB46,642,000 for the six months ended 30 June 2011, representing an increase of approximately RMB18,069,000 from the gross profit of approximately RMB28,573,000 for the six months ended 30 June 2010 as a result of the increase in average selling prices of our products in the first half of 2011. Our overall gross profit margin increased from approximately 28.2% for the six months ended 30 June 2010 to 33.3% for the six months ended 30 June 2011 due to (i) the expansion of our range of product offerings and improvement in our product quality; (ii) increase in the percentage of sales of functional products, which had a higher gross profit margin; and (iii) both existing and new customers (through referral) were willing to pay a higher price for our quality.

### **Other income and gains**

Our other income and gains for the six months ended 30 June 2011 amounted to approximately RMB110,000 which mainly represented interest income from bank deposits while other income and gains for the six months ended 30 June 2010 in an amount of approximately RMB367,000 also included rental income generated from an investment property held by our Group in Hong Kong before the same was sold in second half of 2010.

### **Selling and distribution expenses**

For the six months ended 30 June 2011, our selling and distribution expenses amounted to approximately RMB3,973,000, representing an increase of approximately RMB1,585,000 or 66.4%, from approximately RMB2,388,000 for the six months ended 30 June 2010, as a result of the increase in sales for the six months ended 30 June 2011 as compared to the same period in 2010. The selling and distribution expenses accounted for 2.4% and 2.8% of the revenue for the six months ended 30 June 2010 and 2011 respectively.

### **Share-based payment**

For the six months ended 30 June 2011, a one-off share-based payment of RMB5,800,000 in relation to the Share Compensation (details of which is set out in the paragraph headed “History, reorganisation and group structure — Pre-listing Share compensation to our management” of this prospectus) was incurred.

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### **Administrative expenses**

For the six months ended 30 June 2011, our administrative expenses amounted to approximately RMB23,536,000, representing an increase of approximately RMB11,362,000, or 93.3%, from approximately RMB12,174,000 for the six months ended 30 June 2010. Such increase was primarily due to certain one-off professional fees of approximately RMB5,610,000 in relation to the Listing was incurred and accounted as part of the administrative expenses. Furthermore, salaries for the administrative staff have increased by approximately RMB2,252,000 for the six months ended 30 June 2011 as compared to that of the same period in 2010. The relevant staff benefits and social insurance, which were calculated based on their salaries, also increased for the six months ended 30 June 2011. Besides, there was an increase in the amount of new year bonus paid to our senior management in the six months ended 30 June 2011 for their performance in the year of 2010.

### **Finance costs**

Our finance costs amounted to approximately RMB2,777,000 for the six months ended 30 June 2011, representing an increase of approximately RMB678,000 or 32.3%, from approximately RMB2,099,000 for the six months ended 30 June 2010. Such increase was mainly due to the increase in our outstanding balance of short-term and long-term interest-bearing loans, which amounted to approximately RMB131,046,000 as at 30 June 2011 as compared to approximately RMB115,639,000 as at 30 June 2010.

### **Profit before tax**

Despite our sales (in terms of both volume and amounts) increased for the six months ended 30 June 2011 as compared to the corresponding period in 2010, our profit before tax decreased from approximately RMB12,279,000 for the six months ended 30 June 2010 to approximately RMB10,666,000 for the six months ended 30 June 2011, representing a decrease of approximately 13.1%, as a result of the increase in administrative expenses and the incurrence of share-based payment as detailed in the sub-paragraphs headed “Administrative expenses” and “Share-based payment” above.

### **Income tax expense**

Our income tax expense amounted to approximately RMB6,549,000 for the six months ended 30 June 2011, representing an effective tax rate of approximately 61.4%. As compared to our income tax expense of approximately RMB2,786,000, representing an effective tax rate of approximately 22.7% for the six months ended 30 June 2010, our income tax expense increased by approximately 135.1%, which was primarily due to (i) the term of 50% tax reduction expired for Zhucheng Yumin Knitting and Zhucheng Yumin Knitting was since then subject to the standard EIT rate of 25% for the six months ended 30 June 2011 as compared to the EIT rate of 12.5% for the corresponding period in 2010; and (ii) the tax effect of RMB2,947,000 on non-deductible expenses including professional fees for Listing and the share-based payment mentioned in the sub-paragraphs headed “Administrative expenses” and “Share-based payment” above. As a result, our overall effective tax rate increased in the first half of 2011.

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### **Profit for the period and profit margin**

We recorded a net profit of approximately RMB4,117,000 for the six months ended 30 June 2011, representing a decrease of approximately RMB5,376,000 or 56.6%, from approximately RMB9,493,000 for the six months ended 30 June 2010 as a result of the increase in administrative expenses and the incurrence of share-based payment as detailed in the subparagraphs headed “Administrative expenses” and “Share-based payment” above. Accordingly, our profit margin for the six months ended 30 June 2011 was approximately 2.9%, as compared to approximately 9.4% for the corresponding period in 2010.

### ***Year ended 31 December 2010 compared with year ended 31 December 2009***

#### **Revenue**

For the year ended 31 December 2010, our Group recorded a revenue of approximately RMB378,289,000, representing an increase of approximately RMB183,377,000, or approximately 94.1%, from approximately RMB194,912,000 for the year ended 31 December 2009. The sale volume of general fabrics, functional fabrics, general innerwear and functional innerwear for the year ended 31 December 2010 were approximately 401 tons, and 1,317 tons, 12,699,000 pieces and 7,095,000 pieces respectively, whilst the sale volume of these products for the year ended 31 December 2009 were approximately 340 tons, 226 tons, 10,788,000 pieces and 3,909,000 pieces respectively.

The growth in revenue was mainly due to the adjustment on our product development strategy. Starting from April 2009, we changed our focus from general fabrics and innerwear to functional fabrics and innerwear. During the year 2010, we continued to adopt this strategy and further expanded our fabrics segment. In 2010, we not only increased our sales of functional innerwear to our OEM customers, but also increased our sale of functional fabrics to domestic manufacturers, who are our new customers. Our sales of functional fabrics also increased by approximately RMB88,627,000, or approximately 7.3 times, from RMB12,065,000 for the year ended 31 December 2009 to RMB100,692,000 for the year ended 31 December 2010.

Sales of innerwear products remained the major revenue stream of our Group although its proportion to our total revenue dropped from about 86.7% in 2009 to 68.1% in 2010. The sales of innerwear products amounted to approximately RMB257,686,000 for the year ended 31 December 2010, significantly increased by approximately RMB88,612,000, or approximately 52.4%, from approximately RMB169,074,000 for the year ended 31 December 2009. It was mainly attributed to the full-year implementation of the strategy mentioned above in 2010, as compared to only 8-months implementation in 2009. The proportion of general and functional innerwear sold to total revenue was changed from approximately 48.8% and 37.9% in 2009 to approximately 32.0% and 36.1% in 2010. New customers we solicited in 2009 who were interested in our functional innerwear continued to place and increase their orders to us. As a result, the sales of functional innerwear increased by approximately 85.1% from approximately RMB73,856,000 for the year ended 31 December 2009 to approximately RMB136,681,000 for the corresponding period of 2010 while the sales of general innerwear only increased by approximately 27.1% from approximately RMB95,218,000 for the year ended 31 December 2009

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to approximately RMB121,005,000 for the corresponding period of 2010. The increase in sales of general innerwear in 2010 mainly represented our sales of infants' and toddlers' innerwear amounted to approximately RMB26,895,000 to a new customer in the US through a sourcing agent.

### **Cost of sales**

For the year ended 31 December 2010, cost of sales was approximately RMB272,644,000, representing an increase of approximately RMB145,148,000 or approximately 1.1 times, from approximately RMB127,496,000 for the year ended 31 December 2009. Cost of raw materials, direct labour costs and subcontracting charges increased significantly during the year ended 31 December 2010 as a result of the increase in sales volume in 2010 and also the increases in unit prices of certain raw materials, particularly for cotton yarns and fabrics, synthetic yarns and dyes which were affected directly by the commodity prices of cotton and crude oil. Average price of cotton per ton increased from RMB12,804 in 2009 to RMB19,373 in 2010, while the average price of crude oil per barrel increased from US\$60.07 in 2009 to US\$77.68 in 2010. Cost of direct labour incurred for our own manufacturing operations also increased due to the general inflation in the PRC during the year 2010. Subcontracting charges increased as we needed to subcontract more knitting, sewing and embroidery processes to subcontractors to meet delivery schedules during our peak season when our production capacity was temporarily fully loaded.

### **Gross profit and gross profit margin**

Our gross profit of approximately RMB105,645,000 for the year ended 31 December 2010 increased by approximately 56.7% from approximately RMB67,416,000 for the year ended 31 December 2009 as a result of increase in sales volume in 2010. Our overall gross profit margin decreased from approximately 34.6% for the year ended 31 December 2009 to approximately 27.9% for the corresponding period in 2010. The decrease in gross profit margin was mainly due to the increase in cost of sales mentioned above and the change our product mix in 2010. Although both of our sales of functional fabrics and functional innerwear increased in 2010, our sales of functional fabrics increased at a rate greater than that of sales of functional innerwear. The percentage of sales of functional fabrics increased from approximately 6.2% in 2009 to approximately 26.6% in 2010 while the percentage of sales of functional innerwear decreased from approximately 37.9% in 2009 to approximately 36.1% in 2010. Since we normally add extra margin for our additional process to produce the functional fabrics into innerwear, the gross profit margin of functional innerwear, which was approximately 37.6% in 2010, was generally higher than that of functional fabrics, which was approximately 27.1% in 2010. Besides, as mentioned in the sub-paragraph headed "Revenue" above, we also increased our sales of innerwear for infants. In order to capture new customers and expand our sales, we offered our customers a lower price for these products. Nevertheless, the production cost for these products was higher than our other general innerwear as this segment was still at an early stage of development and we have not achieved the economies of scale in the production of these products. As a result of the above, there was a decrease of our overall gross profit margin in 2010 as compared to that of 2009.

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### **Other income and gains**

For the year ended 31 December 2010, our other income and gains were approximately RMB3,896,000, representing an increase of approximately RMB3,363,000, or approximately 6.3 times, from approximately RMB533,000 for the year ended 31 December 2009. Such increase principally reflects the gain of approximately RMB3,293,000 on disposal of an investment property held by our Group in Hong Kong in August 2010 to Sea Union International Limited, a related party to our Group.

### **Selling and distribution expenses**

For the year ended 31 December 2010, our Group recorded a selling and distribution expenses of approximately RMB10,391,000, representing an increase of approximately RMB4,545,000, or approximately 77.7%, from approximately RMB5,846,000 for the year ended 31 December 2009. Such increase was principally due to the increase of approximately RMB3,379,000 in transportation costs incurred for (i) local delivery as a result of increase in our sale of functional fabrics to our new local customers and (ii) overseas delivery as a result of increase in our sales of infants' innerwear during the year ended 31 December 2010 mentioned in the sub-paragraph headed "Revenue" above.

### **Administrative expenses**

For the year ended 31 December 2010, the administrative expenses were approximately RMB27,984,000, representing an increase of approximately RMB10,264,000, or approximately 57.9%, from approximately RMB17,720,000 for the year ended 31 December 2009. Such increase was mainly attributed to the increase in staff salaries and welfare as a result of group expansion, average number of staff increased from 152 to 171 with average salary increased by approximately 14.8% during the year 2010. It was also attributed to the increases in depreciation of office equipment and amortisation of prepaid lease payments of leasehold lands and ERP system, exchange difference, motor vehicle expenses, office expenses and other taxes due to our business expansion.

### **Finance costs**

For the year ended 31 December 2010, our finance cost was approximately RMB4,761,000, representing an increase of approximately RMB1,115,000, or approximately 30.6%, from approximately RMB3,646,000 for the year ended 31 December 2009. Such increase was mainly due to the increase in our outstanding balance of interest-bearing loans from approximately RMB62,156,000 as at 31 December 2009 to approximately RMB85,813,000 as at 31 December 2010.

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### **Profit before tax**

As a result of the increase in our sales (both in terms of volume and amounts) in year 2010 as discussed in the sub-paragraph headed “Revenue” above, our profit before tax recorded an increase of around RMB25,668,000 from approximately RMB40,737,000 for the year ended 31 December 2009 to approximately RMB66,405,000 for the year ended 31 December 2010, representing a growth of approximately 63.0%.

### **Income tax expense**

We recorded an income tax expense for the year ended 31 December 2010 amounted to approximately RMB12,934,000, representing an effective tax rate of approximately 19.5%. As compared with the income tax expense of approximately RMB9,125,000 for the year ended 31 December 2009, which represented an effective tax rate of about approximately 22.4%, our income tax expense increased by approximately 41.7%. The drop in effective tax rate was principally attributed to the increase in profit contributed by Zhucheng Yumin Knitting. Zhucheng Yumin Knitting is engaged in manufacture and sales of fabrics and still enjoys the tax reduction of 50% in 2010. As a result of increase in sales of fabrics, its profit for the year ended 31 December 2010 increased and increased at a faster rate as compared to that of Zhucheng Eternal Knitting, which is engaged in the manufacture and sales of innerwear and is subject to the standard EIT rate of 25%. As a result, our overall effective tax rate decreased in 2010.

### **Profit for the year and profit margin**

For the year ended 31 December 2010, profit for the year was approximately RMB53,471,000, representing an increase of approximately RMB21,859,000, or approximately 69.1%, from approximately RMB31,612,000 for the year ended 31 December 2009. Profit margin was approximately 16.2% and 14.1% for the years ended 31 December 2009 and 2010 respectively. The slight decrease of the profit margin for the year ended 31 December 2010 was mainly due to the reasons described under the sub-paragraph headed “Gross profit and gross profit margin” above.

### ***Year ended 31 December 2009 compared with year ended 31 December 2008***

#### **Revenue**

For the year ended 31 December 2009, our Group recorded a revenue of approximately RMB194,912,000, representing an increase of approximately RMB58,724,000, or approximately 43.1%, from approximately RMB136,188,000 for the year ended 31 December 2008. The sales volume of general fabrics, functional fabrics, general innerwear and functional innerwear for the year ended 31 December 2009 were approximately 340 tons, 226 tons, 10,788,000 pieces and 3,909,000 pieces respectively, whilst the sale volume of these products for the year ended 31 December 2008 were approximately 584 tons, nil, 12,028,000 pieces and nil respectively.



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The growth in revenue was mainly due to the adjustment on our development and production strategy. Starting from April 2009, we changed our focus from manufacturing of general and fabrics innerwear to functional fabrics and innerwear. Our sales of functional fabrics was approximately RMB12,065,000 for the year ended 31 December 2009 as compared to no sales of functional fabrics noted for the year ended 31 December 2008.

Sales of innerwear products remained the major revenue stream of our Group in 2009. The sales of innerwear products amounted to approximately RMB169,074,000 for the year ended 31 December 2009, significantly increased by approximately RMB56,526,000, or approximately 50.2%, from approximately RMB112,548,000 for the year ended 31 December 2008. It was mainly attributed to the change of strategy mentioned above which led to a change in the product mix of our Group. The proportion of general and functional innerwear sold was changed from approximately 82.6% and 0% in 2008 to approximately 48.8% and 37.9% in 2009. In addition, we were able to solicit new customers in 2009 who were interested in our functional innerwear and willing to pay at a higher premium for high performance and better quality products. The selling prices of innerwear made with functional fabrics were normally higher than those made with general fabrics. As a result, the sales of functional innerwear amounted to approximately RMB73,856,000 for the year ended 31 December 2009 as compared to no sales of functional innerwear for the corresponding period of 2008 while the sales of general innerwear decreased by approximately 15.4% from approximately RMB112,548,000 for the year ended 31 December 2008 to approximately RMB95,218,000 for the corresponding period of 2009.

### **Cost of sales**

For the year ended 31 December 2009, cost of sales amounted to approximately RMB127,496,000, representing an increase of approximately RMB24,977,000, or approximately 24.4%, from approximately RMB102,519,000 for the year ended 31 December 2008. It was principally due to the increase in sales volume in 2009. Consequently, cost of raw materials, direct labour costs and subcontracting charges increased for the same period. Cost of direct labour incurred for our own manufacturing operations also increased due to the general inflation in the PRC during the year 2009. Subcontracting charges increased as we needed to subcontract more knitting, sewing and embroidery processes to subcontractors to meet delivery schedules during our peak season when our production capacity was temporarily full.

### **Gross profit and gross profit margin**

Our gross profit was approximately RMB67,416,000 for the year ended 31 December 2009, representing an increase of approximately 100.2% from approximately RMB33,669,000 for the year ended 31 December 2008. Our overall gross profit margin also increased from approximately 24.7% for the year ended 31 December 2008 to approximately 34.6% for the corresponding period in 2009. The increase in gross profit and gross profit margin resulted from the change of product mix described under the sub-paragraph headed “Revenue” above. Rate of our revenue growth was faster than the rate of increase in our cost of sales since we were able to sell functional fabrics and innerwear in 2009 for which we charged for higher premiums. Based on our Directors’ experience, extra value was added to various types of functional fabrics and

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innerwear we produce with our know-how on the formulas of yarns mixing and fabrics dyeing during the production processes, which are, according to our Directors, the most important factors determining the quality and comfortability of the fabrics.

### **Other income and gains**

For the year ended 31 December 2009, our other income and gains amounted to RMB533,000, representing an increase of RMB161,000, or approximately 43.3%, from RMB372,000 for the year ended 31 December 2008. Such increase principally reflected the increase in rental income of RMB148,000 from an investment property held by us in Hong Kong. This property was rented to third party since June 2008 and sold in August 2010.

### **Selling and distribution expenses**

For the year ended 31 December 2009, our Group recorded a selling and distribution expenses of approximately RMB5,846,000, representing an increase of approximately RMB1,403,000, or approximately 31.6%, from approximately RMB4,443,000 for the year ended 31 December 2008. Such increase was principally due to the increases in commission, inspection fee and port expenses paid which were commensurated with the increase in our revenue.

### **Administrative expenses**

For the year ended 31 December 2009, the administrative expenses were approximately RMB17,720,000, increased by approximately RMB1,943,000, or approximately 12.3%, from approximately RMB15,777,000 for the year ended 31 December 2008. Such increase was mainly attributed to the increase in salaries and staff benefit as a result of group expansion, average number of staff increased from 128 to 152 with average salary increased by 5.0% during the year 2009.

### **Finance costs**

For the year ended 31 December 2009, our finance costs was approximately RMB3,646,000, representing a decrease of approximately RMB725,000, or approximately 16.6%, from approximately RMB4,371,000 for the year ended 31 December 2008. Such decrease resulted from the decrease in our average loan interest rates from approximately 8.2% in 2008 to approximately 6.0% in 2009.

### **Profit before tax**

Due to the increase in functional innerwear sold and improvement in the gross profit margin as a result of the change in product mix described in the sub-paragraphs headed “Revenue” and “Gross profit and gross profit margin” above, our profit before tax recorded an increase of approximately RMB31,287,000 or approximately 3.3 times from RMB9,450,000 for the year ended 31 December 2008 to RMB40,737,000 for the corresponding period of 2009.

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### Income tax expense

We recorded an income tax expense for the year ended 31 December 2009 amounted to approximately RMB9,125,000, representing an effective tax rate of approximately 22.4%. No material fluctuation was noted in effective tax rate as compared with the effective tax rate of about 21.2% for the year ended 31 December 2008, but represented an increase by approximately 3.6 times as compared to that of approximately RMB2,002,000 for the year ended 31 December 2008. Such increase was in line with the increase in profit before tax.

### Profit for the year and profit margin

For the year ended 31 December 2009, profit for the year was approximately RMB31,612,000, increased by approximately RMB24,164,000, or around 3.2 times, from approximately RMB7,448,000 for the year ended 31 December 2008. Profit margin was about 5.5% and 16.2% for the years ended 31 December 2008 and 2009 respectively. The increase in profit for the year and the profit margin for the year ended 31 December 2009 was due to the increased percentage of sales of higher profit margin fabrics and innerwear mentioned above.

### Selected information of consolidated statements of financial position

The table below sets forth the selected information of our Group's audited consolidated statements of financial position as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively, which are also set forth in the Accountants' Report in Appendix I to this prospectus.

	As at 31 December			As at
	2008	2009	2010	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Total non-current assets	93,713	99,990	129,772	142,467
Total current assets	49,751	90,299	143,659	186,126
Total current liabilities	<u>(107,828)</u>	<u>(125,398)</u>	<u>(140,874)</u>	<u>(186,049)</u>
Net current assets (liabilities)	(58,077)	(35,099)	2,785	77
Total assets less current liabilities	35,636	64,891	132,557	142,544
Total non-current liabilities	<u>(6,191)</u>	<u>(4,000)</u>	<u>(18,000)</u>	<u>(18,000)</u>
Net assets/Total equity	<u>29,445</u>	<u>60,891</u>	<u>114,557</u>	<u>124,544</u>

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### NET CURRENT ASSETS

Details of our current assets and current liabilities as at 31 December 2008, 2009 and 2010, 30 June 2011 and as at 31 October 2011, being the latest practicable date for the preparation of the indebtedness statement in this prospectus, are set out below respectively:

	As at 31 December			As at	As at
	2008	2009	2010	30 June 2011	31 October 2011
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
<b>Current assets</b>					
Inventories	20,831	24,690	51,400	100,473	55,849
Trade receivables	7,959	13,348	54,854	31,661	30,113
Prepayments and other receivables	5,944	6,336	17,097	22,135	16,582
Amount due from shareholders	—	—	—	3,731	—
Amount due from a related party	—	—	957	2,954	—
Prepaid lease payments	242	242	297	297	297
Restricted bank deposits	10,905	25,922	9,600	8,210	14,180
Cash and bank balances	3,870	19,761	9,454	16,665	36,448
	<u>49,751</u>	<u>90,299</u>	<u>143,659</u>	<u>186,126</u>	<u>153,469</u>
<b>Current liabilities</b>					
Trade and bills payables	38,312	51,615	55,038	53,764	42,319
Accruals and other payables	5,771	4,679	10,712	12,247	11,694
Advance from customers	257	1,109	408	671	—
Amount due to a shareholder	8,015	4,281	1,559	—	—
Amounts due to related parties	178	1,683	728	753	—
Interest-bearing borrowings	54,167	58,156	67,813	113,046	79,278
Income tax payable	1,128	3,875	4,616	5,568	6,477
	<u>107,828</u>	<u>125,398</u>	<u>140,874</u>	<u>186,049</u>	<u>139,768</u>
<b>Net current assets (liabilities)</b>	<u><u>(58,077)</u></u>	<u><u>(35,099)</u></u>	<u><u>2,785</u></u>	<u><u>77</u></u>	<u><u>13,701</u></u>

We had net current liabilities of approximately RMB58,077,000 and RMB35,099,000 as at 31 December 2008 and 2009 respectively, which was primarily due to the utilisation of short-term bank loans from PRC licensed banks and other loans to finance our Group's business and enhancement of our production facilities. The amount of short-term bank loans and other loans amounted to RMB54,167,000 and RMB58,156,000 as at 31 December 2008 and 2009 respectively. There was an improvement in our net current liabilities position as at 31 December 2009 as compared to that as at 31 December 2008. Despite the increase in trade and bills payables, the improvement was mainly due to the increase in our working capital resources, mainly restricted bank deposits, trade receivables and cash and bank balances, generated from sales of our products during the year 2009, higher level of inventories prepared for the expected sales growth and decrease in amount due to a shareholder.

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Our working capital resources was further improved during the year 2010, from net current liabilities of approximately RMB35,099,000 as at 31 December 2009 to net current assets of approximately RMB2,785,000 as at 31 December 2010. Although there was a decrease in our restricted bank deposits and cash and bank balances, our level of inventories increased as our management expected that there will be a continuous increase in price of raw materials in the near future, and thus we intentionally procured more inventories as at 31 December 2010 as a method to control our cost of sales. Besides, our level of work-in-progress also increased to satisfy customers' orders which were due for delivery shortly after year ended. It is also noted that our trade receivables increased significantly as a result of the increase in our sales to domestic customers and our new US customer (through a sourcing agent) mentioned in the paragraph headed "Period to period/year to year comparison of results of our Group's operations — Year ended 31 December 2010 compared with year ended 31 December 2009 — Revenue" in this section, who normally settle their payments longer than our Japanese customers. Furthermore, despite the increase in trade and bills payables and interest-bearing borrowings, which was normal as our business has been expanding (in terms of both operating and capital nature), our amount due to a shareholder further decreased as at 31 December 2010.

As at 30 June 2011, we recorded net current assets of approximately RMB77,000. Our cash and bank balances increased from approximately RMB9,454,000 as at 31 December 2010 to RMB16,665,000 as at 30 June 2011. Apart from this, our inventories increased significantly from RMB51,400,000 as at 31 December 2010 to approximately RMB100,473,000 as at 30 June 2011 as we needed to maintain a higher inventory level to manufacture the products for delivery in the third quarter of 2011, which is the peak season for delivery. Such increase was offset by the increase in interest-bearing borrowings to finance our Group's business and enhancing our production facilities.

As at 31 October 2011, being the latest practicable date for the preparation of the indebtedness statement in this prospectus, we recorded net current assets of approximately RMB13,701,000. Our cash and bank balances increased from approximately RMB16,665,000 as at 30 June 2011 to approximately RMB36,448,000. Prepayment and other receivables decreased from approximately RMB22,135,000 to approximately RMB16,582,000 as advance to suppliers was utilised for purchase of raw materials. Apart from this, trade and bills payables as well as accruals and other payables decreased from approximately RMB53,764,000 and RMB12,247,000 as at 30 June 2011 to approximately RMB42,319,000 and RMB11,694,000 as at 31 October 2011 respectively as our Group settled part of the payables due to our Group's suppliers. The interest-bearing borrowings also decreased from approximately RMB113,046,000 as at 30 June 2011 to approximately RMB79,278,000 as at 31 October 2011 as we repaid certain short-term bank loan upon receiving the settlement from the customers.

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### Inventories

Inventories is the key item of our current assets and represented approximately 41.9%, 27.3%, 35.8% and 54.0% of our total current assets as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively. Our inventories mainly comprised raw materials, work-in progress and finished goods. The following table sets forth the balance of our inventories as at each of the balance sheet dates during the Track Record Period:

	As at 31 December			As at
	2008	2009	2010	30 June
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Raw materials	7,019	5,092	14,942	41,157
Work-in-progress	9,903	9,813	31,440	49,244
Finished goods	3,909	9,785	5,018	10,072
	20,831	24,690	51,400	100,473
	20,831	24,690	51,400	100,473

The gradual increase in our inventory balance as at each of the year/period end date during our Track Record Period was mainly due to the expansion of our business. The increase in inventories for the year 2010 also attributed to our intention to procure more inventories as a method to control our cost of sales due to our management's expectation on the continuous increase in price of raw materials in the near future, and our increased level of work-in-progress to satisfy customers' orders which were due for delivery shortly after year ended. As at 30 June 2011, there was a substantial increase of inventories as we need to maintain a higher level of inventory to satisfy customers' orders in the third quarter of 2011. Our Group will continue to monitor and control the level of inventories to avoid excess orders was made for raw materials or excess production of our products, and will also monitor the market price of raw materials and make necessary procurement to minimise the production costs. We normally confirm purchase orders with our customers before purchasing raw materials and making production.

We do not have a general inventory impairments policy. Only specific impairments were made on inventories aged over one year. During the Track Record Period, we made impairments for slow-moving inventories of nil, RMB58,000, RMB646,000 and nil for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 respectively. As at the Latest Practicable Date, 96.8% of our inventories as at 30 June 2011 were consumed or sold.

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### *Average inventory turnover days*

The following table summaries the average inventory turnover days for the Track Record Period:

	<b>For the year ended 31 December</b>			<b>For the six months ended 30 June 2011</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Average inventory turnover days ( <i>note</i> )	60	65	51	147

*Note:* Calculated as the average of the beginning and ending inventory balances for the year/period, divided by the cost of sales for the year/period, multiplied by 365 days/181 days.

The average inventory turnover days increased from 60 days for the year ended 31 December 2008 to 65 days for the year ended 31 December 2009 and decreased to 51 days for the year ended 31 December 2010. The increase in 2009 was primarily due to the reason that Shandong Grand Concord, one of our PRC subsidiaries, was only established in July 2007 and commenced its production in May 2008. It normally took more time for Shandong Grand Concord to complete a sale from customer order to product delivery as compared to those of Zhucheng Eternal Knitting and Zhucheng Yumin Knitting. Our management considered that the situation will be improved in the near future once the workers of Shandong Grand Concord become familiar with the operations.

The decrease in 2010 was due to the change of our product mix in 2010. As described above, our sales of functional fabrics increased in a rate greater than that of sales of functional innerwear. Since less production processes were required, our lead time for functional fabrics is shorter than that for functional innerwear, therefore our average inventory turnover days was shortened for year ended 31 December 2010.

For the six months ended 30 June 2011, the average inventory turnover days increased from 51 days to approximately 147 days as starting from the third quarter of 2011, which is our peak season for delivery, we need to stock up raw materials and work-in-progress and finished goods as at 30 June 2011 to satisfy our customers' orders shortly after the period ended.

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### Trade receivables

Set out below are the balances of our trade receivables as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively, together with the aging analysis of our trade receivables net of allowance of impairment of doubtful debts for the Track Record Period:

	<b>As at 31 December</b>			<b>As at</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>30 June</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<b>2011</b>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Trade receivables	7,998	13,387	54,893	31,700
Less: allowance for doubtful debts	(39)	(39)	(39)	(39)
	<u>7,959</u>	<u>13,348</u>	<u>54,854</u>	<u>31,661</u>

	<b>As at 31 December</b>			<b>As at</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>30 June</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<b>2011</b>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
<b>Aging analysis of trade receivables</b>				
0 — 30 days	6,160	9,274	38,492	29,618
31 — 60 days	1,163	739	15,725	1,657
61 — 90 days	43	8	190	164
Over 90 days	593	3,327	447	222
Total	<u>7,959</u>	<u>13,348</u>	<u>54,854</u>	<u>31,661</u>

Our trade receivables represented around 16.0%, 14.8%, 38.2% and 17.0% of our total current assets as at 31 December 2008, 2009 and 2010 and 30 June 2011. The increase in our trade receivables from approximately RMB7,959,000 as at 31 December 2008 to approximately RMB13,348,000 as at 31 December 2009, and further to approximately RMB54,854,000 as at 31 December 2010 were primarily due to our business expansion in the three years ended 31 December 2010. The increase as at 31 December 2010 was also attributed to the increase in our sales to domestic customers (whose credit terms are usually 60 days) and our new US customer (through a sourcing agent) who normally settles its payments longer than our Japanese customers (whose credit terms are usually 30 days). As at 31 December 2010, the trade receivables from the new US customer (through a sourcing agent) was approximately RMB21,797,000 with a credit term of 30 days. However, this customer normally settles its payments within 60 days after all shipping documents are received.



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For the six months ended 30 June 2011, our trade receivables decreased to approximately RMB31,661,000 as our sales was relatively low in the first half of 2011 since our Group normally recorded higher sales in the second half of the year.

Except for some new and relatively small customers, where deposits of 20-30% in advance are normally required, we generally provide trade credits to the majority of our customers of 30 to 60 days from the date of invoices depending on the creditworthiness of the customers. All credit terms are subject to our senior management's approval. Payments are generally settled in USD and RMB. Most of our customers settle their payments through letter of credits, while some of them settle through telegraphic transfers or cash on delivery.

### *Average trade receivable turnover days*

The table below shows our average trade receivable turnover days for the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June
	2008	2009	2010	2011
Average trade receivable turnover days ( <i>note</i> )	<u>22</u>	<u>20</u>	<u>33</u>	<u>56</u>

*Note:* Calculated as the average of the beginning and ending trade receivable balances for the year/period, divided by the revenue for the year/period, multiplied by 365 days/181 days.

The average trade receivable turnover days were similar for both years ended 31 December 2008 and 2009, being 22 days and 20 days respectively, but increased to 33 days for the year ended 31 December 2010 and further increased to 56 days for the six months ended 30 June 2011. The increase in average trade receivable turnover days for the year ended 31 December 2010 and the six months ended 30 June 2011 was mainly due to the increase in sales to domestic customers and US customers, whose settlement periods are longer than our Japanese customers as mentioned above.

Our sales representatives are responsible to collect outstanding trade receivables from customers, they normally prepare daily reports to closely monitor the amount due from customers. As at the Latest Practicable Date, approximately 98.4% of trade receivables as at 30 June 2011 have been settled, among which, all of trade receivables of our US customer (through a sourcing agent) as at 30 June 2011 have been settled.

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We do not have a general doubtful debt provision policy. We based on the aging of trade receivable balances, customers' creditworthiness, and historical write-off experience to estimate impairment losses for trade receivables. During the Track Record Period, substantial balances of trade receivables were neither past due nor impaired as there was no recent history of default of most of our customers. However, as set out in the table below, there were debtors with aggregate carrying amounts of approximately RMB636,000, RMB3,335,000, RMB637,000 and RMB386,000 included in our Group's trade receivable balances as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively, which were past due as at the respective reporting dates for which we have not provided for impairment loss.

### *Aging of trade receivables based on payment due date*

As at	Total (RMB'000)	Neither past due nor impaired (RMB'000)	Past due but not impaired		
			Less than 30 days (RMB'000)	31 — 120 days (RMB'000)	Over 120 days (RMB'000)
31 December 2008	7,959	7,323	43	133	460
31 December 2009	13,348	10,013	8	2,077	1,250
31 December 2010	54,854	54,217	190	447	—
30 June 2011	31,661	31,275	164	201	21

Trade receivables that were past due but not impaired related to a number of customers that have good relationships with us. Based on past experience, we believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in creditworthiness and the balances are still considered fully recoverable.

During the Track Record Period, impairment losses of RMB28,000, nil, nil and nil for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 respectively were provided as we assessed that the relevant trade receivables, which were overdue for 1 year, were not recoverable and determined to be impaired.

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### Prepayments and other receivables

Set out below are the balances of our prepayments and other receivables as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively.

	As at 31 December			As at
	2008	2009	2010	30 June
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Prepayments	—	462	3,752	3,483
Advance to suppliers	3,393	4,024	7,694	10,319
Other receivables	2,551	1,850	5,651	8,572
	<u>5,944</u>	<u>6,336</u>	<u>17,097</u>	<u>22,374</u>
<i>Less: Amount shown under non-current portion</i>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(239)</u>
	<u><u>5,944</u></u>	<u><u>6,336</u></u>	<u><u>17,097</u></u>	<u><u>22,135</u></u>

The total prepayments and other receivables represented approximately 11.9%, 7.0%, 11.9% and 11.9% of the total current asset as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively.

Our prepayments mainly represented the fees prepaid to professionals involved in the Listing during the Track Record Period.

Our advances to suppliers increased by approximately 18.6% from RMB3,393,000 as at 31 December 2008 to RMB4,024,000 as at 31 December 2009, and further increased by approximately 91.2% to RMB7,694,000 as at 31 December 2010, which was mainly due to the increase in the amount prepaid for our raw materials and deposits for our new machinery as a result of our business expansion. Furthermore, in view of the significant increase in raw materials consumption in 2010, it is our intentions to increase our advances to suppliers in 2010 to secure the stable supply of and cost control on raw materials in the coming year. As at 30 June 2011, our advance to suppliers amounted to approximately RMB10,319,000, representing an increase of approximately 34.1% from approximately RMB7,694,000 as at 31 December 2010, as our Group needs to maintain a higher level of inventory to satisfy customers' orders in the third quarter of 2011 and hence more advances were paid to the suppliers for purchasing the raw materials.

Other receivables mainly represent value-added tax (“VAT”) refundable and other receivables. The VAT refundable is derived when (i) input VAT (derived from domestic purchases) is larger than output VAT (derived from domestic sales); or (ii) exempted VAT (derived from the difference between export sales and import purchases), whichever is the lower

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in the same period. For the years ended 31 December 2008, 2009 and 2010, VAT refundable was calculated based on (i) mentioned above, and for the six months ended 30 June 2011, it was calculated based on (ii) mentioned above. The VAT refundable as at 31 December 2008 and 2009 were approximately RMB1,817,000 and RMB1,724,000, respectively. The VAT refundable increased by 2.1 times to approximately RMB5,392,000 as at 31 December 2010 as our Group intentionally increased the inventory level by means of purchases during the end of 2010. As at 30 June 2011, our other receivables increased by approximately RMB2,921,000 or 51.7% from approximately RMB5,651,000 as at 31 December 2010 to approximately RMB8,572,000. Such amount principally comprised (i) VAT refundable in the amount of approximately RMB3,535,000, which decreased by RMB1,857,000 as a result of relatively lower export sales during the first half of 2011 comparing to that of the full year of 2010; and (ii) freight charges in the amount of approximately RMB4,245,000 which were paid by our Group on behalf of customers in advance for express delivery of our products. As at the Latest Practicable Date, approximately RMB3,000,000 was reimbursed by these customers.

### Trade and bills payables

Set out below are the balances of our trade and bills payables as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively, together with the aging analysis of our trade payables for the Track Record Period:

	As at 31 December			As at
	2008	2009	2010	30 June
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Trade payables	27,407	25,693	47,228	45,554
Bills payables	10,905	25,922	7,810	8,210
<b>Total</b>	<b>38,312</b>	<b>51,615</b>	<b>55,038</b>	<b>53,764</b>

	As at 31 December			As at
	2008	2009	2010	30 June
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
<b>Aging analysis of trade and bill payables</b>				
0 — 30 days	13,714	18,821	25,956	36,560
31 — 90 days	11,786	14,374	14,034	11,648
91 — 180 days	8,225	12,566	9,854	2,106
Over 180 days	4,587	5,854	5,194	3,450
<b>Total</b>	<b>38,312</b>	<b>51,615</b>	<b>55,038</b>	<b>53,764</b>

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Our trade and bills payables mainly related to the purchase of raw materials which represented approximately 35.5%, 41.2%, 39.1% and 28.9% of our total current liabilities as at 31 December 2008, 2009 and 2010 and 30 June 2011.

Our trade and bills payables increased from approximately RMB38,312,000 as at 31 December 2008 to approximately RMB51,615,000 as at 31 December 2009, then increased to approximately RMB55,038,000 as at 31 December 2010. These increases were primarily due to the increase in purchases of raw materials driven by the increase in sales volume during the Track Record Period. As at 30 June 2011, our trade and bills payables amounted to approximately RMB53,764,000, which decreased slightly as compared to approximately RMB55,038,000 as at 31 December 2010.

Our suppliers generally offer our Group between 30 to 120 days of trade credits. Our purchases are mainly made in RMB and settled with telegraphic transfer and bills. There are no current disputes between our Group and any of its suppliers.

### *Average trade and bills payable turnover days*

Set out below is our average trade and bills payable turnover days during the Track Record Period:

	<b>For the year ended 31 December</b>			<b>For the six months ended</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>30 June 2011</b>
Average trade and bills payable turnover days ( <i>note</i> )	<u>107</u>	<u>129</u>	<u>71</u>	<u>105</u>

*Note:* Calculated as the average of the beginning and ending trade and bills payable balance for the year/period, divided by the cost of sales for the year/period, multiplied by 365 days/181 days.

Our trade and bills payable turnover days during the Track Record Period were generally in line with the trade credit periods granted by our suppliers. The average trade and bills payable turnover days increased from 107 days for the year ended 31 December 2008 to 129 days for the year ended 31 December 2009, which was resulted from our business expansion and increased orders to these suppliers, as a result they were willing to grant a longer credit period to us. However, our trade and bills payable turnover days decreased to 71 days for the year ended 31 December 2010, which was mainly due to the significant increase in the prices of cotton yarns and synthetic yarns, suppliers requested us to pay 20% to 30% deposit in advance, as a result, the amounts of relevant trade and bills payables decreased. For the six months ended 30 June 2011, the average trade and bills payable turnover days increased to approximately 105 days since our Group needs to maintain a higher level of inventory to satisfy customers' orders in the third quarter of 2011. As at the Latest Practicable Date, approximately 74.1% of trade and bills payables as at 30 June 2011 have been settled.

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### LIQUIDITY AND CAPITAL RESOURCES

#### Financial resources

During the Track Record Period, we funded our growth principally from equity and shareholders' funding as well as net cash generated from our operations and interest-bearing borrowings. Our Directors confirmed that we did not experience any liquidity problems during the Track Record Period and have never experienced any difficulty meeting our obligations to repay interest-bearing borrowings when they become due. As at 30 June 2011, we had total cash and bank balances of approximately RMB16,665,000. The cash and bank balances are required to finance our working capital and part of our capital expenditure plans in light of our continuing growth and expansion plan.

As at 30 June 2011, we had a total of approximately RMB129,046,000 in general credit facilities made available by banks, and RMB119,046,000 of which had been utilised. As at 31 October 2011, being the latest practicable date for the purpose of ascertaining our indebtedness position, we had in total approximately RMB135,278,000 banking facilities available, of which approximately RMB85,278,000 was utilised. Our loans generally range from 1 year to 3 years, and are denominated mainly in RMB.

We believe that the proceeds of the Share Offer, together with our current cash and bank balances, our lines of credit and net cash generated from our operating activities will be sufficient to meet our capital commitments and anticipated cash needs for working capital, capital expenditures, business expansion, investments and debt repayment for at least the next 12 months commencing from the date of this prospectus.

Thereafter, we plan to finance our operations with net cash generated from our operations and, if required, additional debt or equity financing. However, our ability to generate cash for working capital and other payment obligations depends on our future performance, which will depend on the future economic conditions as well as our customers' preferences, which are beyond our control. We can also give no assurance that we will be able to raise additional capital on terms acceptable to us or at all. The issue of new equity or equity-linked securities may result in dilution to our shareholders. From time to time, we will evaluate possible investments, acquisitions, divestments or mergers and may, if a suitable opportunity arises, make an investment, acquisition or divestment or enter into a merger.

## FINANCIAL INFORMATION

### Cash flows

The table below presents selected cash flow data from the audited consolidated statements of cash flows for the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June	
	2008	2009	2010	2010	2011
	<i>(RMB'000)</i> <i>(audited)</i>	<i>(RMB'000)</i> <i>(audited)</i>	<i>(RMB'000)</i> <i>(audited)</i>	<i>(RMB'000)</i> <i>(unaudited)</i>	<i>(RMB'000)</i> <i>(audited)</i>
Net cash generated from (used in)					
operating activities	33,074	49,122	(4,811)	(10,402)	(11,635)
Net cash used in investing activities	(35,937)	(28,801)	(26,628)	(39,053)	(21,815)
Net cash generated from (used in)					
financing activities	<u>4,288</u>	<u>(4,262)</u>	<u>20,948</u>	<u>42,075</u>	<u>40,583</u>
Net increase (decrease) in cash and cash equivalents	<u>1,425</u>	<u>16,059</u>	<u>(10,491)</u>	<u>(7,380)</u>	<u>7,133</u>
Cash and cash equivalents at the end of the year/period	<u>3,870</u>	<u>19,761</u>	<u>9,454</u>	<u>12,453</u>	<u>16,665</u>

### *Net cash generated from (used in) operating activities*

Our cash generated from operating activities is mainly derived from the payments received from sales of our products and cash used in operating activities is mainly for the purchases of our raw materials and employment of direct labour for production, and also for expenses incurred in our daily operations. Positive net cash was generated from operating activities for each of the two years ended 31 December 2008 and 2009 which was mainly attributable to our ability to operate our business profitably. There was a net operating cash outflow for the year ended 31 December 2010, which was primarily due to the increases in inventories and trade receivables to cater for our Group's business expansion, as reflected by our increase in profit from approximately RMB31,612,000 in 2009 to approximately RMB53,471,000 in 2010. Similarly, despite we recorded a net operating cash outflow of approximately RMB11,635,000 for the six months ended 30 June 2011, which was primarily due to the increase in inventories to cater for our Group's production and delivery of products during the third quarter of 2011, being the peak season for products delivery, we recorded a net profit of approximately RMB4,117,000 for the six months ended 30 June 2011.

Net cash used in operating activities for the six months ended 30 June 2011 was approximately RMB11,635,000, which was principally contributed by the operating cash generated from operations before movements in working capital of approximately RMB25,376,000, and the decrease in trade receivables of approximately RMB23,193,000 as

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our sales was relatively low in the first half of 2011 since our Group normally recorded higher sales in the second half of the year. However, such cash inflows were offset by the increase in inventories of approximately RMB49,073,000 to cater for our Group's production and delivery of products during the third quarter of 2011.

Net cash used in operating activities for the six months ended 30 June 2010 was approximately RMB10,402,000, which was primarily contributed by the operating cash generated before movements in working capital of approximately RMB19,263,000 and the increase in trade and bills payables of approximately RMB17,872,000 as a result of our increase in purchases of raw materials for business expansion. These cash inflows were offset by the increase in inventories of approximately RMB34,368,000 to cater for our Group's production and delivery of products during the third quarter of 2010 and the increase in prepayments and other receivables of approximately RMB12,914,000 for appointing professionals in the course of preparing the Listing.

Net cash used in operating activities for the year ended 31 December 2010 was approximately RMB4,811,000, which was primarily contributed by the operating cash generated before movements in working capital of approximately RMB78,794,000, the increase in trade and bills payables of approximately RMB3,423,000 and increase in accruals and other payables of approximately RMB6,033,000 as a result of increase in purchases of raw materials and employment of more staff for our business expansion in 2010. These cash inflows were offset by the increases in inventories of approximately RMB27,356,000, trade receivables of approximately RMB41,506,000, prepayments and other receivables of approximately RMB10,761,000 to cater for our business expansion, particularly for the increase in our level of raw materials as a result of our additional procurement of certain raw materials based on management's expectation on continuous price increase in raw materials in the near future and the increase in work-in-progress to satisfy customers' orders which were due for delivery shortly after year ended. It is also noted that our trade receivables increased significantly as a result of the increase in our sales to domestic customers and the US customer (through a sourcing agent) mentioned in the paragraph headed "Period to period/year to year comparison of results of our Group's operations — Year ended 31 December 2010 compared with year ended 31 December 2009 — Revenue" in this section who normally settle their payments longer than our Japanese customers. Furthermore, there was also an increase in prepayments and other receivables of approximately RMB10,761,000 as there was an increase in our advance of approximately RMB3,670,000 to suppliers to ensure stable supply of raw materials and increase in the payment of approximately RMB3,752,000 prepaid for appointing professionals in the course of preparing the Listing. During 2010, we also paid EIT of approximately RMB12,737,000.

Net cash generated from operating activities for the year ended 31 December 2009 was approximately RMB49,122,000, which was primarily contributed by the operating cash generated before movements in working capital of approximately RMB52,301,000, and the increase in trade and bills payables of approximately RMB13,303,000 as a result of increase in purchases of raw materials for our business expansion in 2009. Part of these cash inflows were offset by the increases in inventories of approximately RMB3,917,000 and trade receivables of RMB5,389,000 to cater for our business expansion and EIT paid of approximately RMB6,544,000 in the year 2009.



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Net cash generated from operating activities for the year ended 31 December 2008 was approximately RMB33,074,000, which was primarily contributed by the operating cash generated before movements in working capital of approximately RMB20,698,000, the increases in trade and bills payables of approximately RMB16,364,000 and other payables and accruals of approximately RMB2,084,000 as a result of increase in purchases of raw materials and employment of staff for our business expansion in 2008. Part of these cash inflows was offset by the increase in inventories of RMB8,022,000 to cater for our business expansion in the year 2008 and EIT paid of RMB914,000 in 2008.

### *Net cash used in investing activities*

Our cash inflows from investing activities is mainly derived from the interests received from bank deposits, proceeds from disposal of property, plant and equipment and decrease in restricted bank deposit balances while the cash used in investing activities is mainly for the purchases of our property, plant and equipment and leasehold land in the PRC for expansion and increase in restricted bank deposits balances as securities for our trade financing.

Net cash used in investing activities for the six months ended 30 June 2011 was approximately RMB21,815,000, of which approximately RMB9,522,000 was incurred in our Group's purchases of equipment and machinery and construction of buildings and facilities for expanding our business. In addition, we have also paid a deposit of approximately RMB8,113,000 for acquiring additional knitting machines and constructing building facilities in the near future.

Net cash used in investing activities for the six months ended 30 June 2010 was approximately RMB39,053,000, of which approximately RMB26,916,000 was incurred for the purchases of equipment and machinery and the construction of new factory building of Shandong Grand Concord. A payment of land premium of approximately RMB2,705,000 for leasehold land in the PRC on which new factory building of Shandong Grand Concord situated was also incurred. The restricted bank deposits also increased by approximately RMB9,678,000 for securing the trade financing as requested by the banks.

Net cash used in investing activities for the year ended 31 December 2010 was approximately RMB26,628,000, which was mainly incurred in purchases of property, plant and machinery for the construction of new factory building of Shandong Grand Concord, purchases of new production machinery for Zhucheng Eternal Knitting, Zhucheng Yumin Knitting and Shandong Grand Concord of approximately RMB38,541,000 in the year 2010. It is also used in the payment of land premium of RMB2,705,000 for leasehold land in the PRC on which the new factory building of Shandong Grand Concord situated. It was partially offset by the decrease in restricted bank deposits of approximately RMB16,322,000 which was previously used for securing our trade financing.

Net cash used in investing activities for the year ended 31 December 2009 was approximately RMB28,801,000, which was mainly incurred for the purchases of property, plant and equipment for the construction of new factory building of Shandong Grand Concord and the purchases of new production machinery for Zhucheng Yumin Knitting and Shandong

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Grand Concord for an amount of approximately RMB13,668,000. It was also due to the increase in restricted bank deposits of approximately RMB15,017,000 to secure our trade financing as requested by the banks.

Net cash used in investing activities for the year ended 31 December 2008 was approximately RMB35,937,000, which was incurred mainly for the construction of the water/gas pipe network of Zhucheng Yumin Knitting and the new factory building of Shandong Grand Concord and the purchases of new production machinery for these two PRC subsidiaries for an amount of approximately RMB22,797,000 in the year 2008. It was also due to the increase in restricted bank deposits of RMB10,887,000 to secure our trade financing as requested by the banks.

### *Net cash generated from (used in) financing activities*

Our cash generated from financing activities is mainly derived from loans granted from banks and others and cash used in financing activities mainly comprises repayment of loans, interest paid and repayment of amount due to a shareholder.

Net cash generated from financing activities for the six months ended 30 June 2011 was approximately RMB40,583,000, which was mainly attributed to the proceeds from new bank loans of approximately RMB63,255,000 during the period, with part of which offset by the repayment of loans of approximately RMB18,022,000 and the repayment of amount due to shareholders of approximately RMB1,559,000.

Net cash generated from financing activities for the six months ended 30 June 2010 was approximately RMB42,075,000, which was mainly attributed to the proceeds of new bank loans of approximately RMB61,663,000 during the period, and only part of which was offset by the repayment of loans of approximately RMB8,180,000 and the repayment to the related parties of approximately RMB10,414,000.

Net cash generated from financing activities for the year ended 31 December 2010 was approximately RMB20,948,000. It was mainly attributed to the proceeds from new loans of approximately RMB165,583,000 and advance from a shareholder of RMB3,438,000 during the year, and only part of which was offset by the repayment of loans of RMB141,915,000.

Net cash used in financing activities for the year ended 31 December 2009 was approximately RMB4,262,000. The proceeds from new loans of RMB117,000,000 during the year were mainly offset by the repayment of bank loans of RMB114,997,000 and the repayment of amount due to a shareholder of RMB3,734,000.

Net cash generated from financing activities for the year ended 31 December 2008 was approximately RMB4,288,000. It was mainly attributed to the proceeds from new loans of RMB60,126,000 during the year, and only part of which was offset by the repayment of bank loans of RMB46,444,000 and the repayment of amount due to a shareholder of RMB4,663,000.

## FINANCIAL INFORMATION

### INDEBTEDNESS

#### Interest-bearing borrowings

The table below sets out our interest-bearing borrowings as at the dates indicated:

	As at 31 December			As at 30 June	As at 31 October
	2008	2009	2010	2011	2011
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Bank loans	52,167	50,156	71,813	119,046	85,278
Other loans	8,000	12,000	14,000	12,000	10,000
	<u>60,167</u>	<u>62,156</u>	<u>85,813</u>	<u>131,046</u>	<u>95,278</u>
Secured	40,167	37,156	71,813	69,046	62,858
Guaranteed	12,000	13,000	—	—	—
Unsecured	8,000	12,000	14,000	62,000	32,420
	<u>60,167</u>	<u>62,156</u>	<u>85,813</u>	<u>131,046</u>	<u>95,278</u>
<b>The interest-bearing borrowings are repayable:</b>					
On demand or within one year	52,900	58,156	63,045	108,131	75,824
More than one year but not exceeding two years	2,000	2,000	12,000	12,000	16,000
More than two years but not exceeding five years	4,000	2,000	6,000	6,000	—
Not repayable within one year from the end of the reporting period but contain a repayment on demand clause	1,267	—	4,768	4,915	3,454
<b>Total borrowings</b>	<u>60,167</u>	<u>62,156</u>	<u>85,813</u>	<u>131,046</u>	<u>95,278</u>

Proceeds from the interest-bearing borrowings were used for capital expenditure, working capital and operating expenses. Proceeds from other loans represented loans of RMB8,000,000, RMB12,000,000, RMB4,000,000 and RMB2,000,000 as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively from 諸城市國有資產經營總公司 (Zhucheng State-owned Assets Management Company\*) (“**Zhucheng SAM Co**”), an independent third party, for our capital expenditure and working capital. As at 31 October 2011, being the latest practicable date for the preparation of the indebtedness statement in this prospectus, such loans from Zhucheng Sam Co were fully repaid by our Group. Proceeds from other loans also represented an other loan

## FINANCIAL INFORMATION

of RMB10,000,000 as at 31 December 2010, 30 June 2011 and 31 October 2011 from 諸城市舜邦投資開發有限公司 (Zhucheng Shunbang Investment Development Limited Company\*), an independent third party, for our working capital.

Certain of our interest-bearing borrowings were secured by our assets during the Track Record Period. The table below sets out the carrying value of the pledged assets as at the dates indicated:

	As at 31 December			As at	As at
	2008	2009	2010	30 June	31 October
	(RMB'000)	(RMB'000)	(RMB'000)	2011	2011
Prepaid lease payments	9,518	9,312	13,613	13,464	8,934
Buildings	26,434	25,657	37,901	37,508	36,808
Machinery	13,393	11,918	14,327	14,602	14,071
Restricted bank deposits	10,905	25,922	9,600	8,210	14,180
Trade receivables	—	—	6,765	1,560	13,880
	<u>60,250</u>	<u>72,809</u>	<u>82,206</u>	<u>75,344</u>	<u>87,873</u>

In addition to the above, as requested by the banks, certain of the bank loans were guaranteed by independent third parties during the Track Record Period. The table below sets out the details of these guarantees:

	As at 31 December			As at	As at
	2008	2009	2010	30 June	31 October
	(RMB'000)	(RMB'000)	(RMB'000)	2011	2011
Joint guarantee by 諸城市良豐化學有限公司 (Zhucheng Liangfeng Chemical Co., Ltd.) and Zhucheng SAM Co	10,000	—	—	—	—
Zhucheng SAM Co	—	8,000	—	—	—
諸城市舜邦企業擔保有限公司 (Zhucheng Shunbang Enterprise Guarantee Limited Company*)	2,000	5,000	—	—	—
	<u>12,000</u>	<u>13,000</u>	<u>—</u>	<u>—</u>	<u>—</u>

Bank loans of approximately RMB4,667,000, RMB1,356,000, RMB8,013,000, RMB9,246,000 and RMB7,858,000 as at each of the balance sheet dates during the Track Record Period and as at 31 October 2011, being the latest practicable date for the preparation of the indebtedness statement in this prospectus, were jointly guaranteed by our executive Directors, Mr. Wong and Madam Hung Kin.

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The bank has confirmed that the above guarantee will be released and replaced with guarantee by our Company upon Listing.

### Amount due from shareholders/to a shareholder

The amounts due from shareholders of approximately RMB3,731,000 as at 30 June 2011, represented temporary fund advances to Mr. Wong and Madam Hung Kin, our Controlling Shareholders and executive Directors. As at 31 October 2011, being the latest practicable date for the preparation of the indebtedness statement in this prospectus, such amounts were fully repaid by them.

The amount due to a shareholder of RMB8,015,000, RMB4,281,000 and RMB1,559,000 as at each of the years ended 31 December 2008, 2009 and 2010 respectively, represented the advance from Madam Hung Kin, our Controlling Shareholder and executive Director. Such amount was repaid gradually during the Track Record Period.

The amount due from shareholders/to a shareholder was unsecured, interest free and repayable on demand.

### Capital Commitments

The following table presents our capital commitments in respect of acquisition of property, plant and equipment and construction of factories contracted for but not provided as at the dates indicated:

	As at 31 December			As at	As at
	2008	2009	2010	30 June	31 October
	(RMB'000)	(RMB'000)	(RMB'000)	2011	2011
				(RMB'000)	(RMB'000)
Contracted but not provided for	—	—	9,555	2,600	2,600
	<u>—</u>	<u>—</u>	<u>9,555</u>	<u>2,600</u>	<u>2,600</u>

### Contingent Liabilities

As at 31 December 2008, 2009 and 2010, 30 June 2011 and 31 October 2011, being the latest practicable date for the preparation of the indebtedness statement in this prospectus, we had no material contingent liabilities.

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### Disclaimers

Except as disclosed in the paragraphs headed “Indebtedness”, “Amount due from shareholders/to a shareholder” and “Related party transactions” in this section and other than intra-group liabilities, which have been disregarded for these purposes, we did not have any outstanding loan capital, bank overdrafts, liabilities under acceptances (other than normal trade bills) or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, or guarantees or other material contingent liabilities outstanding as at 31 October 2011, being the latest practicable date for the preparation of the indebtedness statement in this prospectus.

Our Directors confirmed that there is no material adverse change in indebtedness and contingent liabilities since 31 October 2011, being the latest practicable date for the preparation of the indebtedness statement in this prospectus.

### CAPITAL EXPENDITURES

Our capital expenditures mainly comprise purchases of property, plant and equipment. The following table shows our capital expenditures for the periods indicated:

	For the year ended 31 December			For the six months ended
	2008	2009	2010	30 June 2011
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Prepaid lease payments	—	—	4,568	—
Property, plant and equipment	15,754	11,946	27,600	6,075
Construction in progress	8,609	4,721	11,894	5,185
Total	<u>24,363</u>	<u>16,667</u>	<u>44,062</u>	<u>11,260</u>

We estimate that the capital expenditures for the two years ending 31 December 2011 and 2012 will be approximately RMB18 million and RMB65 million respectively. Our Group's planned future capital expenditures mainly include the purchases of additional production facilities and construction of factories. We expect to fund these expansion plans with bank financing, cash flow from its operations and the net proceeds to be received by us from the Share Offer.

The actual amounts of expenditures incurred may vary from the estimate for a variety of reasons, including changes in market conditions and other factors. Our ability to obtain additional funding required for increased capital expenditure in the future is subject to a variety of uncertainties including the future results of our operations, financial condition and cash flows, and economic and political and other conditions in the PRC.

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### CAPITAL ADEQUACY RATIOS

The following table sets forth certain capital adequacy ratios as at the dates indicated:

	As at 31 December			As at
	2008	2009	2010	30 June
	(%)	(%)	(%)	2011
				(%)
Gearing <sup>(Note 1)</sup>	41.9	32.7	31.4	39.9
Debt to equity <sup>(Note 2)</sup>	191.2	69.6	66.7	91.8

Notes:

1. Calculated as the total debts as at the year/period ended, divided by total assets for the period x 100%. Debts are defined to include current and non-current interest-bearing borrowings.
2. Calculated as the net debts as at the year/period ended, divided by the equity for the period x 100%. Net debts are defined to include all interest-bearing borrowings net of cash and cash equivalents.

Our gearing ratio decreased from 41.9% for the year ended 31 December 2008 to 32.7% for the year ended 31 December 2009, and further decreased to 31.4% for the year ended 31 December 2010. The decrease of the ratio in the years ended 31 December 2009 and 2010 was primarily due to our ability to operate the business profitably which led to the increases in our total assets. The gearing ratio for the six months ended 30 June 2011 was approximately 39.9%, increased as a result of the increase in interest-bearing borrowings for financing our Group's business and enhancing our production facilities.

Our debt to equity ratio decreased significantly from 191.2% for the year ended 31 December 2008 to 69.6% for the year ended 31 December 2009, and further decreased to 66.7% for the year ended 31 December 2010. The decrease of the ratio in the years ended 31 December 2009 and 2010 was primarily due to our ability to operate the business profitably and enlarged our equity base. The debt to equity ratio for the six months ended 30 June 2011 was approximately 91.8% as a result of the increase in interest-bearing borrowings for financing our Group's business and enhancing our production facilities.

### PROPERTY INTERESTS

LCH (Asia-Pacific) Surveyors Limited, an independent qualified Professional Surveyor, has valued our property interests, including land use rights, as at 31 August 2011 at approximately RMB114,560,000. The text of its letter, summary of values and valuation certificate are set out in Appendix III to this prospectus. A reconciliation of the net book value of the relevant property interests, including land use rights, as at 30 June 2011 to their fair value as at 31 August 2011 is as follows:

	<i>RMB'000</i>
Valuation as at 31 August 2011 set out in the property valuation report in Appendix III	114,560
Net book value of property interests of our Group as at 30 June 2011	70,590
	<hr/>
Valuation surplus	43,970
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### OFF-BALANCE SHEET ARRANGEMENTS AND CONTINGENCIES

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties. In addition, we have not entered into any derivative contracts that are indexed to our Shares and classified as shareholders' equity, or that are not reflected in our audited consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. Moreover, we do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

### EVENTS AFTER THE TRACK RECORD PERIOD

For details of the events after the Track Record Period, please refer to section D of the Accountants' Report set out in Appendix I to this prospectus.

### RELATED PARTY TRANSACTIONS

#### Amounts due from/to related parties

The table below sets out the amounts from/to related parties as at 31 December 2008, 2009 and 2010 and 30 June 2011:

	As at 31 December			As at
	2008	2009	2010	30 June
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
<b>Amounts due from</b>				
Bolden Garment Limited (“ <b>Bolden</b> ”)	—	—	957	2,954
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Amounts due to</b>				
諸城裕興針織服裝有限公司 (Zhucheng Noble Knitting & Garment Co. Ltd.*) (“ <b>Zhucheng Noble</b> ”)	—	1,500	—	—
Bolden	178	183	728	753
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

The amounts due from/to related parties were unsecured, interest-free and repayable on demand. All of these balances were non-trade nature and represented only temporary funds advanced to/from related parties. As at 31 October 2011, being the latest practicable date for the preparation of this indebtedness statement in this prospectus, all of these balances were fully repaid.



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### Trade receivables from/payables to related parties

The table below sets out the trade receivables from/payables to related parties included in trade receivables/trade payables of our Group as at 31 December 2008, 2009 and 2010 and 30 June 2011:

	As at 31 December			As at
	2008	2009	2010	30 June
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
<b>Trade receivables</b>				
上海廣裕紡織品有限公司 (Shanghai Guangyu Textiles Co. Ltd.*) ("Shanghai Guangyu")	—	2,722	—	—
Zhucheng Noble	—	45	—	—
Bolden	977	—	2,682	—
青島埃瑞柏服飾有限公司 (Qingdao Ai Rui Bo Garment Co. Ltd.*) ("Qingdao Ai Rui Bo")	659	2,027	—	—
	<u>1,636</u>	<u>4,794</u>	<u>2,682</u>	<u>—</u>
	<u><u>1,636</u></u>	<u><u>4,794</u></u>	<u><u>2,682</u></u>	<u><u>—</u></u>
				<b>As at</b>
				<b>30 June</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
<b>Trade payables</b>				
Zhucheng Noble	406	284	—	—
Bolden	—	290	—	—
	<u>406</u>	<u>574</u>	<u>—</u>	<u>—</u>
	<u><u>406</u></u>	<u><u>574</u></u>	<u><u>—</u></u>	<u><u>—</u></u>

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All of these balances were and incurred as a result of the following transactions:

	For the year ended 31 December			For the six months ended
	2008	2009	2010	30 June
	(RMB'000) (audited)	(RMB'000) (audited)	(RMB'000) (audited)	2011 (RMB'000) (audited)
<b>Sales transactions</b>				
Shanghai Guangyu ( <i>note 1</i> )	—	3,720	21,452	277
Zhucheng Noble ( <i>note 2</i> )	244	379	90	—
Bolden ( <i>note 3</i> )	2,513	3,653	15,256	—
Qingdao Ai Rui Bo ( <i>note 4</i> )	326	1,260	39	—
	<u>3,083</u>	<u>9,012</u>	<u>36,837</u>	<u>277</u>
	For the year ended 31 December			For the six months ended
	2008	2009	2010	30 June
	(RMB'000) (audited)	(RMB'000) (audited)	(RMB'000) (audited)	2011 (RMB'000) (audited)
<b>Purchases transactions</b>				
Shanghai Guangyu ( <i>note 1</i> )	—	—	—	279
Zhucheng Noble ( <i>note 2</i> )	762	530	2,121	—
Bolden ( <i>note 3</i> )	—	297	518	—
	<u>762</u>	<u>827</u>	<u>2,639</u>	<u>279</u>

*Notes:*

1. During the Track Record Period, we sold functional fabrics to and purchased yarns from Shanghai Guangyu, a company in which Mr. Wei, previously had 75% equity interest. Such interest was sold to an independent third party in March 2011.
2. During the Track Record Period, we sold fabrics to and paid processing fee for acquiring sewing services from Zhucheng Noble, a company in which Mr. Wong previously had 60% equity interest. Such interest was sold to an independent third party in December 2010.
3. During the Track Record Period, we sold innerwear products to and purchased accessories, e.g. zippers, tags and labels from Bolden, a company owned by Mr. Wong and Regal Investment International Limited, which is in turn owned by Mr. Wong and Madam Hung Kin. Since October 2010, we terminated all sales to Bolden. Bolden was registered as a dormant company on 3 January 2011.
4. During the Track Record Period, we sold innerwear products to Qingdao Ai Rui Bo, a company owned by Mr. Wang Jian She, a brother of Mr. Wong. Our Directors confirmed that sales to Qingdao Ai Rui Bo were terminated in March 2011.

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## FINANCIAL INFORMATION

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With respect to the above related party transactions, details of which was also set out in the Accountants' Report in Appendix I to this prospectus, our Directors confirm that such transactions were conducted in accordance with normal commercial terms and conditions and/or such terms were no less favourable to our Group than terms provided to independent third parties and were fair and reasonable and in line with the overall interests of our Shareholders as a whole.

### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to various market risks, including commodity price risk, credit risk, foreign currency risk, interest rate risk and liquidity risk in the normal course of business. We mainly manage our exposure to these market risks through our regular operating activities.

#### Commodity price risk

We are exposed to fluctuations in the prices of the raw materials that we require for the production of our products. These raw materials consist principally of cotton yarns, synthetic yarns and dyes. Prices of which are affected by price of cotton and crude oil in commodity market. Therefore, fluctuations in raw materials prices could have an important effect on our results of operations. We do not currently use any commodity derivative instruments to manage commodity price risk and normally shift part of the cost to our customers.

#### Credit risk

Our Group's principal financial assets are trade and other receivables and cash and bank balances which represent our Group's maximum exposure to credit risk in relation to financial assets.

Our Group's concentration of credit risk by geographical locations is mainly in Japan and the PRC which accounted for 51%, 34%, 10%, 15% and 34%, 65%, 42%, 72% respectively of the total receivables as at 31 December 2008, 2009 and 2010 and 30 June 2011.

As at 31 December 2008, 2009 and 2010 and 30 June 2011, we had a certain concentration of credit risk as of approximately 44%, 27%, 79% and 48% of the total trade receivables were due from our five largest customers respectively.

In order to minimise the credit risk, our management 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. We also reviews the recoverable amount of each individual trade debt at each reporting date to ensure adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors consider that the credit risk of our Group is significantly reduced.

The credit risk for bank balances is considered minimal as such amounts are placed with banks with good credit standing.

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## FINANCIAL INFORMATION

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### **Foreign currency risk**

Our Group are exposed to foreign currency risk. A significant proportion of our revenue were denominated in the USD and certain trade receivables, cash and bank balances, trade payables and interest-bearing borrowings are denominated in USD, Japanese yen and HKD respectively, while substantial operating expenses are denominated in RMB, and our reporting currency is RMB.

We currently do not have a foreign currency hedging policy. In the event of currency fluctuations, we may have to increase our product pricing to compensate for the increase in cost of production. This would decrease our market competitiveness, on a price basis, for our products and could result in a decrease in our revenue. In the future, our management will monitor foreign exchange exposure and will consider hedging or factoring significant foreign currency exposure should the need arise.

### **Interest rate risk**

We are exposed to fair value interest rate risk in relation to fixed-rate interest-bearing borrowings and also exposed to cash flow interest rate risk in relation to variable rate interest-bearing borrowings. Our restricted bank deposits and bank balances also expose our Group to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances.

Our Group historically has not used any financial instruments to hedge potential fluctuations in interest rates. Our management considers that our exposure of the restricted bank deposits and bank balances to cash flow interest rate risk is not significant as we do not anticipate significant fluctuation in the interest rate on bank deposits. To mitigate the impact of interest rate fluctuations, we manage our interest expenses by financing with both fixed and variable rate debts, and will continually assess and monitor our exposure to interest rate risk and will consider other necessary actions when significant interest rate exposure is anticipated.

### **Liquidity risk**

Liquidity risk refers to the risk of our Group to have sufficient funds to meet all contractual financial commitments as they fall due. Our management reviews the liquidity position of our Group on an ongoing basis, including review of the expected cash inflows and outflows, sales, maturity of loans in order to monitor our liquidity requirements in the short and longer terms.

As mentioned above, during the Track Record Period and as at the Latest Practicable Date, we have not and do not use any derivative instruments to manage our market risks, we may enter into such instruments if our Directors determine that it is in our best interest to do so in the future. For additional discussion of quantitative and qualitative analysis related to market risks, please refer to note 6 to our audited consolidated financial statements contained in the Accountants' Report set out in Appendix I to this prospectus.

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## FINANCIAL INFORMATION

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### **WORKING CAPITAL**

Taking into account the financial resources available to our Group, including internally generated funds, the available banking facilities and the estimated net proceeds to be received by us from the Share Offer, our Directors are of the opinion that our Group has sufficient working capital for at least the next 12 months from the date of this prospectus.

### **NO MATERIAL ADVERSE CHANGE**

Our Directors confirm that there has been no material adverse change in the financial or trading position of our Group since 30 June 2011 (being the date to which our latest audited consolidated financial statements were prepared as set out in the Accountants' Report in Appendix I to this prospectus).

### **DISCLOSURE REQUIRED UNDER THE LISTING RULES**

Our Directors have confirmed that there are no circumstances which would have led us to make required disclosures in accordance with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules.

### **UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS**

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets of our Group prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Share Offer on the net tangible assets of our Group attributable to the equity holders of our Company as at 30 June 2011 as if the Share Offer had taken place on 30 June 2011.

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## FINANCIAL INFORMATION

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This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group as at 30 June 2011 or at any future dates following the Share Offer.

Audited consolidated net tangible assets of our Group attributable to the equity holders of our Company as at 30 June 2011 <i>(RMB'000)</i> <i>(Note 1)</i>	Estimated net proceeds to be received by us from the Share Offer <i>(RMB'000)</i> <i>(Note 2)</i>	Unaudited pro forma adjusted net tangible assets <i>(RMB'000)</i>	Unaudited pro forma adjusted net tangible assets per Share <i>(RMB)</i> <i>(Note 3)</i>	Unaudited pro forma adjusted net tangible assets per Share <i>(HK\$)</i> <i>(Note 4)</i>
Based on the Offer Price of HK\$0.80 per Share	124,544	36,382	160,926	0.423
0.499				

*Notes:*

- (1) The audited consolidated net tangible assets attributable to owners of our Company as at 30 June 2011 has been derived from the audited consolidated net tangible assets attributable to the owners of our Company of approximately RMB124,544,000 as at 30 June 2011, extracted from the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds to be received by us from the Share Offer are based on the Offer Price of HK\$0.80 per Share, after deduction of the underwriting fees and other related expenses payable by our Company.
- (3) The unaudited pro forma adjusted net tangible assets attributable to owners of our Company per Share is arrived at after adjustment for the estimated net proceeds to be received by us from the Share Offer payable to our Company as described in note (2) and on the basis that a total of 380,000,000 Shares were in issue as at 30 June 2011 (but takes no account of any additional income which may be earned from the estimated net proceeds).
- (4) The unaudited pro forma adjusted net tangible asset attributable to owners of our Company per Share is translated into HK\$ at an exchange rate of RMB0.847. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.
- (5) The prepaid lease payments and buildings of the Group as at 31 August 2011 were valued by LCH (Asia-Pacific) Surveyors Limited, an independent Professional Surveyor, and the relevant property valuation report is set out in Appendix III to this prospectus. With reference to the valuation of the Group's property interests as set out in Appendix III to this prospectus, the Group's interest in prepaid lease payments and buildings as at 31 August 2011 was approximately RMB97,760,000. Comparing this amount with the unaudited net carrying value of prepaid lease payments and buildings of the Group as of 31 August 2011 of approximately RMB55,244,000, there was a revaluation surplus of approximately RMB42,516,000. If the revaluation surplus was incorporated in the Group's financial statements, additional annual amortisation and depreciation of approximately RMB1,654,000 will therefore be charged. The surplus on revaluation will not be reflected in the Group's consolidated financial statements in subsequent years as the Group has elected to state its prepaid lease payments and buildings at cost less accumulated amortisation/depreciation and any impairment loss in accordance with the relevant Hong Kong Accounting Standards.

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## FINANCIAL INFORMATION

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### DIVIDEND AND DIVIDEND POLICY

Our Group did not declare or pay any dividend in respect of the Track Record Period.

After completion of the Share Offer, our Shareholders will be entitled to receive dividends declared by us. Final dividends, if any, on the outstanding Shares must be recommended by our Board and approved at our annual general meeting of Shareholders. In addition, our Board may declare special and interim dividends. The timing, form and payment to be made and the amount of any dividends to be declared in the future will be at the discretion of our Directors and will depend on, among others, the following factors:

- our Group's results of operations and cash flows;
- our Group's future prospects;
- general business and financial conditions;
- our Group's operating and capital requirements and surplus;
- contractual restrictions on the payment of dividends by our Company to Shareholders or by subsidiaries to our Company;
- taxation considerations;
- possible effects on our Company's creditworthiness;
- statutory and regulatory restrictions; and
- any other factors our Board may deem relevant.

The payment and the amount of any dividends declared will also be subject to our Articles of Association and the Companies Act. We are entitled under our Articles of Association and the Companies Act to pay dividends out of profits and reserves, including share premium, provided that on the date the proposed dividend is to be paid, we are able to pay our debts when they fall due in the ordinary course of business.

Our ability to pay cash dividends will also depend upon the amount of distributions, if any, received by us from our operating subsidiaries. Under the PRC law, dividends may be paid only out of distributable profits, which are the retained earnings of the relevant companies established in the PRC. We will not ordinarily pay any dividends in a year in which we do not have any distributable earnings.

Subject to the abovementioned, our Directors currently intend to recommend at the next annual general meeting of our Company an annual dividend in an amount equivalent to approximately 30% of the consolidated profit attributable to equity holders of our Company for the period beginning from the Listing Date and ending on 31 December 2011. The above annual dividend should not be viewed as an indication of the amount of dividends that our Company may declare or pay in the future.

### DISTRIBUTABLE RESERVES

The total distributable reserves of the companies comprising our Group as at 30 June 2011, which are available for distribution to our Shareholders, were approximately RMB97,869,000.

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## FUTURE PLANS AND USE OF PROCEEDS

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### FUTURE PLANS

Please refer to the section headed “Business — Business strategies” of this prospectus for a detailed description of our future plans.

### USE OF PROCEEDS

Our Directors intend to apply the net proceeds from the Share Offer to finance our capital expenditure and business expansion, strengthen our capital base and improve our overall financial position.

We estimate that we will receive net proceeds from the Share Offer of approximately HK\$38.4 million (based on the Offer Price of HK\$0.8 per Share) after deducting the underwriting commissions and estimated expenses payable by us in relation to the Share Offer.

We currently intend to use the net proceeds to be received by us from the Share Offer as follows:

- as to approximately 50%, or HK\$19.2 million, for upgrading and expanding our manufacturing equipment and production plants to enhance our production efficiency (please refer to the section headed “Business — Production — Production facilities and capacity — Expansion” for further details of our Group’s expansion of equipment);
- as to approximately 20%, or HK\$7.7 million, for expanding the sales of our fabric products in the PRC market and the sales of our innerwear products in the overseas market by establishing and reinforcing the sales channels in these markets and participating in trade exhibitions;
- as to approximately 10%, or HK\$3.8 million, for developing high-margin and innovative products and for enhancement of our new high-tech fabrics development capability;
- as to approximately 10%, or HK\$3.8 million, for developing our ODM capability and for promoting our brand name “UTEX”; and
- the remaining net proceeds for funding our general working capital and other general corporate purposes.

To the extent that the net proceeds to be received by us from the Share Offer are not immediately required for the above purposes or if we are unable to effect any part of our future development plans as intended, we may hold such funds in short-term deposits with licensed banks and/or authorised financial institutions in Hong Kong and/or the PRC for so long as it is in our best interest.



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## UNDERWRITING

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### UNDERWRITERS

#### The Public Offer Underwriters

##### *Lead Manager*

Celestial Capital

##### *Co-Managers*

Berich Brokerage Limited

Cinda International Securities Limited

Grand Vinco Capital Limited

SBI E2-Capital (HK) Limited

#### The Placing Underwriter

##### *Lead Manager*

Celestial Capital

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### The Public Offer

##### *The Public Offer Underwriting Agreement*

Pursuant to the Public Offer, our Company is offering the Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares to be offered as mentioned herein and to certain other conditions set out in the Public Offer Underwriting Agreement and the Placing Underwriting Agreement having been duly executed and delivered and having become unconditional in accordance with its terms, the Public Offer Underwriters have agreed severally but not jointly to subscribe or procure subscribers for, their respective applicable proportions of the Public Offer Shares which are being offered but are not taken up under the Public Offer on the terms and subject to the conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement.

##### *Grounds for termination*

The respective obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement may be terminated by the Lead Manager (for itself and on behalf of the Public Offer Underwriters), in its sole and absolute opinion, with immediate effect by written

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## UNDERWRITING

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notice to our Company and the Public Offer Underwriters if at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date:

- (a) there shall develop, occur, exist or come into effect:
  - i. any new laws, rules, statutes, ordinances, regulations, guidelines, opinions, notices, circulars, orders, judgments, decrees or rulings of any governmental authority (“**Laws**”) or any change or development involving a prospective change in existing Laws or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority of BVI, Hong Kong, PRC, the US, the United Kingdom, the European Union, Japan or any other relevant jurisdiction; or
  - ii. any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change, in local, national or international financial, political, military, industrial, economic, currency exchange rates, exchange control, currency market, fiscal or regulatory or market conditions or any monetary or trading settlement system (including but not limited to conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets) in or affecting BVI, Hong Kong, PRC, the US, the United Kingdom, the European Union, Japan or any other relevant jurisdiction; or
  - iii. any suspension or limitation on trading in shares or securities generally on the New York Stock Exchange, the Stock Exchange, Tokyo Stock Exchange, the London Stock Exchange, the Shenzhen Stock Exchange or the Shanghai Stock Exchange or any minimum or maximum prices for trading having been fixed, or maximum ranges for prices having been required, by any of the said exchanges or by such system or by order of any regulatory or governmental authority, or a disruption has occurred in securities settlement, payment or clearance services or procedures in or affecting BVI, Hong Kong, PRC, the US, the United Kingdom, the European Union, Japan or any other relevant jurisdiction; or
  - iv. a change or development occurs involving a change in taxation or exchange control (or the implementation of any exchange control) or foreign investment regulations or currency exchange rates in BVI, Hong Kong, PRC, the US, the United Kingdom, the European Union, Japan or any other relevant jurisdiction; or
  - v. any change or development involving a prospective change in the condition, financial or otherwise, or in the earnings, business affairs, business prospects or trading position of our Company or any member of our Group, or customer confidence or sales of our Group’s products, including any action, suit, proceeding, litigation or claim of any third party being threatened or instigated against our Company or any member of our Group, or a request of product withdrawal from the market by a government department or authority; or

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## UNDERWRITING

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- vi. any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed “Risk factors” of this prospectus; or
- vii. any moratorium on or disruption in banking activities or foreign exchange trading or settlement or clearance services in or affecting BVI, Hong Kong, PRC, the US, the United Kingdom, the European Union, Japan or any other relevant jurisdiction; or
- viii. any outbreak or escalation of hostilities (whether or not war is or has been declared) or act for terrorism or other state of emergency or calamity or wide-spread epidemic or political or social crisis involving directly or indirectly BVI, Hong Kong, PRC, the US, the United Kingdom, the European Union, Japan or any escalation thereof, or the declaration by BVI, Hong Kong, PRC, the US, the United Kingdom, the European Union or Japan of a national emergency or war; or
- ix. any event of force majeure, including without limitation any act of God, war, riot, public disorder, civil commotion, fire, flood, earthquake, explosion, outbreak of disease or epidemic, terrorism (whether or not responsibility has been claimed), labour dispute, strike or lock-out involving directly or indirectly BVI, Hong Kong, the PRC, the US, the United Kingdom, the European Union or Japan; or
- x. the imposition of any economic sanctions, in whatever form, directly or indirectly, by Japan, the US, the United Kingdom, the European Union (or any member thereof), Hong Kong, PRC or any other relevant jurisdictions; or
- xi. a Director being charged or indicted or retained with an indictable offence or prohibited by operation of law or otherwise disqualified from directorship,

which, in the sole and absolute opinion of the Lead Manager (for itself and on behalf of the Public Offer Underwriters):

- (A) is or may be or is likely to be materially adverse to or materially or prejudicially affect, the operations, business, financial or other condition or prospects of our Company or our Group or, in the case of paragraph (a)(iv), to any present or prospective Shareholder of our Company in his/her/its capacity as such; or
- (B) has or might have or is likely to have a material adverse effect on the success of the Public Offer, the Placing or the Share Offer or the level of Offer Shares being applied for or accepted or the distribution of Offer Shares; or
- (C) makes or will or may make it inadvisable, inexpedient, impracticable or not commercially viable to proceed with or to market the Public Offer, the Placing or the Share Offer, or for a material part of the Public Offer Underwriting Agreement, the Placing Underwriting Agreement, the Public Offer, the Placing

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## UNDERWRITING

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or the Share Offer to be performed or implemented or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus;  
or

- (b) there comes to the notice of the Lead Manager any matter or event showing any of the warranties given by our Company and our Controlling Shareholders in the Public Offer Underwriting Agreement to be untrue, inaccurate or misleading in any respect which is or, in the sole and absolute opinion of the Lead Manager, likely to be, material in the context of the Share Offer when given or repeated; or
- (c) there comes to the notice of the Lead Manager any breach on the part of our Company or our Controlling Shareholders of any of the provisions of the Public Offer Underwriting Agreement or the Placing Underwriting Agreement; or
- (d) any matter has arisen or has been discovered which would, had it arisen before the date of this prospectus and not having been disclosed in this prospectus, constitute a material omission therefrom; or
- (e) any statement contained in this prospectus, the Application Forms, the formal notice and any announcements in the agreed form issued by our Company in connection with the Share Offer (including any supplement or amendment thereto) was, has or may become untrue, incorrect or misleading in any material respect; or
- (f) there shall have occurred any event, act or omission which gives or is likely to give rise to any liability of a material nature of our Group pursuant to the indemnities referred to in the Public Offer Underwriting Agreement; or
- (g) a valid demand by any creditor for repayment or payment of any indebtedness of our Company or any member of our Group or in respect of which our Company or any member of our Group is liable prior to its stated maturity which demand has or could reasonably be expected to have a material adverse effect on our Group taken as a whole; or
- (h) a petition is presented for the winding-up or liquidation of our Company or any member of our Group or our Company or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of our Company or any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of our Company or any member of our Group or anything analogous thereto occurs in respect of our Company or any member of our Group, which in the sole and absolute opinion of the Lead Manager, may or is likely to be material in the context of the Share Offer provided that the Lead Manager shall, to the extent practicable, seek to consult with our Company on the effect of any such development.

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## UNDERWRITING

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### The Placing

In connection with the Placing, our Company, the Selling Shareholder, our Controlling Shareholders and the Placing Underwriter entered into the Placing Underwriting Agreement, the terms of which are substantially similar to those of the Public Offer Underwriting Agreement.

Under the Placing Underwriting Agreement, subject to the conditions set forth therein, the Placing Underwriter has agreed to purchase or procure purchasers for the Placing Shares initially being offered pursuant to the Placing. The Placing Underwriting Agreement may be terminated on similar grounds as the Public Offer Underwriting Agreement.

### Commissions and expenses

The Public Offer Underwriters will receive an underwriting commission of 3.25% on the aggregate Offer Price of the Public Offer Shares initially offered under the Public Offer, out of which they will pay any sub-underwriting commission. The Placing Underwriter will receive an underwriting commission of 3.25% on the aggregate Offer Price of the Placing Shares initially offered under the Placing. For unsubscribed Public Offer Shares reallocated to the Placing, we will pay an underwriting commission at the rate applicable to the Placing and such commission will be paid to the Lead Manager and the Placing Underwriter (but not the Public Offer Underwriters).

The aggregate commissions and fees, together with the listing fees, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Share Offer are estimated to amount to approximately HK\$25.6 million (based on the Offer Price of HK\$0.80) and will be payable by us, save for the commission relating to the Sales Shares sold by the Selling Shareholder pursuant to the Placing together with the brokerage, SFC transaction levy, Stock Exchange trading fee and stamp duty attributable to or arising in connection with the sale and transfer of the Sale Shares will be borne by the Selling Shareholder.

### UNDERTAKINGS PURSUANT TO UNDERWRITING AGREEMENTS

We have undertaken to the Sponsor, the Bookrunner, the Lead Manager, and each of the Public Offer Underwriters and the Placing Underwriter that except pursuant to the Share Offer and the Share Option Scheme and unless in compliance with the requirements of the Listing Rules, we shall not at any time from the date of the Public Offer Underwriting Agreement or the date of the Placing Underwriting Agreement (as the case may be) and until the expiry of six months from the Listing Date (“**First Period**”), (a) offer, accept subscription for, pledge, charge, allot, issue, lend, sell, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase any of the Shares or other securities of our Company or any interest therein (including, but not limited to, any securities convertible into or exercisable or exchangeable for, or that represent the right to receive any of the Shares or securities of our Company or any interest therein) or (b) enter into any

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## UNDERWRITING

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swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or securities of our Company or any interest therein, whether any of the foregoing transactions is to be settled by delivery of such Shares or such other securities of our Company, in cash or otherwise; or in the event of an issue or disposal of any Shares or securities of our Company or any interest therein after the date falling six months after the Listing Date, we will take all reasonable steps to ensure that such an issue or disposal will not create a disorderly or false market for the Shares.

Each of our Controlling Shareholders has jointly and severally undertaken to each of us, the Sponsor, the Bookrunner, the Lead Manager, and each of the Public Offer Underwriters and the Placing Underwriter that

- (a) at any time during the First Period, he/she/it will not and will procure that none of his/her/its associates (as defined in the Listing Rules) or companies controlled by him/her/it or any nominee or trustee holding in trust for him/her/it will, except pursuant to the Share Offer and the Share Option Scheme, where applicable, and unless in compliance with the requirements of the Listing Rules, (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the Shares, debt capital or other securities of our Company or any interest therein held by him/her/it (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such Shares or other securities of our Company or any interest therein) as of the Listing Date or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such Shares or securities of our Company or any interest therein as of the Listing Date, whether any of the foregoing transactions is to be settled by delivery of such Shares or such other securities of our Company, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so;
- (b) during the period of six months commencing on the date on which the First Period expires (“**Second Period**”), he/she/it will not and will procure that none of his/her/its associates (as defined in the Listing Rules) or companies controlled by him/her/it or any nominee or trustee holding in trust for him/her/it will, without the prior written consent of the Lead Manager (on behalf of the Public Offer Underwriters and the Placing Underwriter) and unless in compliance with the requirements of the Listing Rules, (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the Shares, debt capital or other securities of our Company or any interest therein held by him/her/it (including but not limited to any securities that are convertible into or exercisable or exchangeable for or that represent the right to receive, any

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## UNDERWRITING

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such Shares or such other securities of our Company or any interest therein) as of the Listing Date or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such Shares or securities of our Company or any interest therein as of the Listing Date, whether any of the foregoing transactions is to be settled by delivery of such Shares or such other securities of our Company, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so if, immediately following such transaction, it will result in our Controlling Shareholders and/or any companies controlled by him/her/it or his/her/its nominee or trustee ceasing to be a controlling shareholder (as defined in the Listing Rules) of our Company;

- (c) in the event of a disposal by him/her/it of any of the Shares or securities of our Company or any interest therein during the Second Period, he/she/it will take all reasonable steps to ensure that such a disposal will not create a disorderly or false market for the Shares or other securities of our Company;
- (d) at any time within the period commencing on the date of the Public Offer Underwriting Agreement or the date of the Placing Underwriting Agreement (as the case maybe) and ending on the date which is twelve months after the Listing Date:
  - i. upon any pledge or charge in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) of any Shares or securities of our Company or interests in the Shares or securities of our Company beneficially owned by him/her/it for a bona fide commercial loan, immediately inform us and the Lead Manager in writing of such pledge or charge together with the number of Shares or securities of our Company so pledged or charged; and
  - ii. upon any indication received by him/her/it, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities of our Company or interests in the Shares or securities of our Company will be disposed of, immediately inform us and the Lead Manager in writing of such indications.

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## UNDERWRITING

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### UNDERTAKINGS TO THE STOCK EXCHANGE PURSUANT TO THE LISTING RULES

Pursuant to Rule 10.07(1) of the Listing Rules, our Controlling Shareholders have undertaken to our Company, the Stock Exchange, the Sponsor and the Lead Manager (for itself and on behalf of the Underwriters) that, save as pursuant to the Share Offer, they will not and will procure the relevant registered holder not to:

- (i) in the period commencing from the date of this prospectus and ending on the date which is six months from the Listing Date (“**First Six-Month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares (or any interest therein) in respect of which they are shown in this prospectus to be the beneficial owner immediately after completion of the Share Offer; and
- (ii) in the period of six months commencing on the date falling the expiration of the First Six-Month Period, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, the Shares (or any interest therein) in respect of which they are shown in this prospectus to be the beneficial owner if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, taken as a whole would cease to be our Controlling Shareholders.

Pursuant to note 3 to Rule 10.07(2) of the Listing Rules, our Controlling Shareholders have also undertaken to our Company and the Stock Exchange that, within 12 months from the Listing Date, they will:

- (i) when they or the registered owner pledge or charge any securities or interests in the securities of our Company beneficially owned by them, whether directly or indirectly, in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform our Company of such pledge or charge together with the number of securities so pledged or charged; and
- (ii) when they receive indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be disposed of, immediately inform our Company of such indications.

Our Company will inform the Stock Exchange as soon as practicable after it has been informed of the matters referred to in (i) or (ii) above by our Controlling Shareholders and disclose such matters by way of an announcement in compliance with the Listing Rules.

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that save in connection with the Share Offer or the Share Option Scheme, no further Shares or securities convertible into equity securities of our Company will be issued by us, or form the subject of any agreement by us to such an issue, within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date) except in the circumstances permitted pursuant to Rule 10.08 of the Listing Rules.



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## UNDERWRITING

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### SPONSOR'S AND UNDERWRITERS' INTEREST IN OUR COMPANY

Celestial Capital satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The Sponsor will receive from the Company a sponsor fee. The Lead Manager and the other Underwriters will receive an underwriting commission of 3.25% of the aggregate Offer Price payable for the Offer Shares, particulars of which are set forth under the paragraph headed "Commissions and expenses" in this section.

None of the Lead Manager and the Underwriters is interested legally or beneficially in Shares of our Company or any of its subsidiaries or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any of its members nor any interest in the Share Offer.

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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### THE STRUCTURE OF THE SHARE OFFER

The Share Offer consists of:

- the Placing; and
- the Public Offer.

Celestial Capital is the Lead Manager.

An aggregate of 10,000,000 new Shares have been initially allocated to the Public Offer for subscription, subject to re-allocation as mentioned below and under the Listing Rules. An aggregate of 70,000,000 new Shares and 20,000,000 Sales Shares are initially offered for subscription and for sale respectively under the Placing, subject to re-allocation as mentioned below and under the Listing Rules.

Investors are free to select to apply for the Public Offer Shares or the Placing Shares, but they may only receive Shares under the Public Offer **OR** the Placing but not both. Our Directors and the Lead Manager will take all reasonable steps to identify any multiple applications under the Public Offer and the Placing which are not allowed and are bound to be rejected.

### PRICE PAYABLE UPON APPLICATION FOR THE PUBLIC OFFER SHARES

Based on the Offer Price of HK\$0.80 per Offer Share, plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.003% SFC transaction levy, each board lot of 4,000 Shares will amount to a total of HK\$3,232.26 payable on application.

### CONDITIONS OF THE SHARE OFFER

Acceptance of applications for the Public Offer Shares will be conditional upon:

- the Listing Committee granting the listing of, and permission to deal in, on the Main Board, our Shares in issue, the Offer Shares and any Shares which may fall to be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme; and
- the obligations of the Underwriters under the respective Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of a waiver of any condition(s)) and not being terminated in accordance with the respective terms and conditions of the Underwriting Agreements),

in each case, on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with their respective terms.

**If any of the above conditions has not been fulfilled or waived prior to the time(s) and date(s) specified, the Share Offer will lapse and the Stock Exchange will be notified immediately.** Notice of lapse of the Share Offer will be published by our Company in the South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and our Company ([www.grandconcord.com](http://www.grandconcord.com)) on the next day following such lapse. In such event, all application money will be refunded, **WITHOUT INTEREST**. The terms on which the application money will be refunded are set forth under “Refund of application monies” on the Application Forms. In the meantime, all application money received from the Public Offer will be held in a separate bank account (or separate bank accounts).

### THE PUBLIC OFFER

Our Company is initially offering 10,000,000 new Shares under the Public Offer, at the Offer Price, representing 10% of the initial number of the Offer Shares, for subscription by way of a public offer in Hong Kong, subject to the re-allocation as mentioned below. The Public Offer is lead managed by the Lead Manager and is fully underwritten by the Public Offer Underwriters. Applicants for the Public Offer Shares are required to pay on application the Offer Price plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.003% SFC transaction levy.

The Public Offer is open to all members of the public in Hong Kong. An applicant for the Public Offer Shares will be required to give an undertaking and confirmation in the Application Form that he or she or it has not taken up and will not indicate an interest to take up any Placing Shares nor otherwise participated in the Placing. Applicants should note that if such undertaking and/or confirmation given by the applicant is breached and/or is untrue (as the case may be), such applicant’s application under the Public Offer is bound to be rejected. The Public Offer will be subject to the conditions stated under the paragraph headed “Conditions of the Share Offer” in this section.

If the Public Offer is not fully subscribed for, the Lead Manager (on behalf of the Public Offer Underwriters) has the authority to re-allocate all or any of the unsubscribed Public Offer Shares originally included in the Public Offer to the Placing, in such number as it deems appropriate to satisfy demand under the Placing.

The total number of the Public Offer Shares to be allotted and issued may change as a result of the re-allocation as mentioned below.

### Basis of allocation of the Public Offer Shares

The Public Offer Shares will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares. Any application made for more than 100% of Public Offer Shares initially available under the Public Offer is bound to be rejected.

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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### THE PLACING

Our Company is initially offering 70,000,000 new Shares for subscription and the Selling Shareholder is offering 20,000,000 Sale Shares for sale, at the Offer Price under the Placing, representing 90% of the initial number of the Offer Shares, subject to re-allocation as mentioned below and under the Listing Rules.

Investors subscribing for the Placing Shares are also required to pay 1% brokerage, 0.005% Stock Exchange trading fee and 0.003% SFC transaction levy.

All decisions concerning the allocation of the Placing Shares to prospective places pursuant to the Placing will be made on the basis of, and by reference to, a number of factors including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not the relevant investor is expected or likely to buy further Shares, or hold or sell our Shares, after the Listing Date. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a solid shareholder base for the benefit of our Company. In addition, our Company and the Lead Manager will use their best endeavours to observe the minimum public float requirement under the Listing Rules when making allocations of the Placing Shares to investors who are anticipated to have a sizeable demand for such Shares.

The total number of the Placing Shares to be placed pursuant to the Placing may change as a result of re-allocation mentioned below and any re-allocation of the unsubscribed Public Offer Shares to the Placing as mentioned under the paragraph headed "The Public Offer" in this section above.

### RE-ALLOCATION BETWEEN THE PLACING AND THE PUBLIC OFFER

The allocation of Offer Shares between the Public Offer and the Placing is subject to adjustment on the following basis:

- (a) if the number of Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the initial number of the Public Offer Shares, then 20,000,000 Placing Shares will be re-allocated to the Public Offer from the Placing so that the total number of Shares available under the Public Offer will increase to 30,000,000 Shares, representing 30% of the total number of the Offer Shares initially available under the Share Offer;
- (b) if the number of Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the initial number of the Public Offer Shares, then 30,000,000 Placing Shares will be re-allocated to the Public Offer from the Placing so that the total number of Shares available under the Public Offer will increase to 40,000,000 Shares, representing 40% of total number of the Offer Shares initially available under the Share Offer; and

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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- (c) if the number of Shares validly applied for under the Public Offer represents 100 times or more the initial number of the Public Offer Shares, then 40,000,000 Placing Shares will be re-allocated to the Public Offer from the Placing so that the total number of Shares available under the Public Offer will increase to 50,000,000 Shares, representing 50% of the total number of the Offer Shares initially available under the Share Offer.

In each such case, the additional Shares will be re-allocated to the Public Offer and the number of the Placing Shares will be correspondingly reduced.

If the Public Offer is not fully subscribed for, the Lead Manager has the authority to reallocate all, or any unsubscribed Public Offer Shares to the Placing, in such proportions as the Lead Manager deems appropriate.

Details of any re-allocation of Offer Shares between the Public Offer and the Placing will be disclosed in the results announcement of the Share Offer, which is expected to be published on Wednesday, 23 November 2011.

### **LISTING DATE**

Assuming that the Share Offer becomes unconditional, it is expected that dealings in our Shares on the Main Board will commence at 9:00 a.m. (Hong Kong time) on Thursday, 24 November 2011.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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*There are three ways to apply for the Public Offer Shares. You may (i) use a **YELLOW** or **WHITE** Application Form; (ii) give **electronic application instructions** to cause HKSCC Nominees to apply on your behalf for the Public Offer Shares; or (iii) apply online by submitting an electronic application to the **HK eIPO White Form Service Provider** under the **HK eIPO White Form** service through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk). Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on any **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **HK eIPO White Form Service Provider**.*

### MIXED MEDIA OFFER

Our Company will be relying on section 9A of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong) and will be issuing the **WHITE** and **YELLOW** Application Forms without them being accompanied by a printed prospectus. The contents of this prospectus are identical to the electronic form prospectus which can be accessed and downloaded from 9:00 a.m. on Monday, 14 November 2011 until 12:00 noon on Thursday, 17 November 2011 from the websites of our Company at [www.grandconcord.com](http://www.grandconcord.com) under the “Investor Relations > Prospectus” section and the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) under the “HKExnews > Listed Company Information > Latest Listed Company Information” section, respectively.

Members of the public who wish to obtain a copy of the printed prospectus may obtain a copy, free of charge, upon request during normal business hours from 9:00 a.m. on Monday, 14 November 2011 until 12:00 noon on Thursday, 17 November 2011 at the following locations:

1. any of the following addresses of the Sponsor and/or the Public Offer Underwriters:
  - Celestial Capital Limited**, 21/F, Low Block, Grand Millennium Plaza, 181 Queen’s Road Central, Hong Kong; or
  - Berich Brokerage Limited**, 2/F and 3/F Shum Tower, 268 Des Voeux Road Central, Hong Kong; or
  - Cinda International Securities Limited**, 45/F, COSCO Tower, 183 Queen’s Road Central, Hong Kong; or
  - Grand Vinco Capital Limited**, Units 4909-10, 49/F, The Center, 99 Queen’s Road Central, Hong Kong; or
  - SBI E2-Capital (HK) Limited**, Unit A2, 32/F, United Centre, 95 Queensway, Hong Kong;
2. the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong; and

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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3. any of the following branches of **The Bank of East Asia, Limited**:

	<b>Branch name</b>	<b>Address</b>
<b>Hong Kong Island</b>	Main Branch	10 Des Voeux Road Central, Central
<b>Kowloon</b>	Mongkok Branch	638-640 Nathan Road, Mongkok
<b>New Territories</b>	Tai Wai Branch	16-18 Tai Wai Road, Cheung Fung Mansion, Shatin

During normal business hours from 9:00 a.m. on Monday, 14 November 2011 until 12:00 noon on Thursday, 17 November 2011, at least three copies of the printed prospectus will be available for inspection at every location where the **WHITE** and **YELLOW** Application Forms are distributed as set out in this section.

### WHICH APPLICATION CHANNEL TO USE

Use a **WHITE** Application Form if you want the Public Offer Shares to be issued in your own name.

Instead of using a **WHITE** Application Form, you may apply for the Public Offer Shares by means of **HK eIPO White Form** service by submitting applications online through the designated website at [www.hkeipo.com](http://www.hkeipo.com). Use a **WHITE** Application Form or **HK eIPO White Form** service if you want the Public Offer Shares to be registered in your own name.

Use a **YELLOW** Application Form if you want the Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant.

Instead of using a **YELLOW** Application Form, you may electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for the Public Offer Shares on your behalf. Any Public Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant.

### WHO CAN APPLY

1. You, the applicant(s), and any person(s) for whose benefit you are applying, must be 18 years of age or older and must have a Hong Kong address.
2. If you are a **firm**, this application must be made in the name(s) of the individual member(s), not in the name of the firm.
3. If you are a **body corporate**, the application must be stamped with the company chop (bearing the company name) and signed by a duly authorised officer, who must state his or her representative capacity.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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4. Save under the circumstances permitted by the Listing Rules, you cannot apply for any Public Offer Shares if you or any person(s) for whose benefit you are applying are/is:
- an existing beneficial owner of Shares in our Company or any of our subsidiaries;
  - the chief executive or a director of our Company or any of our subsidiaries;
  - an associate of any of the above;
  - a connected person of our Company or any of our subsidiaries or a person who will become a connected person of our Company or any of our subsidiaries immediately upon completion of the Share Offer;
  - a legal or natural person of the PRC (other than Hong Kong, Macau and Taiwan) (except qualified domestic institutional investors);
  - a person who does not have a Hong Kong address; or
  - have been allotted or have applied for the Placing Shares under the Placing.
5. If you or any person(s) for whose benefit you are applying are/is within the United States or a United States person(s) (as defined in Regulation S under the US Securities Act), no application for Public Offer Shares shall be made.
6. If you wish to apply for the Public Offer Shares online through the **HK eIPO White Form** service ([www.hkeipo.hk](http://www.hkeipo.hk)), you must also:
- have a valid Hong Kong identity card number; and
  - be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of **HK eIPO White Form** service if you are an individual applicant. Corporations or joint applicants may not apply by means of **HK eIPO White Form** service.

7. The total number of joint applicants must not exceed four.

Our Company, and the Lead Manager or the **HK eIPO White Form** Service Provider in their capacity as our agents, have full discretion to reject or accept any application, in full or in part, without assigning any reason.

The Public Offer Shares are not available to existing beneficial owners of our Shares, the Directors or chief executive of our Company or their respective associates or any other connected persons of our Company or persons who will become our connected persons immediately upon completion of the Share Offer.

You may apply for the Public Offer Shares under the Public Offer or indicate an interest for the Placing Shares under the Placing, but may not do both.



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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### WHERE TO COLLECT THE APPLICATION FORMS

You can collect **WHITE** Application Form during normal business hours from 9:00 a.m. on Monday, 14 November 2011 until 12:00 noon on Thursday, 17 November 2011 from:

**Celestial Capital Limited**

21st Floor, Low Block  
Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

or

**Berich Brokerage Limited**

2/F and 3/F Shum Tower  
268 Des Voeux Road Central  
Hong Kong

or

**Cinda International Securities Limited**

45/F, COSCO Tower  
183 Queen's Road Central  
Hong Kong

or

**Grand Vinco Capital Limited**

Units 4909-10, 49/F, The Center  
99 Queen's Road Central  
Hong Kong

or

**SBI E2-Capital (HK) Limited**

Unit A2, 32/F, United Centre  
95 Queensway  
Hong Kong;

or any of the following branches of The Bank of East Asia, Limited:

<b>District</b>	<b>Branch name</b>	<b>Address</b>
<b>Hong Kong Island</b>	Main Branch	10 Des Voeux Road Central, Central
	399 Hennessy Road Branch	G/F, Eastern Commercial Centre, 399 Hennessy Road, Wanchai
	Shaukiwan Branch	G/F, Ka Fook Building, 289-293 Shau Kei Wan Road, Shau Kei Wan
	Admiralty Branch	Shop 1007-1008, 1/F, United Centre, 95 Queensway, Admiralty

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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District	Branch name	Address
<b>Kowloon</b>	Mongkok Branch	638-640 Nathan Road, Mongkok
	Yaumatei Branch	G/F, 526 Nathan Road, Yaumatei
	Kwun Tong Branch	7 Hong Ning Road, Kwun Tong
	Mei Foo Sun Chuen Branch	Shop N57, G/F, Mount Sterling Mall, Mei Foo Sun Chuen
<b>New Territories</b>	Tai Wai Branch	16-18 Tai Wai Road, Cheung Fung Mansion, Shatin
	Tai Po Plaza Branch	Units 49-52, Level 1, Tai Po Plaza, Tai Po
	Tuen Mun Town Plaza Branch	Shop 2-10, UG/F, Tuen Mun Town Plaza Phase II, 3 Tuen Lung Street, Tuen Mun
	Park Central Branch	Shop G6, G/F, Park Central, 9 Tong Tak Street, Tseung Kwan O

You can collect **YELLOW** Application Form during normal business hours from 9:00 a.m. on Monday, 14 November 2011 until 12:00 noon on Thursday, 17 November 2011 from the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong or your stockbrokers may also have the Application Forms available.

### HOW TO COMPLETE THE APPLICATION FORMS

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned to you (or the first-named applicant in case of joint applicant(s)) by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) at your own risk at the address stated in the relevant Application Form.

If your application is made through a duly authorised attorney, our Company, the Lead Manager (for itself and on behalf of the Public Offer Underwriters), or their respective agents or nominees, each acting as an agent of our Company, may accept the application at their discretion, and subject to any conditions they consider appropriate, including evidence of the authority of your attorney. The Lead Manager, acting as agent of our Company, shall have full discretion to reject or accept any application, in full or in part, without assigning any reason.

You should note that by completing and submitting the **WHITE** or **YELLOW** Application Form, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:

- instruct and authorise our Company and/or the Lead Manager and/or the Public Offer Underwriters (or their respective agents or nominees) to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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things necessary to effect the registration of any Public Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by the Articles of Association and otherwise to give effect to the arrangements described in this prospectus and the relevant Application Form;

- undertake to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Public Offer Shares allocated to you, and as required by the Articles of Association;
- confirm that you have only relied on the information and representations contained in this prospectus in making the application, and not on any other information or representation concerning our Company and you agree that neither our Company, the Sponsor, the Bookrunner, the Lead Manager or the Underwriters nor any of their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Share Offer will have any liability for any such other information or representations;
- agree (without prejudice to any other rights which you may have) that once the application has been accepted, you may not revoke or rescind it because of an innocent misrepresentation;
- if the application is made for your own benefit, warrant that the application is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated **HK eIPO White Form** Service Provider via **HK eIPO White Form** service ([www.hkeipo.hk](http://www.hkeipo.hk));
- if the application is made by an agent on your behalf, warrant that you have validly and irrevocably conferred on the agent all necessary power and authority to make the application;
- if you are an agent for another person, warrant that reasonable enquiries have been made of that other person that the application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated **HK eIPO White Form** Service Provider through **HK eIPO White Form** service ([www.hkeipo.hk](http://www.hkeipo.hk)), and that you are duly authorised to sign the Application Form or to give **electronic application instructions** as that other person's agent;
- undertake and confirm that you (if the application is made for your benefit) or the person(s) for whose benefit you are applying have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any Placing Shares in the Placing, nor otherwise participate in the Placing;
- warrant the truth and accuracy of the information contained in your application;

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- agree to disclose to our Company, our branch share registrar and transfer office, the receiving bankers, the Sponsor, the Bookrunner, the Lead Manager, the Underwriters and their respective advisers and agents any personal data and information about you or the person(s) for whose benefit you have made the application;
- agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- undertake and agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- represent and warrant that you understand that the Public Offer Shares have not been and will not be registered under the US Securities Act and you are outside the United States (as defined in Regulation S under the US Securities Act) when completing this application and you are not, and none of the other person(s) for whose benefit you are applying, is a US person (as defined in Regulation S under the US Securities Act) described under the US Securities Act;
- agree that once your application is accepted, your application will be evidenced by the results of the Public Offer made available by our Company;
- authorise our Company to place your name(s) or the name of HKSCC Nominees, as the case may be, on the register of members of our Company as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or our agents to send or deposit any share certificate(s) (where applicable) to you or into CCASS (as the case may be) and/or to send any refund cheque(s) (where applicable) to you or (in case of joint applicants) the first-named applicant on the Application Form by ordinary post at your own risk to the address stated on your Application Form (unless you have applied for 1,000,000 Public Offer Shares or more and have indicated on the Application Form that you will collect the share certificate(s) (where applicable and if you use a **WHITE** Application Form) and/or refund cheques (where applicable) in person in accordance with the terms set out in this prospectus);
- understand that these declarations and representations will be relied upon by our Company, our Directors, the Sponsor, the Bookrunner, the Lead Manager and the Underwriters in deciding whether or not to make any allotment of Public Offer Shares in response to your application;
- if the laws of any place outside Hong Kong are applicable to your application, you agree and warrant that you have complied with all such laws and none of our Company, the Sponsor, the Bookrunner, the Lead Manager or the Underwriters nor any of their respective directors, employees, partners, agents, officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to subscribe, or any actions arising from your rights and obligations under the terms and conditions set out in this prospectus;

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- agree with us, for ourselves and the benefit of each of our Shareholders, and we agree with each of our Shareholders, to observe and comply with the Companies Act, our Memorandum of Association and Articles of Association;
- agree with us, for ourselves and the benefit of each of our Shareholders, that the Shares are freely transferable by the holder(s) thereof;
- authorise us to enter into a contract on your behalf with each of our Directors and officers under which such Directors and officers undertake to observe and comply with their obligations to Shareholders stated in our Memorandum of Association and Articles of Association;
- confirm that you are aware of the restrictions on offering of the Public Offer Shares described in this prospectus; and
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and the Application Forms and agree to be bound by them.

In order for the **YELLOW** Application Forms to be valid:

You, as the applicant(s), must complete the form as indicated below and sign on the first page of the Application Form. Only written signatures will be accepted.

- (a) **If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**
- i. the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box in the Application Form.
- (b) **If the application is made by an individual CCASS Investor Participant:**
- i. the Application Form must contain the CCASS Investor Participant's name and Hong Kong Identity Card number; and
  - ii. the CCASS Investor Participant must insert its participant I.D. in the appropriate box in the Application Form.
- (c) **If the application is made by a joint individual CCASS Investor Participant:**
- i. the Application Form must contain all joint CCASS Investor Participants' names and the Hong Kong Identity Card numbers of all joint CCASS Investor Participants; and
  - ii. the participant I.D. must be inserted in the appropriate box in the Application Form.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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(d) **If the application is made by a corporate CCASS Investor Participant:**

- i. the Application Form must contain the CCASS Investor Participant's company name and Hong Kong Business Registration number; and
- ii. the participant I.D. and company chop (bearing its company name) must be inserted in the appropriate box in the Application Form.

Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of participant I.D. and/or company chop bearing its company name or other similar matters may render the application invalid.

Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked "For nominees" account numbers or other identification code for each beneficial owner or, in the case of joint beneficial owners, for each such beneficial owner.

If you apply for the Public Offer Shares using a **YELLOW** Application Form, in addition to the confirmations and agreements referred to above, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee are deemed to do the followings:

- (a) agree that any Public Offer Shares allocated to you shall be registered in the name of HKSCC Nominees and deposited directly into CCASS operated by HKSCC for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant, in accordance with your election on the Application Form;
- (b) agree that each of HKSCC and HKSCC Nominees reserves the right at its absolute discretion (1) not to accept any or part of such allotted Public Offer Shares issued in the name of HKSCC Nominees or not to accept such allotted Public Offer Shares for deposit into CCASS; (2) to cause such allotted Public Offer Shares to be withdrawn from CCASS and transferred into your name (or, if you are a joint applicant, to the name of the first-named applicant) at your own risk and costs; (3) to cause such allotted Public Offer Shares to be issued in your name (or, if you are a joint applicant, in the name of the first-named applicant) and in such a case, to post the share certificates for such allotted Public Offer Shares at your own risk to the address stated on the Application Form by ordinary post or to make available the same for your collection;
- (c) agree that each of HKSCC and HKSCC Nominees may adjust the number of allotted Public Offer Shares issued in the name of HKSCC Nominees;
- (d) agree that neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this prospectus and the Application Form; and
- (e) agree that neither HKSCC nor HKSCC Nominees shall be liable to you in any way.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### How to make payment for the application

Each completed **WHITE** or **YELLOW** Application Form must be accompanied by either one cheque or one banker's cashier order, which must be stapled to the top left hand corner of the Application Form.

If you pay by cheque, the cheque must:

- be in Hong Kong dollars;
- be drawn on your Hong Kong dollar bank account in Hong Kong;
- show your account name. This name must either be pre-printed on the cheque or be endorsed on the reverse of the cheque by an authorised signatory of the bank. The account name must correspond with the name of the applicant on your Application Form (or, in the case of joint applicants, the name of the first-named applicant). If the cheque is drawn on a joint account, one of the joint account names must be the same as the name of the first-named applicant;
- be made payable to "The Bank of East Asia (Nominees) Limited — Grand Concord Public Offer";
- be crossed "Account Payee Only"; and
- not be post-dated.

Your application may be rejected if your cheque does not meet all these requirements or is dishonoured on its first presentation.

If you pay by banker's cashier order, the cashier order must:

- be in Hong Kong dollars;
- be issued by a licensed bank in Hong Kong and have your name certified on the reverse of the banker's cashier order by an authorised signatory of the bank on which it is drawn. The name on the reverse of the banker's cashier order and the name on the Application Form must be the same. If it is a joint application, the name on the reverse of the banker's cashier order must be the same as the name of the first-named applicant;
- be made payable to "The Bank of East Asia (Nominees) Limited — Grand Concord Public Offer";
- be crossed "Account Payee Only"; and
- not be post-dated.

Your application may be rejected if your banker's cashier order does not meet all these requirements.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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The right is reserved to present all or any remittance for payment. However, your cheque or banker's cashier order will not be presented for payment before 12:00 noon on Thursday, 17 November 2011. Our Company will not give you a receipt for your payment. Our Company will keep any interest accrued on your application money (up until, in the case of money to be refunded, the date of despatch of refund cheques). The right is also reserved to retain any share certificates and/or any surplus application money or refunds pending clearance of your cheque or banker's cashier order.

### APPLICATIONS BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

#### General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979-7888 or the CCASS Internet System at <https://ip.ccass.com> (using the procedures contained in "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**

Customer Service Centre

2nd Floor

Infinitus Plaza

199 Des Voeux Road Central

Hong Kong

and complete an input request form.

Copies of this prospectus are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant, respectively, to give **electronic application instructions** via CCASS terminals to apply on your behalf for the Public Offer Shares.

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company and our Company's Hong Kong branch share registrar and transfer office. The subscription for the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Our Company, the Selling Shareholder, the Lead Manager and the Public Offer Underwriters take no responsibility for the application and provide no assurance that any CCASS Participants will be allotted any Public Offer Shares.



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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### Warning

The subscription of Public Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. The Sponsor and the Company take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last moment to input instructions. In the event that CCASS Investor Participants have problems in connecting to the CCASS Phone System or CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit the **WHITE** or **YELLOW** Application Form or (ii) go to HKSCC's Customer Service Centre to complete an application instruction input request form before 12:00 noon on Thursday, 17 November 2011.

### Giving electronic application instructions to HKSCC to apply for the Public Offer Shares by HKSCC Nominees on your behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Public Offer Shares,

- HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- HKSCC Nominees does the following things on behalf of each of the persons:
  - (a) agrees that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to that person's CCASS Investor Participant stock account or the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf;
  - (b) undertakes and agrees to accept the Public Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
  - (c) undertakes and confirms that the person has not applied for or taken up any Placing Shares nor otherwise participated in the Placing;
  - (d) if the **electronic application instructions** are given for that person's own benefit, declares that only one set of **electronic application instructions** has been given for that person's benefit;
  - (e) if that person is an agent for another person, declares that he or she or it has given only one set of **electronic application instructions** for the benefit of that other person and that he or she or it is duly authorised to give those instructions as that other person's agent;

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- (f) understands that the above declaration will be relied upon by our Company, our Directors, the Sponsor, the Bookrunner and the Lead Manager in deciding whether to make any allotment of Public Offer Shares in respect of the **electronic application instructions** given by that person and that person may be prosecuted if he or she or it makes a false declaration;
- (g) authorises our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Public Offer Shares allotted in respect of that person's **electronic application instructions** and to send share certificate(s) and/or refund money in accordance with the arrangements separately agreed between our Company and HKSCC;
- (h) confirms that that person has read the terms and conditions and application procedures set forth in this prospectus and agrees to be bound by them;
- (i) confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker to give **electronic application instructions** on that person's behalf;
- (j) agrees that our Company, the Sponsor, the Bookrunner, the Lead Manager, the Public Offer Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Public Offer are not liable for the information and representations not contained in this prospectus;
- (k) without prejudice to any other rights which may have, agrees that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentations;
- (l) agrees to disclose to our Company and our agents, the Sponsor, the Bookrunner, the Lead Manager and the Public Offer Underwriters any information which they require about that person;
- (m) agrees that any application made by HKSCC Nominees on behalf of that person pursuant to the **electronic application instructions** given by that person is irrevocable before the expiration of the 5th day after the closing of the Application Lists. This agreement will take effect as a collateral contract with our Company and will become binding when that person gives the instructions and such collateral contract will be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the expiration of the 5th day after the closing of the Application Lists except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the instructions before the 5th day after the opening of the Application Lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- (n) agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked and that acceptance of that application will be evidenced by the press announcement on the results of the Public Offer published by our Company; and
- (o) agrees to the arrangement, undertakings and warranties specified in the participant agreement between that person and HKSCC, together with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to the Public Offer Shares.

### Effect of giving electronic application instructions to HKSCC

By giving electronic application instructions to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant, respectively, to give such instructions to HKSCC, you (and if you are joint applicants, each jointly and severally) are deemed to do the following things. Neither HKSCC nor HKSCC Nominees will be liable to our Company or any other person in respect of the things mentioned below:

- instruct and authorise HKSCC to cause HKSCC Nominees (acting as nominee for the CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instruct and authorise HKSCC to arrange payment of the Offer Price, brokerage, transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of wholly or partly unsuccessful applications refund of the application money by crediting your designated bank account; or
- instruct and authorise HKSCC to cause HKSCC Nominees to do on your behalf all the things which are stated in the **WHITE** Application Form to do on your behalf.

### Minimum application amount and permitted multiples

You may give **electronic application instructions** in respect of a minimum of 4,000 Public Offer Shares. Such instructions in respect of more than 4,000 Public Offer Shares must be in one of the multiples set forth in the table on the Application Forms.

### Multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made. Further information in this regard is set forth under the paragraph headed "How many applications you may make for the Public Offer Shares" in this section below.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### Allocation of the Public Offer Shares

For the purpose of allocating the Public Offer Shares, HKSCC Nominees shall not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given shall be treated as an applicant.

### Personal data

Information set forth under the paragraph headed “Personal data” in this section and in the Application Forms applies to all personal data held by our Company and our Company’s Hong Kong branch share registrar and transfer office about you in the same way as it applies to personal data about all applicants other than HKSCC Nominees.

### Section 40 of the Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance).

## APPLYING BY USING HK eIPO WHITE FORM SERVICE

### General

You may apply through the **HK eIPO White Form** service by submitting an application through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk). If you apply through the **HK eIPO White Form** service, the Public Offer Shares will be issued in your own name.

### How to apply through the HK eIPO White Form service

- (a) Detailed instructions for application through the **HK eIPO White Form** service are set out on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk). You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated **HK eIPO White Form** Service Provider and may not be submitted to our Company.
- (b) In addition to the terms and conditions set out in this prospectus, the designated **HK eIPO White Form** Service Provider may impose additional terms and conditions upon you for the use of the **HK eIPO White Form** service. Such terms and conditions are set out on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk). You will be required to read, understand and agree to such terms and conditions in full prior to making any application.
- (c) By submitting an application to the designated **HK eIPO White Form** Service Provider through the **HK eIPO White Form** service, you are deemed to have authorised the designated **HK eIPO White Form** Service Provider to transfer the details of your application to our Company and our branch share registrar and transfer office.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- (d) You may submit an application through the **HK eIPO White Form** service in respect of a minimum of 4,000 Public Offer Shares. Each **electronic application instruction** in respect of more than 4,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).
- (e) You should give electronic instructions through the **HK eIPO White Form** service at the times set out in the paragraph headed “Time for applying for the Public Offer Shares” in this section below.

### How to Make Payment for the Application

You should make payment for your application made by **HK eIPO White Form** service in accordance with the methods and instructions set out in the designated website at [www.hkeipo.hk](http://www.hkeipo.hk). If you do not make complete payment of the application money (including any related fees) on or before 12:00 noon on Thursday, 17 November 2011, or such later time as described under the paragraph headed “Effect of bad weather on the opening of the Application Lists” in this section below, the designated **HK eIPO White Form** Service Provider will reject your application and your application money will be returned to you in the manner described in the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

### Multiple applications

If you apply by using **HK eIPO White Form**, once you complete payment in respect of any electronic instructions given by you or for your benefit to the designated **HK eIPO White Form** Service Provider to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic instruction under **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service by giving electronic instructions through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) and completing payment in respect of such electronic instructions, or of submitting one application through the **HK eIPO White Form** service and one or more applications by any other means, all of your applications are liable to be rejected.

### Warning

The application for Public Offer Shares through the **HK eIPO White Form** service is only a facility provided by the designated **HK eIPO White Form** Service Provider to public investors. Our Company, our Directors, the Lead Manager, the Sponsor, the Bookrunner, the Underwriters and all other parties involved in the Share Offer take no responsibility for such applications, and provide no assurance that applications through the **HK eIPO White Form** service will be submitted to our Company or that you will be allotted any Public Offer Shares.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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Please note that internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **HK eIPO White Form** service, you are advised not to wait until the last day for submitting applications in the Share Offer to submit your electronic instructions. In the event that you have problems connecting to the designated website for the **HK eIPO White Form** service, you should submit a **WHITE** Application Form. However, once you have submitted electronic instruction and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** Application Form. Please refer to the paragraph headed “How many applications you may make for the Public Offer Shares” in this section below.

### **Additional information**

For the purposes of allocating Public Offer Shares, each applicant giving electronic instructions through the **HK eIPO White Form** service to the **HK eIPO White Form** Service Provider through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) will be treated as an applicant.

If your payment of application money is insufficient, or in excess of the required amount, having regard to the number of Public Offer Shares for which you have applied, or if your application is otherwise rejected by the designated **HK eIPO White Form** Service Provider, the designated **HK eIPO White Form** Service Provider may adopt alternative arrangements for the refund of money to you. Please refer to the additional information provided by the designated **HK eIPO White Form** Service Provider on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

### **HOW MANY APPLICATIONS YOU MAY MAKE FOR THE PUBLIC OFFER SHARES**

You may make more than one application for the Public Offer Shares if you are a nominee, in which case you may make an application by using a **WHITE** or **YELLOW** Application Form or by way of giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Participant), and lodge more than one Application Form in your own name on behalf of different beneficial owners. In the box on the relevant Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each such beneficial owner. If you do not include this information, the application will be treated as being for your own benefit.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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**Otherwise, multiple applications are not allowed.**

It will be a term and condition of all applications that by completing and delivering an Application Form or by giving **electronic application instructions** to HKSCC or to the designated **HK eIPO White Form** Service Provider through the **HK eIPO White Form** service, you:

- if the application is made for your own benefit, warrant that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **HK eIPO White Form** Service Provider through the **HK eIPO White Form** service ([www.hkeipo.hk](http://www.hkeipo.hk));
- if you are an agent for another person, warrant that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or through giving **electronic application instructions** to HKSCC or to the designated **HK eIPO White Form** Service Provider through **HK eIPO White Form** service ([www.hkeipo.hk](http://www.hkeipo.hk)), and that you are duly authorised to sign the relevant Application Form or give **electronic application instructions** as that other person's agent.

Multiple applications or suspected multiple applications are liable to be rejected. All of your applications are liable to be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly with others) on a **WHITE** or **YELLOW** Application Form or give **electronic application instructions** to HKSCC via CCASS or to the designated **HK eIPO White Form** Service Provider through the **HK eIPO White Form** service ([www.hkeipo.hk](http://www.hkeipo.hk));
- apply (whether individually or jointly with others) on one (or more) **WHITE** Application Form and one (or more) **YELLOW** Application Form or one (or more) **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC via CCASS or to the designated **HK eIPO White Form** Service Provider through the **HK eIPO White Form** service ([www.hkeipo.hk](http://www.hkeipo.hk));
- apply (whether individually or jointly with others) on one (or more) **WHITE** or **YELLOW** Application Form or give **electronic application instructions** to HKSCC via CCASS or to the designated **HK eIPO White Form** Service Provider through the **HK eIPO White Form** service ([www.hkeipo.hk](http://www.hkeipo.hk)) for more than 100% of the Public Offer Shares initially available for subscription under the Public Offer; or
- have applied for or taken up, or indicated an interest in or have been or will be placed (including conditionally and/or provisionally) with any Placing Shares under the Placing and make application on **WHITE** or **YELLOW** Application Form or give **electronic application instructions** to HKSCC via CCASS or to the designated **HK eIPO White Form** Service Provider through the **HK eIPO White Form** service ([www.hkeipo.hk](http://www.hkeipo.hk)).

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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All of your applications are also liable to be rejected as multiple applications if more than one application is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**) or you have applied for or taken up or otherwise indicated an interest in any Placing Shares under the Placing.

If an application is made by an unlisted company and

- the principal business of that company is dealing in securities; and
- you exercise “statutory control” over that company,

then that application will be treated as being for your benefit.

“An unlisted company” means a company with no equity securities listed on the Stock Exchange.

“**Statutory control**” means you:

- control the composition of the board of directors of that company; or
- control more than half the voting power of that company; or
- hold more than one-half of the issued share capital or issued shares of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### Offer Price

The Offer Price is HK\$0.80 per Share. You must also pay the brokerage of 1%, the Stock Exchange trading fee of 0.005% and the SFC transaction levy of 0.003%. This means that for every 4,000 Public Offer Shares, you will need to pay HK\$3,232.26. The Application Forms have tables showing the exact amount payable for certain multiples of the Public Offer Shares up to 10,000,000 Public Offer Shares.

You must pay the Offer Price, the brokerage, the Stock Exchange trading fee and the transaction levy in full when you apply for the Public Offer Shares. Your payment must be made by one cheque or one banker’s cashier order and must comply with the terms of the Application Forms.

If your application is successful, the brokerage will be paid to participants of the Stock Exchange, the transaction levy will be paid to the SFC and the trading fee will be paid to the Stock Exchange.



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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### TIME FOR APPLYING FOR THE PUBLIC OFFER SHARES

#### WHITE or YELLOW Application Forms

Completed **WHITE** or **YELLOW** Application Forms, with payment attached, must be lodged by 12:00 noon (Hong Kong time) on Thursday, 17 November 2011, or, if the Application Lists are not open on that day, then by 12:00 noon (Hong Kong time) on the day the Application Lists are open.

Your completed Application Form, with payment attached, should be deposited in the special collection boxes provided at any branches of The Bank of East Asia, Limited listed under the paragraph headed “Where to collect the Application Forms” in this section above at the following times:

<b>Monday, 14 November 2011</b>	<b>— 9:00 a.m. to 5:00 p.m.</b>
<b>Tuesday, 15 November 2011</b>	<b>— 9:00 a.m. to 5:00 p.m.</b>
<b>Wednesday, 16 November 2011</b>	<b>— 9:00 a.m. to 5:00 p.m.</b>
<b>Thursday, 17 November 2011</b>	<b>— 9:00 a.m. to 12:00 noon</b>

#### Electronic application instructions

CCASS Clearing/Custodian Participants should input **electronic application instructions** at the following times on the following dates:

<b>Monday, 14 November 2011</b>	<b>— 9:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Tuesday, 15 November 2011</b>	<b>— 8:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Wednesday, 16 November 2011</b>	<b>— 8:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Thursday, 17 November 2011</b>	<b>— 8:00 a.m.<sup>(1)</sup> to 12:00 noon</b>

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, 14 November 2011 until 12:00 noon on Thursday, 17 November 2011 (24 hours daily, except the last application day).

The latest time for inputting your **electronic application instructions** (if you are a CCASS Participant) is 12:00 noon on Thursday, 17 November 2011 or, if the Application Lists are not open on that day, by the time and date stated under the paragraph headed “Effect of bad weather on the opening of the Application Lists” in this section below.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### HK eIPO White Form

You may submit your application to the designated **HK eIPO White Form** Service Provider through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) from 9:00 a.m. on Monday, 14 November 2011 until 11:30 a.m. on Thursday, 17 November 2011 or such later time as described under the paragraph headed “Effect of bad weather on the opening of the Applications Lists” in this section below (24 hours daily, except on the last application day). The latest time for completing full payment of application money in respect of such applications will be 12:00 noon on Thursday, 17 November 2011, the last application day, or, if the Application Lists are not open on that day, then by the time and date stated in the paragraph headed “Effect of bad weather on the opening of the Application Lists” in this section below.

You will not be permitted to submit your application to the designated **HK eIPO White Form** Service Provider through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application money) until 12:00 noon on the last day for submitting applications, when the Application Lists close.

### Application Lists

The Application Lists will open from 11:45 a.m. to 12:00 noon on Thursday, 17 November 2011.

No proceedings will be taken on applications for our Shares and no allotment of any such Shares will be made until after the closing of the Application Lists. No Public Offer Shares will be allotted after 30 days from the date of this prospectus.

### EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The Application Lists will not open if there is:

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning signal,

in force at any time between 9:00 a.m. (Hong Kong time) and 12:00 noon (Hong Kong time) on Thursday, 17 November 2011 in Hong Kong. Instead, the Application Lists will open between 11:45 a.m. (Hong Kong time) and 12:00 noon (Hong Kong time) on the next Business Day which does not have either of those warnings in force at any time between 9:00 a.m. (Hong Kong time) and 12:00 noon (Hong Kong time).

If the Application Lists do not open and close on Thursday, 17 November 2011, the dates mentioned in the section headed “Expected timetable” of this prospectus and the related Application Forms and other dates mentioned in this prospectus (including, without limitation, the latest time for the exercise of termination rights under the Underwriting Agreements) may be affected. A press announcement will be made in such event in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED THE PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allotted the Public Offer Shares are set forth in the related Application Forms (whether you are making your application by an Application Form or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf or applying online via **HK eIPO White Form** service), and you should read them carefully. You should note in particular the following situations in which the Public Offer Shares will not be allotted to you:

#### **If your application is revoked**

By depositing an Application Form or submitting **electronic application instructions** to HKSCC or to the designated **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the expiration of the 5th day after Thursday, 17 November 2011 or such later date as the Application Lists may close as described under the paragraph headed “Effect of bad weather on the opening of the Application Lists” in this section above. This agreement will take effect as a collateral contract with us, and will become binding when you lodge your Application Form or submit your **electronic application instructions** to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly or to the designated **HK eIPO White Form** Service Provider. This collateral contract will be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person until after the expiration of the 5th day after closing of the Application Lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before the 5th day after closing of the Application Lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 324E of the Companies Ordinance) gives a public notice under that section which excludes or limits the liability of that person for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicants have not been so notified, or if applicants have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted will remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked or withdrawn. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allotment, and where such basis of allotment is subject to certain conditions or provides for allocation by

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively, at our full discretion or the discretion of our agents. Our Company and the Lead Manager (as the agent of our Company) or their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of an application, and do not have to give any reason for any rejection or acceptance.

### **If your application is rejected**

Your application will be rejected if:

- it is a multiple application or a suspected multiple application; or
- your Application Form is not completed correctly in accordance with the instructions printed thereon (if you apply by an Application Form); or
- your payment is not made correctly; or
- you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation; or
- you or the person(s) for whose benefit you are applying have applied for or taken up or indicated an interest for or have received or have been or will be placed or allocated (including conditionally and/or provisionally) the Placing Shares; or
- we believe that by accepting your application, we would violate the applicable laws, rules or regulations of the jurisdiction in which your application is, or is suspected to have been, completed and/or signed or of any other jurisdiction; or
- your application is made for more than 100% of the Public Offer Shares initially available for subscription by the public under the Public Offer.

### **If your application is not accepted**

Your application (including the part of an application made by HKSCC Nominees acting upon **electronic application instructions**) will not be accepted if either:

- any of the Underwriting Agreements does not become unconditional; or
- any of the Underwriting Agreements is terminated in accordance with its respective terms and conditions.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### If the allotment of the Public Offer Shares is void

The allotment of the Public Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** to HKSCC or apply by a **YELLOW** Application Form) will be void if the Listing Committee does not grant permission to list our Shares either:

- within three weeks from the closing of the Applications Lists; or
- within a longer period of up to six weeks if the Listing Committee notifies us of that longer period within three weeks of the closing of the Application Lists.

### PUBLICATION OF RESULTS

The announcement of (i) the indication of the level of interest in the Placing; (ii) the level of applications in the Public Offer; (iii) the basis of allotment of the Public Offer Shares; and (iv) the number of Shares reallocated under the clawback adjustment, if any, will be published in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese), the Company's website at [www.grandconcord.com](http://www.grandconcord.com) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) on or before Wednesday, 23 November 2011.

The results of allocations of the Public Offer Shares, including applications made under **WHITE** or **YELLOW** Application Forms, which will include the Hong Kong identity card numbers/passport numbers/Hong Kong business registration certificate numbers of successful applicants and the number of the Public Offer Shares successfully applied for will be made available at the times and dates and in the manner specified below:

- on our website at [www.grandconcord.com](http://www.grandconcord.com) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) from Wednesday, 23 November 2011 onward;
- on our Public Offer results of allocations website at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) on a 24-hour basis from 8:00 a.m. on Wednesday, 23 November 2011 to 12:00 midnight on Tuesday, 29 November 2011. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application form to search for his/her/its own allocation result;
- from our Public Offer allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of the Public Offer Shares allocated to them, if any, by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Wednesday, 23 November 2011 to Monday, 28 November 2011 (excluding Saturday and Sunday);
- from special allocation results booklets which set out the results of allocations will be available for inspection during opening hours of the designated branches of the receiving banker of the Public Offer from Wednesday, 23 November 2011 to Friday, 25 November 2011 at the addresses set forth under the paragraph headed "Where to collect the Application Forms" in this section above.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND OF APPLICATION MONEY

**No temporary documents of title will be issued in respect of the Public Offer Shares. No receipt will be issued for sums paid on application. However, your cheque or banker's cashier order will not be presented for payment before 12:00 noon on Thursday, 17 November 2011. Our Company will keep any interest accrued on your application money.**

Any certificate relating to the Public Offer Shares issued by our Company or deposited into CCASS prior to 8:00 a.m. on the Listing Date will only become valid certificate of title if the Public Offer has become unconditional in all aspects and the Public Offer Underwriting Agreement has not been terminated in accordance with its terms on or before 8:00 a.m. on the Listing Date.

Your application money, or an appropriate portion thereof, together with the related brokerage fee, Stock Exchange trading fee and the transaction levy, will be refunded, without interest if:

- your application is rejected, not accepted or only accepted in part;
- the conditions of the Share Offer are not fulfilled in accordance with the section headed "Structure and conditions of the Share Offer" of this prospectus;
- any application is revoked or any allocation pursuant thereto has become void; or
- any of the reasons set forth under the paragraph headed "Circumstances in which you will not be allotted the Public Offer Shares" in this section.

It is intended that special efforts will be made to avoid any undue delay in refunding application money where appropriate.

If you have given **electronic application instructions** to HKSCC, your refund (if any) will be credited to your designated bank account or the designated bank account of the designated CCASS Participant through which you are applying on Wednesday, 23 November 2011. If you have instructed your designated CCASS Participant (other than CCASS Investor Participant) to give **electronic application instructions** on your behalf, you can check the amount of refund (if any) payable to you with that designated CCASS Participant. If you have applied as CCASS Investor Participant, you can check the amount of refund (if any) payable to you via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 23 November 2011 or in the activity statement made available to you by HKSCC after the credit of refund money to your bank account.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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You will receive one share certificate for all the Public Offer Shares issued to you (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC where the share certificate will be deposited into CCASS as described below under the paragraph headed “Deposit of share certificates into CCASS” in this section below).

Subject to the provisions mentioned below, in due course there will be sent to you by ordinary post, at your own risk to the address specified on your Application Form:

- for applicants applying on **WHITE** Application Forms or through the **HK eIPO White Form** service ([www.hkeipo.hk](http://www.hkeipo.hk)): (i) share certificate for all the Public Offer Shares applied for, if your application is wholly successful; or (ii) share certificate for the number of Public Offer Shares successfully applied for, if your application is partially successful (for wholly successful and partially successful applications on **YELLOW** Application Forms, share certificates for the Public Offer Shares successfully applied for will be deposited into CCASS as described below); and/or
- for applicants applying on **WHITE** or **YELLOW** Application Forms or through **HK eIPO White Form** service who have paid the application money through multiple bank accounts, a refund cheque crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for: (i) the excessive application money for the Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application money, if the application is wholly unsuccessful, payable upon application, in each case including related brokerage of 1%, the Stock Exchange trading fee of 0.005% and the SFC transaction levy of 0.003%, **without interest**. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of the refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.
- for applicants who apply through **HK eIPO White Form** service by paying the application money through a single bank account, e-Auto Refund payment instructions (if any) will be despatched to the application payment bank account for (i) the excessive application money for the Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application money, if the application is wholly unsuccessful, payable upon application, in each case including related brokerage of 1%, the Stock Exchange trading fee of 0.005% and the SFC transaction levy of 0.003%, **without interest**.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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In a contingency situation involving a very high level of over-subscription, at the discretion of our Company and the Lead Manager, applications for certain small denominations of the Public Offer Shares may be eliminated in a pre-balloting. In such circumstances, the cheques or banker's cashier orders accompanying such applications on the Application Forms will not be presented for clearing.

Subject as mentioned below, e-Auto Refund payment instructions/refund cheques (if any) and share certificates for successful applicants under **WHITE** Application Forms and **HK eIPO White Forms** are expected to be despatched on Wednesday, 23 November 2011. We reserve the right to retain any share certificates and any excessive application money pending clearance of cheque(s) or banker's cashier order(s).

**(a) If you apply using a WHITE or YELLOW Application Form**

If you have applied for 1,000,000 Public Offer Shares or more on a **WHITE** or **YELLOW** Application Form and have indicated your intention on your Application Form to collect your refund cheque (where applicable) and/or (for applicants using **WHITE** Application Forms) share certificate (where applicable) from our Company's Hong Kong branch share registrar and transfer office, and have provided all information required by your Application Form, you may collect (where applicable) your refund cheque and/or (where applicable) share certificate from our Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong on Wednesday, 23 November 2011 from 9:00 a.m. to 1:00 p.m. or any other date notified by us in the newspapers as the date of despatch/collection of share certificates/refund cheques/e-Auto Refund payment instructions.

If you are an individual who opts for collection in person, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for collection in person, the authorised representative bearing a letter of authorisation from the corporation stamped with the corporation's chop must be presented for collection. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Company's Hong Kong branch share registrar and transfer office. If you do not collect your share certificate and/or refund cheque personally within the time specified for collection, they will be despatched promptly to you by ordinary post to the address as specified in your Application Form at your own risk.

If you have applied for less than 1,000,000 Public Offer Shares or if you have applied for 1,000,000 Public Offer Shares or more on a **WHITE** or **YELLOW** Application Form but have not indicated in your Application Form that you wish to collect your share certificate (where applicable) and/or refund cheque in person, the share certificate and/or refund cheque (if applicable) will be sent to the address on your Application Form on Wednesday, 23 November 2011 or any other date notified by us in the newspapers as the date of despatch/collection of share certificates/refund cheques/e-Auto Refund payment instructions by ordinary post and at your own risk.



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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### (b) If you apply through **HK eIPO White Form**

If you apply for 1,000,000 Public Offer Shares or more through the **HK eIPO White Form** service by submitting an electronic application to the designated **HK eIPO White Form** Service Provider through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) and your application is wholly or partially successful, you may collect your share certificate and/or refund cheque (where applicable) in person from Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 23 November 2011, or such other date as notified by our Company in the newspapers as the date of despatch/collection of share certificates/refund cheques/e-Auto Refund payment instructions.

If you do not collect your share certificate and/or refund cheque (where applicable) personally within the time specified for collection, they will be sent to the address specified in your electronic applications to the designated **HK eIPO White Form** Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your share certificate and/or refund cheque (where applicable) will be sent to the address specified in your electronic applications to the designated **HK eIPO White Form** Service Provider through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) on Wednesday, 23 November 2011 by ordinary post and at your own risk.

If you apply through the **HK eIPO White Form** service by paying the application money through a single bank account, e-Auto Refund payment instructions for excessive application money (if any) in respect of wholly and partially unsuccessful applications paid on application will be despatched to your application payment bank account on Wednesday, 23 November 2011.

If you apply through the **HK eIPO White Form** service by paying the application money through multiple bank accounts, refund cheque for excessive application money (if any) in respect of wholly and partially unsuccessful applications paid on application will be despatched to you to the address specified in your electronic applications to the designated **HK eIPO White Form** Service Provider on Wednesday, 23 November 2011 by ordinary post and at your own risk.

Please also note the additional information relating to refund of application money overpaid, application money underpaid or applications rejected by the designated **HK eIPO White Form** Service Provider set out above in the paragraph headed "Applying by Using **HK eIPO White Form** — Additional information" in this section.

### **DEPOSIT OF SHARE CERTIFICATES INTO CCASS**

If you apply for the Public Offer Shares using a **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC, and your application is wholly or partially successful, your share certificate will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant's stock account or the stock account of your designated CCASS Participant as instructed by you on Wednesday, 23 November 2011, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of the Public Offer Shares allotted to you (and the amount of refund money payable to you if you have instructed a CCASS Clearing/Custodian Participant to give **electronic application instructions** on your behalf) with that CCASS Participant.

We expect to publish the application results of CCASS Investor Participants using **YELLOW** Application Forms and the application results of CCASS Participants applying by giving **electronic application instructions** to HKSCC (and where the CCASS Participant is a broker or custodian, we shall include information relating to the beneficial owner, the Hong Kong identity card numbers, passport numbers or other identification code (Hong Kong business registration number for corporations), if supplied) on Wednesday, 23 November 2011. You should check the announcement published by us and report any discrepancies to HKSCC or HKSCC Nominees before 5:00 p.m. on Wednesday, 23 November 2011 or such other date as shall be determined by HKSCC or HKSCC Nominees. Applicants applying by giving **electronic application instructions** to HKSCC can also check the result of application via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 23 November 2011.

If you are applying as a CCASS Investor Participant, you can check your new account balance via the CCASS Phone System and CCASS Internet System immediately after the credit of the Public Offer Shares to your stock account. HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your stock account and (if you are applying by giving **electronic application instructions** to HKSCC) the amount of refund money credited to your designated bank account.

### SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus on the Main Board and our Company complies with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealing in our Shares on the Main Board or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. Investors should seek the advice of their stockbroker(s) or other professional adviser(s) for details of those settlement arrangements as such arrangements will affect their rights and interests.

All activities under CCASS are subject to the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for our Shares to be admitted into CCASS.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Thursday, 24 November 2011. Shares will be traded on the Stock Exchange in board lots of 4,000 Shares each. The Stock Exchange stock code for the Shares is 844.

### PERSONAL DATA

The main provisions of the Personal Data (Privacy) Ordinance (the “**Ordinance**”) came into effect in Hong Kong on 20 December 1996. The Personal Information Collection Statement below informs the applicant for and holder of the Shares of the policies and practices of our Company and our branch share registrar and transfer office in relation to personal data and the Ordinance.

#### (a) Reasons for the collection of your personal data

From time to time it is necessary for applicants for securities or registered holders of securities to supply their latest correct personal data to our Company and our branch share registrar and transfer office when applying for securities or transferring securities into or out of their names or in procuring the services of our branch share registrar and transfer office.

Failure to supply the requested data may result in your application for securities being rejected or in delay or inability of our branch share registrar and transfer office to effect transfers or otherwise render their services. It may also prevent or delay registration or transfer of the Public Offer Shares which you have successfully applied for and/or the despatch of share certificate(s), and/or the despatch of refund cheque(s)/e-Auto Refund payment instructions to which you are entitled.

It is important that holders of securities inform our Company and our branch share registrar and transfer office immediately of any inaccuracies in the personal data supplied.

#### (b) Purposes

The personal data of the holders of securities may be used, held and/or stored (by whatever means) for the following purposes:

- processing of your application and refund cheque/e-Auto Refund payment instruction where applicable, and verification of compliance with the terms and application procedures set out in the Application Forms and this prospectus and announcing results of allocations of the Public Offer Shares;
- enabling compliance with all applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the names of holders of securities including, where applicable, in the name of HKSCC Nominees;
- maintaining or updating the registers of holders of securities of our Company;

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- conducting or assisting to conduct signature verifications, any other verification or exchange of information;
- establishing benefit entitlements of holders of securities of our Company, such as dividends, rights issues and bonus issues, etc;
- distributing communications from our Company and its subsidiaries;
- compiling statistical information and shareholder profiles;
- making disclosures as required by laws, rules or regulations;
- disclosing identities of successful applicants by way of press announcement(s) or otherwise;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable our Company and our branch share registrar and transfer office to discharge their obligations to holders of securities and/or regulators and any other purpose to which the holders of securities may from time to time agree.

### (c) **Transfer of personal data**

Personal data held by our Company and our branch share registrar and transfer office relating to the holders of securities will be kept confidential but our Company and our branch share registrar and transfer office may, to the extent necessary for achieving the above purposes or any of them, make such enquiries as they consider necessary to confirm the accuracy of the personal data and in particular, they may disclose, obtain, transfer (whether within or outside Hong Kong) the personal data of the holders of securities to, from or with any and all of the following persons and entities:

- our Company or its appointed agents such as financial advisers, receiving bankers and our Company's overseas principal share registrar;
- HKSCC and HKSCC Nominees, who will use the personal data for the purposes of operating CCASS (in cases where the applicants have requested for the Public Offer Shares to be deposited into CCASS);
- any agent, contractor or third-party service provider who offer administrative, telecommunications, computer, payment or other services to our Company and/or our branch share registrar and transfer office in connection with the operation of their respective businesses;
- the Stock Exchange, the SFC and any other statutory, regulatory or governmental bodies in Hong Kong or elsewhere; and

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- any other persons or institutions with which the holders of securities have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers, etc.

### **(d) Access to and correction of personal data**

The Ordinance provides the holders of securities with rights to ascertain whether our Company or our branch share registrar and transfer office hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. In accordance with the Ordinance, our Company and our branch share registrar and transfer office have the right to charge a reasonable fee for the processing of any data access request. All requests for access to data or correction of data or for information regarding policies and practices and the kinds of data held should be addressed to our Company for the attention of our Company secretary or (as the case may be) our branch share registrar for the attention of the Privacy Compliance Officer for the purposes of the Ordinance.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the reporting accountants of our Group, SHINEWING (HK) CPA Limited.



SHINEWING (HK) CPA Limited  
43/F., The Lee Gardens  
33 Hysan Avenue  
Causeway Bay, Hong Kong

14 November 2011

The Directors  
Grand Concord International Holdings Limited  
Celestial Capital Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding Grand Concord International Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 (the “Track Record Periods”) for inclusion in the prospectus of the Company dated 14 November 2011 (the “Prospectus”) in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company, which acts as an investment holding company, was incorporated in the British Virgin Islands (the “BVI”) with limited liability under the Business Companies Act of the British Virgin Islands (2004) on 8 December 2010. Pursuant to a group reorganisation completed on 22 February 2011 ( the “Reorganisation”) as more fully explained in the paragraph headed “Reorganisation” in Appendix V to the Prospectus, the Company became the holding company of the companies comprising the Group.

As at the date of this report, the particulars of the Company’s subsidiaries are as follows:

Name	Place and date of incorporation or establishment/ operation	Attributable equity interest held by the Company		Issued and fully paid share capital/ registered capital	Principal activities
		Direct	Indirect		
Grand Concord Holdings Group Limited (“Grand Concord (BVI)”)	BVI 8 December 2010	100%	—	Share capital USD1	Investment holding
Grand Concord Trading Limited (“Grand Concord (HK)”) 廣豪貿易有限公司	Hong Kong 30 November 1995	—	100%	Share capital HKD2	Investment holding

Name	Place and date of incorporation or establishment/ operation	Attributable equity interest held by the Company		Issued and fully paid share capital/ registered capital	Principal activities
		Direct	Indirect		
Grand Concord Garment (Hong Kong) Limited (“Grand Concord Garment”) 廣豪服飾(香港)有限公司	Hong Kong 3 June 2010	—	100%	Share capital HKD1	Trading of garments
Zhucheng Eternal Knitting Co., Limited (“Zhucheng Eternal Knitting”) 諸城裕泰針織有限公司 (Note (i) and (ii))	The People’s Republic of China (the “PRC”) 24 October 2000	—	100%	Registered capital USD1,300,000	Manufacture of innerwear
Zhucheng Yumin Knitting Co., Limited (“Zhucheng Yumin Knitting”) 諸城裕民針織有限公司 (Note (i) and (ii))	The PRC 22 November 2004	—	100%	Registered capital USD2,600,000	Manufacture of fabrics, provision of fabric weaving knitting, printing and dyeing services
Shandong Grand Concord Garment Co., Limited (“Shandong Grand Concord”) 山東廣豪服飾有限公司 (Note (i) and (ii))	The PRC 9 July 2007	—	100%	Registered capital USD850,000	Manufacture of innerwear and garments

*Notes:*

- (i) The entity is wholly foreign owned enterprise established in the PRC.
- (ii) The English translation of the company names is for reference only. The official names of these companies are in Chinese.

All the companies now comprising the Group have adopted 31 December as their financial year end date.

No audited statutory financial statements have been prepared for the Company and Grand Concord (BVI) as they have not carried out any business since their respective dates of incorporation, other than acting as investment holding company, and no such statutory requirement in their countries of incorporation. For the purpose of this report, we have, however, reviewed all the relevant transactions of these companies since their respective dates of incorporation to the date of this report and carried out such procedures as we considered necessary for inclusion of the financial information relating to these companies.

The audited statutory financial statements of Zhucheng Eternal Knitting, Zhucheng Yumin Knitting and Shandong Grand Concord were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC.

The audited statutory financial statements of Grand Concord (HK) and Grand Concord Garment were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The statutory auditors of the above companies during the Track Record Periods are as follows:

<b>Name of subsidiary</b>	<b>Financial period</b>	<b>Name of auditor</b>
Zhucheng Eternal Knitting	For the years ended 31 December 2008, 2009 and 2010	Zhucheng Zhengben Certified Public Accountants Co. Limited
Zhucheng Yumin Knitting	For the years ended 31 December 2008, 2009 and 2010	Zhucheng Qianxi Certified Public Accountants Co. Limited
Shandong Grand Concord	For the years ended 31 December 2008, 2009 and 2010	Zhucheng Qianxi Certified Public Accountants Co. Limited
Grand Concord (HK)	For the years ended 31 December 2008 and 2009	Servman & Co., Certified Public Accountants
	For the year ended 31 December 2010	SHINEWING (HK) CPA Limited
Grand Concord Garment	For the period from 3 June 2010 (date of incorporation) to 31 December 2010	SHINEWING (HK) CPA Limited

No statutory financial statements for the six months ended 30 June 2011 were prepared for Zhucheng Eternal Knitting, Zhucheng Yumin Knitting, Shandong Grand Concord, Grand Concord (HK) and Grand Concord Garment as there is no such statutory requirement.

For the purpose of this report, the financial statements of the Company and the consolidated financial statements of Grand Concord (HK) for the Track Record Periods, which were prepared in accordance with HKFRSs, have been audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Group for the Track Record Periods in accordance with HKFRSs issued by the HKICPA ("Underlying Financial Statements"). We have carried out an independent audit on the Underlying Financial Statements in accordance with the Hong Kong Standards on Auditing issued by the HKICPA and have also examined the audited Underlying Financial Statements and carried out such additional procedures as necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.



The Financial Information of the Group for the Track Record Periods set out in this report has been prepared in accordance with HKFRS based on the Underlying Financial Statements and is presented, on the basis set out in Note 1 to the Financial Information. No adjustments were deemed necessary by us to the Underlying Financial Statements in preparing our report for the inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the respective companies who approve their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is 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 procedures.

In our opinion, on the basis of preparation set out in Section B “Notes to the financial information” below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group and the Company as at 31 December 2008, 2009 and 2010 and 30 June 2011, and of the consolidated results and consolidated cash flows of the Group for the Track Record Periods.

The comparative consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the six months ended 30 June 2010 together with the notes thereto have been extracted from the Group’s unaudited consolidated financial statements for the same period (the “30 June 2010 Financial Information”) which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the 30 June 2010 Financial Information in accordance with Hong Kong Standard on Review Engagement 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. Our review of the 30 June 2010 Financial Information 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 30 June 2010 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2010 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRSs.

## A. FINANCIAL INFORMATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	NOTES	Year ended 31 December			Six months ended 30 June	
		2008 RMB'000	2009 RMB'000	2010 RMB'000	2010 RMB'000	2011 RMB'000
Revenue	7	136,188	194,912	378,289	101,357	140,158
Cost of sales		(102,519)	(127,496)	(272,644)	(72,784)	(93,516)
Gross profit		33,669	67,416	105,645	28,573	46,642
Other income and gains	9	372	533	3,896	367	110
Selling and distribution expenses		(4,443)	(5,846)	(10,391)	(2,388)	(3,973)
Share-based payment	32	—	—	—	—	(5,800)
Administrative expenses		(15,777)	(17,720)	(27,984)	(12,174)	(23,536)
Finance costs	10	(4,371)	(3,646)	(4,761)	(2,099)	(2,777)
<b>Profit before tax</b>		9,450	40,737	66,405	12,279	10,666
Income tax expense	11	(2,002)	(9,125)	(12,934)	(2,786)	(6,549)
<b>Profit for the year/period</b>	12	7,448	31,612	53,471	9,493	4,117
<b>Other comprehensive income (expense) for the year/period:</b>						
Exchange differences arising on translation of foreign operations		598	(166)	195	92	70
<b>Total comprehensive income for the year/period</b>		8,046	31,446	53,666	9,585	4,187
Earnings per share:	16					
— Basic and diluted (RMB)		0.02	0.08	0.14	0.02	0.01

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	NOTES	The Group				The Company
		As at 31 December			As at	As at
		2008	2009	2010	30 June	30 June
	RMB'000	RMB'000	RMB'000	2011	2011	
				RMB'000	RMB'000	
					(Note)	
<b>Non-current assets</b>						
Property, plant and equipment	17	76,189	84,879	113,739	118,857	—
Investment property	18	1,488	1,447	—	—	—
Prepaid lease payments	19	10,764	10,516	13,316	13,167	—
Deposits paid to acquire non-current assets	20	4,472	2,374	1,399	8,113	—
Investment in a subsidiary	21	—	—	—	—	83
Prepayment	25	—	—	—	239	—
Deferred tax assets	22	800	774	1,318	2,091	—
		<u>93,713</u>	<u>99,990</u>	<u>129,772</u>	<u>142,467</u>	<u>83</u>
<b>Current assets</b>						
Inventories	23	20,831	24,690	51,400	100,473	—
Trade receivables	24	7,959	13,348	54,854	31,661	—
Prepayments and other receivables	25	5,944	6,336	17,097	22,135	—
Amounts due from shareholders	37	—	—	—	3,731	—
Amount due from a related party	37	—	—	957	2,954	—
Prepaid lease payments	19	242	242	297	297	—
Restricted bank deposits	26	10,905	25,922	9,600	8,210	—
Cash and bank balances	26	3,870	19,761	9,454	16,665	—
		<u>49,751</u>	<u>90,299</u>	<u>143,659</u>	<u>186,126</u>	<u>—</u>
<b>Current liabilities</b>						
Trade and bills payables	27	38,312	51,615	55,038	53,764	—
Accruals and other payables	28	5,771	4,679	10,712	12,247	—
Advance from customers		257	1,109	408	671	—
Amount due to a shareholder	37	8,015	4,281	1,559	—	—
Amounts due to related parties	37	178	1,683	728	753	—
Interest-bearing borrowings	29	54,167	58,156	67,813	113,046	—
Income tax payable		1,128	3,875	4,616	5,568	—
		<u>107,828</u>	<u>125,398</u>	<u>140,874</u>	<u>186,049</u>	<u>—</u>

	NOTES	The Group			The Company	
		As at 31 December			As at	As at
		2008	2009	2010	30 June	30 June
	RMB'000	RMB'000	RMB'000	2011	2011	
				RMB'000	RMB'000	
					(Note)	
Net current (liabilities) assets		(58,077)	(35,099)	2,785	77	—
Total assets less current liabilities		35,636	64,891	132,557	142,544	83
<b>Non-current liabilities</b>						
Deferred tax liabilities	22	191	—	—	—	—
Interest-bearing borrowings	29	6,000	4,000	18,000	18,000	—
		6,191	4,000	18,000	18,000	—
<b>Net assets</b>		<b>29,445</b>	<b>60,891</b>	<b>114,557</b>	<b>124,544</b>	<b>83</b>
<b>Capital and reserves</b>						
Share capital	30	—	—	—	83	83
Reserves		29,445	60,891	114,557	124,461	—
<b>Total equity</b>		<b>29,445</b>	<b>60,891</b>	<b>114,557</b>	<b>124,544</b>	<b>83</b>

*Note:*

The statements of financial position as at 31 December 2008 and 2009 of the Company are not presented as the Company was incorporated in the BVI with limited liability on 8 December 2010. As at 31 December 2010, the Company had one issued ordinary share of HKD0.01 outstanding and minimal assets on the statement of financial position.

During the six months ended 30 June 2011, the Company allotted and issued an aggregate of 9,999,999 new shares of HKD0.01 each in exchange for the entire interest in Grand Concord (HK). Details are set out in Note 30.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital RMB'000 (Note 30)	Statutory reserve RMB'000 (Note 31(a))	Exchange reserve RMB'000	Retained earnings RMB'000	Special reserve RMB'000 (Note 31(b))	Other reserve RMB'000 (Note 31(c))	Total RMB'000
As at 1 January 2008	—	5,117	1,720	14,562	—	—	21,399
Total comprehensive income for the year	—	—	598	7,448	—	—	8,046
Appropriations to statutory reserve	—	1,688	—	(1,688)	—	—	—
As at 31 December 2008 and 1 January 2009	—	6,805	2,318	20,322	—	—	29,445
Total comprehensive (expense) income for the year	—	—	(166)	31,612	—	—	31,446
Appropriations to statutory reserve	—	5,408	—	(5,408)	—	—	—
As at 31 December 2009 and 1 January 2010	—	12,213	2,152	46,526	—	—	60,891
Total comprehensive income for the year	—	—	195	53,471	—	—	53,666
Appropriations to statutory reserve	—	6,238	—	(6,238)	—	—	—
As at 31 December 2010 and 1 January 2011	—	18,451	2,347	93,759	—	—	114,557
Total comprehensive income for the period	—	—	70	4,117	—	—	4,187
Issue of new shares upon reorganisation	83	—	—	—	(83)	—	—
Recognition of share-based payment (Note 32)	—	—	—	—	—	5,800	5,800
Appropriations to statutory reserve	—	7	—	(7)	—	—	—
As at 30 June 2011	<u>83</u>	<u>18,458</u>	<u>2,417</u>	<u>97,869</u>	<u>(83)</u>	<u>5,800</u>	<u>124,544</u>
Unaudited							
At 1 January 2010	—	12,213	2,152	46,526	—	—	60,891
Total comprehensive income for the period	—	—	92	9,493	—	—	9,585
As at 30 June 2010	<u>—</u>	<u>12,213</u>	<u>2,244</u>	<u>56,019</u>	<u>—</u>	<u>—</u>	<u>70,476</u>

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
<b>Operating activities</b>					
Profit before tax	9,450	40,737	66,405	12,279	10,666
Adjustments for:					
Depreciation of property, plant and equipment	6,717	7,653	10,407	4,868	6,094
Depreciation of an investment property	37	36	13	10	—
Amortisation of prepaid lease payments	242	242	280	139	149
Impairment loss of trade receivables	28	—	—	—	—
Impairment loss of inventories	—	58	646	109	—
Share-based payment	—	—	—	—	5,800
Loss (gain) on disposal of property, plant and equipment	119	208	11	(5)	(37)
Finance costs	4,371	3,646	4,761	2,099	2,777
Interest income	(266)	(279)	(436)	(236)	(73)
Gain on disposal of an investment property and prepaid lease payments	—	—	(3,293)	—	—
<b>Cash generated from operations before movements in working capital</b>	<b>20,698</b>	<b>52,301</b>	<b>78,794</b>	<b>19,263</b>	<b>25,376</b>
Increase in inventories	(8,022)	(3,917)	(27,356)	(34,368)	(49,073)
Decrease (increase) in trade receivables	608	(5,389)	(41,506)	(1,781)	23,193
Decrease (increase) in prepayments and other receivables	2,495	(392)	(10,761)	(12,914)	(5,277)
Increase (decrease) in trade and bills payables	16,364	13,303	3,423	17,872	(1,274)
Increase (decrease) in accruals and other payables	2,084	(1,092)	6,033	3,102	1,535
(Decrease) increase in advance from customers	(239)	852	(701)	3,653	263
<b>Cash generated from (used in) operations</b>	<b>33,988</b>	<b>55,666</b>	<b>7,926</b>	<b>(5,173)</b>	<b>(5,257)</b>
PRC income tax paid	(914)	(6,544)	(12,737)	(5,229)	(6,378)
<b>Net cash from (used in) operating activities</b>	<b>33,074</b>	<b>49,122</b>	<b>(4,811)</b>	<b>(10,402)</b>	<b>(11,635)</b>

	Year ended 31 December			Six months ended	
	2008	2009	2010	30 June	
	RMB'000	RMB'000	RMB'000	2010	2011
				RMB'000	RMB'000
				<i>(Unaudited)</i>	
<b>Investing activities</b>					
Purchase of property, plant and equipment	(22,797)	(13,668)	(38,541)	(26,916)	(9,522)
Purchase of prepaid lease payments	—	—	(2,705)	(2,705)	—
Interest received	266	279	436	236	73
Advanced to related party	—	—	(957)	—	(1,997)
Advanced to shareholders	—	—	—	—	(3,731)
(Increase) decrease in restricted					
bank deposits	(10,887)	(15,017)	16,322	(9,678)	1,390
Deposits paid to acquire non-current assets	(2,609)	(511)	(1,399)	—	(8,113)
Proceeds from disposal of property, plant and equipment	90	116	216	10	85
<b>Net cash used in investing activities</b>	<u>(35,937)</u>	<u>(28,801)</u>	<u>(26,628)</u>	<u>(39,053)</u>	<u>(21,815)</u>
<b>Financing activities</b>					
Repayment of borrowings	(46,444)	(114,997)	(141,915)	(8,180)	(18,022)
New borrowings raised	60,126	117,000	165,583	61,663	63,255
Interest paid	(4,779)	(4,036)	(5,203)	(2,251)	(3,116)
Advanced from (repayment to) related parties	48	1,505	(955)	(10,414)	25
(Repayment to) advanced from a shareholder	(4,663)	(3,734)	3,438	1,257	(1,559)
<b>Net cash from (used in) financing activities</b>	<u>4,288</u>	<u>(4,262)</u>	<u>20,948</u>	<u>42,075</u>	<u>40,583</u>
<b>Net increase (decrease) in cash and cash   equivalents</b>	1,425	16,059	(10,491)	(7,380)	7,133
<b>Cash and cash equivalents at the beginning   of the year/period</b>	1,973	3,870	19,761	19,761	9,454
<b>Effect of foreign exchange rate changes</b>	472	(168)	184	72	78
<b>Cash and cash equivalents at the end of   the year/period, represented by cash and   bank balances</b>	<u>3,870</u>	<u>19,761</u>	<u>9,454</u>	<u>12,453</u>	<u>16,665</u>

**B. NOTES TO THE FINANCIAL INFORMATION****1. BASIS OF PREPARATION OF FINANCIAL INFORMATION**

Grand Concord International Holdings Limited (the “Company”), which acts as an investment holding company, was incorporated in the British Virgin Islands (the “BVI”) with limited liability under the Business Companies Act of the British Virgin Islands (2004) on 8 December 2010. Pursuant to the group reorganisation completed on 22 February 2011 (the “Reorganisation”) as more fully explained in the section headed “Reorganisation” in Appendix V to the Prospectus, the Company became the holding company of the companies now comprising the Group throughout the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 (the “Track Record Periods”). The Company and its subsidiaries (hereinafter collectively referred to as the “Group”) comprising the Company and its subsidiaries resulting from the Reorganisation is regarded and accounted for as a continuing entity. The executive directors of the Company, Mr. Wong Kin Ling and Ms. Hung Kin remained the executive directors and controlling shareholders of the Company before and after the Reorganisation. Accordingly, the financial information (the “Financial Information”) of the Group has been prepared on the basis as if the Company had always been the holding company of the Group by applying the principles of merger accounting as set out in the Accounting Guideline 5 “Merger accounting for common control combinations” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), as if the Reorganisation had occurred from the date when the combining entities first came under the control of the controlling shareholders.

The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Periods which include the results, changes in equity and cash flows of the companies now comprising the Group have been prepared as if the current group structure had been in existence throughout the Track Record Periods, or since their respective dates of incorporation/establishment or acquisition, where it is the shorter period.

The consolidated statements of financial position of the Group as at 31 December 2008, 2009 and 2010 and 30 June 2011 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates. All significant intra-group transactions, balances, income and expenses are eliminated on combination.

The Company is an investment holding company. The principal activities of the Group are engaged in the manufacturing of knitted fabrics and innerwear.

The Financial Information is presented in Renminbi (“RMB”), which is also the functional currency of the Company.

**2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**

For the purpose of preparing and presenting the Financial Information for the Track Record Periods, the Group has applied all of the new and revised Hong Kong Accounting Standards (“HKASs”), Hong Kong Financial Reporting Standards (“HKFRSs”), amendments and interpretations (“HK(IFRIC) — INTs”) (herein collectively referred to as “New HKFRSs”) issued by the HKICPA which are effective for the Group’s financial year beginning on or after 1 January 2010 consistently for the Track Record Periods.

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

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters <sup>1</sup>
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets <sup>1</sup>
HKFRS 9	Financial Instruments <sup>4</sup>
HKFRS 10	Consolidated Financial Statements <sup>4</sup>
HKFRS 11	Joint Arrangements <sup>4</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>4</sup>
HKFRS 13	Fair Value Measurement <sup>4</sup>
HKAS 1 (Revised)	Presentation of Financial Statements <sup>3</sup>
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>2</sup>
HKAS 19 (Revised)	Employee Benefits <sup>4</sup>
HKAS 27 (Revised)	Separate Financial Statements <sup>4</sup>
HKAS 28 (Revised)	Investments in Associates and Joint Ventures <sup>4</sup>



- <sup>1</sup> Effective for annual periods beginning on or after 1 July 2011
- <sup>2</sup> Effective for annual periods beginning on or after 1 January 2012
- <sup>3</sup> Effective for annual periods beginning on or after 1 July 2012
- <sup>4</sup> Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard will have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgment. The application of HKFRS 10 might result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated.

The directors of the Company anticipate that the application of other new or revised standards, amendments or interpretations 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 in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

#### **Basis of consolidation**

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the Track Record Periods are included in the consolidated statements of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

#### **Investment in a subsidiary**

Investment in a subsidiary is stated at cost less any identified impairment loss on the Company's statements of financial position.

#### **Merger accounting for business combination involving entities under common control**

The financial information incorporates the financial statement items 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.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's 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 consolidated statement 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.

All intra-group transactions, balances, income and expenses are eliminated.

#### **Revenue recognition**

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

Revenue from the sales of goods is recognised when the goods are delivered and title has passed.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

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, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

#### **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 that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the exchange reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

### **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.

#### ***The Group as lessor***

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

#### ***The Group as lessee***

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

### **Research expenditure**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

### **Leasehold land for own use**

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statements of financial position and is amortised over the lease term on a straight-line basis.

### **Retirement benefit costs**

Payments to state-managed retirement benefit scheme and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated statements of comprehensive income in the period in which they are incurred.

**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 reporting period. Taxable profit differs from profit as reported in the consolidated statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years 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 substantially enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interest are only recognised to the extent that it is probably that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax for the period is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on the derecognition of the assets (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognised.

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

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Construction in progress includes property, plant and equipment in the course of construction for production or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method.

An item of property, plant and equipment is derecognised 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 the derecognition of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs are determined on a weighted average basis.

### **Cash and cash equivalents**

Cash and bank balances in the consolidated statements of financial position comprise cash at banks and on hand and short-term deposits with original maturity of three months or less.

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

### **Financial instruments**

Financial assets and financial liabilities are recognised in the consolidated 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.

### ***Financial assets***

The Group's financial assets comprise loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All 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.

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

The effective interest method is a method of calculating the amortised 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 to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, restricted bank deposits, cash and bank balances, amounts due from shareholders/a related party) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment of financial assets below).

Interest income is recognised by apply the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

### *Impairment of 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 other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade 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 average credit period of 30-60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, other receivables and amount due from a related party where the carrying amount is reduced through the use of an allowance account. When trade receivables, other receivables and amount due from a related party is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets carried at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised 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 amortised cost would have been had the impairment not been recognised.

***Financial liabilities and equity instruments***

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 an 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 into other financial liabilities.

***Effective interest method***

The effective interest method is a method of calculating the amortised 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 expense is recognised on an effective interest basis.

***Other financial liabilities***

Other financial liabilities including trade and bills payables, accruals and other payables, amount due to a shareholder, amounts due to related parties and interest-bearing borrowings are subsequently measured at amortised cost, using the effective interest rate method.

***Equity instruments***

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

***Derecognition***

Financial assets are derecognised 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. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, 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 recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

**Impairment loss on tangible assets**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

**Share-based payment***Shares transferred to employees*

The fair value of services received are determined by reference to the fair value of the Company's shares received by the employees of the Company and net with the net present value of the consideration paid by the employees, and is recognised as an expense when the shares transferred immediately, with a corresponding increase in equity (other reserve).

**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 underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

**Useful lives and residual values of property, plant and equipment and investment property**

Property, plant and equipment and investment property 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 investment property, and if the expectation differs from the original estimate, such a difference may impact the depreciation charged in the year and the estimate will be changed in the future period.



**Impairment of inventories**

The Group reviews an aging analysis at the end of each reporting period, and makes impairment for obsolete and slow-moving inventory items. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices. As at 31 December 2008, 2009 and 2010 and 30 June 2011, the carrying amounts of inventories are approximately RMB20,831,000, RMB24,690,000, RMB51,400,000 and RMB100,473,000 respectively, and the impairment loss of inventories were nil, approximately RMB58,000, RMB646,000 and nil, respectively.

**Impairment of trade receivables and other receivables**

The Group makes impairment based on assessment of the recoverability of trade and other receivables. The Group makes its estimates based on the aging of its trade and other receivables balances, debtors' creditworthiness, and historical write-off experience. If the financial condition of its debtors was deteriorated and, resulted in an impairment of their ability to make payments, impairment loss may be required. As at 31 December 2008, 2009 and 2010 and 30 June 2011, the carrying amounts of trade receivables are approximately RMB7,959,000, RMB13,348,000, RMB54,854,000 and RMB31,661,000 (net of allowance for doubtful debts of approximately RMB39,000, RMB39,000, RMB39,000 and RMB39,000), respectively. As at 31 December 2008, 2009 and 2010 and 30 June 2011, the carrying amounts of other receivables are approximately RMB2,551,000, RMB1,850,000, RMB5,651,000 and RMB8,572,000 respectively and no impairment on other receivables was made as at 31 December 2008, 2009 and 2010 and 30 June 2011.

**Impairment of property, plant and equipment, investment property and prepaid lease payments**

The Group assesses annually whether property, plant and equipment, investment property and prepaid lease payments have any indication of impairment in accordance with the accounting policy. The recoverable amounts of property, plant and equipment, investment property and prepaid lease payments have been determined based on value-in-use calculations. These calculations require the use of judgment and estimates. As at 31 December 2008, 2009 and 2010 and 30 June 2011, the carrying amounts of property, plant and equipment are approximately RMB76,189,000, RMB84,879,000, RMB113,739,000 and RMB118,857,000 respectively, and no impairment loss of property, plant and equipment was made as at 31 December 2008, 2009 and 2010 and 30 June 2011.

**Income taxes**

As at 31 December 2008, 2009 and 2010 and 30 June 2011, a deferred tax asset of approximately RMB405,000, RMB366,000, RMB472,000 and RMB464,000 respectively, in relation to unused tax losses has been recognised in the Group's consolidated statements of financial position. No deferred tax asset has been recognised on the tax losses of approximately RMB2,256,000, RMB5,021,000, RMB15,581,000 and RMB18,790,000 as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively, due to unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

**Valuation of share-based payment**

The valuation of the fair value of the share transferred requires judgment in determining the dividends expected on the shares and the risk-free interest rate as at the date of transfer.

**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 stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the Track Record Periods.

The capital structure of the Group consists of net debt, which includes the interest-bearing borrowings as disclosed in Note 29, cash and cash equivalents and equity attributable to the owners of the Company, comprising share capital, reserves and retained earnings.

The directors of the Company regularly review and manage the Group's capital structure. As part of this review, the directors of the Company consider the cost of capital and 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 payment of dividends, new share issues, new borrowings raised or repayment of existing borrowings.

## 6. FINANCIAL INSTRUMENTS

## a. Categories of financial instruments

## The Group

	As at 31 December		As at 30 June	
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Loan and receivables (including cash and cash equivalents)	24,551	59,157	77,195	68,257
Financial liabilities at amortised cost	111,626	123,548	151,892	197,252

## b. Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables, amounts due from shareholders/a related party, restricted bank deposits, cash and bank balances, trade and bills payables, accruals and other payables, amount due to a shareholder/related parties and interest-bearing borrowings. Details of the financial instruments are disclosed in respective notes. The risk arising from the Group's financial instruments are mainly credit risk, foreign currency risk, interest rate risk and liquidity risk. The risks associated with these financial instruments and 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.

*Credit risk*

As at 31 December 2008, 2009 and 2010 and 30 June 2011, 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 arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position. The principal financial assets are trade and other receivables and cash and bank balances.

In order to minimise the credit risk, the directors 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 debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In addition, the management aims at broadening the customer base by developing The People's Republic of China (the "PRC") and the United States markets for innerwear products. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's concentration of credit risk by geographical locations is mainly in Japan and the PRC which accounted for 51%, 34%, 10%, 15% and 34%, 65%, 42%, 72% respectively of the total receivables as at 31 December 2008, 2009 and 2010 and 30 June 2011.

As at 31 December 2008, 2009, 2010 and 30 June 2011, the Group had certain concentration of credit risk as of approximately 44%, 27%, 79% and 48% of the total trade receivables were due from the Group's five largest customers respectively.

Bank balances are placed in various authorised institutions and the directors of the Company consider the credit risk of such authorised institutions is low.

*Foreign currency risk*

The Group has foreign currency sales, which expose the Group to foreign currency risk. During the Track Record Periods, approximately 86%, 85%, 64% and 68% respectively, of the Group's sales are denominated in United States dollars ("USD") which is different from the functional currencies of the group entities making the sale, whilst almost 99%, 99%, 99% and 99% respectively of costs are denominated in the functional currency of the Group.

Also, certain trade and other receivables, cash and bank balances, trade and other payables and interest-bearing borrowings are denominated in USD, Japanese yen ("JPY") and Hong Kong dollars ("HKD") respectively which are currencies other than the functional currency of the relevant group entities. The carrying amounts of the Group's foreign currency dominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
USD	4,573	4,485	8,436	3,618
HKD	121	271	998	1,106
Liabilities				
USD	940	1,502	2,638	—
HKD	4,751	1,453	449	116
JPY	172	217	142	248

The Group currently does not have a foreign currency hedging policy. However, the directors of the Company continuously monitor the related foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

#### *Sensitivity analysis*

The Group entities are mainly exposed to the fluctuation of USD, JPY and HKD.

The following table details the Group's sensitivity to a 5% for all periods increase and decrease in the functional currency (RMB) against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in relevant foreign exchange rates. 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 or negative number below indicates an increase or a decrease in post-tax profit where RMB strengthens 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 profit.

	HKD Impact			Six months ended 30 June 2011
	<i>(Note i)</i>			
	Year ended 31 December			
	2008	2009	2010	
	RMB'000	RMB'000	RMB'000	RMB'000
Increase (decrease) in post-tax profit for the year	174	44	(21)	(37)
	<u>174</u>	<u>44</u>	<u>(21)</u>	<u>(37)</u>
	USD Impact			Six months ended 30 June 2011
	<i>(Note ii)</i>			
	Year ended 31 December			
	2008	2009	2010	
	RMB'000	RMB'000	RMB'000	RMB'000
Decrease in post-tax profit for the year	(136)	(112)	(217)	(136)
	<u>(136)</u>	<u>(112)</u>	<u>(217)</u>	<u>(136)</u>

	<b>JPY Impact</b>			<b>Six months ended 30 June 2011</b>
	<i>(Note iii)</i>			
	<b>Year ended 31 December</b>			
	<b>2008</b>	<b>2009</b>	<b>2010</b>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Increase in post-tax profit for the year	<u>6</u>	<u>8</u>	<u>5</u>	<u>9</u>

*Notes:*

- (i) This is mainly attributable to the exposure on HKD denominated cash and bank balances, other receivables and interest-bearing borrowings at the end of each reporting period.
- (ii) This is mainly attributable to the exposure on USD denominated trade receivables, cash and bank balances and trade payables at the end of each reporting period.
- (iii) This is mainly attributable to the exposure on JPY denominated trade payables at the end of each reporting period.

***Interest rate risk***

The Group is exposed to fair value interest rate risk in relation to fixed-rate interest-bearing borrowings (see Note 29 for details of these borrowings). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate interest-bearing borrowings (see Note 29 for details of these borrowings). The Group's restricted bank deposits and bank balances also have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances. The management considers the Group's exposure of the restricted bank deposits and bank balances to cash flow interest rate risk is not significant as the management does not anticipate significant fluctuation in interest rate on bank deposits. The Group has not used any financial instruments to hedge potential fluctuations in interest rates. To mitigate the impact of interest rate fluctuations, the Group manages its interest cost using an appropriate mix of fixed and variable rate debts.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the interest rate offered from the People's Bank of China and the Hong Kong Inter-bank Offered Rate arising from the Group's interest-bearing borrowings.

*Sensitivity analysis*

The sensitivity analyses have been determined by the directors of the Company based on the exposure to interest rates for non-derivative instruments including restricted bank deposits, bank balances and interest-bearing borrowings. The analysis is prepared assuming these financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point increase or decrease is used for all periods when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rate.

The directors of the Company consider that if interest rates had been 100 basis point higher/lower and all other variable were held constant, the Group's post-tax profit would decrease or increase by approximately RMB246,000, RMB387,000, RMB461,000 and RMB190,000 for Track Record Periods.

*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 utilisation of bank facilities.

The following table details the Group's remaining contractual maturities for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights within one year after the reporting date. The maturity analysis for other non-derivative financial liabilities is prepared based on the scheduled repayment dates.

The table includes both interest and principal cash flows. To the extent that interest cash flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

**The Group**

	On demand or within one year RMB'000	More than one year and less than two years RMB'000	More than two years and less than five years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
<b>At 31 December 2008</b>					
<b>Non-derivative financial liabilities</b>					
Trade and bills payables	38,312	—	—	38,312	38,312
Accruals and other payables	4,954	—	—	4,954	4,954
Amount due to a shareholder	8,015	—	—	8,015	8,015
Amounts due to related parties	178	—	—	178	178
Interest-bearing bank loans					
— fixed rate <sup>(Note)</sup>	43,490	—	—	43,490	42,167
— variable rate	10,147	—	—	10,147	10,000
Other loans					
— variable rate	2,533	2,367	4,193	9,093	8,000
	<u>107,629</u>	<u>2,367</u>	<u>4,193</u>	<u>114,189</u>	<u>111,626</u>
<b>At 31 December 2009</b>					
<b>Non-derivative financial liabilities</b>					
Trade and bills payables	51,615	—	—	51,615	51,615
Accruals and other payables	3,813	—	—	3,813	3,813
Amount due to a shareholder	4,281	—	—	4,281	4,281
Amounts due to related parties	1,683	—	—	1,683	1,683
Interest-bearing bank loans					
— fixed rate <sup>(Note)</sup>	52,390	—	—	52,390	50,156
Other loans					
— fixed rate	6,269	—	—	6,269	6,000
— variable rate	2,367	2,167	2,026	6,560	6,000
	<u>122,418</u>	<u>2,167</u>	<u>2,026</u>	<u>126,611</u>	<u>123,548</u>

At 31 December 2010	On demand or within one year RMB'000	More than one year and less than two years RMB'000	More than two years and less than five years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
<b>Non-derivative financial liabilities</b>					
Trade and bills payables	55,038	—	—	55,038	55,038
Accruals and other payables	8,754	—	—	8,754	8,754
Amount due to a shareholder	1,559	—	—	1,559	1,559
Amounts due to related parties	728	—	—	728	728
Interest-bearing bank loans					
— fixed rate <sup>(Note)</sup>	28,859	367	6,307	35,533	33,377
— variable rate <sup>(Note)</sup>	30,622	10,616	—	41,238	38,436
Other loans					
— fixed rate	10,051	—	—	10,051	10,000
— variable rate	2,167	2,026	—	4,193	4,000
	<u>137,778</u>	<u>13,009</u>	<u>6,307</u>	<u>157,094</u>	<u>151,892</u>
<b>At 30 June 2011</b>					
	On demand or within one year RMB'000	More than one year and less than two years RMB'000	More than two years and less than five years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
<b>Non-derivative financial liabilities</b>					
Trade and bills payables	53,764	—	—	53,764	53,764
Accruals and other payables	11,689	—	—	11,689	11,689
Amounts due to related parties	753	—	—	753	753
Interest-bearing bank loans					
— fixed rate <sup>(Note)</sup>	75,188	367	6,119	81,674	79,300
— variable rate <sup>(Note)</sup>	32,252	10,573	—	42,825	39,746
Other loans					
— fixed rate	10,183	—	—	10,183	10,000
— variable rate	136	2,085	—	2,221	2,000
	<u>183,965</u>	<u>13,025</u>	<u>6,119</u>	<u>203,109</u>	<u>197,252</u>

*Note:*

Bank loans with a repayment on demand clause are included in the “on demand or within one year” time band in the above maturity analysis. As at 31 December 2008, 2009 and 2010 and 30 June 2011, the aggregate undiscounted principal amounts of these bank loans amounted to approximately RMB1,267,000, nil, RMB4,768,000 and RMB4,915,000 respectively. In the opinion of directors, the probability of the banks choosing to exercise their discretionary rights to demand immediate repayment is remote as such loans were fully covered by the pledge of certain machinery with the net book value of approximately RMB14,602,000 as at 30 June 2011 and the Group had no history of default or delay in principal nor interests payments. Accordingly, the directors believe that such bank loans will not be demanded by banks for immediate repayments and will be wholly repaid three years after the reporting date in accordance with the scheduled repayment dates as set out in the loan agreements. At 30 June 2011, the aggregate principal and interest cash outflows will amount to approximately RMB5,174,000.

**c. Fair value**

The fair value of the non-derivative financial assets and non-derivative financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using the relevant prevailing market rates.

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

The fair value of financial liabilities for disclosure purpose is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The directors of the Company consider the fair values of the other non-current liabilities approximate their carrying amounts as the impact of discounting is not significant.

**7. REVENUE**

Revenue represents the amounts received and receivable for sale of innerwear and garment and fabric, net of discounts and sales related taxes. Revenue is analysed as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Innerwear products	112,548	169,074	257,686	65,688	94,213
Knitted fabrics	23,640	25,838	120,603	35,669	45,945
	<u>136,188</u>	<u>194,912</u>	<u>378,289</u>	<u>101,357</u>	<u>140,158</u>

**8. SEGMENT INFORMATION**

The Group has adopted HKFRS 8 “Operating Segments”, which requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The board of directors are the chief operating decision maker as they collectively make strategic decision towards the group entity’s operation.

The Group’s operating segments, by category of products, based on information reported to the chief operating decision maker (Chief Executive Officer) for the purpose of resource allocation and performance assessment are as follows:

- (1) Innerwear products — manufacturing of innerwear and garments
- (2) Knitted fabrics — manufacturing of fabrics

The accounting policies of the reportable segments are the same as the Group’s accounting policies described in Note 3. Segment profit (loss) represents the profit earned by (loss from) each segment without allocation of gain on disposal of investment property, rental income, interest income, depreciation of investment property, amortisation of prepaid lease payments, unallocated head office and corporate expenses. Segment assets do not include investment property, prepaid lease payments of investment property, amounts due from shareholders/a related party, prepayments for general operating, deferred tax assets, restricted bank deposits and cash and bank balances. Segment liabilities do not include amounts due to a shareholder/related parties, other payables for general operating, tax payables, interest-bearing borrowings and deferred tax liabilities.

Inter-segment sales are charged at prevailing market price.

An analysis of the Group's revenue, results, assets and liabilities for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011 by operating segment is as follows:

	Year ended 31 December 2008		
	Innerwear products RMB'000	Knitted fabrics RMB'000	Total RMB'000
<b>Revenue</b>			
External sales	112,548	23,640	136,188
Inter-segment sales	966	53,551	54,517
Elimination	(966)	(53,551)	(54,517)
Group's revenue	<u>112,548</u>	<u>23,640</u>	<u>136,188</u>
<b>Segment profit (loss)</b>	<u>14,781</u>	<u>(868)</u>	13,913
Other income			372
Finance costs			(4,371)
Unallocated head office and corporate expenses <sup>(Note)</sup>			(464)
<b>Profit before taxation</b>			<u>9,450</u>
<b>Segment assets</b>	<u>88,026</u>	<u>36,883</u>	124,909
Unallocated assets:			
Cash and bank balances			3,870
Restricted bank deposits			10,905
Other receivables			4
Deferred tax assets			800
Prepaid lease payments			1,488
Investment property			1,488
<b>Consolidated total assets</b>			<u>143,464</u>
<b>Segment liabilities</b>	<u>32,096</u>	<u>12,159</u>	44,255
Unallocated liabilities:			
Deferred tax liabilities			191
Other payables			85
Income tax payable			1,128
Amount due to related parties			178
Amount due to a shareholder			8,015
Interest-bearing borrowings			60,167
<b>Consolidated total liabilities</b>			<u>114,019</u>



	Year ended 31 December 2009		
	Innerwear products RMB'000	Knitted fabrics RMB'000	Total RMB'000
<b>Revenue</b>			
External sales	169,074	25,838	194,912
Inter-segment revenue	1,805	68,776	70,581
Elimination	(1,805)	(68,776)	(70,581)
Group's revenue	<u>169,074</u>	<u>25,838</u>	<u>194,912</u>
<b>Segment profit</b>	<u>42,574</u>	<u>1,842</u>	44,416
Other income			533
Finance costs			(3,646)
Unallocated head office and corporate expenses <sup>(Note)</sup>			<u>(566)</u>
<b>Profit before taxation</b>			<u>40,737</u>
<b>Segment assets</b>	<u>93,648</u>	<u>46,824</u>	140,472
Unallocated assets:			
Cash and bank balances			19,761
Restricted bank deposits			25,922
Other receivables			5
Deferred tax assets			774
Prepaid lease payments			1,446
Investment property			1,447
Prepayments			<u>462</u>
<b>Consolidated total assets</b>			<u>190,289</u>
<b>Segment liabilities</b>	<u>44,540</u>	<u>12,766</u>	57,306
Unallocated liabilities:			
Other payables			97
Income tax payable			3,875
Amounts due to related parties			1,683
Amount due to a shareholder			4,281
Interest-bearing borrowings			<u>62,156</u>
<b>Consolidated total liabilities</b>			<u>129,398</u>

	Year ended 31 December 2010		
	Innerwear products	Knitted fabrics	Total
	RMB'000	RMB'000	RMB'000
<b>Revenue</b>			
External sales	257,686	120,603	378,289
Inter-segment revenue	29,468	101,725	131,193
Elimination	(29,468)	(101,725)	(131,193)
Group's revenue	<u>257,686</u>	<u>120,603</u>	<u>378,289</u>
<b>Segment profit</b>	<u>45,866</u>	<u>22,993</u>	68,859
Other income			3,896
Finance costs			(4,761)
Unallocated head office and corporate expenses <sup>(Note)</sup>			<u>(1,589)</u>
<b>Profit before taxation</b>			<u>66,405</u>
<b>Segment assets</b>	<u>156,360</u>	<u>91,990</u>	248,350
Unallocated assets:			
Cash and bank balances			9,454
Restricted bank deposits			9,600
Amount due from a related party			957
Deferred tax assets			1,318
Prepayments			<u>3,752</u>
<b>Consolidated total assets</b>			<u>273,431</u>
<b>Segment liabilities</b>	<u>42,354</u>	<u>23,658</u>	66,012
Unallocated liabilities:			
Other payables			146
Income tax payable			4,616
Amounts due to related parties			728
Amounts due to a shareholder			1,559
Interest-bearing borrowings			<u>85,813</u>
<b>Consolidated total liabilities</b>			<u>158,874</u>

	Six months ended 30 June 2011		
	Innerwear products RMB'000	Knitted fabrics RMB'000	Total RMB'000
<b>Revenue</b>			
External sales	94,213	45,945	140,158
Inter-segment revenue	19,441	41,796	61,237
Elimination	(19,441)	(41,796)	(61,237)
Group's revenue	<u>94,213</u>	<u>45,945</u>	<u>140,158</u>
<b>Segment profit</b>	<u>9,152</u>	<u>9,750</u>	18,902
Other income			73
Finance costs			(2,777)
Unallocated head office and corporate expenses <sup>(Note)</sup>			(5,532)
<b>Profit before taxation</b>			<u>10,666</u>
<b>Segment assets</b>	<u>169,446</u>	<u>122,013</u>	291,459
Unallocated assets:			
Cash and bank balances			16,665
Restricted bank deposits			8,210
Amount due from a related party			2,954
Amounts due from shareholders			3,731
Deferred tax assets			2,091
Prepayments			3,483
<b>Consolidated total assets</b>			<u>328,593</u>
<b>Segment liabilities</b>	<u>35,422</u>	<u>31,166</u>	66,588
Unallocated liabilities:			
Other payables			94
Income tax payable			5,568
Amounts due to related parties			753
Interest-bearing borrowings			131,046
<b>Consolidated total liabilities</b>			<u>204,049</u>
	<b>Six months ended 30 June 2010 (Unaudited)</b>		
	Innerwear products RMB'000	Knitted fabrics RMB'000	Total RMB'000
<b>Revenue</b>			
External sales	65,688	35,669	101,357
Inter-segment revenue	4,608	33,765	38,373
Elimination	(4,608)	(33,765)	(38,373)
Group's revenue	<u>65,688</u>	<u>35,669</u>	<u>101,357</u>
<b>Segment profit</b>	<u>5,313</u>	<u>9,087</u>	14,400
Other income			362
Finance costs			(2,099)
Unallocated head office and corporate expenses <sup>(Note)</sup>			(384)
<b>Profit before taxation</b>			<u>12,279</u>

*Note:*

Depreciation of investment property approximately RMB37,000, RMB36,000, RMB13,000, RMB10,000 and nil are included in unallocated head office and corporate expenses for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011 respectively.

Depreciation of prepaid lease payments approximately RMB37,000, RMB36,000, RMB13,000, RMB10,000 and nil are included in unallocated head office and corporate expenses for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011 respectively.

Directors' salaries are included in unallocated head office and corporate expenses for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011 respectively.

*Other segment information:*

	Year ended 31 December 2008			
	Innerwear products <i>RMB'000</i>	Knitted fabrics <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
Amounts included in the measure of segment profit or loss or segment assets:				
Depreciation and amortisation	4,134	2,788	74	6,996
Impairment loss of trade receivables	—	28	—	28
Loss on disposal of property, plant and equipment	—	119	—	119
Additions to property, plant and equipment	17,818	6,545	—	24,363
Additions to deposits paid to acquire non-current assets	—	2,609	—	2,609
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Bank interest income	(249)	(17)	—	(266)
Finance costs	3,091	1,280	—	4,371
Income tax expense	1,495	507	—	2,002
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

	Year ended 31 December 2009			
	Innerwear products RMB'000	Knitted fabrics RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss or segment assets:				
Depreciation and amortisation	4,705	3,154	72	7,931
Impairment loss of inventories	46	12	—	58
Loss on disposal of property, plant and equipment	—	208	—	208
Additions to property, plant and equipment	7,672	8,644	351	16,667
Additions to deposits paid to acquire non-current assets	—	511	—	511
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Bank interest income	(241)	(38)	—	(279)
Finance costs	2,691	955	—	3,646
Income tax expense	7,134	1,991	—	9,125

	Year ended 31 December 2010			
	Innerwear products RMB'000	Knitted fabrics RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss or segment assets:				
Depreciation and amortisation	5,719	4,955	26	10,700
Impairment loss of inventories	444	202	—	646
Loss on disposal of property, plant and equipment	11	—	—	11
Additions to property, plant and equipment	18,439	20,613	442	39,494
Additions to deposits paid to acquire non-current assets	—	1,399	—	1,399
Additions to prepaid lease payments	—	4,568	—	4,568
Gain on disposal of investment property and prepaid lease payments	—	—	(3,293)	(3,293)
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Bank interest income	(418)	(18)	—	(436)
Finance costs	3,175	1,586	—	4,761
Income tax expense	7,308	5,626	—	12,934

	Six months ended 30 June 2011			
	Innerwear products RMB'000	Knitted fabrics RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss or segment assets:				
Depreciation and amortisation	3,270	2,973	—	6,243
Additions to property, plant and equipment	5,959	4,963	338	11,260
Additions to deposits paid to acquire non-current assets	4,818	3,295	—	8,113
Gain on disposal of property, plant and equipment	(37)	—	—	(37)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Bank interest income	(60)	(11)	(2)	(73)
Finance costs	1,439	1,338	—	2,777
Income tax expense	2,594	3,955	—	6,549
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

	Six months ended 30 June 2010 (Unaudited)			
	Innerwear products RMB'000	Knitted fabrics RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss or segment assets:				
Depreciation and amortisation	2,895	2,102	20	5,017
Impairment loss of inventories	—	109	—	109
Gain on disposal of property, plant and equipment	(5)	—	—	(5)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Bank interest income	(228)	(8)	—	(236)
Finance costs	1,468	631	—	2,099
Income tax expense	1,318	1,468	—	2,786
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**Geographical information:**

The Group's revenue from external customers is determined by the destination where the products are delivered and information about its non-current assets by geographical location of the assets are detailed as follows:

	Revenue from external customers					Non-current assets <sup>(Note)</sup>			
	Year ended 31 December			Six months ended 30 June		As at 31 December			As at 30 June
	2008	2009	2010	2010	2011	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)					
Japan	114,974	160,595	196,443	56,869	78,428	—	—	—	—
The PRC (country of domicile)	20,040	32,289	148,896	44,488	45,159	92,913	99,216	128,454	140,376
America	—	—	30,249	—	14,552	—	—	—	—
Others	1,174	2,028	2,701	—	2,019	—	—	—	—
	<u>136,188</u>	<u>194,912</u>	<u>378,289</u>	<u>101,357</u>	<u>140,158</u>	<u>92,913</u>	<u>99,216</u>	<u>128,454</u>	<u>140,376</u>

Note: Non-current assets excluded deferred tax assets.

*Information about major customers*

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	Year ended 31 December			Six months ended 30 June	
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2010 RMB'000 (Unaudited)	2011 RMB'000
Customer A <sup>1, 3 and 5</sup>	22,568	N/A	N/A	N/A	N/A
Customer B <sup>1, 3 and 5</sup>	22,351	N/A	N/A	N/A	N/A
Customer C <sup>1, 3 and 5</sup>	20,289	N/A	N/A	N/A	N/A
Customer D <sup>1, 3 and 5</sup>	18,260	N/A	N/A	N/A	N/A
Customer E <sup>1, 3 and 6</sup>	N/A	60,075	128,007	17,987	38,126
Customer F <sup>2, 4 and 7</sup>	N/A	N/A	N/A	10,438	15,407

<sup>1</sup> Revenue from manufacture of innerwear products

<sup>2</sup> Revenue from manufacture of knitted fabrics

<sup>3</sup> Revenue from overseas customers

<sup>4</sup> Revenue from PRC customers

<sup>5</sup> Revenue contributions from customer A, B, C and D were less than 10% of the Group's total revenue for the years ended 31 December 2009 and 2010 and for the 6 months ended 2010 and 2011

<sup>6</sup> No revenue was recorded from customer E for the year ended 31 December 2008

<sup>7</sup> No revenue was recorded from customer F for the year ended 31 December 2008, and revenue contributions were less than 10% of the Group's total revenue for the years ended 31 December 2009 and 2010.

**9. OTHER INCOME AND GAINS**

	Year ended 31 December			Six months ended 30 June	
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2010 RMB'000 (Unaudited)	2011 RMB'000
Interest income	266	279	436	236	73
Rental income	106	254	167	126	—
Gain on disposal of an investment property and prepaid lease payments <sup>(Note)</sup>	—	—	3,293	—	—
Gain on disposal of property, plant and equipment	—	—	—	5	37
	<u>372</u>	<u>533</u>	<u>3,896</u>	<u>367</u>	<u>110</u>
Gross rental income from an investment property	106	254	167	126	—
Less:					
Direct operating expenses from an investment property that generated rental income	(21)	(26)	(13)	(8)	—
	<u>85</u>	<u>228</u>	<u>154</u>	<u>118</u>	<u>—</u>

*Note:* During the year ended 31 December 2010, a sale and purchase agreement of an investment property owned by the Group was signed between Grand Concord (HK) and Sea Union International Limited ("Sea Union"), which is a related party of the Group. Please refer to Note 37(ii)(e) for details. The investment property and prepaid lease payment with an carrying amount approximately RMB1,434,000 and RMB1,433,000 respectively have been sold at a consideration of HKD7,000,000 (equivalent to approximately RMB6,160,000) and a gain of approximately RMB3,293,000 was recognised in the year ended 31 December 2010.

## 10. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Interest on bank loans wholly repayable within five year	3,776	3,423	4,573	1,959	2,633
Interest on other loans wholly repayable within five year	1,003	613	630	292	483
	<u>4,779</u>	<u>4,036</u>	<u>5,203</u>	<u>2,251</u>	<u>3,116</u>
Less: amounts capitalised in the cost of qualifying assets	(408)	(390)	(442)	(152)	(339)
	<u>4,371</u>	<u>3,646</u>	<u>4,761</u>	<u>2,099</u>	<u>2,777</u>

Borrowing costs capitalised arose on the general borrowing pool are calculated by applying a capitalisation rate of 6%, 5%, 6%, 6% and 6% for the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2010 and 2011 respectively per annum to expenditure on qualifying assets.

## 11. INCOME TAX EXPENSE

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Current tax:					
Provision for the year					
— PRC Enterprise Income Tax (the "EIT")	1,967	9,291	13,278	3,444	7,330
— Hong Kong Profits Tax	—	—	218	—	—
Deferred tax <sup>(Note 22)</sup>	35	(166)	(562)	(658)	(781)
	<u>2,002</u>	<u>9,125</u>	<u>12,934</u>	<u>2,786</u>	<u>6,549</u>

## (i) Overseas income tax

Pursuant to the rules and regulations of the BVI, the BVI subsidiary and the Company are not subject to any income tax in the BVI.

## (ii) Hong Kong Profits Tax

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, the applicable tax rate for the subsidiaries incorporated in Hong Kong is 16.5% for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011.

For the years ended 31 December 2008 and 2009, no provision for Hong Kong Profits Tax had been made as the Hong Kong subsidiary has unused tax loss available to offset against assessable profits.

For the year ended 31 December 2010, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit.

For the six months ended 30 June 2010 and 30 June 2011, no provision for Hong Kong Profits Tax has been made as there was no estimated assessable profit derived from Hong Kong subsidiaries.



## (iii) EIT

On 16 March 2007, the National People's Congress promulgated the "Corporate Income Tax Law of the PRC" which became effective from 1 January 2008. Entities with original applicable income tax rate of 33% in year 2007 are subject to income tax rate of 25% from 1 January 2008 onwards.

Pursuant to Guo Fa [2007]39 document, starting from 1 January 2008, entities which originally enjoyed "two-year tax exemption and three-year 50% reduction" continue to follow the original tax laws, administrative regulations and relevant documents until respective expiration dates. However, those having been entitled to preferential income tax treatment while not yet started the tax holiday as a result of tax losses, the preferential period started from 2008 onwards based on income tax rate of 25%.

Zhucheng Eternal Knitting commenced its tax holiday in 2004 and enjoyed a 50% reduction of EIT for the year ended 31 December 2008. Accordingly, the applicable tax rate of Zhucheng Eternal Knitting was 12.5% for the year ended 31 December 2008 and the applicable tax rate of 25% for years ended 31 December 2009 and 2010 and the six months ended 30 June 2010 and 2011 respectively.

The first profit-making year of Zhucheng Yumin Knitting was 2006 and it enjoyed 50% reduction of EIT and the applicable tax rate of Zhucheng Yumin Knitting was 12.5% for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010. The applicable tax rate of Zhucheng Yumin Knitting was 25% for the six months ended 30 June 2011.

No provision of EIT has been made for Shandong Grand Concord as Shandong Grand Concord did not have any assessable profits subject to EIT for the Track Record Periods.

## (iv) Withholding tax

According to the joint circular of the Ministry of Finance and State Administration of Taxation — Cai Shui 2008 No. 1, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred tax liabilities of approximately RMB191,000 associated with the undistributed earnings of PRC subsidiaries have been charged to the consolidated statements of comprehensive income for the year ended 31 December 2008. Deferred taxation has not been provided for the years ended 31 December 2009 and 2010 and the six months ended 30 June 2011 in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB25,637,000, RMB81,083,000 and RMB95,012,000 as at 31 December 2009 and 2010 and 30 June 2011 respectively as the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such temporary differences will not reverse in the foreseeable future.

The tax charge can be reconciled to the profit before tax per the consolidated statements of comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit before tax	9,450	40,737	66,405	12,279	10,666
Tax at the domestic income rate of 25%	2,363	10,184	16,601	3,070	2,666
Tax effect of non-taxable income	—	—	(823)	—	(4)
Tax effect of non-deductible expenses	439	158	307	851	2,947
Deferred tax liabilities associated with undistributed profit of PRC subsidiaries	191	—	—	—	—
Effect of different tax rates of subsidiaries' operations in other jurisdictions and tax on concessionary tax rate	(1,555)	(1,908)	(5,791)	(1,230)	(220)
Withholding tax on distributed profit	—	—	—	—	358
Tax effect of tax losses not recognised	564	691	2,640	95	802
Tax charge for the year/period	2,002	9,125	12,934	2,786	6,549

## 12. PROFIT FOR THE YEAR/PERIOD

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the year/period has been arrived at after charging (crediting):				(Unaudited)	
Salaries and other benefits	22,823	27,525	42,964	18,832	24,450
Share-based payment	—	—	—	—	5,800
Contributions to retirement benefit scheme	780	1,236	1,691	704	1,310
<b>Total staff costs (including directors' emoluments)</b>	<b>23,603</b>	<b>28,761</b>	<b>44,655</b>	<b>19,536</b>	<b>31,560</b>
Auditors' remuneration	16	16	26	—	815
Cost of inventories recognised as an expense	102,519	127,438	271,998	72,675	93,516
Amortisation of prepaid lease payments	242	242	280	139	149
Depreciation of property, plant and equipment	6,717	7,653	10,407	4,868	6,094
Depreciation of an investment property	37	36	13	10	—
Impairment loss of trade receivables (included in administrative expenses)	28	—	—	—	—
Exchange difference, net	438	236	1,449	159	1,017
Loss (gain) on disposal of property, plant and equipment	119	208	11	(5)	(37)
Gain on disposal of investment property and prepaid lease payments	—	—	(3,293)	—	—
Impairment loss of inventories (included in cost of sales)	—	58	646	109	—
Research expenditure	—	89	188	—	—
Operating lease rentals in respect of rented premises	160	151	197	52	299

## 13. DIRECTORS' EMOLUMENTS

The details of directors' emoluments of each of the director for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011 are set out below:

For the year ended 31 December 2008:

Name of Director	Fees	Salaries and other benefits	Contributions to retirement benefit scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive directors</b>				
Mr. Wong Kin Ling	—	129	4	133
Ms. Hung Kin	—	129	4	133
	—	258	8	266

For the year ended 31 December 2009:

Name of Director	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Total RMB'000
<b>Executive directors</b>				
Mr. Wong Kin Ling	—	127	4	131
Ms. Hung Kin	—	127	4	131
	—	254	8	262

For the year ended 31 December 2010:

Name of Director	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Total RMB'000
<b>Executive directors</b>				
Mr. Wong Kin Ling	—	126	4	130
Ms. Hung Kin	—	126	4	130
	—	252	8	260

For the six months ended 30 June 2010 (Unaudited):

Name of Director	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Total RMB'000
<b>Executive directors</b>				
Mr. Wong Kin Ling	—	63	2	65
Ms. Hung Kin	—	63	2	65
	—	126	4	130

For the six months ended 30 June 2011:

Name of Director	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Total RMB'000
<b>Executive directors</b>				
Mr. Wong Kin Ling	—	73	2	75
Ms. Hung Kin	—	244	2	246
	—	317	4	321

No directors waived or agreed to waive any emolument paid by the Group during the Track Record Periods and the six months ended 30 June 2010. No emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the Track Record Periods and the six months ended 30 June 2010.

**14. EMPLOYEES' EMOLUMENTS**

Of the five individuals with the highest emoluments in the Group, two, two, two, two and one were directors of the Company for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011, whose emoluments are set out in Note 13 above. The aggregate of the emoluments in respect of the remaining three, three, three, three and four individuals for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011 were as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Salaries and other benefits	142	270	1,918	960	1,647
Share-based payment	—	—	—	—	5,800
Contributions to retirement benefit scheme	2	2	2	—	—
	<u>144</u>	<u>272</u>	<u>1,920</u>	<u>960</u>	<u>7,447</u>

Their emoluments were within the following bands:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	No. of employees	No. of employees	No. of employees	No. of employees	No. of employees
Nil to HKD1,000,000 (equivalent to nil to RMB847,500)	3	3	2	3	2
HKD1,500,001 to HKD2,000,000 (equivalent to RMB1,271,251 to RMB1,695,000)	—	—	1	—	—
HKD3,500,001 to HKD4,000,000 (equivalent to RMB2,966,251 to RMB3,390,000)	—	—	—	—	1
HKD4,000,001 to HKD4,500,000 (equivalent to RMB3,390,001 to RMB3,813,750)	—	—	—	—	1

No emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office during the Track Record Periods and the six months ended 30 June 2010.

**15. DIVIDENDS**

No dividend has been paid or declared by the Company for the Track Record Periods.

**16. EARNINGS PER SHARE**

The calculation of basic earnings per share for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011 is based on the profit attributable to equity owners of the Company of approximately RMB7,448,000, RMB31,612,000, RMB53,471,000, RMB9,493,000 and RMB4,117,000 respectively, and the proposed 380,000,000 ordinary shares in issue as at the date of listing of the Company's shares on the Stock Exchange as described in the sub-section headed "Resolutions in writing of all the Shareholders passed on 19 August 2011 and 8 November 2011" under the section headed "Further information about our Company and our subsidiaries" in Appendix V to the Prospectus, as if the shares were outstanding throughout the entire Track Record Periods.

Diluted earnings per share was the same as the basic earnings per share as there were no potential dilutive ordinary share outstanding during the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011.

## 17. PROPERTY, PLANT AND EQUIPMENT

## The Group

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST:							
As at 1 January 2008	28,502	411	35,043	1,232	2,696	3,800	71,684
Additions	5,903	917	8,232	702	—	8,609	24,363
Disposals	—	—	(312)	—	—	—	(312)
Transfer from construction in progress	5,832	—	—	—	—	(5,832)	—
Reclassification to investment property	(1,950)	—	—	—	—	—	(1,950)
Exchange adjustments	—	—	—	(21)	(46)	—	(67)
As at 31 December 2008 and 1 January 2009	38,287	1,328	42,963	1,913	2,650	6,577	93,718
Additions	928	524	9,393	395	706	4,721	16,667
Disposals	—	—	(476)	—	—	—	(476)
Transfer from construction in progress	10,069	192	88	—	—	(10,349)	—
Exchange adjustments	—	—	—	(1)	(2)	—	(3)
As at 31 December 2009 and 1 January 2010	49,284	2,044	51,968	2,307	3,354	949	109,906
Additions	—	647	23,107	502	3,344	11,894	39,494
Disposals	(11)	—	(808)	(465)	(17)	—	(1,301)
Transfer from construction in progress	—	—	121	—	—	(121)	—
Exchange adjustments	—	—	—	—	(23)	—	(23)
As at 31 December 2010 and 1 January 2011	49,273	2,691	74,388	2,344	6,658	12,722	148,076
Additions	366	—	5,258	190	261	5,185	11,260
Disposals	—	—	(358)	(12)	(885)	—	(1,255)
Transfer from construction in progress	3,041	—	—	—	—	(3,041)	—
Exchange adjustments	—	—	—	—	(10)	—	(10)
As at 30 June 2011	52,680	2,691	79,288	2,522	6,024	14,866	158,071
ACCUMULATED DEPRECIATION:							
As at 1 January 2008	3,227	46	5,579	612	1,830	—	11,294
Provided for the year	1,674	286	4,138	264	355	—	6,717
Eliminated on disposals	—	—	(103)	—	—	—	(103)
Reclassification to investment property	(312)	—	—	—	—	—	(312)
Exchange adjustments	—	—	—	(21)	(46)	—	(67)
As at 31 December 2008 and 1 January 2009	4,589	332	9,614	855	2,139	—	17,529
Provided for the year	1,963	344	4,758	338	250	—	7,653
Eliminated on disposals	—	—	(152)	—	—	—	(152)
Exchange adjustments	—	—	—	(1)	(2)	—	(3)
As at 31 December 2009 and 1 January 2010	6,552	676	14,220	1,192	2,387	—	25,027
Provided for the year	2,583	515	6,523	385	401	—	10,407
Eliminated on disposals	(5)	—	(620)	(444)	(5)	—	(1,074)
Exchange adjustments	—	—	—	—	(23)	—	(23)
As at 31 December 2010 and 1 January 2011	9,130	1,191	20,123	1,133	2,760	—	34,337
Provided for the period	1,290	267	3,703	240	594	—	6,094
Eliminated on disposals	—	—	(310)	(12)	(885)	—	(1,207)
Exchange adjustments	—	—	—	—	(10)	—	(10)
As at 30 June 2011	10,420	1,458	23,516	1,361	2,459	—	39,214
CARRYING VALUES:							
As at 31 December 2008	33,698	996	33,349	1,058	511	6,577	76,189
As at 31 December 2009	42,732	1,368	37,748	1,115	967	949	84,879
As at 31 December 2010	40,143	1,500	54,265	1,211	3,898	12,722	113,739
As at 30 June 2011	42,260	1,233	55,772	1,161	3,565	14,866	118,857

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

The above property, plant and equipment except for construction in progress are depreciated on a straight-line basis according to the following estimated useful lives and after taking into account their estimated residual values, as follows:

Buildings held for own uses	20 years
Leasehold improvements	5 years
Machinery	3 — 10 years
Office equipment	3 — 5 years
Motor vehicles	3 — 5 years

As at 31 December 2008, 2009 and 2010 and 30 June 2011, certain Group's buildings and machinery with an aggregate carrying amount of approximately RMB39,827,000, RMB37,575,000, RMB52,228,000 and RMB52,110,000, respectively were pledged to secure the bank loans granted to the Group.

## 18. INVESTMENT PROPERTY

### The Group

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
<b>COST</b>				
At beginning of the year/period	—	1,524	1,519	—
Reclassification from property, plant and equipment	1,638	—	—	—
Exchange adjustments	(114)	(5)	—	—
Disposals	—	—	(1,519)	—
	<u>1,524</u>	<u>1,519</u>	<u>—</u>	<u>—</u>
At end of the year/period	1,524	1,519	—	—
<b>ACCUMULATED DEPRECIATION</b>				
At beginning of the year/period	—	36	72	—
Provided for the year/period	37	36	13	—
Exchange adjustments	(1)	—	—	—
Eliminated on disposals	—	—	(85)	—
	<u>36</u>	<u>72</u>	<u>—</u>	<u>—</u>
At end of the year/period	36	72	—	—
<b>CARRYING VALUES</b>				
At end of the year/period	<u>1,488</u>	<u>1,447</u>	<u>—</u>	<u>—</u>

The fair value of the Group's investment property at 31 December 2008 and 2009 were approximately RMB4,075,000 and RMB6,025,000 respectively. The fair value has been arrived at based on a valuation carried out by LCH (Asia-Pacific) Surveyors Limited, an independent qualified professional surveyor not connected with the Group. The valuation was determined by reference to recent market prices for similar properties in the same locations and conditions.

The above investment property is depreciated over the terms of the respective leases on a straight-line basis. The carrying value of investment property shown above is situated on land in Hong Kong and held under long lease.



## 21. INVESTMENT IN A SUBSIDIARY

**The Company**

Grand Concord (BVI) was incorporated in BVI on 8 December 2010 as a wholly-owned subsidiary of the Company. On 9 December 2010, one share of USD1 of Grand Concord (BVI) was allotted and issued to the Company.

On 22 February 2011, the Company allotted and issued an aggregate of 9,999,999 new shares of HKD0.01 each to Global Wisdom Capital Holdings Limited ("Global Wisdom") in exchange for the entire equity interest in Grand Concord (HK). Details are set out in Note 30.

## 22. DEFERRED TAX ASSETS (LIABILITIES)

For the purpose of presentation in the consolidated statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

**The Group**

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Deferred tax assets	800	774	1,318	2,091
Deferred tax liabilities	(191)	—	—	—
	<u>609</u>	<u>774</u>	<u>1,318</u>	<u>2,091</u>

The movement in deferred tax assets (liabilities) is as follows:

	Unrealised profit on inventories	Tax losses	Accelerated tax depreciation	Withholding tax on dividends	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	164	443	70	—	677
Credited (charged) to profit or loss for the year	203	(13)	(34)	(191)	(35)
Exchange difference	—	(25)	(8)	—	(33)
At 31 December 2008 and at 1 January 2009	367	405	28	(191)	609
Credited (charged) to profit or loss for the year	13	(38)	—	191	166
Exchange difference	—	(1)	—	—	(1)
At 31 December 2009 and at 1 January 2010	380	366	28	—	774
Credited (charged) to profit or loss for the year	466	124	(28)	—	562
Exchange difference	—	(18)	—	—	(18)
At 31 December 2010 and at 1 January 2011	846	472	—	—	1,318
Credited to profit or loss for the period	781	—	—	—	781
Exchange difference	—	(8)	—	—	(8)
At 30 June 2011	<u>1,627</u>	<u>464</u>	<u>—</u>	<u>—</u>	<u>2,091</u>

At 31 December 2008, 2009 and 2010 and 30 June 2011, the Group has unused PRC and Hong Kong tax losses of approximately RMB4,711,000, RMB7,238,000, RMB18,442,000 and RMB21,602,000 respectively available for offsetting against future profits. A deferred tax asset has been recognised in respect of Hong Kong tax losses approximately RMB2,455,000, RMB2,217,000, RMB2,861,000 and RMB2,812,000 of such



losses at 31 December 2008, 2009 and 2010 and 30 June 2011. No deferred tax asset has been recognised in respect of the remaining PRC tax losses of approximately RMB2,256,000, RMB5,021,000, RMB15,581,000 and RMB18,790,000 at 31 December 2008, 2009 and 2010 and 30 June 2011 due to unpredictability of future profit streams. All the unrecognised PRC tax losses at 31 December 2008, 2009 and 2010 and 30 June 2011 will expire in 2011 to 2016.

### 23. INVENTORIES

#### The Group

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Raw materials	7,019	5,092	14,942	41,157
Work-in-progress	9,903	9,813	31,440	49,244
Finished goods	3,909	9,785	5,018	10,072
	<u>20,831</u>	<u>24,690</u>	<u>51,400</u>	<u>100,473</u>

### 24. TRADE RECEIVABLES

#### The Group

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Trade receivables	7,998	13,387	54,893	31,700
Less: Allowance for doubtful debts	(39)	(39)	(39)	(39)
	<u>7,959</u>	<u>13,348</u>	<u>54,854</u>	<u>31,661</u>

The Group generally allows an average credit period of 30 to 60 days to its trade customers. The aging analysis of the Group's trade receivables net of allowance for doubtful debts is presented based on the invoice date at the end of each reporting period and as follows:

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
0 — 30 days	6,160	9,274	38,492	29,618
31 — 60 days	1,163	739	15,725	1,657
61 — 90 days	43	8	190	164
Over 90 days	593	3,327	447	222
	<u>7,959</u>	<u>13,348</u>	<u>54,854</u>	<u>31,661</u>

Included in the Group's trade receivables balances are debtors of approximately RMB636,000, RMB3,335,000, RMB637,000 and RMB386,000 which were past due as at the respective reporting date for which the Group has not provided for allowance for doubtful debts because there has not been a significant change in credit quality and these balances were subsequently recovered as at the date of this report.

As at 30 June 2011, certain Group's trade receivables with an aggregate carrying amount of approximately RMB1,560,000 (2008 and 2009: nil, 2010: RMB6,765,000) were pledged to secure the bank loans granted to the Group. Details are disclosed in Note 35.

The aging of trade receivables based on payment due date is as follows:

	Total RMB'000	Neither past due nor impaired RMB'000	Past due but not impaired		
			Less than 30 days RMB'000	31 — 120 days RMB'000	Over 120 days RMB'000
31 December 2008	7,959	7,323	43	133	460
31 December 2009	13,348	10,013	8	2,077	1,250
31 December 2010	54,854	54,217	190	447	—
30 June 2011	31,661	31,275	164	201	21

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

	As at 31 December			As at
	2008 RMB'000	2009 RMB'000	2010 RMB'000	30 June 2011 RMB'000
USD	4,524	4,441	8,268	3,372

The movement in the allowance for doubtful debts are as follows:

	As at 31 December			As at
	2008 RMB'000	2009 RMB'000	2010 RMB'000	30 June 2011 RMB'000
Balance at beginning of the year	11	39	39	39
Impairment loss recognised on trade receivables	28	—	—	—
Balance at the end of the year	39	39	39	39

As at 31 December 2008, 2009 and 2010 and 30 June 2011, included in the allowance for doubtful debts are individually impaired trade receivables with aggregate balances of approximately RMB39,000, RMB39,000, RMB39,000 and RMB39,000 respectively which, represented amounts due from debtors who had been in severe financial difficulties. The Group does not hold any collateral over these balances.

## 25. PREPAYMENTS AND OTHER RECEIVABLES

### The Group

	As at 31 December			As at
	2008 RMB'000	2009 RMB'000	2010 RMB'000	30 June 2011 RMB'000
Prepayments	—	462	3,752	3,483
Advance to suppliers	3,393	4,024	7,694	10,319
Other receivables	2,551	1,850	5,651	8,572
	5,944	6,336	17,097	22,374
Less: Amount shown under non-current portion	—	—	—	(239)
	5,944	6,336	17,097	22,135

The Group has individually assessed all other receivables and no impairment loss was recognised during the Track Record Periods.

The Group's other 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
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
HKD	5	5	57	—
	<u>5</u>	<u>5</u>	<u>57</u>	<u>—</u>

## 26. RESTRICTED BANK DEPOSITS/CASH AND BANK BALANCES

Restricted bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to approximately RMB10,905,000, RMB25,922,000, RMB9,600,000 and RMB8,210,000 have been pledged to secure the short-term bills payables and short-term bank loans and are therefore classified as current assets as at 31 December 2008, 2009 and 2010 and 30 June 2011. During the Track Record Periods, the balances carried interest at average market rates from 0.4% to 2.85% per annum and will be released upon the completion of bills payable transactions and settlement of bank loans. The carrying amounts of the Group's restricted bank deposits are denominated in RMB.

Bank balances carried interest at average market rates from 0.01% to 0.5% per annum during the Track Record Periods.

The Group's cash and bank balances 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
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
USD	49	44	168	246
HKD	116	266	941	1,106
	<u>165</u>	<u>310</u>	<u>1,109</u>	<u>1,352</u>

## 27. TRADE AND BILLS PAYABLES

The average credit periods on purchase of raw materials granted by the Group's suppliers range from 30 to 120 days. The Group has financial risk management policy to ensure that all payables are settled within the credit timeframe. The aging analysis of trade payables is presented based on the invoice date at the end of each reporting period and as follows:

### The Group

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
0 — 30 days	13,714	18,821	25,956	36,560
31 — 90 days	11,786	14,374	14,034	11,648
91 — 180 days	8,225	12,566	9,854	2,106
Over 180 days	4,587	5,854	5,194	3,450
	<u>38,312</u>	<u>51,615</u>	<u>55,038</u>	<u>53,764</u>

The Group's trade and bills payables 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
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
USD	940	1,502	2,638	—
JPY	172	217	142	248
Total	<u>1,112</u>	<u>1,719</u>	<u>2,780</u>	<u>248</u>

## 28. ACCRUALS AND OTHER PAYABLES

### The Group

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Payroll and welfare payables	3,859	3,337	8,056	8,770
Other tax payables	817	866	1,958	558
Other payables	1,095	476	698	2,919
Total	<u>5,771</u>	<u>4,679</u>	<u>10,712</u>	<u>12,247</u>

The Group's accruals and other payables 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
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
HKD	<u>84</u>	<u>97</u>	<u>372</u>	<u>116</u>

## 29. INTEREST-BEARING BORROWINGS

### The Group

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Bank loans	52,167	50,156	71,813	119,046
Other loans <sup>(Note (i))</sup>	8,000	12,000	14,000	12,000
Total	<u>60,167</u>	<u>62,156</u>	<u>85,813</u>	<u>131,046</u>
Secured <sup>(Note (ii) and (iv))</sup>	40,167	37,156	71,813	69,046
Guaranteed <sup>(Note (iii))</sup>	12,000	13,000	—	—
Unsecured	8,000	12,000	14,000	62,000
Total	<u>60,167</u>	<u>62,156</u>	<u>85,813</u>	<u>131,046</u>

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Carrying amount repayable:				
On demand or within one year	52,900	58,156	63,045	108,131
More than one year, but not exceeding two years	2,000	2,000	12,000	12,000
More than two years but not more than five years	4,000	2,000	6,000	6,000
	<u>58,900</u>	<u>62,156</u>	<u>81,045</u>	<u>126,131</u>
Carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities under HK Int 5 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause)	1,267	—	4,768	4,915
	<u>60,167</u>	<u>62,156</u>	<u>85,813</u>	<u>131,046</u>
Less: Amounts shown under current liabilities	(54,167)	(58,156)	(67,813)	(113,046)
	<u>6,000</u>	<u>4,000</u>	<u>18,000</u>	<u>18,000</u>

*Notes:*

- (i) The Group's other loans as at 31 December 2008, 2009 and 2010 and 30 June 2011 included borrowing of approximately RMB8,000,000, RMB6,000,000, RMB4,000,000 and RMB2,000,000 respectively from 諸城市國有資產經營總公司 (Zhucheng State-owned Assets Management Company\*), which is an independent third party of the Group, bore at interest rate at the People's Bank of China prime rate plus 5% per annum.

The Group's other loans as at 31 December 2009 included borrowing of approximately RMB6,000,000 from 諸城市國有資產經營總公司 (Zhucheng State-owned Assets Management Company\*), which is an independent third party of the Group, bore interest at 5.31% per annum.

The Group's other loans as at 31 December 2010 and 30 June 2011 included borrowing of approximately RMB10,000,000 from 諸城市舜邦投資開發有限公司 (Zhucheng Shunbang Investment Development Limited Company\*), which is an independent third party of the Group, bore interest at 5.56% per annum.

- (ii) As at 31 December 2008, 2009 and 2010 and 30 June 2011, secured bank loans with carrying amount of approximately RMB40,167,000, RMB37,156,000, RMB71,813,000 and RMB69,046,000 respectively were secured by prepaid lease payments, buildings, machinery, restricted bank deposits of the Group. As at 31 December 2010 and 30 June 2011, a secured bank loan with carrying value of approximately RMB8,000,000 was secured by trade receivables of Zhucheng Yumin Knitting. Details are disclosed in Note 35.
- (iii) As at 31 December 2008, bank loans of approximately RMB10,000,000 were jointly guaranteed by 諸城市良豐化學有限公司 (Zhucheng Liangfeng Chemical Co., Ltd.\*) and 諸城市國有資產經營總公司 (Zhucheng State-owned Assets Management Company\*), which are independent third parties of the Group.

As at 31 December 2009, bank loans of approximately RMB8,000,000 were guaranteed by 諸城市國有資產經營總公司 (Zhucheng State-owned Assets Management Company\*), which is an independent third party of the Group.

As at 31 December 2008 and 2009, bank loans of approximately RMB2,000,000 and RMB5,000,000 respectively were guaranteed by 諸城市舜邦企業擔保有限公司 (Zhucheng Shunbang Enterprise Guarantee Limited Company\*), which is an independent third party of the Group.

- (iv) In addition, certain bank loans of approximately RMB4,667,000, RMB1,356,000, RMB8,013,000 and RMB9,246,000 as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively were jointly guaranteed by directors of the Company. Details of guarantee are disclosed in Note 37. The guarantee provided by directors will be released before the listing of the Company's shares on the Stock Exchange.

\* The English names of the PRC entities are translation from their Chinese names and are for identification purpose only.

The effective interest rate per annum at the end of the reporting periods ranged from:

	31 December 2008		31 December 2009		31 December 2010		30 June 2011	
	Effective interest rate	RMB'000	Effective interest rate	RMB'000	Effective interest rate	RMB'000	Effective interest rate	RMB'000
Fixed rate borrowings	5.25%- 9.08%	42,167	5.25%- 9.08%	56,156	5.1%- 6.12%	43,377	5.1%- 6.13%	89,300
Variable rate borrowings	5.31%- 8.13%	18,000	6.05%	6,000	5.31%- 7.84%	42,436	5.56%- 8.96%	41,746
		<u>60,167</u>		<u>62,156</u>		<u>85,813</u>		<u>131,046</u>

The Group's interest-bearing 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
	2008	2009	2010	30 June 2011
	RMB'000	RMB'000	RMB'000	RMB'000
HKD	<u>4,667</u>	<u>1,356</u>	<u>77</u>	<u>—</u>

As at the end of each reporting period, the Group has the following undrawn borrowing facilities:

	As at 31 December			As at
	2008	2009	2010	30 June 2011
	RMB'000	RMB'000	RMB'000	RMB'000
Expiring within one year	<u>—</u>	<u>—</u>	<u>—</u>	<u>10,000</u>

### 30. SHARE CAPITAL

The balances as at 1 January 2008, 31 December 2008 and 2009 represented the aggregate share capital of Grand Concord (HK) attributable to Mr. Wong Kin Ling and Ms. Hung Kin, common beneficial controlling owners of those companies now comprising the Group, and the balances as at 31 December 2010 represented the aggregate share capital of Grand Concord (HK) and the Company.

The Company was incorporated and was initially authorised to issue a maximum of 39,000,000 shares of HKD0.01 each of a single class on 8 December 2010. At the date of incorporation, one ordinary share was allotted and issued to Global Wisdom at a consideration of HKD0.01.

On 22 February 2011, the Company allotted and issued an aggregate of 9,999,999 new shares of HKD0.01 each to Global Wisdom in exchange for the entire equity interest in Grand Concord (HK) from Mr. Wong Kin Ling and Ms. Hung Kin.

Pursuant to a resolution in writing passed on by the board of directors of the Company on 10 March 2011, the Company re-designated all the authorised shares of HKD0.01 each per share into shares with no par value in compliance with the BVI Business Companies Act 2004.

**31. RESERVES***(a) Statutory reserve*

The statutory reserve, which is non-distributable, is appropriated from the profit after taxation of the Group's PRC subsidiaries. In accordance with the relevant laws and regulations of the PRC and the articles of association of the companies now comprising the Group, they are required to appropriate 10% of its net profits determined in accordance with China Accounting Standards for Enterprises issued by the Ministry of Finance of China, after offsetting any prior years' losses, to the statutory surplus reserve. When the balance of such a reserve reached 50% of the respective companies' registered capital, any further appropriation is optional.

*(b) Special reserve*

Special reserve represents the difference between the aggregate amount of issued and fully paid share capital of Grand Concord (HK) and the nominal amount of the shares issued by the Company to Global Wisdom on 22 February 2011 in exchange for the entire equity interest in Grand Concord (HK) as part of the Group Reorganisation.

*(c) Other reserve*

Other reserve represents the difference between the fair value of past services rendered by the two senior executives and the net present values of the consideration payable by the senior executives in respect of the share transferred. The details of transaction are more fully set out in Note 32.

**32. SHARE-BASED PAYMENT**

During the six months ended 30 June 2011, on 7 March 2011, in recognition of the services of two senior executives of the Group's subsidiaries (whom were appointed as directors of the Company as at 15 August 2011) (the "Executives"), Global Wisdom, being the Company's holding company, transferred a total of 1,300,000 shares of the Company (the "Shares") to the Executives, at an aggregate consideration of approximately RMB30,719,000 (the "Shares Consideration"). The Shares Consideration was determined by reference to a valuation, which performed by an independent valuer, and represented the then fair values of the Shares. The Shares Consideration are payable by the Executives in cash by three installments, with the first installment of RMB8,000,000 already settled by the Executives on 7 March 2011 and the remaining two installments to be settled by them on 7 March 2012 and 7 March 2013, respectively. The net present value of the Shares Consideration to be settled by the Executives was determined to be approximately RMB24,919,000 as at 7 March 2011.

Accordingly, the Group recorded an expense for the share-based payment of RMB5,800,000 in respect of the aforesaid arrangement which accounted for as equity-settled share-based payment transaction in the six months ended 30 June 2011, which represented the difference of the fair value of Shares transferred to the Executives and the net present value of Shares Consideration to be settled by the Executives as at 7 March 2011. Such amount of RMB5,800,000 was recorded as "other reserve" of the Group.

**33. OPERATING LEASES ARRANGEMENTS***The Group as leasee*

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

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Within one year	22	22	406	573
In the second to fifth years, inclusive	—	—	720	845
Over five years	—	—	90	540
	<u>22</u>	<u>22</u>	<u>1,216</u>	<u>1,958</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties and factories. Lease contracts are negotiated and rentals are fixed for an average of three years.

*The Group as lessor*

Property rental income earned during the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011 were approximately RMB106,000, RMB254,000, RMB167,000, RMB126,000 and nil respectively. The Group's investment property held for rental purposes had been disposed together with unexpired lease contract during the year ended 31 December 2010.

At the end of each reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Within one year	255	141	—	—
In the second to fifth years, inclusive	141	—	—	—
	<u>396</u>	<u>141</u>	<u>—</u>	<u>—</u>

**34. CAPITAL COMMITMENTS**

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Amount contracted for but not provided in the financial information in respect of acquisition property, plant and equipment	—	—	9,555	2,600
	<u>—</u>	<u>—</u>	<u>9,555</u>	<u>2,600</u>

**35. PLEDGED OF ASSETS**

Assets with the following carrying amounts have been pledged to secure bills payables (Note 27) to suppliers and bank loans (Note 29) of the Group at the end of the respective reporting dates:

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Prepaid lease payments	9,518	9,312	13,613	13,464
Buildings	26,434	25,657	37,901	37,508
Machinery	13,393	11,918	14,327	14,602
Restricted bank deposits	10,905	25,922	9,600	8,210
Trade receivables	—	—	6,765	1,560
	<u>60,250</u>	<u>72,809</u>	<u>82,206</u>	<u>75,344</u>

**36. RETIREMENT BENEFIT SCHEMES**

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiary is required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

During the Track Record Periods, the Group operated a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme were held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees were each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme was to make the required contributions under the scheme. No forfeited contribution was available to reduce the contribution payable in the future years.



For the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011, the total amounts contributed by the Group to retirement benefit scheme and charged to profit or loss were approximately RMB780,000, RMB1,236,000, RMB1,691,000, RMB704,000 and RMB1,310,000 respectively.

### 37. MATERIAL RELATED PARTY TRANSACTIONS

During the Track Record Periods, transactions with the following parties are considered as related party transactions.

Name of party	Relationship
Shanghai Guang Yu Textiles Co. Ltd (上海廣裕紡織品有限公司) ("Guang Yu") <sup>(Note 1 and 2)</sup>	Under significant influence of Mr. Wei Jin Long who is a senior executive of the Group and he is becoming the director of the Company on 15 August 2011
Zhucheng Noble Knitting & Garment Co., Ltd (諸城裕興針織服裝有限公司) ("Zhucheng Noble") <sup>(Note 1 and 3)</sup>	Ultimately controlled by Mr. Wong Kin Ling
Bolden Garment Limited ("Bolden Garment") <sup>(Note 4)</sup>	Ultimately controlled by Mr. Wong Kin Ling and Ms. Hung Kin
Qingdao Ai Rui Bo Garment Co. Ltd. (青島埃瑞柏服飾有限公司) ("Ai Rui Bo") <sup>(Note 1)</sup>	Ultimately controlled by Mr. Wang Jian She who is the brother of Mr. Wong Kin Ling
Sea Union	Ultimately controlled by Ms. Wong Man Kit who is the daughter of Mr. Wong Kin Ling and Ms. Hung Kin
Ms. Hung Kin and Mr. Wong Kin Ling	Controlling shareholders and directors of the Company
Mr. Wong Shao Hua and Mr. Wei Jin Long	Senior executives of the Group and becoming the directors of the Company on 15 August 2011

*Notes:*

- (1) The English translation of the company names are for reference only. The official names of these entities are in Chinese.
- (2) Guang Yu was no longer a related party of the Group after change in its shareholder to an independent third party on 4 March 2011.
- (3) Zhucheng Noble was no longer a related party of the Group after change in its shareholder to an independent third party on 31 December 2010.
- (4) Bolden Garment was registered as a dormant company since 3 January 2011.

## (i) Balances:

	As at 31 December			As at	Maximum amount outstanding			
	2008	2009	2010	30 June	during the year/period			
	RMB'000	RMB'000	RMB'000	RMB'000	2008	2009	2010	2011
<b>Trade receivables</b> <sup>(Note a)</sup>								
Guang Yu	—	2,722	—	—				
Zhucheng Noble	—	45	—	—				
Bolden Garment	977	—	2,682	—				
Ai Rui Bo	659	2,027	—	—				
	<u>1,636</u>	<u>4,794</u>	<u>2,682</u>	<u>—</u>				
<b>Amounts due from shareholders</b> <sup>(Note d)</sup>								
Mr. Wong Kin Ling	—	—	—	504	—	—	—	504
Ms. Hung Kin	—	—	—	3,227	—	—	—	3,227
	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,731</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,731</u>
<b>Amount due from a related party</b> <sup>(Note b)</sup>								
Bolden Garment	—	—	957	2,954	—	—	957	2,954
	<u>—</u>	<u>—</u>	<u>957</u>	<u>2,954</u>	<u>—</u>	<u>—</u>	<u>957</u>	<u>2,954</u>
<b>Trade payables</b> <sup>(Note c)</sup>								
Zhucheng Noble	406	284	—	—				
Bolden Garment	—	290	—	—				
	<u>406</u>	<u>574</u>	<u>—</u>	<u>—</u>				
<b>Amount due to a shareholder</b> <sup>(Note d)</sup>								
Ms. Hung Kin	8,015	4,281	1,559	—				
	<u>8,015</u>	<u>4,281</u>	<u>1,559</u>	<u>—</u>				
<b>Amounts due to related parties</b> <sup>(Note b)</sup>								
Bolden Garment	178	183	728	753				
Zhucheng Noble	—	1,500	—	—				
	<u>178</u>	<u>1,683</u>	<u>728</u>	<u>753</u>				

## Notes:

- (a) The Group had concluded sale transactions to related parties during the Track Record Periods. The balances represent the unsettled amount arising from sale transactions.
- (b) The amounts arose from (to) temporary fund transfer of non-trade nature. The amount due from (to) related parties was unsecured, non-interest bearing and repayable on demand. The amounts were fully settled before the listing of the Company's shares on the Stock Exchange.
- (c) The Group had concluded purchase transactions with related parties during the Track Record Periods. The balances represent the unsettled amounts arising from purchase transactions.
- (d) The amounts due from (to) shareholders were unsecured, non-interest bearing and repayable on demand. The balances were fully settled before the listing of the Company's shares on the Stock Exchange.
- (ii) Discontinued transactions will not be continued upon the listing of the Company's shares on the Stock Exchange:

Name of party	Nature of transaction	Year ended 31 December			Six months ended	
		2008	2009	2010	30 June	2011
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
(a) Bolden Garment	Sales of goods by the Group	2,513	3,653	15,256	7,914	—
	Purchase of goods by the Group	—	297	518	—	—
(b) Guang Yu	Sales of goods by the Group	—	3,720	21,452	10,438	277
	Purchase of goods by the Group	—	—	—	—	279

Name of party	Nature of transaction	Year ended 31 December			Six months ended 30 June	
		2008 RMB'000	2009 RMB'000	2010 RMB'000	2010 RMB'000 (Unaudited)	2011 RMB'000
(c) Zhucheng Noble	Sales of goods by the Group	244	379	90	38	—
	Purchase of goods by the Group	762	530	2,121	5	—
(d) Ai Rui Bo	Sales of goods by the Group	326	1,260	39	—	—
(e) Sea Union	Sale of investment property by the Group <sup>(Note A)</sup>	—	—	6,160	—	—
(f) Mr. Wong Kin Ling and Ms. Hung Kin	Bank loan guaranteed by directors	4,667	1,356	8,013	8,126	9,246
(g) Mr. Wang Shao Hua and Mr. Wei Jin Long	Share-based payment <sup>(Note 32)</sup>	—	—	—	—	5,800

The directors of the Company are of the opinion that the transactions (a), (b), (c) and (d) with related parties were conducted on normal commercial terms in the ordinary course of business.

The directors of the Company confirmed the transaction (e) and (g) concluded under mutually agreed terms.

*Note A:*

On 18 August 2010, a sale and purchase agreement of an investment property owned by the Group was signed between Grand Concord (HK) and Sea Union. The investment property has been sold at a consideration of HKD7,000,000 (equivalent to approximately RMB6,160,000).

(iii) Key management compensation

The remuneration of the directors and other members of key management of the Group is disclosed in Notes 13 and 14 respectively.

The remuneration of directors and key management is determined by the board of directors of the Company having regard to the performance of individuals and market trends.

### 38. MAJOR NON-CASH TRANSACTION

- (i) During the year ended 31 December 2008, a building with carrying amount of approximately RMB1,638,000 was transferred to investment property.
- (ii) During the year ended 31 December 2010, an investment property was sold at a consideration of HKD7,000,000 (equivalent to RMB6,160,000) which was settled through the balances with a shareholder under a set off agreement signed between Sea Union and Ms. Hung Kin, the controlling shareholder and director of the Company.
- (iii) The consideration for additions to prepaid land leases of approximately RMB4,568,000 during the year ended 31 December 2010 as set out in Note 19 was settled by deposit of approximately RMB1,863,000.

The consideration for additions to property, plant and equipment of approximately RMB24,363,000, RMB16,667,000, RMB39,494,000 and RMB11,260,000 respectively for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 as set out in Note 17 was partially settled by deposit of approximately RMB1,158,000, RMB2,609,000, RMB511,000 and RMB1,399,000 respectively.

**C. PARENT AND ULTIMATE HOLDING COMPANY**

Prior to the completion of the Reorganisation, the parent and ultimate holding company of the companies comprising the Group was Grand Concord (HK). Global Wisdom became the parent and ultimate holding company of the Group on 22 February 2011. On the same date, the Reorganisation was completed and since then, the Company has become the holding company of the Group.

**D. EVENTS AFTER THE REPORTING PERIOD**

- (i) Pursuant to the resolutions in writing passed by all the shareholders on 15 August 2011, the Company increased its maximum number of authorised shares from 39,000,000 shares to 1,000,000,000 shares.
- (ii) On 15 August 2011, the Company allotted and issued an aggregate of 290,000,000 new shares to the then shareholders, as to 252,300,000 shares to Global Wisdom, 14,500,000 shares to Mr. Wang Shao Hua and 23,200,000 shares to Mr. Wei Jin Long, at an issue price of HKD0.0000001 per share and in aggregate for HKD29.
- (iii) Pursuant to the written resolutions of the shareholders of the Company passed on 19 August 2011, the Company has conditionally adopted a share option scheme. The principal terms of the share option schemes are set out in section headed "Share Option Scheme" in Appendix V to the Prospectus. Up to the date of this report, no options were granted or outstanding under the share option scheme.

**E. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 30 June 2011.

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

## UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set forth in this appendix does not form part of the Accountants' Report prepared by the reporting accountants of the Company, SHINEWING (HK) CPA Limited as set out in Appendix I to this prospectus, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report as set out in Appendix I to this prospectus.

**(A) UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS**

The following unaudited pro forma adjusted net tangible assets ("Unaudited Pro Forma NTA") of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Share Offer on the consolidated net tangible assets of the Group attributable to the owners of the Company as of 30 June 2011 as if the Share Offer had taken place on 30 June 2011.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 30 June 2011 or at any future dates following the Share Offer. It is prepared based on the consolidated net tangible assets of the Group as at 30 June 2011 as set out in the Accountants' Report of the Group, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

	Audited consolidated net tangible assets attributable to owners of our Company as at 30 June 2011 <i>RMB'000</i> <i>(Note 1)</i>	Estimated net proceeds from the Share Offer <i>RMB'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted net tangible assets attributable to owners of our Company <i>RMB'000</i>	Unaudited pro forma adjusted net tangible assets attributable to owners of our Company per Share <i>RMB</i> <i>(Note 3)</i>	Unaudited pro forma adjusted net tangible assets attributable to owners of our Company per Share <i>HK\$</i> <i>(Note 4)</i>
Based on the Offer Price of HK\$0.8 per Share	<u>124,544</u>	<u>36,382</u>	<u>160,926</u>	<u>0.423</u>	<u>0.499</u>

*Notes:*

- (1) The audited consolidated net tangible assets attributable to owners of our Company as at 30 June 2011 has been derived from the audited consolidated net tangible assets attributable to the owners of the Company of approximately RMB124,544,000 as at 30 June 2011, extracted from the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Share Offer are based on the Offer Price of HK\$0.80 per Share, after deduction of the underwriting fees and other related expenses payable by the Company.
- (3) The unaudited pro forma adjusted net tangible assets attributable to owners of our Company per Share is arrived at after adjustment for the estimated net proceeds from the Share Offer payable to the Company as described in note (2) and on the basis that a total of 380,000,000 Shares were in issue as at 30 June 2011 (but takes no account of any additional income which may be earned from the estimated net proceeds).
- (4) The unaudited pro forma adjusted net tangible asset attributable to owners of our Company per Share is translated into HK\$ at an exchange rate of RMB0.847. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.
- (5) The prepaid lease payments and buildings of the Group as at 31 August 2011 were valued by LCH (Asia-Pacific) Surveyors Limited, an independent Professional Surveyor, and the relevant property valuation report is set out in Appendix III to this prospectus. With reference to the valuation of the Group's property interests as set out in Appendix III to this prospectus, the Group's interest in prepaid lease payments and buildings as at 31 August 2011 of approximately RMB97,760,000. Comparing this amount with the unaudited net carrying value of prepaid lease payments and buildings of the Group as of 31 August 2011 of approximately RMB55,244,000, there was a revaluation surplus of approximately RMB42,516,000. If the revaluation surplus was incorporated in the Group's financial statements, additional annual amortisation and depreciation of approximately RMB1,654,000 will therefore be charged. The surplus on revaluation will not be reflected in the Group's consolidated financial statements in subsequent years as the Group has elected to state its prepaid lease payments and buildings at cost less accumulated amortisation/depreciation and any impairment loss in accordance with the relevant HKASs.

**(B) REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following is the text of a report received from the reporting accountants, SHINEWING (HK) CPA Limited, for the purpose of incorporation of this prospectus.



SHINEWING (HK) CPA Limited  
43/F., The Lee Gardens  
33 Hysan Avenue  
Causeway Bay, Hong Kong

14 November 2011

The Directors  
Grand Concord International Holdings Limited

Dear Sirs,

We report on the unaudited pro forma financial information of Grand Concord International Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) (the “Unaudited Pro Forma Financial Information”), which has been prepared by the directors of the Company (the “Directors”) for illustrative purpose only, to provide information about how the placing and public offer might have affected the financial information presented, for inclusion in Appendix II to the prospectus dated 14 November 2011 of the Company (the “Prospectus”). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages II-1 to II-2 to the Prospectus.

**Respective responsibilities of the Directors and reporting accountants**

It is the responsibility solely of the Directors to prepare the Unaudited Pro Forma Financial Information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by Rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the

unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgments and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 June 2011 or any future date.

We make no comments regarding the reasonableness of the amount of net proceeds from the issue of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "Future Plans and Use of Proceeds" as set out in the Prospectus.

### **Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully,

**SHINEWING (HK) CPA Limited**

*Certified Public Accountants*

**Lo Wa Kei**

Practising Certificate Number: P03427

Hong Kong



*The following is the text of a letter, summary of values and valuation certificate prepared for the purpose of incorporation in this prospectus received from LCH (Asia-Pacific) Surveyors Limited, an independent Professional Surveyor, in connection with its valuations as at 31 August 2011 on the property interests of the Group.*



利駿行測量師有限公司

**LCH (Asia-Pacific)** Surveyors Limited

PROFESSIONAL SURVEYOR  
PLANT AND MACHINERY VALUER  
BUSINESS & FINANCIAL SERVICES VALUER

*The readers are reminded that the report which follows has been prepared in accordance with the guidelines set by the International Valuation Standards, Eighth Edition, 2007 (the “IVS”) published by the International Valuation Standards Committee as well as the HKIS Valuation Standards on Properties, First Edition, 2005 (the “HKIS Standards”) published by The Hong Kong Institute of Surveyors (“The HKIS”). Both standards entitle valuers to make assumptions which may on further investigation, for instance by the readers’ legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. Translation of terms in English or in Chinese are for readers’ identification purpose only and have no legal status or implication on the report. This report is prepared and signed off in English format, translation of this report in language other than English shall only be used as a reference and should not be regarded as a substitute for this report. Piecemeal reference to this report is considered to be inappropriate and no responsibility is assumed from our part for such piecemeal reference. It is emphasised that the findings or conclusion of values presented below are based on the documents and facts known to the valuers at the date of this report. If additional documents and facts are made available, the valuers reserve the right to amend this report and its conclusions.*

17th Floor  
Champion Building  
Nos. 287-291 Des Voeux Road Central  
Hong Kong

14 November 2011

The Board of Directors  
Grand Concord International Holdings Limited  
Units 1108-1109, 11th Floor  
Tower II Enterprise Square  
No. 9 Sheung Yuet Road  
Kowloon Bay  
Kowloon  
Hong Kong

Dear Sirs,

In accordance with the instructions given by the management of Grand Concord International Holdings Limited (hereinafter referred to as the “Company”) to us to value certain properties in which the Company and its subsidiaries (collectively, hereinafter together with the Company referred to as the “Group”) have interests in the People’s Republic of China (hereinafter referred to as the “PRC” or “China”) and to report the existing status of certain property interests rented by the Group in Hong Kong and the PRC, we confirm that we have conducted inspections, made relevant enquiries and obtained such further information as we consider necessary to support our findings and conclusion of values of the property interests as at 31 August 2011 (hereinafter referred to as the “Date of Valuation”) for the Company’s internal management reference purpose.

We understand that the use of our work product (regardless of form of presentation) will form part of the Company’s business due diligence to the properties and we have not been engaged to make specific sale or purchase recommendations, or give opinion for financing arrangement. We further understand that the use of our work product will not supplant other due diligence which the management of the Company should conduct in reaching its business decision regarding the subject property interests. Our work is designed solely to provide information that will give a reference to the management of the Company as part of its due diligence process, and our work should not be the only factor to be referenced by the Company. Our findings and conclusion of values of these properties are documented in a valuation report and submitted to the Company at today’s date.

At the request of the management of the Company, we prepared this summary report (including this letter, summary of values and a valuation certificate) to summarise our findings and conclusion of values as documented in the valuation report for the purpose of inclusion in this prospectus at today’s date (the “Prospectus”) for the Company’s shareholders’ reference. Terms herein used without definition shall have the same meanings as in the valuation report, and the assumptions and caveats adopted in the valuation report also applied to this summary report.

## **VALUATION OF CERTAIN PROPERTIES HELD BY THE GROUP IN GROUP I**

### **Basis of Valuation and Assumptions**

According to the IVS which the HKIS Standards also follows, there are two valuation bases, namely market value basis and valuation bases other than market value. In this engagement, we have provided our values of the properties in Group I on market value basis.

The term “Market Value” is defined by the IVS and the HKIS Standards as “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”.

Unless otherwise stated, our valuations of the property interests in Group I have been made on the assumptions that as at the Date of Valuation:

1. the legally interested party in each of the properties has an absolute title to its relevant property interest;
2. the legally interested party in each of the properties sells its relevant property interest in the market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which would serve to increase the value of the property interest;
3. each of the properties has obtained relevant government's approvals for the sale of the property and is able to be disposed of and transferred free of all encumbrances (including but not limited to the cost of transaction and tax) in the market;
4. the legally interested party in each of the properties has free and uninterrupted rights to assign its relevant property interest for the whole of the unexpired term as granted and any premium payable has already been fully paid; and
5. each of the properties can be freely disposed of and transferred free of all encumbrances for its existing use as an unique interest in the market to both local and overseas purchasers without payment of any premium to the government.

Should any of the above not be the case, it will have adverse impact to our values.

### **Approach to Value**

There are three generally accepted approaches in arriving at the market value of a property on an absolute title basis, namely the Sales Comparison Approach (or known as the Market Approach), the Cost Approach and the Income Approach.

In valuing Property Nos. 1, 2, 3 and 4 in Group I, having considered the general and inherent characteristics of the properties, we have adopted the depreciated replacement cost ("DRC") approach which is a procedural valuation approach and an application of the Cost Approach in valuing specialised properties like the properties. The use of this approach requires an estimate of the market value of the land use rights of the properties being valued for its existing use, and an estimate of the new replacement cost of the buildings and other site works from which deductions are then made to allow for age, condition, and functional obsolescence taking into account of the site formation cost and those public utilities connection charges to the properties. The land use rights of the properties have been determined from market-based evidences by analysing similar sales or offerings or listings of comparable properties.

The valuations of these properties are on the assumption that the properties are subject to the test of adequate potential profitability of the business having due regard to the value of the total assets employed and the nature of the operation.

By using this approach, the land should be assumed to have the benefit of planning permission for the replacement of the existing buildings and it is always necessary when valuing the land, to have regard to the manner in which the land is developed by the existing buildings and site works, and the extent to which these realise the full potential value of the land. When considering a notional replacement site, it should normally be regarded as having the same physical and location characteristics as the actual site, other than characteristics of the actual site which are not relevant, or are of no value, to the existing use. In considering the buildings, the gross replacement cost of the buildings should take into consideration everything which is necessary to complete the construction from a new green field site to provide buildings as they are, at the date of valuation, fit for and capable of being occupied and used for the current use. These costs to be estimated are not to erect buildings in the future but have the buildings available for occupation at the date of valuation, the work having commenced at the appropriate time.

We need to state that our value of each of the Property Nos. 1, 2, 3 and 4 in Group I is not necessarily intended to represent the amount that might be realised from disposition of land use rights or various building(s) of each of the property on piecemeal basis in the open market.

In valuing Property No. 2 in Group I, we are given to understand that the property is subject to an inter-company lease. According to the HKIS Standards, property subject to inter-company lease shall be valued on owner occupied basis and the existence of the lease must be disregarded. Therefore, in our valuation, we have considered this property as being owner-occupied.

In valuing Property No. 5 in Group I, we have adopted the Sales Comparison Approach on the assumption that the property was sold with the benefit of vacant possession as at the Date of Valuation. This approach considers the sales, listings or offering of similar or substitute properties and related market data and establishes a value of a property that a reasonable investor would have to pay for a similar property of comparable utility and with an absolute title.

Unless otherwise stated, we have not carried out any valuation on a redevelopment basis to the properties and the study of possible alternative development options and the related economics do not come within the scope of our work product.

### **REPORTING OF CERTAIN RENTED PROPERTY INTERESTS IN GROUPS II AND III**

Properties in Groups II and III are subject to various leasehold arrangements, and we have reported no commercial values to such property interests due mainly to the short-term nature of the tenancy agreements or prohibition against assignment or sub-letting or lack of substantial profit rents.

**MATTERS THAT MIGHT AFFECT OUR VALUATIONS IN GROUP I**

For the sake of valuations, we have adopted the areas as appeared in the copies of the documents as provided and no further verification work has been conducted. Should it be established subsequently that the adopted areas were not the latest approved, we reserve the rights to revise our report and the valuations accordingly.

No allowance has been made in our valuations for any charges, mortgages, outstanding premium or amounts owing on the properties valued nor any expenses or taxation which may be incurred in effecting a sale for properties in Group I. Unless otherwise stated, it is assumed that the properties in Group I are free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect their values.

In our valuations, we have assumed that the properties in Group I are able to be sold and purchased in the market without any legal impediment (especially from the regulators). Should this not be the case, it will affect the reported values significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

As at the Latest Practicable Date of this Prospectus, we were unable to identify any adverse news against the properties which may affect the reported values in our work product. Thus, we are not in the position to report and comment on its impact (if any) to the properties. However, should it be established subsequently that such news did exist at the Date of Valuation, we reserve the right to adjust the values reported herein.

**ESTABLISHMENT OF TITLES**

Due to the purpose of this engagement and the market value basis of valuation, the management of the Company provided us the necessary copies of documents to support that the legally interested party in each of the properties in Group I has free and uninterrupted rights to transfer, to mortgage or to let its relevant property interest (in this instance, an absolute title) for the whole of the unexpired terms as granted, free of all encumbrances and any premiums payable have already been paid in full or outstanding procedures have been completed, and that the Group has the right to occupy and to use the properties. However, our procedures to value, as agreed with the management of the Company, did not require us to conduct legal due diligence on the legality and formality on the way that the legally interested party obtained the properties from the relevant authorities. We agreed with the management of the Company that this should be the responsibility of the legal advisor to the management of the Company. Thus, no responsibility or liability is assumed from our part to the origin and continuity of the titles to the properties.

We have been provided with copies of the title documents of the properties in Group I and copies of tenancy agreements of the properties in Groups II and III. For the property in Group II, we have conducted searches in the Land Registry of Hong Kong. We have not examined the original documents to verify the ownership and encumbrances or to ascertain the existence of any amendments, which may not appear on the copies handed to us. All documents disclosed (if any) are for reference only and no responsibility is assumed for any legal matters concerning the legal title and the rights (if any) to the property interests valued in Group I. Any responsibility for our misinterpretation of the documents cannot be accepted.

The land registration system of China forbid us to search the original documents of the properties in Group I that are filed in the relevant authorities, and to verify legal titles or to verify any material encumbrances or amendment which may not appear on the copies handed to us. We need to state that we are not legal professionals and are not qualified to ascertain the titles and to report any encumbrances that may be registered against the properties in Group I. However, we have complied with the requirements as stated in Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and relied solely on the copies of document and the copy of the PRC legal opinions provided by the management of the Company with regard to the legal title of the properties in Groups I and III. We are given to understand that the PRC legal opinions was prepared by a qualified PRC legal adviser, Jingtian & Gongcheng dated 14 November 2011. No responsibility or liability from our part is assumed in relation to those legal opinions.

In our report, we have assumed that the legally interested party in each of the properties in Group I has obtained all the approval and/or endorsement from the relevant authorities, and that there would have no legal impediment (especially from the regulators) for the legally interested party to continue its titles in the properties in Group I. Should this not be the case, it will affect our values in this report significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

#### **INSPECTIONS AND INVESTIGATIONS OF THE PROPERTIES IN ACCORDANCE WITH VALUATION STANDARD 4 OF THE HKIS STANDARDS**

We have conducted inspections to the exterior, and where possible, the interior of the properties in respect of which we have been provided with such information as we have requested for the purpose of this engagement. We have not inspected those parts of the properties which were covered, unexposed or inaccessible and such parts have been assumed to be in a reasonable condition. We cannot express an opinion about or advise upon the condition of the properties and our work product should not be taken as making any implied representation or statement about the condition of the properties. No structural survey, investigation or examination has been made, but in the course of our inspections, we did not note any serious defects in the properties inspected. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to the utilities (if any) and we are unable to identify those utilities covered, unexposed or inaccessible.

We have not carried out on-site measurements to verify the correctness of the areas of the properties, but have assumed that the areas shown on the documents and the official layout plans handed to us are correct. All dimensions, measurements and areas are approximations.

Our engagement and the agreed procedures to value the properties did not include an independent land survey to verify the legal boundaries of the properties. We need to state that we are not in the land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries of the properties that appeared on the documents handed to us. No responsibility from our part is assumed. The management of the Company or interested party in the properties should conduct their own legal boundaries due diligence work.

We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of the properties, or has since been incorporated, and we are therefore unable to report that the properties are free from risk in this respect, and therefore we have not considered such factor in our valuations.

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the properties and which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out in the properties. We have not carried out any investigation into past or present uses, either of the properties or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the properties from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the properties or any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the values now reported or affect our findings.

### **SOURCES OF INFORMATION AND ITS VERIFICATION IN ACCORDANCE WITH VALUATION STANDARD 5 OF THE HKIS STANDARDS**

In the course of our work, we have been provided with copies of the documents regarding the properties, and these copies have been referenced without further verifying with the relevant bodies and/or authorities. Our procedures to value did not require us to conduct any searches or inspect the original documents to verify the ownership or to verify any amendment which may not appear on the copies handed to us. We need to state we are not legal professional, therefore, we are not in the position to advise and comment on the legality and effectiveness of the documents provided by the management of the Company.

We have relied solely on the information provided by the management of the Company or its appointed personnel without further verification and have fully accepted advice given to us on such matters as planning approvals or statutory notices, locations, titles, easements, tenure, occupation, lettings, rentals, site and floor areas and all other relevant matters.

The scope of valuations has been determined by reference to the property list provided by the management of the Company. All properties on the list have been included in our report. The management of the Company has confirmed to us that the Company has no property interests other than those specified on the list supplied to us and included in this report.

Our valuations have been made based only on the advice and information made available to us. While a limited scope of general inquiries had been made to the local property market practitioners, we are not in a position to verify and ascertain the correctness of the advice given by the relevant personnel. No responsibility or liability is assumed.

Information furnished by others, upon which all or portions of our work product are based, is believed to be reliable but has not been verified in all cases. Our procedures to value or work do not constitute an audit, review, or compilation of the information provided. Thus, no warranty is made nor liability assumed for the accuracy of any data, advice, opinions, or estimates identified as being furnished by others which have been used in formulating our work product.

When we adopted the work products from other professions, external data providers and the management of the Company or its appointed personnel in our works, the assumptions and caveats adopted by them in arriving at their figures also applied to this report. The procedures we have taken do not provide all the evidence that would be required in an audit and, as we have not performed an audit, accordingly, we do not express an audit opinion.

We are unable to accept any responsibility for the information that has not been supplied to us by the management of the Company or its appointed personnel. Also, we have sought and received confirmation from the management of the Company or its appointed personnel that no material factors have been omitted from the information supplied. Our analysis and valuations are based upon full disclosure between us and the Company of material and latent facts that may affect our works.

We have had no reason to doubt the truth and accuracy of the information provided to us by the management of the Company or its appointed personnel. We consider that we have been provided with sufficient information to reach an informed view, and have had no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts are in Renminbi Yuan (“RMB”).

### **LIMITING CONDITIONS IN THIS SUMMARY REPORT**

Our findings and conclusion of values of the properties in this summary report are valid only for the stated purpose and only for the Date of Valuation, and for the sole use of the named Company. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this summary report, and the valuers accept no responsibility whatsoever to any other person.

Our valuations have been made on the assumption that no unauthorised alteration, extension or addition has been made in the properties, and that the inspections and the use of this report do not purport to be a building survey of the properties. We have assumed that the properties are free of rot and inherent danger or unsuitable materials and techniques.

No responsibility is taken for changes in market conditions and local government policy and no obligation is assumed to revise this summary report to reflect events or conditions, which occur or make known to us subsequent to the date hereof.



Neither the whole nor any part of this summary report or any reference made hereto may be included in any published documents, prospectus or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this summary report in this Prospectus for the Company's shareholders' reference.

Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

The Company is required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our work product except to the extent any such losses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

## **STATEMENTS**

The attached summary of values and the valuation certificate are prepared in line with the requirements contained in Chapter 5 and Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as well as the guidelines contained in both the IVS and HKIS Standards. The valuations have been undertaken by valuers (see End Notes), acting as external valuers, qualified for the purpose of the valuations.

We retain a copy of this summary report and the valuation report together with the data from which it was prepared, and these data and documents will, according to the Laws of Hong Kong, keep for a period of 6 years from the date of this report and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the Company's authorisation and prior arrangement made with us. Moreover, we will add the Company's information into our client list for our future reference.

The analysis or valuations of the properties depend solely on the assumptions made in our report and not all of which can be easily quantified or ascertained exactly. Should some or all of the assumptions prove to be inaccurate at a later date, it will affect the reported values significantly.

We hereby certify that the fee for this service is not contingent upon our conclusion of values and we have no significant interest in the properties, the Group or the values reported.

Our valuations are summarised below and the valuation certificate is attached.

Yours faithfully,  
For and on behalf of  
**LCH (Asia-Pacific) Surveyors Limited**

**Joseph Ho Chin Choi**  
*B.Sc.PgD M.Sc.RPS(GP)*  
*Managing Director*

**Elsa Ng Hung Mui**  
*B.Sc. M.Sc. RPS(GP)*  
*Director*

*Contributing valuer:*

**Leslie Wong Tak Chiu** *B.Sc. BBA*

*Notes:*

1. *Mr. Joseph Ho Chin Choi has been conducting asset valuations and advisory work in Hong Kong, Macau, Taiwan, mainland China, the Philippines, Vietnam, Malaysia, Singapore, Thailand, Bangladesh, Japan, Australia, Kazakhstan, Madagascar, Scotland, Finland, Germany, Poland, Brazil, Argentina, Guyana, Canada and the United States of America for various purposes since 1988. He has more than 20 years of experience in valuing real properties in mainland China. He is a Fellow of The HKIS and a valuer on the List of Property Valuers for Undertaking valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuation in Connection with Takeovers and Mergers published by The HKIS.*
2. *Ms. Elsa Ng Hung Mui is a Registered Professional Surveyor who has been conducting valuation of real properties since 1994. She has rich experience in valuing properties in Hong Kong and mainland China. She is a Member of The HKIS and a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuation in Connection with Takeovers and Mergers published by The HKIS.*
3. *Mr. Leslie Wong Tak Chiu is a graduate surveyor who has been involved in valuation of real estate properties both in Hong Kong and the PRC for more than 5 years. He obtained a Bachelor Degree in Estate Management and in Business Administration and involved in various assets valuations, mine valuation, toll road valuation and agriculture property assets valuation.*

## SUMMARY OF VALUES

**Group I — Properties held and occupied by the Group under various long-term title certificates in the PRC and valued on market value basis**

<b>Property</b>	<b>Amount of valuation in existing state as at 31 August 2011 RMB</b>	<b>Interest attributable to the Group</b>	<b>Amount of valuation in existing state attributable to the Group as at 31 August 2011 RMB</b>
1. A factory complex located at No. 102 Renmin Dong Road Zhucheng City Weifang City Shandong Province The PRC 262200	20,700,000	100 per cent.	20,700,000
2. A factory complex located at Sun Jia Sha Ling Village Xinxing Town Zhucheng City Weifang City Shandong Province The PRC 262218	42,900,000	100 per cent.	42,900,000
3. A parcel of developing land located at the northern side of Wang Jia Sha Ling Village Xinxing Town Zhucheng City Weifang City Shandong Province The PRC 262218	7,200,000	100 per cent.	7,200,000

<b>Property</b>	<b>Amount of valuation in existing state as at 31 August 2011 RMB</b>	<b>Interest attributable to the Group</b>	<b>Amount of valuation in existing state attributable to the Group as at 31 August 2011 RMB</b>
4. A factory complex located at the western side of Community Section Ji Jia Tun Village No. 206 National Road Zhucheng Economic Development Zone Zhucheng City Weifang City Shandong Province The PRC 262200	43,100,000	100 per cent.	43,100,000
5. Room 602 on Level 6 of Block 1 and Room 606 on Level 6 of Block 3 Commercial/Residential Building Yan Jie Dongpo Sub-district Zhucheng City Weifang City Shandong Province The PRC 262200	660,000	100 per cent.	660,000
		<b>Sub-total:</b>	<b><u>RMB114,560,000</u></b>

## Group II — Property occupied by the Group under an operating lease in Hong Kong

	<b>Amount of valuation in existing state attributable to the Group as at 31 August 2011</b>
<b>Property</b>	
6. Units 1108 and 1109 11th Floor Tower II Enterprise Square No. 9 Sheung Yuet Road Kowloon Bay Kowloon Hong Kong	No Commercial Value
	_____
<b>Sub-total:</b>	<b>Nil</b>
	_____

## Group III — Properties occupied by the Group under various operating leases in the PRC

<b>Property</b>	<b>Amount of valuation in existing state attributable to the Group as at 31 August 2011</b>
7. Unit C Level 8 Merchants Bank Tower Central Hong Kong Road Qingdao City Shandong Province The PRC 266071	No Commercial Value
8. Two workshop buildings located at the Middle Section of Sangong Road Huanghua Dian Village Huanghua Town Zhucheng City Weifang City Shandong Province The PRC 262229	No Commercial Value
9. A 3-storey house located at the western side of Pingri Road Huanghua Town Zhucheng City Weifang City Shandong Province The PRC 262229	No Commercial Value
	_____
	<b>Sub-total:</b> _____ <b>Nil</b>
	<b>Grand total:</b> <b><u>RMB114,560,000</u></b>

## VALUATION CERTIFICATE

**Group I — Properties held and occupied by the Group under various long-term title certificates in the PRC and valued on market value basis**

Property	Description and tenure	Particulars of occupancy	Amount of valuation in existing state attributable to the Group as at 31 August 2011 RMB
1. A factory complex located at No. 102 Renmin Dong Road Zhucheng City Weifang City Shandong Province The PRC 262200	<p>The property comprises a parcel of land having a site area of approximately 16,823.53 sq. m. with 8 various major buildings and structures erected thereon.</p> <p>The major buildings and structures including workshops, ancillary offices, staff quarters, warehouses and other supporting facilities and are of single to 4-storey in height and having a total gross floor area of approximately 15,084.48 sq. m. which were completed in between 1991 and 2003.</p> <p>The property is subject to a right to use the land for a term till 5 December 2050 for industrial usage.</p>	As inspected and confirmed by the management of the Company, the property is occupied by the Group for manufacturing, storage, ancillary office, staff quarters and other supporting purposes.	20,700,000  (100 per cent. interest)

*Notes:*

1. The right to possess the land is held by the State and the right to use the land was granted by the State and transferred to 諸城裕泰針織有限公司 (translated as Zhucheng Eternal Knitting Company Limited and hereinafter referred to as “Zhucheng Eternal Knitting”), a wholly-owned subsidiary of the Company, via the following ways:
  - (i) according to a Purchase Agreement of Land and Factory made between Industrial and Commercial Bank of China (Zhucheng City Branch) and Grand Concord Trading Limited (hereinafter referred as “Grand Concord (HK)”), which is an indirect wholly-owned subsidiary of the Company, dated 10 October 2000, a parcel of land having a site area of approximately 17,865 sq. m. with various buildings and structures erected thereon having a total gross floor area of 12,000 sq. m. were contracted to be transferred to Grand Concord (HK). It was also agreed that the application of the state-owned Land Use Rights Certificate would be processed upon the set up of Zhucheng Eternal Knitting; and
  - (ii) according to a State-owned Land Use Rights Certificate known as Zhu Guo Yong (2001) Zi Di (20)001 Hao (諸國用(2001)字第(20)001號) issued by the Planning and Land Bureau of Zhucheng City on 22 December 2000, the legally interested party in a parcel of land having a site area of approximately 16,823.53 sq. m. is Zhucheng Eternal Knitting for a term till 5 December 2050 for industrial usage.
2. Pursuant to 3 various Building Ownership Certificates known as Zhu Cheng Shi Fang Quan Zheng Cheng Qu Gong Zi Di 03534 to 03536 Hao (諸城市房權證城區公字第03534至03536號) issued by the Building Administration Bureau of Zhucheng City and all dated 5 March 2004, the legally interested party in 8 various buildings and structures having a total gross floor area of approximately 15,084.48 sq. m. is Zhucheng Eternal Knitting.

A detailed breakdown of gross floor area of each of the buildings and structures covered by the certificates is as follows:

<b>Buildings and structures (no. of storey)</b>	<b>Gross Floor Area (sq.m.)</b>
Warehouse (single storey)	383.53
Car Port (single storey)	81.20
Workshop (single storey)	3,657.50
Guard Room (single storey)	39.60
Workshop with ancillary office (4-storey)	6,661.50
Warehouse (2-storey)	753.00
Workshop (2-storey)	1,143.10
Staff Quarters/Canteen (3-storey)	2,365.05
	<b>Total: <u>15,084.48</u></b>

3. Pursuant to a 最高額抵押合同 (編號: 2009年小抵字第017號) (translated as Mortgage Contract with Maximum Amount (No.: 2009 Nian Xiao Di Zi Di 017 Hao)), the property is subject to a mortgage in favour of Industrial and Commercial Bank of China Limited (Zhucheng Branch) (hereinafter referred to as "ICBC").
4. Pursuant to a copy of an 企業法人營業執照 (translated as Enterprise Legal Person Business Licence) dated 29 June 2011, Zhucheng Eternal Knitting is a limited liability company with an operation period commencing from 24 October 2000 to 23 October 2050.
5. According to the legal opinion prepared by the Company's PRC legal adviser, Jingtian & Gongcheng, the following opinions are noted:
  - (i) Zhucheng Eternal Knitting has obtained the land use rights and building ownership rights of the property legally;
  - (ii) until the expiry date stated in the State-owned Land Use Rights Certificate, Zhucheng Eternal Knitting is the legally interested party in the property;
  - (iii) except for the restriction stated in (iv) below, Zhucheng Eternal Knitting has the right to occupy, use, lease, transfer, mortgage and any other legal way to handle the property; and
  - (iv) the property is subject to a mortgage in favour of ICBC. According to the 最高額抵押合同 Mortgage Contract with Maximum Amount, Zhucheng Eternal Knitting is not allowed to lease, sell, transfer, by way of gift or any other way to handle the property without a written consent from ICBC during the mortgage period.



Property	Description and tenure	Particulars of occupancy	Amount of valuation in existing state attributable to the Group as at 31 August 2011 RMB
2. A factory complex located at Sun Jia Sha Ling Village Xinxing Town Zhucheng City Weifang City Shandong Province The PRC 262218	<p>The property comprises a parcel of land having a site area of approximately 56,668 sq.m. with 11 various major buildings and structures erected thereon.</p> <p>The major buildings and structures including workshops, ancillary offices, warehouses, a canteen and other supporting facilities and are of single to 2-storey in height and having a total gross floor area of approximately 24,280 sq. m. The buildings and structures were completed in between 2004 and 2007.</p> <p>The property is subject to a right to use the land for a term till 23 September 2055 for industrial usage.</p>	As inspected and confirmed by the management of the Company, the property is occupied by the Group for manufacturing, storage, ancillary office and other supporting purposes.	42,900,000  (100 per cent. interest)  (see Notes 3 and 6)

*Notes:*

1. The right to possess the land is held by the State and the right to use the land was granted by the State to 諸城裕泰針織有限公司 (translated as Zhucheng Eternal Knitting Company Limited and hereinafter referred to as “Zhucheng Eternal Knitting”), a wholly-owned subsidiary of the Company, via the following ways:
  - (i) according to a Land Acquisition Agreement made between the People’s Government of Xinxing Town and Zhucheng Eternal Knitting dated 1 March 2004, a parcel of land having a site area of approximately 101.11 Chinese Mu (67,407 sq. m.) was contracted to be granted to Zhucheng Eternal Knitting; and
  - (ii) according to a State-owned Land Use Rights Certificate known as Zhu Guo Yong (2005) Di 16027 Hao (諸國用(2005)第16027號) issued by the Land Resources Bureau of Zhucheng City on 8 November 2005, the legally interested party in a parcel of land having a site area of approximately 56,668 sq. m. is Zhucheng Eternal Knitting for a term till 23 September 2055 for industrial usage.
2. Pursuant to 4 various Building Ownership Certificates known as Zhu Cheng Shi Fang Quan Zheng Xin Xing Zhen Si Zi Di 09818, 10262, 10328 and 10329 Hao (諸城市房權證辛興鎮私字第09818, 10262, 10328及10329號) issued by the Building Administration Bureau of Zhucheng City and dated 11 February 2006, 7 December 2007 and 27 February 2008, respectively, the legally interested party in 10 various buildings and structures having a total gross floor area of approximately 24,108.17 sq. m. is Zhucheng Eternal Knitting.

A detailed breakdown of gross floor area of each of the buildings and structures covered by the certificates is as follows:

<b>Buildings and structures (no. of storey)</b>	<b>Gross Floor Area (sq.m.)</b>
Guard Room (single storey)	21.60
Pump House (single storey)	16.50
Workshop (2-storey)	6,200.33
Workshop (2-storey)	9,968.47
Workshop (single storey)	7,060.31
Pump Room (single storey)	153.09
Boiler Room (single storey)	342.25
Water Treatment Room (single storey)	236.16
Guard Room (single storey)	19.76
Switch Room (single storey)	89.70
	<hr/>
<b>Total:</b>	<b><u>24,108.17</u></b>

3. According to our on-site inspection and confirmed by the management of the Company, a temporary canteen without any form of title certificate and having a gross floor area of approximately 171.83 sq. m. was erected on the land. In our valuation, we have taken such canteen into account and on the assumption that it is able to be sold as part of the property without further encumbrances/premium being required. For reference purpose, the depreciated replacement cost of the said canteen (excluding the land), as at the Date of Valuation, would be in the region of RMB200,000, which should be deducted from the amount of valuation if the canteen is unable to be sold as an unique interest of the property in the open market.
4. Pursuant to three various 最高額抵押合同 (編號: 2009年小抵字第031·007號及085號) (translated as Mortgage Contracts with Maximum Amount (Nos.: 2009 Nian Xiao Di Zi Di 031, 007 and 085 Hao)), portions of the property are subject to mortgages all in favour of Industrial and Commercial Bank of China Limited (Zhucheng Branch) (hereinafter referred to as "ICBC").
5. Pursuant to a copy of an 企業法人營業執照 (translated as Enterprise Legal Person Business Licence) dated 29 June 2011, Zhucheng Eternal Knitting is a limited liability company with an operation period commencing from 24 October 2000 to 23 October 2050.
6. The property is subject to a tenancy agreement dated 1 January 2010 and made between Zhucheng Eternal Knitting and 諸城裕民針織有限公司 (translated as Zhucheng Yumin Knitting Company Limited hereinafter referred to as "Zhucheng Yumin Knitting"), which is a wholly-owned subsidiary of the Company. According to the tenancy agreement and as confirmed by the management of the Company, the property is rented to Zhucheng Yumin Knitting for a term of 3 years from 1 January 2010 to 31 December 2012 at an annual rental of RMB720,000. According to the HKIS Standards, any property occupied by a company under an inter-company leasing arrangement within a group should be valued as an owner-occupied property. Therefore, in our valuation, we have considered this property as being owner-occupied.
7. According to the legal opinion prepared by the Company's PRC legal adviser, Jingtian & Gongcheng, the following opinions are noted:
  - (i) Zhucheng Eternal Knitting has obtained the land use rights of the land mentioned in Note 1 and building ownership rights of the buildings as mentioned in Note 2 legally;
  - (ii) until the expiry date stated in the State-owned Land Use Rights Certificate, Zhucheng Eternal Knitting is the legally interested party in the land and buildings as mentioned in Notes 1 and 2;
  - (iii) except the restriction as stated in (iv) below, Zhucheng Eternal Knitting has the right to occupy, use, lease, transfer, mortgage and any other legal way to handle the land and buildings as mentioned in Notes 1 and 2;
  - (iv) portions of the property are subject to three various mortgages all in favour of ICBC as mentioned in Note 4. According to the 最高額抵押合同 Mortgage Contracts with Maximum Amount, Zhucheng Eternal Knitting is not allowed to lease, sell, transfer, by way of gift or any other way to handle such portions of the property without the consent from ICBC during the mortgage period;

- (v) Zhucheng Eternal Knitting has obtained the valid State-owned Land Use Rights Certificate and Building Ownership Certificate and hence has the right to lease the property to Zhucheng Yumin Knitting legally;
- (vi) up to the date of the legal opinion, both parties have enforced the tenancy agreement in normal status and have not breached the terms of the tenancy agreement. There is no foreseeable reason which may lead to early termination or cancellation of the tenancy agreement; and
- (vii) the tenancy agreement has not yet been registered. Under the PRC law, the tenancy agreement should be registered in the real estate leasing management authority. Therefore, both parties should register the tenancy agreement in the relevant authority. Otherwise, the authority may order the registration to be taken and to impose penalty.

Property	Description and tenure	Particulars of occupancy	Amount of valuation in existing state attributable to the Group as at 31 August 2011 RMB
3. A parcel of developing land located at the northern side of Wang Jia Sha Ling Village Xinxing Town Zhucheng City Weifang City Shandong Province The PRC 262218	<p>The property comprises a parcel of land having a site area of approximately 30,798 sq. m. with 2 various buildings under construction for Phase I of the development thereon.</p> <p>We were given to understand that the property under construction (the “CIP”) will have a planned gross floor area of approximately 5,621 sq. m. upon completion. The construction works of the CIP are scheduled to be completed by the end of 2011.</p> <p>The property is subject to a right to use the land for a term till 10 May 2060 for industrial usage.</p>	<p>As inspected and confirmed by the management of the Company, the property is under construction.</p> <p>Due to the nature of construction works in progress, we are unable to conduct any due diligence on the current occupation status of the property.</p>	<p>7,200,000 (100 per cent. interest)  (see Note 4)</p>

*Notes:*

1. The right to possess the land is held by the State and the right to use the land was granted by the State to 諸城裕民針織有限公司 (translated as Zhucheng Yumin Knitting Company Limited and hereinafter referred to as “Zhucheng Yumin Knitting”), a wholly-owned subsidiary of the Company, via the following ways:
  - (i) according to an Agreement made between the People’s Government of Xinxing Town and Zhucheng Yumin Knitting dated 9 October 2005, a parcel of land having a site area of approximately 55.15 Chinese Mu (36,767 sq. m.) was contracted to be granted to Zhucheng Yumin Knitting; and
  - (ii) according to a State-owned Land Use Rights Certificate known as Zhu Guo Yong (2010) Di 16004 Hao (諸國用 (2010) 第16004號) issued by the Land Resources Bureau of Zhucheng City and dated 10 June 2010, the legally interested party in a parcel of land having a site area of approximately 30,798 sq. m. is Zhucheng Yumin Knitting for a term till 10 May 2060 for industrial usage.
2. Pursuant to a Construction Planning Permit known as Jian Zi Di 370782201100367 Hao (建字第370782201100367號) issued by the Town Planning Bureau of Zhucheng City and dated 11 August 2011, Zhucheng Yumin Knitting is permitted to build various buildings having an estimated total gross floor area of approximately 5,621 sq. m. upon completion.
3. Pursuant to a Permit to Commence Construction known as XX2011-001 issued by Housing and Township Construction Bureau of Zhucheng City and dated 15 August 2011, Zhucheng Yumin Knitting is permitted commence construction works of various buildings having an estimated total gross floor area approximately 5,621 sq. m. upon completion.
4. As advised by the management of the Company, the development cost incurred for the CIP was approximately RMB1,800,000 and the estimated remaining cost to complete the CIP was approximately RMB4,400,000 as at the Date of Valuation. In our valuation, we have assumed that the property will be developed and completed in accordance with the Group’s latest development proposals provided to us and we have taken into account the cost incurred for the CIP as at the Date of Valuation.
5. Pursuant to a 最高額抵押合同 (編號: 2010年小抵字第120號) (translated as Mortgage Contract with Maximum Amount (No.: 2010 Nian Xiao Di Zi Di 120 Hao)), the land of the property is subject to a mortgage in favour of Industrial and Commercial Bank of China Limited (Zhucheng Branch) (hereinafter referred to as “ICBC”).

6. Pursuant to a copy of an 企業法人營業執照 (translated as Enterprise Legal Person Business Licence) dated 1 December 2008, Zhucheng Yumin Knitting is a limited liability company with an operation period commencing from 22 November 2004 to 21 November 2054.
7. According to the legal opinion prepared by the Company's PRC legal adviser, Jingtian & Gongcheng, the following opinions are noted:
  - (i) Zhucheng Yumin Knitting has obtained the land use rights of the property legally;
  - (ii) until the expiry date stated in the State-owned Land Use Rights Certificate, Zhucheng Yumin Knitting is the legally interested party in the land of the property;
  - (iii) except the restriction stated in (iv) below, Zhucheng Yumin Knitting has the right to occupy, use, lease, transfer, mortgage and any other legal way to handle the land use rights of the property;
  - (iv) the land of the property is subject to a mortgage in favour of ICBC as mentioned in Note 5. According to the 最高額抵押合同 Mortgage Contract with Maximum Amount, Zhucheng Yumin Knitting is not allowed to lease, sell, transfer, by way of gift or any other way to handle such land without a written consent from ICBC during the mortgage period; and
  - (v) Zhucheng Yumin Knitting has obtained the Construction Planning Permit and the Permit to Commence Construction. Zhucheng Yumin Knitting has the rights to commence construction work on the location stated in the permits.

Property	Description and tenure	Particulars of occupancy	Amount of valuation in existing state attributable to the Group as at 31 August 2011 RMB
4. A factory complex located at the western side of Community Section Ji Jia Tun Village No. 206 National Road Zhucheng Economic Development Zone Zhucheng City Weifang City Shandong Province The PRC 262200	<p>The property comprises a parcel of land having a site area of approximately 32,689 sq. m. with 3 various major buildings and structures constructed thereon.</p> <p>The major buildings and structures including a workshop, a staff quarters and a supporting facility room and are of single to 5-storey in height and having a total gross floor area of approximately 13,201.54 sq.m. which were completed in about 2010 (the “Completed Buildings”).</p> <p>In addition to the Completed Buildings, there is a 4-storey workshop building under construction (the “CIP”). We were given to understand that the planned gross floor area of the CIP will be approximately 16,643.25 sq. m. upon completion. The construction work of the CIP is scheduled to be completed by the end of 2011.</p> <p>There are 14 various temporary structures having a total gross floor area of approximately 2,184 sq.m. erected on the site for temporary accommodation of the construction workers for the CIP. As advised by the Company, these structures will be demolished upon the completion of the CIP and its related works.</p>	As inspected and confirmed by the management of the Company, part of the property is occupied by the Group for manufacturing, storage, ancillary office, staff quarters and other supporting purpose, and part of the property is under construction.	43,100,000 (100 per cent. interest) (see Note 5)
	The property is subject to a right to use the land for a term till 27 May 2058 for industrial usage.		

## Notes:

1. The right to possess the land is held by the State and the right to use the land was granted by the State to 山東廣豪服飾有限公司 (translated as Shandong Grand Concord Garment Company Limited and hereinafter referred to as “Shandong Grand Concord”), a wholly-owned subsidiary of the Company, via the following ways:
  - (i) according to a Letter of Tender Confirmation for the State-owned Land Use Rights issued by the State-owned Asset Management of Zhucheng City and the Land Reserve Centre of Zhucheng City and dated 28 December 2007, Shandong Grand Concord is the successful tenderer of a parcel of land having a site area of approximately 32,689 sq. m. at a consideration of RMB4,854,317 for industrial usage; and
  - (ii) according to a State-owned Land Use Rights Certificate known as Zhu Guo Yong (2009) Di 03032 Hao (諸國用(2009)第03032號) issued by the Land Resources Bureau of Zhucheng City and dated 30 July 2009, the legally interested party in a parcel of land having a site area of approximately 32,689 sq. m. is Shandong Grand Concord for a term till 27 May 2058 for industrial usage.

2. Pursuant to a Building Ownership Certificate known as Lu Wei Fang Quan Zheng Zhu Cheng Shi Zi Di 006081 Hao (魯濰房權證諸城市字第006081號) issued by the Building Administration Bureau of Zhucheng City and dated 5 March 2010, the legally interested party in 3 various buildings and structures having a total gross floor area of approximately 13,201.54 sq. m. is Shandong Grand Concord.

A detailed breakdown of gross floor area of each of the buildings and structures covered by the certificate is as follows:

<b>Buildings and structures (no. of storey)</b>	<b>Gross Floor Area (sq.m.)</b>
Staff Quarters/Canteen (5-storey)	4,758.00
Workshop (4-storey)	8,409.88
Guard Room (single storey)	33.66
<b>Total:</b>	<b><u>13,201.54</u></b>

3. Pursuant to three various Construction Planning Permits known as Jian Zi Di 370782201000058 to 370782201000060 Hao (建字第370782201000058-370782201000060號) issued by the Town Planning Bureau of Zhucheng City and all dated 4 February 2010, Shandong Grand Concord is permitted to build various buildings having an estimated total gross floor area of approximately 29,811.13 sq. m. upon completion.
4. Pursuant to a Permit to Commence Construction known as 2010-025 Hao issued by the City Construction Bureau of Zhucheng City and dated 20 February 2010, Shandong Grand Concord is permitted to commence construction works of various buildings having an estimated total gross floor area of approximately 29,811.13 sq. m. upon completion.
5. As advised by the management of the Company, the development cost incurred for the CIP was approximately RMB15,000,000 and the estimated remaining cost to complete the CIP was approximately RMB500,000 as at the Date of Valuation. In our valuation, we have assumed the property will be developed and completed in accordance with the Group's latest development proposals provided to us and we have taken into account the costs incurred for the CIP as at the Date of Valuation.
6. Pursuant to two various 最高額抵押合同 (編號: 2009年小抵字第087號及2010年小抵字030號) (translated as Mortgage Contracts with Maximum Amount (Nos.: 2009 Nian Xiao Di Zi Di 087 Hao and 2010 Nian Xiao Di Zi Di 030 Hao)), the land and the Completed Buildings are subject to mortgages both in favour of Industrial and Commercial Bank of China Limited (Zhucheng Branch) (hereinafter referred to as "ICBC").
7. Pursuant to a copy of an 企業法人營業執照, (translated as Enterprise Legal Person Business Licence) dated 22 July 2010, Shandong Grand Concord is a limited liability company with an operation period commencing from 9 July 2007 to 8 July 2057.
8. According to the legal opinion prepared by the Company's PRC legal adviser, Jingtian & Gongcheng, the following opinions are noted:
- (i) Shandong Grand Concord has obtained the land use rights of the land mentioned in Note 1 and building ownership rights of the buildings mentioned in Note 2 legally;
  - (ii) until the expiry date stated in the State-owned Land Use Rights Certificate, Shandong Grand Concord is the legally interested party in the land and buildings mentioned in Notes 1 and 2;
  - (iii) except the restriction stated in (iv) below, Shandong Grand Concord has the right to occupy, use, lease, transfer, mortgage and any other legal way to handle the land and buildings mentioned in Notes 1 and 2;
  - (iv) land and buildings mentioned in Notes 1 and 2 are subject to two various mortgages both in favour of ICBC as mentioned in Note 6. According to the 最高額抵押合同 Mortgage Contracts with Maximum Amount, Shandong Grand Concord is not allowed to lease, sell, transfer, by way of gift or any other way to handle the property without the consent of ICBC during the mortgage period; and
  - (v) Shandong Grand Concord has obtained the Construction Planning Permits and the Permit to Commence Construction. Shandong Grand Concord has the rights to commence construction work on the location stated in the permits.

Property	Description and tenure	Particulars of occupancy	Amount of valuation in existing state attributable to the Group as at 31 August 2011 <i>RMB</i>
5. Room 602 on Level 6 of Block 1 and Room 606 on Level 6 of Block 3 Commercial/ Residential Building Yan Jie Dongpo Sub-district Zhucheng City Weifang City Shandong Province The PRC 262200	<p>The property comprises two residential units on Level 6 of a 6-storey composite building which was completed in about 2004.</p> <p>The property has a total gross floor area of approximately 173.97 sq. m.</p> <p>The land upon which the property is situated on is subject to a right to use the land for an unspecified term for residential usage.</p>	As inspected and confirmed by the management of the Company, the property is occupied by the Group for staff quarters purpose.	660,000  (100 per cent. interest)

*Notes:*

1. Pursuant to 2 various Building Ownership Certificates known as Zhu Cheng Shi Fang Quan Zheng Cheng Qu Shang Pin Zi Di 16781 and 16821 Hao (諸城市房權證城區商品字第16781及16821號) issued by the Real Estate Management Bureau of Zhucheng City, dated 3 August 2006 and 4 August 2006 respectively, the legally interested party in the property is 諸城裕民針織有限公司 (translated as Zhucheng Yumin Knitting Company Limited and hereinafter referred to as “Zhucheng Yumin Knitting”), a wholly-owned subsidiary of the Company.
2. Pursuant to a copy of an 企業法人營業執照, (translated as Enterprise Legal Person Business Licence) dated 1 December 2008, Zhucheng Yumin Kitting is a limited liability company with an operation period commencing from 22 November 2004 to 21 November 2054.
3. According to the legal opinion prepared by the Company’s PRC legal adviser, Jingtian & Gongcheng, the following opinions are noted:
  - (i) Zhucheng Yumin Knitting has obtained the building ownership rights of the property legally;
  - (ii) Zhucheng Yumin Knitting is the legally interested party in the property;
  - (iii) Zhucheng Yumin Knitting has the right to occupy, use, sell, lease, mortgage and any other legal way to handle the property; and
  - (iv) the property is not subject to any guarantee, mortgage, seizure or any other encumbrances.



## Group II — Property occupied by the Group under an operating lease in Hong Kong

Property	Description and occupancy	Amount of valuation in existing state attributable to the Group as at 31 August 2011
6. Units 1108 and 1109 11th Floor Tower II Enterprise Square No. 9 Sheung Yuet Road Kowloon Bay Kowloon Hong Kong	<p>The property comprises two office units on the 11th Floor of a 21-storey office building situated on a tri-tower development, including 5 levels of podium, which was completed in about 1992.</p> <p>According to the information made available to us, the property has a total saleable area of approximately 2,842 sq. ft. (264.03 sq.m.).</p> <p>The property is rented to the Group for a term of 3 years from 26 July 2010 to 25 July 2013 at a monthly rental of HK\$38,551 exclusive of management fee, Rates, Government Rent and other charges.</p> <p>The property is occupied by the Group for office purpose.</p>	No Commercial Value

*Notes:*

1. The lessor of the property is Sino Century Investment Limited, an independent third party to the Group.
2. The lessee of the property is Grand Concord Trading Limited, an indirect wholly-owned subsidiary of the Company.

## Group III — Properties occupied by the Group under various operating leases in the PRC

Property	Description and occupancy	Amount of valuation in existing state attributable to the Group as at 31 August 2011
7. Unit C Level 8 Merchants Bank Tower Central Hong Kong Road Qingdao City Shandong Province The PRC 266071	<p>The property comprises an office unit on Level 8 of a 28-storey office building which was completed in about 2002.</p> <p>According to the information made available to us, the property has a floor area of approximately 95.14 sq.m.</p> <p>The property is rented to the Group for a term of 1 year from 31 March 2011 to 31 March 2012 at an annual rental of RMB93,450 exclusive of management fee and other outgoings.</p> <p>The property is occupied by the Group for office purpose.</p>	No Commercial Value

*Notes:*

1. The lessor of the property is 許健平 (translated as Xu Jian Ping), an independent third party to the Group.
2. The lessee of the property is 諸城裕民針織有限公司 (translated as Zhucheng Yumin Knitting Company Limited and hereinafter referred as “Zhucheng Yumin Knitting”), a wholly-owned subsidiary of the Company.
3. According to the legal opinion prepared by the Company’s PRC legal adviser, Jingtian & Gongcheng, the following opinions are noted:
  - (i) Xu Jian Ping has not yet obtained a valid building ownership certificate of the property;
  - (ii) the tenancy agreement made between Xu Jian Ping and Zhucheng Yumin Knitting has not yet been registered;
  - (iii) according to a commitment letter dated 16 March 2011 and issued by Zhucheng Yumin Knitting, Zhucheng Yumin Knitting agreed not to renew the tenancy agreement upon expiry. Zhucheng Yumin Knitting confirmed that the property is used as an office for liaison purpose only and not for the operation of Zhucheng Yumin Knitting. If the tenancy agreement is terminated due to the breach of relevant building lease regulation, Zhucheng Yumin Knitting will rent a new office immediately, so that there will have no negative impact on the operation of Zhucheng Yumin Knitting;
  - (iv) up to the date of the legal opinion, both parties have enforced the tenancy agreement in normal status and have not in breach of the tenancy agreement. There is no foreseeable reason which may lead to early termination or cancellation of the tenancy agreement;
  - (v) under the PRC law, the tenancy agreement should be registered in the real estate leasing management authority. Therefore, both parties should register the tenancy agreement in the bureau. Otherwise, the authority may order the registration to be taken and to impose penalty; and
  - (vi) there is no major adverse impact on the listing exercise arising from the tenancy agreement.

<b>Property</b>	<b>Description and occupancy</b>	<b>Amount of valuation in existing state attributable to the Group as at 31 August 2011</b>
8. Two workshop buildings located at the Middle Section of Sangong Road Huanghua Dian Village Huanghua Town Zhucheng City Weifang City Shandong Province The PRC 262229	<p>The property comprises a single storey workshop building having a gross floor area of approximately 600 sq. m. and a 2-storey workshop building having a gross floor area of approximately 1,000 sq. m., and both were completed in about 2010.</p> <p>The property is subject to two various tenancies and rented to the Group for a term of 10 years with the latest expiring on 30 December 2020 at a total annual rental of RMB88,000.</p> <p>The property is occupied by the Group for industrial purpose.</p>	No Commercial Value

*Notes:*

1. The lessor of the property is 諸城市華貿市場發展服務有限公司 (translated as Zhuzheng City Huamao Market Development Services Ltd), an independent third party to the Group.
2. The lessee of the property is 山東廣豪服飾有限公司 (translated as Shandong Grand Concord Garment Company Limited and hereinafter referred as “Shandong Grand Concord”), a wholly-owned subsidiary of the Company.
3. According to the legal opinion prepared by the Company’s PRC legal adviser, the following opinions are noted:
  - (i) as advised by Shandong Grand Concord, Zhuzheng City Huamao Market Development Services Ltd has not yet obtained the building ownership certificate of the property;
  - (ii) according to a commitment letter dated 16 March 2011 and issued by Shandong Grand Concord, Shandong Grand Concord agreed not to renew the tenancy agreement upon its expiry;
  - (iii) Shandong Grand Concord confirmed that the occupation of the property is not irreplaceable. There will have no negative impact on the operation of Shandong Grand Concord if the tenancy agreement is not renewed; and
  - (iv) there is no major adverse impact on the listing exercise even though building ownership certificate was not provided by the lessor of the property.

<b>Property</b>	<b>Description and occupancy</b>	<b>Amount of valuation in existing state attributable to the Group as at 31 August 2011</b>
9. A 3-storey house located at the western side of Pingri Road Huanghua Town Zhucheng City Weifang City Shandong Province The PRC 262229	<p>The property comprises a 3-storey building having a gross floor area of approximately 455 sq. m. which was completed in about 2010.</p> <p>The property is subject to a tenancy and rented to the Group for a term of 10 years from 20 July 2010 to 20 July 2020 at an annual rental of RMB30,000 exclusive of management fee and other outgoings.</p> <p>The property is occupied by the Group for industrial purpose.</p>	No Commercial Value

*Notes:*

1. The lessor of the property is 張慶偉 (translated as Zhang Qing Wei), an independent third party to the Group.
2. The lessee of the property is 山東廣豪服飾有限公司 (translated as Shandong Grand Concord Garment Company Limited and hereinafter referred as "Shandong Grand Concord"), a wholly-owned subsidiary of the Company.
3. According to the legal opinion prepared by the Company's PRC legal adviser, the following opinions are noted:
  - (i) as advised by Shandong Grand Concord, Zhang Qing Wei has not yet obtained the building ownership certificate of the property;
  - (ii) according to a commitment letter dated 16 March 2011 and issued by Shandong Grand Concord, Shandong Grand Concord agreed not to renew the tenancy agreement upon its expiry;
  - (iii) Shandong Grand Concord confirmed that the occupation of the property is not irreplaceable. There will have no negative impact on the operation of Shandong Grand Concord if the tenancy agreement is not renewed; and
  - (iv) there is no major adverse impact on the listing exercise even though building ownership certificate was not provided by the lessor of the property.

## 1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association was filed on 14 September 2011 and states, inter alia, that the liability of members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Act or any other law of the BVI.

### 1.1 Classes of Shares

The Company is authorised to issue ordinary shares. Pursuant to the Memorandum of Association, the maximum number of shares that the Company is authorised to issue is 1,000,000,000 shares with no par value.

The Memorandum of Association is available for inspection at the address specified in Appendix VI in the section headed “Documents available for inspection”.

## 2. ARTICLES OF ASSOCIATION

The Articles of Association were filed on 14 September 2011 and include provisions to the following effect:

### 2.1 Directors

#### (a) *Power to allot and issue Shares*

Subject to the provisions of the Companies Act and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased number of shares the Company is authorised to issue) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return applicable to shares or otherwise, and to such persons at such time and for such consideration as the Directors may determine. Subject to the Companies Act and to any special rights conferred on any members or attaching to any class of shares, any share may, with the sanction of a special resolution of members, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

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

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Business Companies Act expressly directed or required to be exercised or done by the Company in general meeting.

***(c) Compensation or payment for loss of office***

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

***(d) Loans to Directors***

There are provisions in the Articles of Association prohibiting the making of loans to Directors and associates which are equivalent to the restrictions imposed by the Companies Ordinance.

***(e) Financial assistance to purchase Shares***

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

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

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary

relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his associates of any security or indemnity in respect of money lent or obligations incurred by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal concerning any other company in which the Director or any of his associates is/are interested only, whether directly or indirectly, as an officer, executive or shareholder or in which the Director or any of his associates 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 five per cent. or more of the issued shares of any class of such company (or of any third company through which his interest or that of any of his associates is derived) or of the voting rights;

- (v) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
  - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his associates may benefit;
  - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his associates as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (vi) any contract or arrangement in which the Director or any of his associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(g) ***Remuneration***

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting or by the Directors, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director, who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.



The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission, or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

*(h) Retirement, appointment and removal*

The Directors shall have power from time to time and at any time to appoint any person to be a Director either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by resolution of members remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment or office as a result of the termination of his appointment as Director). The Company may by resolution of members appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by resolution of members elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by a resolution of members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) ***Borrowing powers***

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled amounts owing on the shares in the Company or any part thereof.

The rights of the Directors to exercise these powers may only be varied by a special resolution of members of the Company.

(j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

## 2.2 Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles may be made except by special resolution of members of the Company.

## 2.3 Variation of rights of existing shares or classes of shares

If at any time the authorised shares of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Act be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution of members of the Company passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

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

## 2.4 Alteration to the number of shares the Company is authorised to issue

The members of the Company may from time to time by resolution of members increase the maximum number of shares that the Company is authorised to issue.

The Company may from time to time by resolution of members:

- (a) consolidate and divide all or any of its shares into shares of larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to

the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

- (b) cancel any shares which at the date of the passing of the resolution of members of the Company have not been taken or agreed to be taken by any person, and diminish the maximum number of shares the Company is authorised to issue by the number of the shares so cancelled subject to the provisions of the Companies Act; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Act, and so that the resolution of members whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the company has power to attach to unissued or new shares,

provided that where shares are consolidated or sub-divided, the aggregate par value of the new shares must be equal to the aggregate par value of the original shares.

## **2.5 Special resolution — majority required**

A “special resolution of members” is defined in the Articles to mean a resolution passed by a majority of not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 days' notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, a “resolution of members” 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 corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles and includes a resolution approved in writing by all the members of the Company aforesaid.

## **2.6 Voting rights**

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

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

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be counted in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee) which he represents as that recognised clearing house (or its nominee) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorisation.

## **2.7 Annual general meetings**

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Stock Exchange may authorise) shall elapse between the date of one annual general meeting of the Company and that of the next.

## **2.8 Accounts and audit**

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Act.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than a Director) and no such member (not being a Director) shall have any right to inspect any accounts or books or documents of the Company except as conferred by the Companies Act or as authorised by a resolution of the Directors.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date at which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

## **2.9 Notice of meetings and business to be conducted thereat**

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution of members shall be called by notice of not less than 21 days and any other extraordinary general meeting shall be called by not less than 14 days. The notice shall be inclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution of members shall specify the intention to propose the resolution as a special resolution of members. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

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

- (a) the declaration and sanctioning of dividends;
- (b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;
- (c) the election of Directors in place of those retiring;

- (d) the appointment of auditors;
- (e) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;
- (f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20 per cent. (or such other percentage as may from time to time be specified in the Listing Rules) in nominal value of its then existing shares and the number of any securities repurchased pursuant to sub-paragraph (g) below; and
- (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

## 2.10 Transfer of Shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and



- (f) a fee of such maximum as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the instrument of transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement published on the Stock Exchange's website or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided always that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by resolution of members determine provided that such period shall not be extended beyond 60 days in any year).

### **2.11 Power of the Company to purchase its own Shares**

The Company is empowered by the Companies Act and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong.

The Directors shall not, unless permitted pursuant to the Companies Act, purchase any of the shares in the Company unless immediately after such purchase the value of the Company's assets exceeds its liabilities and the Company is able to pay its debts as they fall due.

### **2.12 Power of any subsidiary of the Company to own Shares**

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

### **2.13 Dividends and other methods of distributions**

Subject to the Companies Act and Articles of Association, the Directors may, by resolution of directors, declare a dividend in any currency if they are satisfied, on reasonable grounds that, immediately after the payment of the dividend, the value of the Company's assets exceeds its liabilities and the Company is able to pay its debts as they fall due.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the shares in the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by resolution of members resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Unless otherwise directed by the Directors, any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the

case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the resolution of members of the Company, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

## **2.14 Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form that complies with the Listing Rules as the Directors may from time to time approve provided that it shall enable a member of the Company to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing, or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

### **2.15 Calls on Shares and forfeiture of Shares**

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15 per cent. per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

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

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be sold, re-allotted or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15 per cent. per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

## **2.16 Inspection of register of members**

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 14 days' notice being given by advertisement published on the Stock Exchange's website, or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by resolution of members determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members held in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK\$2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as the Directors may determine for each inspection.

### **2.17 Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney, authorise such person as it thinks fit to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in sub-paragraph 2.3 above.

### **2.18 Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

### **2.19 Procedure on liquidation**

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the amounts paid up on the shares in the Company, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the nominal value of such shares, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the amounts paid up on the issued shares in the Company at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the nominal value of such shares at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may, with the authority of a special resolution of members of the Company and any other sanction required by the Companies Act, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like authority or sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like authority or sanction and subject to the Companies Act, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

### **2.20 Untraceable members**

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (i) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) the Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member or person entitled to such shares by death, bankruptcy or operation of law; (iii) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange 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 for an amount equal to such net proceeds.

## **SUMMARY OF BVI COMPANY LAW AND TAXATION**

### **1. Introduction**

The Companies Act is derived, to a large extent, from English corporate legislation, although there are significant differences between the Companies Act and English corporate legislation. Set out below is a summary of certain provisions of the Companies Act, although this summary does not purport to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

## 2. Incorporation

The Company was incorporated in the BVI as BVI Business Company on 8 December 2010 under the Companies Act. The Company is required to pay an annual fee to the Registrar of Corporate Affairs in the BVI which is based on the number of shares the company is authorised to issue.

## 3. Shares

One of the major features of the Companies Act is that the concept of share capital has been abolished.

Instead, a company limited by, or otherwise authorised to issue shares, can now simply state in its memorandum of association the maximum number and classes of shares that the company is authorised to issue. Companies may also divide their shares (including those shares already in issue) into a larger number of shares or combine them into a smaller number of shares in the same class or series, provided that the maximum number of shares the company is permitted to issue is not exceeded. On any such division or combination of shares the aggregate par value (if any) of the new shares must be equal to the aggregate par value of the original shares.

The directors of a company can, at their discretion, issue shares in registered or bearer form (although in order to issue bearer shares there must be an express authorisation in the memorandum of association and such bearer shares must be held by an approved custodian) for such consideration and on such terms as they may determine.

Shares can be issued for consideration in any form, provided such consideration is not less than par value where the share is a par value share.

If so authorised by its memorandum of association, a company can issue more than one class of shares and, if so, the memorandum of association must also specify the rights, privileges, restrictions and conditions which attach to each class.

The Companies Act provides that companies may issue redeemable shares, shares with no rights, limited rights or preferential rights to share in distributions, or shares with no or special or limited or conditional voting rights. They may also, subject to their memorandum of association and articles of association, issue bonus shares, partly or nil paid shares, and fractional shares.

The Companies Act provides that a company may purchase, redeem or otherwise acquire its own shares, either in accordance with the procedure set out in the Companies Act, or any other procedure as provided for in the memorandum of association and articles of association of the company.



Under the provisions in the Companies Act, the directors may make an offer for the company to purchase, redeem or otherwise acquire shares in the company provided that the offer is either (a) to all shareholders and would, if successful, leave the relative voting and distribution rights unaffected, or (b) to one or more shareholders and consented to in writing by all shareholders, or is otherwise permitted by the memorandum of association or articles of association. Where the offer is to one or more shareholders, the directors must pass a resolution to the effect that in their opinion the purchase, redemption or other acquisition would benefit the remaining shareholders, and the proposed offer is fair and reasonable to the company and the remaining shareholders.

Where an acquisition by a company of its own shares would be treated as a distribution, the conditions imposed on distributions (detailed in paragraph 5 below) must be met. The purchase, redemption or other acquisition by a company of its own shares is not deemed to be a distribution where it is effected pursuant to, inter alia, a right of a shareholder to have his shares redeemed or exchanged for money or other property of the company or where the share is redeemable at the option of the company.

#### **4. Financial Assistance**

There is no statutory restriction in the BVI on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of due care, skill and diligence that they are acting in good faith, for a proper purpose and in the interests of the company, that such assistance can be given.

#### **5. Dividends and distributions**

The directors of a company may only declare a distribution by the company if they are satisfied, on reasonable grounds, that the company will, immediately after the distribution, satisfy the solvency test set out in section 57(1) of the Companies Act. A company satisfies the solvency test if the value of its assets exceeds its liabilities and it is able to pay its debts as they fall due.

#### **6. Shareholders' Remedies**

The Companies Act has introduced a series of remedies available to shareholders. Where a company engages in activity which breaches the Companies Act or the company's memorandum of association and articles of association, the court can issue a restraining or compliance order. Shareholders can also bring derivative, personal and representative actions under certain circumstances. The traditional English basis for shareholders' remedies has also been incorporated into the Companies Act — where a shareholder of a company considers that the affairs of the company have been, are being or are likely to be conducted in a manner likely to be oppressive, unfairly discriminating or unfairly prejudicial to him, he may apply to the court for an order on such conduct.

## 7. Mergers and Consolidations

Under the Companies Act two or more companies, each a “constituent company”, may merge or consolidate.

A merger involves merging two or more companies into one of the constituent companies that will remain as the surviving company and a consolidation involves two or more companies consolidating into a new company. Subject to the memorandum of association and articles of the company a merger or consolidation must be authorised by a resolution of shareholders of every class of shares entitled to vote on the merger.

There are differing procedures depending on the type of merger that is taking place. Under the Companies Act a merger may occur between any of the following:

- (a) Two or more companies incorporated under the Companies Act;
- (b) One or more companies incorporated under the Companies Act and one or more companies incorporated under the laws of a jurisdiction outside the BVI where the BVI company is the surviving entity;
- (c) One or more companies incorporated under the Companies Act and one or more companies incorporated under the laws of a jurisdiction outside the BVI where the foreign company is the surviving entity;
- (d) A parent company and one or more of its subsidiaries where the companies are incorporated under the Companies Act;
- (e) A parent company and one or more of its subsidiaries where one or more of the companies are incorporated under the Companies Act, one or more are incorporated under the laws of a jurisdiction outside the BVI and where the BVI company is the surviving company; or
- (f) A parent company and one or more of its subsidiaries where one or more of the companies are incorporated under the Companies Act, one or more are incorporated under the laws of a jurisdiction outside the BVI and where the foreign company is the surviving entity.

Under the Companies Act, a shareholder of a company is entitled to payment of the fair value of his shares upon dissenting from:

- (a) A merger, if the company is a constituent company, unless the company is the surviving company and the shareholder continues to hold the same or similar shares;
- (b) A consolidation, if the company is a constituent company.

The Companies Act sets out the procedure that must be followed in effecting dissenters' rights. Ultimately, if the company and the dissenter fail to agree on the price to be paid for the shares owned by the dissenter, then the statutory procedure provides that the fair value of the shares owned by the dissenter is fixed by three appraisers.

#### **8. Redemption of minority shares**

Under the Companies Act and subject to the memorandum of association or articles of association of a company, shareholders of a company holding 90 per cent of the votes of the outstanding shares entitled to vote; and shareholders of a company holding 90 per cent of the votes of the outstanding shares of each class of shares entitled to vote as a class, may give a written instruction to the company directing it to redeem the shares held by the remaining shareholders. Upon receiving this direction, the company must redeem the shares it has been directed to redeem and must give written notice to each shareholder stating the redemption price and the manner by which the redemption will be effected.

The shareholders having their shares compulsorily redeemed are entitled to receive fair value for their shares and may dissent from the compulsory redemption. The Companies Act sets out the procedure that must be followed in effecting dissenters' rights. Ultimately, if the company and the dissenter fail to agree on the price to be paid for the shares owned by the dissenter, then the statutory procedure provides that the fair value of the shares owned by the dissenter is fixed by three appraisers.

#### **9. Disposal of assets**

Under the Companies Act and subject to the memorandum of association or articles of association of a company, any sale, transfer, lease, exchange or other disposition, other than a mortgage, charge or other encumbrance or the enforcement thereof, of more than 50 per cent in value of the assets of the company, if not made in the usual or regular course of the business carried on by the company, requires the approval of the shareholders.

The Companies Act sets out the procedure that must be followed in relation to effecting such a disposal.

#### **10. Accounting and auditing requirements**

The Companies Act requires that a company shall cause to be kept proper books of account that (a) are sufficient to show and explain the company's transactions; and (b) will, at any time, enable the financial position of the company to be determined with reasonable accuracy.

**11. Register of shareholders**

A BVI Business 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 of the BVI, as its directors may, from time to time, think fit. However either the register of members or a copy of the register of members of the BVI Business Company has to be kept at the office of its registered agent in the BVI.

There is no mandatory requirement under the Companies Act for a company to make any filings of shareholder information to the Registrar of Corporate Affairs in the BVI. The names and addresses of the shareholders are, accordingly, not a matter of public record and are not available for public inspection.

**12. Inspection of books and records**

Subject to the Companies Act, a shareholder of a company will have general right under the Companies Act to inspect or obtain copies of the register of members, the register of directors and minutes of meetings and resolutions of members and of those classes of members of which he is a member. However, subject to the company's memorandum of association and articles of association, the directors may, if they are satisfied that it would be contrary to the company's interests to allow a shareholder to inspect any document (or part of a document) refuse to permit the shareholder to inspect the document or limit the inspection of the document, including limiting the making of copies or the taking of extracts from the records.

**13. Special resolutions**

The Companies Act does not define "special resolution". However a company's memorandum of association and articles of association may make provisions for varying threshold levels of votes required to pass a resolution and require that certain matters may only be approved if passed by a certain percentage of votes.

**14. Subsidiary owning shares in parent**

The Companies Act does not prohibit a BVI company acquiring and holding shares in its parent company. The directors of any subsidiary making such acquisition must discharge their duties of care and to act honestly and in good faith and in what the director believes to be in the best interests of the company.

Under the Companies Act:

- (a) a director of a company that is a wholly-owned subsidiary may, when exercising powers or performing duties as a director, if expressly permitted to do so by the memorandum of association and articles of association of the company, act in a manner which he believes is in the best interests of that company's holding company even though it may not be in the best interests of the company.

- (b) a director of a company that is a subsidiary, but not a wholly-owned subsidiary, may, when exercising powers or performing duties as a director, if expressly permitted to do so by the memorandum of association or articles of association of the company and with the prior agreement of the shareholders, other than its holding company, act in a manner which he believes is in the best interests of that company's holding company even though it may not be in the best interests of the company.
- (c) a director of a company that is carrying out a joint venture between the shareholders may, when exercising powers or performing duties as a director in connection with the carrying out of the joint venture, if expressly permitted to do so by the memorandum of association or articles of association of the company, act in a manner which he believes is in the best interests of a shareholder or shareholders, even though it may not be in the best interests of the company.

## **15. Indemnification**

BVI law in general does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, subject to the conditions set out in the Companies Act (e.g. the officer or director has acted honestly and in good faith and in what he believed to be in the best interests of the company and, in the case of criminal proceedings, that officer or director had no reasonable cause to believe that his conduct was unlawful).

## **16. Liquidation**

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

## **17. Stamp duty on transfers**

No stamp duty is payable in the BVI on transfers of shares of BVI companies.

## **18. Taxation**

Companies incorporated or registered under the Companies Act are currently exempt from income and corporate tax. In addition, the British Virgin Islands currently does not levy capital gains tax on companies incorporated or registered under the Companies Act.

## **19. Exchange control**

There are no exchange control regulations or currency restrictions in the BVI.

**20. Filing obligations**

There are no statutory filing obligations at the Registry of Corporate Affairs in the British Virgin Islands under the Companies Act on holders of the shares of a British Virgin Islands company solely as a result of being holders of such shares.

**21. Other laws and regulations in relation to a transfer of shares or disclosure of shareholders' interests**

If a BVI company is required to be licensed under (i) the Banks and Trust Companies Act, 1990 for carrying on banking or trust business, (ii) the Insurance Act, 2008 for carrying on business as an insurance, reinsurance company, insurance agent or insurance broker, (iii) the Company Management Act, 1990 for carrying on the business of company management, (iv) the Securities and Investment Business Act, 2010 for carrying on investment or mutual fund business of any kind within the British Virgin Islands, or is a company carrying on the business of providing the registered office or the registered agent for companies incorporated in the BVI, it may be subject to laws and regulations in addition to the provisions under the Companies Act in relation to a transfer of its shares or disclosure of its shareholders' interests.

**22. General**

Maples and Calder the Company's legal advisers on BVI law, have sent to the Company a letter of advice summarising aspects of BVI company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the section headed "Documents available for inspection" in Appendix VI. Any person wishing to have a detailed summary of BVI company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

**FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES****1. Incorporation of our Company**

Our Company was incorporated in BVI under the Companies Act as a limited liability company on 8 December 2010. As such, our Company is subject to BVI law and its constitution, which comprises the Memorandum of Association and the Articles of Association. A summary of certain relevant parts of its constitution and certain relevant aspects of the BVI law is set out in Appendix IV to this prospectus.

**2. Changes in the authorised and issued shares of our Company**

- (a) On 8 December 2010, our Company was incorporated and was initially authorised to issue a maximum of 39,000,000 shares of HK\$0.01 each of a single class. On the same date, one share of HK\$0.01 was allotted and issued to Global Wisdom at a consideration of HK\$0.01.
- (b) On 22 February 2011, Grand Concord (BVI), at the direction of our Company, acquired the entire issued share capital of Grand Concord (HK) from Mr. Wong and Madam Hung Kin, in consideration of and exchange for which our Company allotted and issued, credited as fully paid, an aggregate of 9,999,999 shares of HK\$0.01 each to Global Wisdom.
- (c) On 7 March 2011, 500,000 shares of HK\$0.01 each in our Company were transferred to Mr. S.H. Wang and 800,000 shares of HK\$0.01 each in our Company to Mr. Wei by Global Wisdom, respectively.
- (d) Pursuant to a resolution in writing passed by all the then Directors on 10 March 2011, our Company re-designated all our authorised shares of HK\$0.01 each, including the 10,000,000 issued shares of HK\$0.01 each, as shares with no par value in compliance with the Companies Act.
- (e) Pursuant to a resolution in writing passed by all the then Shareholders on 15 August 2011, our Company increased its maximum number of authorised Shares from 39,000,000 Shares to 1,000,000,000 Shares.
- (f) On 31 August 2011, our Company allotted and issued an aggregate of 290,000,000 new Shares to our then Shareholders, as to 252,300,000 Shares to Global Wisdom, 14,500,000 Shares to Mr. S.H. Wang and 23,200,000 Shares to Mr. Wei, at an issue price of HK\$0.0000001 per Share and in aggregate for HK\$29.00.

Immediately following completion of the Share Offer but without taking into account any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme, 380,000,000 Shares will be issued and 620,000,000 Shares will remain unissued. Other than pursuant to the exercise of the options which may be granted under the Share Option Scheme, our Directors do not have

any present intention to issue any of the authorised but unissued shares of our Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed herein, there has been no alteration in the authorised shares of the Company since its incorporation.

**3. Resolutions in writing of all the Shareholders passed on 19 August 2011 and 8 November 2011**

On 19 August 2011 and 8 November 2011, pursuant to resolutions in writing passed by all the Shareholders:

- (a) our Company approved and adopted its Memorandum of Association and the Articles of Association and authorised their filing with the Registrar of Corporate Affairs in the BVI and thereby give effect to the same;
- (b) conditional upon the same conditions to be satisfied and/or waived as stated in the section headed “Structure and conditions of the Share Offer” of this prospectus:
  - (i) the Share Offer was approved and our Directors were authorised to allot and issue the Offer Shares and to approve the transfer of the Sale Shares pursuant to the Share Offer, and our Directors were authorised to agree to any changes in relation to the above and at their absolute discretion to take all such steps as may be necessary, desirable or expedient to give effect to the above;
  - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in paragraph 15 of this Appendix, were approved and adopted and our Directors were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected by the Stock Exchange, and at their absolute discretion to grant options to subscribe for Shares thereunder, to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to implement the Share Option Scheme;
  - (iii) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the Memorandum of Association and the Articles of Association, or pursuant to the exercise of any options which may be granted under the Share Option Scheme, or under the Share Offer or under a special authority granted by the Shareholders, Shares not exceeding 20% of the number of Shares in issue immediately following the completion of the Share Offer (excluding the



Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme), until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or any applicable BVI law to be held, or the passing of an ordinary resolution by the Shareholders of our Company revoking or varying the authority given to our Directors, whichever occurs first;

- (iv) a general unconditional mandate (“**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to purchase Shares on the Stock Exchange or any other recognised stock exchange on which the Shares may be listed with an aggregate nominal amount of not exceeding 10% of the number of Shares in issue and to be issued immediately following completion of Share Offer (excluding the Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme), until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or any applicable BVI law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors, whichever occurs first; and
- (v) the extension of the general mandate to allot, issue and deal with Shares to include the number of Shares which are repurchased by our Company pursuant to paragraph (iv) above.

#### **4. Reorganisation**

Please refer to the section headed “History, Reorganisation and Group structure — Reorganisation” of this prospectus for the details of the Reorganisation which our Group underwent to rationalise our Group’s structure in preparation for the Listing.

#### **5. Changes in authorised and issued shares or share capital of our subsidiaries**

The subsidiaries of our Company are listed in the accountants’ report of our Company, the text of which is set out in Appendix I to this prospectus.

In addition to the Reorganisation described in the section headed “History, Reorganisation and Group structure — Reorganisation” of this prospectus, the alterations in the authorised shares or share capital of each of our Company’s subsidiaries took place within the two years immediately preceding the date of this prospectus are as follows:

- (a) On 2 November 2009, Shandong Grand Concord proposed to increase its registered capital from US\$350,000 to US\$850,000 and the increased amount was fully paid up as at 24 December 2009.

- (b) On 8 December 2010, Grand Concord (BVI) was incorporated and was authorised to issue a maximum of 50,000 shares of US\$1 each.
- (c) On 9 December 2010, one share of US\$1 each in Grand Concord (BVI) was allotted and issued to our Company for a consideration of US\$1.
- (d) On 22 February 2011, an aggregate of two shares of HK\$1 each in Grand Concord (HK), being its entire issued share capital, which were then beneficially owned as to one share by Mr. Wong and one share by Madam Hung Kin, were transferred to Grand Concord (BVI), at the direction of our Company, pursuant to the sale and purchase agreement referred to in sub-paragraph (a) of paragraph 9 of this Appendix.

Save as disclosed herein and in the section headed “History, Reorganisation and Group structure — Reorganisation” of this prospectus, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

## 6. Particulars of our operating subsidiaries

A summary of the corporate information of our operating subsidiaries in PRC and Hong Kong is set out as follows:

### Zhucheng Eternal Knitting

Date of Establishment:	24 October 2000
Registered Office:	No. 102 Renmin East Road Zhucheng, Shandong Province, PRC
Nature:	Limited liability company
Scope of Business:	Manufacture and sale of garments and knitted fabrics (excluding business restricted or prohibited by the state; if scope of business relates to items which require pre- approval to operate, permit is needed for such operations)
Legal Representative:	Mr. Wong
Registered Capital:	US\$1,300,000
Paid-up Capital:	US\$1,300,000
Shareholder:	Grand Concord (HK)
Duration of Operation:	50 years (from 24 October 2000 to 23 October 2050)

**Zhucheng Yumin Knitting**

Date of Establishment:	22 November 2004
Registered Office:	Xinxing Town Zhucheng, Shandong Province, PRC
Nature:	Limited liability company
Scope of Business:	Manufacture of knitted garments and woven garments, weaving, dyeing and finishing of high-end fabrics; sales of the company's products
Legal Representative:	Mr. Wong
Registered Capital:	US\$2,600,000
Paid-up Capital:	US\$2,600,000
Shareholder:	Grand Concord (HK)
Duration of Operation:	50 years (from 22 November 2004 to 21 November 2054)

**Shandong Grand Concord**

Date of Establishment:	9 July 2007
Registered Office:	No. 72 Shunde Street Zhucheng, Shandong Province, PRC
Nature:	Limited liability company
Scope of Business:	Manufacture and sale of high-end clothing (if scope of business relates to items which are specified by the state to require permit or quality control, permit or certificate of quality compliance is needed for such operations)
Legal Representative:	Mr. Wong
Registered Capital:	US\$850,000
Paid-up Capital:	US\$850,000
Shareholder:	Grand Concord (HK)
Duration of Operation:	50 years (from 9 July 2007 to 8 July 2057)

**Grand Concord Garment**

Date of incorporation:	3 June 2010
Registered Office:	Units 1108-1109, Tower 2, Enterprise Square 9 Sheung Yuet Road Kowloon Bay Hong Kong
Nature:	private company limited by shares
Scope of Business:	trading
Authorised Share Capital:	HK\$10,000
Issued Share Capital:	HK\$1
Shareholder:	Grand Concord (HK)

## 7. Repurchase by our Company of our own securities

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of its own securities.

### *(a) Shareholders' approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

*Note:* Pursuant to a resolution in writing passed by the Shareholders on 19 August 2011, the Repurchase Mandate was given to our Directors authorising any repurchase by our Company of Shares on the Stock Exchange or any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the number of Shares immediately following completion of Share Offer (excluding the Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme), such mandate will expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or applicable BVI law to be held, or the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying the same, whichever occurs first.

### *(b) Source of funds*

Repurchases must be paid out of funds legally available for the purpose in accordance with the Memorandum and Articles of Association and the applicable laws and regulations of the BVI. A listed company may not repurchase its own securities on the Main Board for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

### *(c) Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and its Shareholders for our Directors to have general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if our Directors believe that such repurchases will benefit our Company and its Shareholders.

### *(d) Funding of repurchases*

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Memorandum and Articles of Association of our Company and the applicable laws, the regulations of the BVI and the Listing Rules.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position of our Group, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this prospectus. However, our Directors

do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

The exercise in full of the Repurchase Mandate, on the basis of 380,000,000 Shares in issue immediately after the listing of the Shares on the Main Board, would result in up to 38,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

*(e) General*

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company or its subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Memorandum of Association of our Company, the Articles of Association and the applicable laws of BVI.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

No connected person (as defined in the Listing Rules) 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.

## **8. Registration under Part XI of the Companies Ordinance**

Our Company has established its head office and a principal place of business in Hong Kong at Units 1108-1109, 11th Floor, Tower II Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong, and was registered on 3 May 2011 as a non-Hong Kong company under Part XI of the Companies Ordinance, with Mr. Wong Kin Ling (being an executive Director), as an authorised person of our Company for the acceptance of service of process and notices in Hong Kong. The address for service of process and notices on our Company is the same as the address of our head office and principal place of business in Hong Kong.

## FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

## 9. 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 prospectus and are or may be material:

- (a) the sale and purchase agreement dated 22 February 2011 entered into by our Company as purchaser and Mr. Wong and Madam Hung Kin as vendors for the acquisition by Grand Concord (BVI), at the direction of our Company, of the entire issued share capital of Grand Concord (HK) from Mr. Wong and Madam Hung Kin in consideration of and exchange for the allotment and issue of an aggregate of 9,999,999 shares of HK\$0.01 each to Global Wisdom;
- (b) a deed of indemnity dated 11 November 2011 executed by our Controlling Shareholders in favour of our Company (for itself and as trustee for its subsidiaries stated therein) containing the indemnities in respect of estate duty, taxation and other liabilities more particularly referred to in paragraph 16 of this Appendix;
- (c) the Public Offer Underwriting Agreement; and
- (d) the Placing Underwriting Agreement.

## 10. Intellectual Property Rights of our Group

*Trademarks*




As at the Latest Practicable Date, the following trademarks were subjects of our Group's trademark registrations in the PRC:

Trademark	Class	Registered Owner	Registration Number	Registration Date	Expiry Date
	25 <sup>1</sup>	Zhucheng Eternal Knitting	3382213	14 January 2005	13 January 2015
U-TEX	24 <sup>2</sup>	Grand Concord (HK)	7267265	7 October 2010	6 October 2020
优特适	24 <sup>3</sup>	Grand Concord (HK)	7380266	21 October 2010	20 October 2020
	25 <sup>4</sup>	Grand Concord (HK)	7569337	7 November 2010	6 November 2020
	24 <sup>5</sup>	Grand Concord (HK)	7726286	14 January 2011	13 January 2021

*Notes:*

1. The products covered under class 25 include shirts, clothing, knitwear, sweatshirts, sportswear, briefs, innerwear, vests, brasseries, pullovers.
2. The products covered under class 24 include satin, silk (cloth), cotton fabrics, fabrics, cloth, fibreglass fabrics for textile use, towels of textile, bedspreads, coverings for textile furniture, quilts.
3. The products covered under class 24 include fabrics, fabrics for textile, cloth, cotton fabrics, innerwear fabrics, printed fabrics, knitted fabrics, satin, bedspread, coverings of furniture.
4. The products covered under class 25 include knitwear, sportswear, t-shirts, women's vests, anti-sweat innerwear, sleeping wear, pajamas, brasseries, children's clothing.
5. The products covered under class 24 include fabrics, fabrics for textile, cloth, cotton fabrics, innerwear fabrics, printed fabrics, knitted fabrics, satin, bedspreads, coverings of furniture.

As at the Latest Practicable Date, the following trademarks in series were subjects of our Group's trademark registrations in Hong Kong:

Trademark (in series)	Class	Registrant	Registration Number	Registration Date	Expiry Date
(A) 	25 <sup>1</sup> , 35 <sup>2</sup>	Grand Concord (HK)	301603999	3 May 2010	2 May 2020
(B) 					
	25 <sup>1</sup> , 35 <sup>2</sup>	Grand Concord (HK)	301604006	3 May 2010	2 May 2020

*Notes:*

1. The products covered under class 25 include clothing, footwear, headgear.
2. The services covered under class 35 include advertising; business administration; business management; business consultancy; wholesaling and retailing of clothing, footwear, headgear.

*Domain names*

As at the Latest Practicable Date, the following domain names were registered and principally used by our Group's in its business operations:

<b>Domain Name</b>	<b>Name of Registrant</b>	<b>Registration Date</b>	<b>Expiry Date</b>
eternal-garment.cn	Zhucheng Eternal Knitting	24 September 2009	24 September 2019
eternal-garment.com	Zhucheng Eternal Knitting	24 September 2009	24 September 2019
eternal-garment.com.cn	Zhucheng Eternal Knitting	24 September 2009	24 September 2019
grandconcord.com	Zhucheng Eternal Knitting	27 February 2009	27 February 2012
utex-fabric.cn	Zhucheng Eternal Knitting	25 September 2009	25 September 2019
utex-fabric.com	Zhucheng Eternal Knitting	24 September 2009	24 September 2019
utex-fabric.com.cn	Zhucheng Eternal Knitting	25 September 2009	25 September 2019

## **FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF AND EXPERTS**

### **11. Directors**

#### *(a) Disclosure of interests in dealings with our Group*

- (i) Mr. Wong and Madam Hung Kin are interested in the section headed “History, Reorganisation and Group structure — Reorganisation” of this prospectus and were interested in certain related party transactions with our Group as listed in note 37 to the Accountants’ Report of our Company set out in Appendix I to this prospectus.
- (ii) Mr. Wei was interested in 上海廣裕紡織品有限公司 (Shanghai Guangyu Textile Co. Ltd.\*), one of the top five customers of our Group for the year ended 31 December 2010 and for the six months ended 30 June 2011. Mr. Wei disposed of all his interest in such customer in March 2011 and has ceased to have any equity interest in such customer.
- (iii) Save as disclosed in this prospectus, none of our Directors or their associates was engaged in any dealings with our Group during the two years preceding the date of this prospectus.



**(b) Particulars of service contracts**

Each of the executive Directors has entered into a service agreement with our Company pursuant to which each of them agreed to act as an executive Director for an initial term of three years commencing from the Listing Date.

Each of our executive Directors is entitled to basic salaries and a discretionary management bonus provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of our Company may not exceed 5% of the audited combined or consolidated net profit of our Group (after taxation and minority interests and payment of such bonuses but before extraordinary or exceptional items) in respect of that financial year of our Company. Our Company may provide to the executive Directors such additional benefits as our Board deems appropriate. An executive Director may not vote on any resolution of our Directors regarding the amount of the management bonus payable to him. The current basic annual salaries of the executive Directors are as follows:

<b>Name</b>	<b>Annual salary</b> <i>RMB'000</i>
Mr. Wong	1,040
Madam Hung Kin	780
Mr. S.H. Wang	650
Mr. Wei	650
	<hr/>
Total:	3,120
	<hr/> <hr/>

Each of the independent non-executive Directors has been appointed for an initial term of two years commencing from the Listing Date. Each of Mr. Wang Jin Tang and Mr. Chan Ah Pun is entitled to a director's fee of RMB120,000 per annum, and Ms. Tay Sheve Li is entitled to a director's fee of RMB180,000 per annum. Save for directors' fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

**(c) Directors' remuneration**

- (i) During the year ended 31 December 2010, the aggregate emoluments paid by our Group to our Directors was RMB260,000.
- (ii) Under the arrangements currently in force, the aggregate emoluments payable by our Group to our Directors for the year ending 31 December 2011 are estimated to be approximately RMB8.9 million.

- (iii) None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of the three years ended 31 December 2010 and the six months ended 30 June 2011 as (i) an inducement to join or upon joining our Company; or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three years ended 31 December 2010 and the six months ended 30 June 2011.
- (v) Save as disclosed above and in the Accountants' Report of our Company in Appendix I to this prospectus, no Directors received any remuneration or benefits in kind from our Group for the financial year ended 31 December 2010 and the six months ended 30 June 2011.
- (d) *Interests and short positions of Directors in the Shares, underlying Shares or debentures of our Company and its associated corporations***

So far as our Directors are aware, immediately following the completion of the Share Offer (and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme), the interests and short positions of our Directors in the Shares, underlying shares or debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) once the Shares are listed, 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 to notify our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules once the Shares are listed, will be as follows:

<b>Name of Director</b>	<b>Company</b>	<b>Capacity</b>	<b>Number of Shares<sup>(1)</sup></b>	<b>Approximate percentage of shareholding</b>
Mr. Wong <sup>(2)</sup>	Our Company	Interest of controlled corporation	241,000,000 (L)	63.42%
Madam Hung Kin <sup>(2)</sup>	Our Company	Interest of controlled corporation	241,000,000 (L)	63.42%
Mr. Wei	Our Company	Beneficial owner	24,000,000 (L)	6.31%
Mr. S.H. Wang	Our Company	Beneficial owner	15,000,000 (L)	3.95%

- (1) The letter “L” denotes our Director’s long position in the Shares.
- (2) The issued shares of Global Wisdom are solely and beneficially owned by Mr. Wong and Madam Hung Kin, who are spouses, in equal shares. Accordingly, each of Mr. Wong and Madam Hung Kin is deemed under the SFO to be interested in all the Shares held by Global Wisdom on the Listing Date.

## 12. Interest discloseable under the SFO and substantial Shareholders

So far as our Directors are aware, immediately following the completion of the Share Offer (but without taking account of any Shares which may be taken up under the Share Offer), the following persons (other than our Directors or chief executive of our Company) will have an interest or short position 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 and who will be expected, directly or indirectly, to be interested in 10% or more of the Shares:

Name	Capacity	The relevant member of our Group	Class and Number of Securities	Approximate percentage of shareholding
Global Wisdom <sup>(2)</sup>	Beneficial owner	Our Company	241,000,000 Shares (L) <sup>(1)</sup>	63.42%

- (1) The letter “L” denotes the entity/person’s long position in the Shares.
- (2) The issued shares of Global Wisdom are solely and beneficially owned by Mr. Wong and Madam Hung Kin, who are spouses, in equal shares. Accordingly, each of Mr. Wong and Madam Hung Kin is deemed under the SFO to be interested in all the Shares held by Global Wisdom on the Listing Date.

## 13. Connected transactions and related party transactions

Save as disclosed in this prospectus and note 37 of the Accountants’ Report of our Company set out in Appendix I to this prospectus, during the two years immediately preceding the date of this prospectus, our Group has not engaged in any other material connected transactions or related party transactions.

## 14. Disclaimers

Save as disclosed in this prospectus:

- (i) and taking no account of any Shares which may be taken up or acquired under the Share Offer or upon the exercise of any options granted or which may be granted under the Share Option Scheme, our Directors are not aware of any person who will, immediately following the completion of the Share Offer, have an interest or a short position in 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, directly or indirectly, be interested in 10% or more of the nominal value of any class of shares carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group;

- (ii) none of our Directors has for the purpose of Divisions 7 and 8 of Part XV of the SFO or the Listing Rules, nor is any of them taken to or deemed to have under such provisions of the SFO, any interests or short position in the Shares or underlying Shares and debentures of our Company or any associated corporations (within the meaning of Part XV of the SFO) or any interests which will have to be entered in the register to be kept by our Company pursuant to section 352 of the SFO or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules once the Shares are listed on the Main Board;
- (iii) none of our Directors nor the experts named in paragraph 21 of this Appendix has been interested in the promotion of, or has any direct or indirect interest in any assets acquired or disposed of by or leased to, any member of our Group within the two years immediately preceding the date of this prospectus, or which are proposed to be acquired or disposed of by or leased to any member of our Group nor will any Director apply for Shares either in his own name or in the name of a nominee;
- (iv) none of our Directors nor the experts named in paragraph 21 of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole; and
- (v) none of the experts named in paragraph 21 of this Appendix has any shareholding in any member in our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member in our Group.

## OTHER INFORMATION

### 15. Share Option Scheme

#### (a) *Summary of terms*

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by the Shareholders on 19 August 2011:

#### (i) *Purposes of the scheme*

The purpose of the Share Option Scheme is to enable our Group to grant options to selected participants as incentives or rewards for their contribution to our Group. Our Directors consider the Share Option Scheme, with its broadened

basis of participation, will enable our Group to reward the employees, our Directors and other selected participants for their contributions to our Group. Given that our Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by our Directors, it is expected that grantees of an option will make an effort to contribute to the development of our Group so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

(ii) *Who may join*

Our Directors (which expression shall, for the purpose of this paragraph 14, include a duly authorised committee thereof) may, at its absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

- (aa) any employee (whether full-time or part-time, including any executive director but excluding any non-executive director) of our Company, any of its subsidiaries or any entity (“**Invested Entity**”) in which our Group holds an equity interest (“**Eligible Employee**”);
- (bb) any non-executive directors (including independent non-executive directors) of our Company, any of its subsidiaries or any Invested Entity;
- (cc) any supplier of goods or services to any member of our Group or any Invested Entity;
- (dd) any customer of any member of our Group or any Invested Entity;
- (ee) any person or entity that provides research, development or other technological support to our Group or any Invested Entity;
- (ff) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
- (gg) any adviser (professional or otherwise) or consultant to any area of business or business development of our Group or any Invested Entity; and
- (hh) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the growth of our Group,

and, for the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of the above classes of participants shall not, by itself, unless our Directors otherwise determined, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to the grant of any option shall be determined by our Directors from time to time on the basis of our Directors' option as to his/her contribution to the development and growth of our Group.

(iii) *Maximum number of Shares*

- (aa) The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of our Group shall not in aggregate exceed 30% of the issued Shares from time to time.
- (bb) The total number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group shall not in aggregate exceed 10% of the Shares in issue on the day on which trading of the Shares commence on the Main Board (“**General Scheme Limit**”).
- (cc) Subject to (aa) above but without prejudice to (dd) below, our Company may issue a circular to the Shareholders and seek approval of the Shareholders in general meeting to refresh the General Scheme Limit 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 options scheme of our Group shall not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit and for the purpose of calculating the refreshed limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously granted under the Share Option Scheme and any other share option scheme of our Group will not be counted. The circular sent by our Company to the Shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(dd) Subject to (aa) above and without prejudice to (cc) above, our Company may seek separate Shareholders' approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the refreshed limit referred to in (cc) above to participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to its Shareholders containing a general description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(iv) *Maximum entitlement of each participant*

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of our Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued Shares for the time being ("**Individual Limit**"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the Shareholders and the Shareholders' approval in general meeting of our Company with such participant and his associates abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before Shareholders' approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

(v) *Grant of options to connected persons*

(aa) Any grant of options under the Share Option Scheme to a director, chief executive or substantial shareholder of our Company or any of their respective associates (as defined under the Listing Rules) must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options).

(bb) Where any grant of options to a substantial Shareholder of our Company or an independent non-executive Director or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% of the Shares in issue; and

- (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million;

such further grant of options must be approved by the Shareholders in general meeting. Our Company must send a circular to the Shareholders. All connected persons of our Company must abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial Shareholder or an independent non-executive Director or any of their respective associates must be approved by the Shareholders in general meeting.

*(vi) Time of acceptance and exercise of option*

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than ten years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by our Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

*(vii) Performance targets*

Unless our Directors otherwise determined and stated in the offer of the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

*(viii) Subscription price for Shares and consideration for the option*

The subscription price per Share under the Share Option Scheme will be a price determined by our Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a Business Day; and (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant.

A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.



*(ix) Ranking of Shares*

Shares allotted upon the exercise of an option will be subject to all the provisions of the Articles of Association of our Company and will rank *pari passu* in all respects with the fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members (“**Exercise Date**”) and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted upon the exercise of an option shall not carry voting rights until the completion of the registration of the grantee on the register of members of our Company as the holder thereof.

*(x) Restrictions on the time of grant of options*

No offer for grant of options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced in accordance with the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (aa) the date of the meeting of our Directors for the approval of our Company’s results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (bb) the last date on which our Company must publish its announcement of its results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of the announcement of the results, no option may be granted.

Our Directors may not grant any option to a participant who is a Director during the periods or times in which Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

*(xi) 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 which the Share Option Scheme is adopted.

*(xii) Rights on ceasing employment*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or for serious misconduct or other

grounds referred to in sub-paragraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and will not be exercisable unless our Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not.

*(xiii) Rights on death, ill-health or retirement*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of twelve months following the date of cessation which date shall be the last day on which the grantee was at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as our Directors may determine.

*(xiv) Rights on dismissal*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason that he has been guilty of serious misconduct or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or our Group or the Invested Entity into disrepute), his option will lapse automatically and will not in any event be exercisable on or after the date of cessation to be an Eligible Employee.

*(xv) Rights on breach of contract*

If our Directors shall at their absolute discretion determine that (aa) (1) the grantee of any option (other than an Eligible Employee) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and our Group or any Invested Entity on the other part; or (2) that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) the grantee could no longer make any contribution to the growth and development of our Group by reason of the cessation of its relations with our Group or by other reason whatsoever; and (bb) the option granted to the grantee under the Share Option Scheme shall lapse as a result of any event specified in (aa) above, his option will lapse automatically and will not in any event be exercisable on or after the date on which our Directors have so determined.

*(xvi) Rights on a general offer, a compromise or arrangement*

If a general or partial offer, whether by way of take-over offer, share repurchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, shareholders of our Company. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time before the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date on which such offer (or, as the case may be, revised offer) closes.

*(xvii) Rights on winding up*

In the event of a resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two days (on which the Stock Exchange is open for dealing in securities) before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one day (on which the Stock Exchange is open for dealing in securities) before the date on which such resolution is to be considered and/or passed whereupon the grantee shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation pari passu with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

*(xviii) Grantee being a company wholly owned by eligible participants*

If the grantee is a company wholly owned by one or more eligible participants:

- (i) sub-paragraphs (xii), (xiii), (xiv) and (xv) shall apply to the grantee and to the options to such grantee, mutatis mutandis, as if such options had been granted to the relevant eligible participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in sub-paragraphs (xii), (xiii), (xiv) and (xv) shall occur with respect to the relevant eligible participant; and

- (ii) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant eligible participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

*(xix) Adjustments to the subscription price*

In the event of a rights issue, subdivision or consolidation of Shares or reduction of the authorised shares of our Company whilst an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being of or an independent financial adviser to our Company as fair and reasonable will be made to the number or nominal amount of Shares, the subject matter of the Share Option Scheme and the option so far as unexercised and/or the option price of the option concerned, provided that (i) any adjustments shall give a grantee the same proportion of the issued shares to which he was entitled prior to such alteration; (ii) the issue of Shares or other securities of our Group as consideration in a transaction may not be regarded as a circumstance requiring adjustment; and (iii) any such adjustment shall be in compliance with the Listing Rules and such applicable guidance and/or interpretation of the Listing Rules from time to time promulgated by the Stock Exchange. In addition, in respect of any such adjustments, such auditors or independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

*(xx) Cancellation of options*

Any cancellation of options granted but not exercised must be subject to the consent of the relevant grantee and the approval of our Directors.

When our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding the options so cancelled) within the General Scheme Limit or the new limits approved by the Shareholders pursuant to sub-paragraphs (iii)(cc) and (iii)(dd) above.

*(xxi) Termination of the Share Option Scheme*

Our Company may by resolution in general meeting at any time terminate the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

*(xxii) Rights are personal to the grantee*

An option is personal to the grantee and shall not be transferable or assignable.

*(xxiii) Lapse of option*

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (aa) the expiry of the period referred to in paragraph (vi);
- (bb) the expiry of the periods or dates referred to in paragraph (xii), (xiii), (xiv), (xv), (xvii) and (xviii);
- (cc) the date on which our Directors shall exercise our Company's right to cancel the option by reason of a breach of paragraph (xxii) by the grantee in respect of that or any other options.

*(xxiv) Others*

- (aa) The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.
- (bb) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of the Shareholders in general meeting.
- (cc) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (dd) The amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules, the "Supplementary Guidance on Main Board Listing Rule 17.03(13)/GEM Listing Rule 23.03(13) and the Note Immediately After the Rule" set out in the letter from the Stock Exchange to all listed issuers dated 5 September 2005 and other relevant guidance of the Stock Exchange.

- (ee) Any change to the authority of our Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by the Shareholders of our Company in general meeting.

**(b) *Present status of the Share Option Scheme***

*(i) Approval of the Listing Committee required*

The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, 38,000,000 Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme (on the assumption that 380,000,000 Shares are in issue on the Listing Date), such number being not less than that of the General Scheme Limit.

*(ii) Application for approval*

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

*(iii) Grant of option*

As at the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

*(iv) Value of options*

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

## 16. Estate duty, tax and other indemnities

Our Controlling Shareholders (together, the “**Indemnifiers**”) have entered into a deed of indemnity with and in favour of our Company (for itself and as trustee for each of its present subsidiaries) (being a material contract referred to in paragraph 9 of this Appendix) to provide indemnities on a joint and several basis in respect of, among other matters, any liability for Hong Kong estate duty which might be incurred by any member of our Group and/or its associated companies by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) to any member of our Group on or before the date on which the Share Offer becomes unconditional.

Under the deed of indemnity, the Indemnifiers have also given indemnities to our Group in relation to taxation which might be payable by any member of our Group in respect of any income, profits or gains earned, accrued or received on or before the date on which the Share Offer becomes unconditional. The Indemnifiers have given further indemnities in favour of our Group in connection with: (i) certain legal irregularities of our owned and leased properties in the PRC; and (ii) our failure to register and to fully contribute to the mandatory social insurance and housing provident fund in accordance with the relevant PRC laws and regulations on or before the date on which the Share Offer becomes unconditional.

The deed of indemnity does not cover any claim, and the Indemnifiers shall be under no liability under the deed of indemnity, in respect of any taxation:

- (a) to the extent that provision has been made for such taxation in the audited accounts of our Company or any of its subsidiaries up to 30 June 2011 and the provision of the same will be made in the audited accounts of our Company or any of its subsidiaries covering the period from 1 July 2011 to the Listing Date on a consistent basis; or
- (b) to the extent that such taxation or liability for such taxation falling on any member of our Group in respect of their accounting period commencing on or after the Listing Date, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily effected by, any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers, other than any such act, omission or transaction which:
  - (i) was carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before the Listing Date; or
  - (ii) was carried out, made or entered into pursuant to a legally binding commitment created on or before the Listing Date or pursuant to any statement of intention made in the prospectus; or
  - (iii) consisted of any of the members of our Group ceasing, or being deemed to cease, to be a member of any group of companies or being associated with any other company for the purposes of any matter of Taxation; or

- (c) to the extent that such claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or any other relevant authority coming into force after the date of the deed of indemnity or to the extent such claim arises or is increased by an increase in rates of taxation after the date of the deed of indemnity with retrospective effect; or
- (d) to the extent that any provision or reserve made for taxation in the audited accounts of any member of our Group for each of the three years ended 31 December 2010 and the six months ended 30 June 2011 and which is finally established to be an over-provision or an excessive reserve in which case the Indemnifiers' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this item (d) to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter; or
- (e) to any incomes, profits or gains earned, accrued or received by any member of our Group or any event occurred after the Listing Date.

## **17. Litigation**

As at the Latest Practicable Date, neither our Company nor any of its subsidiaries was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company or any of its subsidiaries, that would have a material adverse effect on the results of operations or financial condition of our Group.

## **18. Application for listing of Shares**

The Sponsor has made an application for and on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme on the Main Board.

## **19. Preliminary expenses**

The estimated preliminary expenses of our Company are approximately HK\$16,000 and are payable by our Group.

## **20. Promoters**

The promoters of our Company are Mr. Wong and Madam Hung Kin. Save as disclosed herein, within the two years immediately preceding the date of this prospectus, no cash, securities, amount or other benefit has been paid, allotted or given to any promoter in connection with the Share Offer or the related transactions described in this prospectus.



## 21. Qualifications of experts

The qualifications of the experts who have given opinions or advices in this prospectus are as follows:

<b>Name</b>	<b>Qualification</b>
Celestial Capital	a licensed corporation under the SFO permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities (as defined in the SFO)
Maples and Calder	BVI legal advisers
SHINEWING (HK) CPA Limited	Certified Public Accountants
Jingtian & Gongcheng	PRC legal advisers
LCH (Asia-Pacific) Surveyors Limited	Professional Surveyor

## 22. Consents of experts

Each of Celestial Capital, Maples and Calder, SHINEWING (HK) CPA Limited, Jingtian & Gongcheng and LCH (Asia-Pacific) Surveyors Limited has given and has not withdrawn its written consent to the issue of this prospectus with copies of their reports, letters, valuation, opinions or summaries of opinions (as the case may be) and the references to its names or summaries of opinions included herein in the form and context in which they respectively appear.

## 23. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

## 24. Taxation of holders of Shares

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. Potential 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 emphasised that none of our Company, our Directors or the other parties involved in the Share Offer can accept 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.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

Under present BVI law, transfers and other dispositions of Shares are exempt from BVI stamp duty.

All dividends, interests, rents, royalties, compensations and other amounts paid by our Company to persons who are not persons resident in the BVI are exempt from all forms of taxation in the BVI and any capital gains realised with respect to any shares, debt obligations or other securities of our Company by persons who are not persons resident in the BVI are exempt from all forms of taxation in the BVI. No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the BVI with respect to any shares, debt obligation or other securities of our Company.

## **25. Non-compliances of the Companies Ordinance**

Mr. Wong and Madam Hung Kin, both being executive Directors of our Company, are the only directors of Grand Concord (HK), a subsidiary of our Company, since its incorporation. They had failed to lay audited accounts of Grand Concord (HK) before its annual general meetings for the periods from 30 November 1995 to 31 March 1996, and from 1 April 2004 to 31 December 2004; for the years ended 31 March 1997, 1998, 1999, 2000, 2001, 2002, as well as for the years ended 31 December 2005, 2006, 2007 and 2008. They had instead approved the relevant accounts of Grand Concord (HK) by way of written resolutions of shareholders on 18 August 2010. Further, Mr. Wong and Madam Hung Kin had laid the audited accounts of Grand Concord (HK) for the years ended 31 March 2003 and 2004 only at the general meeting held on 30 November 2005. The aforesaid constituted non-compliances of section 122 of the Companies Ordinance.

As advised by Mr. Wong and Madam Hung Kin, such non-compliances occurred as Grand Concord (HK) did not receive competent and timely professional advice on the ongoing compliance requirements under the Companies Ordinance, in particular, the requirements under section 122 of the Companies Ordinance, from the then auditor and secretarial firm engaged by Grand Concord (HK) which were responsible for accounting and company secretarial matters.

To rectify such non-compliances, Mr. Wong and Madam Hung Kin filed an application to the Court of First Instance of the High Court of Hong Kong on 15 October 2010 applying for an order of the court to substitute the aforesaid annual general meetings by written resolutions of shareholders and extend the time for approving the abovementioned accounts of Grand Concord (HK). The Court of First Instance heard the application on 5 November 2010 and granted an order in the terms of the application.

Given the Court of First Instance has already granted an order allowing the time for approving the abovementioned accounts of Grand Concord (HK) be extended, Grand Concord (HK) was advised that the non-compliances have been duly rectified.

In order to avoid any further or other non-compliance, Grand Concord (HK) has appointed a professional company secretarial firm to attend to the compliance matters under the Companies Ordinance. Our Company Secretary, Mr. Lee Yin Sing, who is a member of the Hong Kong Institute of Certified Public Accountants with over 8 years of auditing experience in finance control and accounting, together with the Board, will also oversee the compliance matters of our Company and our subsidiaries pursuant to the relevant laws. Professional accountants and legal advisers will be retained to advise our Group on compliance and accounting matters where required.

## 26. Miscellaneous

- (a) Save as disclosed herein:
  - (i) within two years immediately preceding the date of this prospectus:
    - (aa) no share or loan capital of our Company or of any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
    - (bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries;
    - (cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any Share in our Company or any of its subsidiaries; and
    - (dd) no amount or benefit has been paid or given or intended to be paid or given to the promoter of our Company;
  - (ii) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
  - (iii) there has been no material adverse change in the financial position or prospects of our Group since 30 June 2011 (being the date to which the latest audited combined financial statements of our Group were made up);
  - (iv) there has not been any interruption in the business of our Group which may have or has had a material adverse effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus;
  - (v) there is no arrangement under which future dividends are waived or agreed to be waived;

- (vi) our Company has no founder, management or deferred shares.
  - (vii) no securities of our Group are listed, and no listing of any such securities is proposed to be sought, on any other stock exchange;
  - (viii) all necessary arrangements have been made to enable the Shares to be admitted into CCASS; and
  - (ix) our Group had not issued any debentures nor did it have any outstanding debentures nor any convertible debt securities as at the Latest Practicable Date.
- (b) Subject to the provisions of the Companies Act, the register of members of our Company will be maintained in BVI by Tricor Services (BVI) Limited and a branch register of members of our Company will be maintained in Hong Kong by Tricor Investor Services Limited. Unless our Directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with and registered by, our Company's branch share registrar in Hong Kong and may not be lodged in BVI.
- (c) All necessary arrangements have been made to enable the Shares to be admitted into CCASS.
- (d) Save as our Company, no company within our Group is presently listed on any stock exchange or traded on any trading system.

## **27. Bilingual prospectus**

The English language and Chinese language version of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

## **28. Particulars of the Selling Shareholder**

The Selling Shareholder of the Sale Shares is Global Wisdom, an investment holding company with registered office at Quastisky Building, P.O. Box 4389, Road Town, Tortola, British Virgin Islands.

Global Wisdom is owned as to 50% by each of Mr. Wong and Madam Hung Kin, both being our executive Directors and Controlling Shareholders. Mr. Wong and Madam Hung Kin are therefore considered as interested in the sale of the Sale Shares.

Save for Mr. Wong and Madam Hung Kin, none of our Directors are interested in the Sale Shares.

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE, YELLOW and GREEN** Application Forms, a statement of particulars of the Selling Shareholder, the written consents referred to in paragraph 22 headed “Consents of experts” in Appendix V to this prospectus and copies of the material contracts referred to in paragraph 9 headed “Summary of material contracts” in Appendix V to this prospectus.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Pang & Co. in association with Salans LLP at Level 76, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and the Articles of Association;
- (b) the Accountants’ Report of our Company prepared by SHINEWING (HK) CPA Limited, the text of which is set out in Appendix I to this prospectus;
- (c) the comfort letter prepared by SHINEWING (HK) CPA Limited on the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this prospectus;
- (d) the letter, summary of values and valuation certificate relating to the property interests of our Group prepared by LCH (Asia-Pacific) Surveyors Limited, the texts of which are set out in Appendix III to this prospectus;
- (e) the letter of advice prepared by Maples and Calder referred to in Appendix IV to this prospectus, summarising certain aspects of BVI law;
- (f) the material contracts referred to in the paragraph 9 headed “Summary of material contracts” in Appendix V to this prospectus;
- (g) the service agreements with our Directors, referred to in the paragraph 11(b) headed “Particulars of service contracts” in Appendix V to this prospectus;
- (h) the written consents referred to in paragraph 22 headed “Consents of experts” in Appendix V to this prospectus;
- (i) the legal opinions prepared by Jingtian & Gongcheng in respect of certain aspects of our Group and the property interests of our Group in the PRC;
- (j) the rules of the Share Option Scheme;
- (k) the Companies Act; and
- (l) the statement of particulars of the Selling Shareholder.



**Grand Concord  
International Holdings Limited**  
**廣豪國際控股有限公司**