RISKS RELATING TO OUR COMPANY AND BUSINESS

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

The fabric manufacturing business is highly competitive. We compete with domestic and foreign large and numerous small textile manufacturers. For weft knitted fabrics, we face direct competition from major players in the industry. In addition, we face competition in the warp knit sector even though competition is more fragmented. The principal competitive factors that influence our customers' purchasing decision include product quality and price. The importance of these factors is determined by the specific demand of particular customers and the characteristics of particular products. In addition, we are exposed to the risk that companies may enter our market in the future. There may also be significant consolidation in the textile industry. In order to gain market share, our competitors may mark down the price of their products aggressively, resulting in more intense competition. Increased competition may result in price reduction, reduced margins and loss of market share, any of which could materially and adversely affect our results of operations. Also, we may not compete effectively against current and future competitors.

Our success depends on our ability and respond to the fast changing fashion trends and customer demands for fabric products

The supply and demand for particular fabric products change from season to season and from year to year, depending on the fashion trends as well as other factors. Our success depends upon our ability to catch the fashion trends that dictate customer demands and consumer preferences. In addition, the purchasing power of customer and their demands may also be affected by increases in supply from our competitors in the industry or deteriorating economic conditions. Hence, if we fail to respond rapidly and effectively to the fast changing fashion trend and customers' demand, our operating results may be materially and adversely affected due to fluctuation in purchase order and inventory level.

Our operating results may be adversely affected by increases in the prices of raw materials that we use in our production processes

Raw material costs for raw yarn and the other raw materials required in the fabric manufacture process can be volatile. The price of raw yarns depends on market and economic conditions and consequently, the cost of yarn could have a material adverse effect on the results of our operations and financial condition.

Reliance on third-party franchise distributors and franchisers may materially and adversely affect our future success

We generate our revenues from our branded leisure clothing segment by wholesaling our MXN products to our franchise distributors or franchise stores. We sell our MXN products directly to our franchise stores or to our franchise distributors including franchise stores managed by them under franchise distributorship agreements which have a term of three years. As we do not have guarantee that our franchise distributors or franchise stores will renew the contract with us when expired, it is possible that their agreements with us will not be renewed on favourable terms or at all. If any of our franchise distributors or franchise stores terminates or does not renew its franchise distributorship agreement with us, we may not be able to replace such franchise distributors or franchise stores with a new and effective franchise distributor or franchise store in a timely manner or on terms acceptable to us, or at all. Our franchise distributors or franchise stores are not required to meet minimum purchase targets. If our franchise distributors or franchise stores do not place orders at historical levels or at all or, if any major franchise distributor or franchise stores substantially reduces its volume of purchases from us or ceases its business relationship with us, our business, financial condition, results of operations and prospects could materially suffer.

Our MXN brand has a limited history in the branded leisure industry

Our MXN brand, which was established in June 2002 and acquired by us in May 2008, has a limited history, and we have a limited operating history in the branded leisure clothing industry. Our franchise distributorship business model is new and has a short track record. As such, it is difficult to identify the difficulties that our Group may encounter in the different stages of developing and implementing this business model, and we cannot assure you that the growth in wholesales business will be sustainable or achieved at all in the future. You should consider our business and prospects in light of the risks and difficulties we face with a limited operating history in the branded leisure clothing industry and a franchise distributorship business model, and should not rely on our past results as an indication of our future performance. If we are unable to successfully address these risks, difficulties and challenges, our business, financial condition, results of operations and prospects could be materially and adversely affected.

We have no long-term sale contracts with our customers, which exposes us to potential volatility in our turnover

We only enter into short-term purchase orders with our customers of the fabric manufacturing segment and the casual and sportswear OEM segment. For the branded leisure clothing segment — Aike Sport, the average tenure of sales contracts between our customers and us is one year. For the branded leisure clothing segment — Shishi Maigen, the franchise agreements have a term of three years which will lapse at the end of the period. Our customers may cancel, reduce or defer purchase orders at will. Accordingly, the volume of our customers' purchase orders and our product mix may vary significantly from period to period, and it is difficult for us to forecast future order quantities. No assurance can be given that any of our customers will continue to place purchase orders with us in the future at the same level as in the current or prior periods, or at all and such reduction or termination of purchase order may be effected with short notice and we may not be able to locate alternative customers to replace the shorten purchase order. Furthermore, the actual volume of our customers' purchase 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.

Our ability to obtain an accurate record of the sales and inventory levels at our franchise distributors and franchise stores may be limited

Our ability to obtain an accurate record of the sales by our franchise distributors to franchise stores directly controlled by them and the final retail sales by those franchise stores and the other franchise stores which acquire MXN products directly from our Group, and consequently their respective inventory levels, may be limited. At present, we do not have an effective, integrated enterprise resource planning system. We review the monthly sales reports of our MXN products to the franchise distributors and franchise stores and also the reports on local market conditions. Presently, we also conduct random on-site inspections on our franchise distributors and franchise stores. By tracking the sales of our MXN products to the franchise distributors and franchise stores, we may collect information and data on the market acceptance of our products so that consumers' preferences can be reflected in the design and development of our future products. It also provides other useful information, such as market recognition of our MXN products in specific areas, so that we may adjust our marketing strategy if needed. However, we cannot guarantee the accuracy of the sales and inventory levels at our franchise distributors and franchise stores, which are indicated and derived from our analysis of the monthly sales reports of our MXN products to them. For this reason, we may not be able to obtain an accurate record of the final retail sales and inventory levels at our franchise distributors and franchise stores, or to identify or to avoid the accumulation of excess inventory at these franchise distributors and/or franchise stores. If our franchise distributors or franchise stores cannot manage their inventory levels, their future orders of our MXN products may be reduced, which would significantly and adversely affect our future business, financial conditions, results of operations and prospects.

We rely heavily on the core experienced management team in the conduct of our business

Our success depends significantly on the core experienced management team with over 15 to 20 years of experience, in particular our Chairman, Vice Chairman and Chief Executive Officers. Our future success is dependent on the continued involvement, efforts and performance and abilities of this core management team. If the core management team cease to be involved in the Group's management it may result in the loss of strategic direction and operational management and the inability to identify potential strategic initiatives which could adversely affect our profitability and financial results.

We depend on the key suppliers for raw materials, any failure in obtaining such materials from existing suppliers or alternative sources may affect our business

The principal raw materials used in the production of our apparel products are fabrics. Substantially all of our raw materials are sourced from PRC suppliers. Approximately 51.5%, 43.9% and 39.3% of our raw material were sourced from our top five suppliers for the years ended 31 December 2006, 2007 and 2008, respectively. We do not enter into long-term agreements with our raw material suppliers. For each order, we enter into separate purchase contracts which set out the terms regarding the price, purchase quantity, delivery terms, confidential obligations and settlement terms among others. We can give no assurance that our suppliers will continue to supply us the raw materials we need to produce our products at favourable or similar prices, or at all.

In addition, market prices for our raw materials are subject to fluctuation and may be dependent on the prices of commodities. Our results of operations may be adversely affected by increases in the market prices of raw materials, particularly if we are unable to pass on the increased cost of raw materials to our customers by selling our products at higher prices.

Our future expansion plans are subject to risks and uncertainties, and may be difficult or expensive to manage

We have expanded and intend to continue to expand our production capacity to capture market opportunities. Our ability to increase turnover, net income and cash flow depends upon continued expansion. In the event such expansion and construction does not occur or is not timely completed, our future expansion plans, profitability and growth may be materially and adversely affected. Any failure to successfully manage our expansion may make it difficult to effectively compete, develop new products or take advantage of new markets.

Our strategy of acquiring complementary businesses and assets may not be successful

As part of our business strategy, we have pursued, and intend to continue to pursue, selective strategic acquisitions of businesses and assets that complement our existing business. We may make other acquisitions in the future if attractive opportunities arise. Acquisitions involve uncertainties and risks, including:

- potential ongoing financial obligations and unforeseen or hidden liabilities;
- failure to achieve the intended objectives, benefits or revenue-enhancing opportunities;
- costs and difficulties of integrating acquired businesses and managing a larger business; and
- diversion of resources and management attention.

Restrictions on foreign exchange and payments of dividends may limit our operating subsidiaries' ability to remit payments to our Company

At present, the RMB is not freely convertible to other foreign currencies, and the conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. Under current PRC laws and regulations, payments of current account items including profit distributions, interest payments and operation-related expenditures may be made in foreign currencies without prior approval from SAFE, but are subject to procedural requirements including presenting relevant documentary evidence of such transactions and conducting such transactions at designated foreign exchange banks within China that are licensed to engage in foreign exchange business. Strict foreign exchange control continues to apply to capital account transactions. These transactions must be approved by or registered with SAFE, and repayment of loan principal, distribution of return on direct capital investment and investment in negotiable instruments are also subject to restrictions. Under our current structure, our Company's source of funds will primarily consist of dividend payments by its subsidiaries in the PRC denominated in RMB. We cannot give any assurance that we will be able to meet all of our foreign currency obligations or to remit profit out of China. If our subsidiaries are unable to obtain SAFE approval or if future changes in relevant regulations were to place restrictions on the ability of the subsidiaries to remit dividend payments to our Company, our Company's liquidity and ability to satisfy its third party payment obligations and its ability to distribute dividends in respect of the Shares could be materially and adversely affected.

Changes in government regulations such as environmental laws and regulation could affect our results of operations

Our operations generate pollutants and waste in various stages of the manufacturing process, including the fabric dyeing process. Our operations are subject to periodic inspections by the relevant PRC environmental protection authority. The discharge, storage and disposal of such pollutants and waste are subject to environmental laws and regulations in the PRC, including laws and regulations requiring clean-up of contamination and reclamation. Historically, environmental legislation in the PRC has, in many cases, been less stringently enforced. However, more stringent standards may be introduced, stricter interpretations of existing laws may occur or enforcement may become more stringent in the PRC. Changes in the regulatory framework may result in an increase in our actual operating costs and liabilities for which we have not provided.

Non-compliance with PRC employee social welfare contribution regulations could lead to the imposition of fines or penalties

In accordance with relevant PRC national labour laws and regulations, we are required to contribute to a number of employee social welfare schemes in respect of our employees. Such schemes include pension insurance, medical insurance, unemployment insurance, birth insurance, job-related injury insurance and housing provident fund contributions. Existing PRC national laws and regulations are more stringent than the requirements of local governments with respect to pension insurance, medical insurance, unemployment insurance and birth insurance. We did not fully comply with the national social insurance requirements with respect to pension insurance, medical insurance, unemployment insurance, birth insurance, job-related injury insurance and housing provident fund contributions for our migrant workers. The total amount of underpayment by our Group to the social welfare authorities and the housing fund authorities is approximately RMB45.3 million and RMB11.3 million, respectively. We have contacted the relevant social welfare authority of the Group, namely 福建省社會勞動保險局 (Fujian Province Social Labour Insurance Authority) and the housing fund authorities for Fuqing Hong Liong, Fuqing Ecotex and Fuzhou Aike, which is namely 福州住房公積金管理中心福清管理部 (Fuzhou Housing Provident Fund Management Center Fuqing Management Department), while for Shishi Maigen, which is namely 泉州住房公積金管理中心石獅管理部 (Quanzhou Housing Provident Fund Management Center Shishi Management Department), to pay all delinquent payments for social welfare insurance and housing funds for our migrant workers, and all penalties or fines that may arise from such delinquent payments. The relevant social welfare authorities and housing fund authorities have confirmed that they will not accept unilateral contributions from us, and no penalty or fine will be imposed on us on account of such historical delinquent payments. Although we have not received any orders to rectify the non-compliance, we can give no assurance that we will not be subject to such an order in the future.

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.

Maintaining our reputation is a key to the success of our business and operating results

We believe that our reputation for product quality, product innovation and customer service has contributed significantly to the success of our business. Defects in our products, failure to meet delivery schedules or other factors could damage our reputation and business relationships and consequently, lead to lower turnover and higher costs. As our market becomes increasingly competitive, maintaining our reputation and enhancing our competitive position may be increasingly difficult.

Any future outbreak of contagious diseases, including but not limited to swine influenza, may have a negative impact on our business and operating results

Several countries in Asia have reported cases of swine influenza. Any outbreak of epidemic diseases, such as swine flu or any other contagious disease, could have a material adverse effect on our financial condition and results of operations. An outbreak of a contagious disease could adversely affect customer consumption patterns and demand for our products, our ability to adequately staff our operations and the distribution networks for our products, as well as the general level of economic activity in Asia and elsewhere.

RISKS RELATING TO THE PRC

Increases in labour costs in the PRC could materially and adversely affect our profitability

The fabrics manufacturing industry is labour intensive. Labour costs in the PRC have been increasing recently. If labour costs in the PRC continue to increase, our production and administrative costs, including both our internal production costs and our outsourcing costs, will also increase. If we are unable to identify and employ other appropriate means to reduce our costs of production or to pass on the increased labour and other costs of production to our customers by selling our products at higher prices, our business, financial condition, results of operations and prospects could be materially and adversely affected.

New labour laws in the PRC may materially and adversely affect our results of operations

As at 30 September 2009, we had 1,917 employees in the PRC. On 29 June 2007, the PRC Government promulgated a new labour law, namely the Labour Contract Law of the PRC (中國人民共和國勞動合同法) (the "**New Labour Law**"), which became effective on 1 January 2008. The New Labour Law imposes greater liabilities on employers and significantly impacts the cost of an employer's decision to reduce its workforce. Further, it requires certain terminations to be based upon seniority and not merit. If we decide to significantly change or decrease our workforce in the PRC, the New Labour Law could materially and adversely affect our ability to enact such changes in a manner that is most advantageous to our circumstances or in a timely and cost effective manner, thus our results of operations could be materially and adversely affected. We also could incur additional material compliance costs in connection with the New Labour Law.

Any change in our tax treatment, including an unfavourable change in preferential enterprise income tax rates in the PRC, may have a material adverse impact on our financial condition and results of operations

Our profit attributable to equity shareholders is affected by the level of income tax that we pay and the level of the preferential tax treatment which we are entitled to. On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress of the PRC (全國人民代表大會) promulgated the Corporate Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the "**New Tax Law**"), which came into effect on 1 January 2008. The State Council of the PRC also issued the Implementation Rules of the Corporate Income Tax Law on 6 December 2007 and a GuoFa [2007] No. 39 Notice on the Implementation of the Transitional Preferential Corporate Income Tax Law Policies on 26 December

2007. The New Tax Law consolidates the two separate tax regimes for domestic enterprises and foreign-invested enterprises (the "**Old Tax Regime**") and imposes a unified corporate income tax rate of 25% for both domestic enterprises and foreign-invested enterprises in the PRC.

Under the New Tax Law, foreign-invested enterprises that enjoyed a preferential tax rate prior to the New Tax Law's promulgation will gradually transit to the new tax rate over five years from 1 January 2008. Foreign-invested enterprises that enjoyed a tax rate of 24% will have their tax rate increased to 25% in 2008. Enterprises which enjoyed a fixed period of tax exemption and reduction under the Order of the President [1991] No. 45 prior to the New Tax Law's promulgation will continue to enjoy such preferential tax treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment has not commenced before due to lack of profit, such preferential tax treatment will commence from 1 January 2008.

Under the Old Tax Regime and as approved by the relevant tax authorities, Fuqing Hong Liong, a foreign-invested enterprise engaged in manufacturing activities in Fuqing Rongqiao economic development zone, was granted a preferential tax rate of 15% under the Notice of the State Council [1992] No. 164, which had a significant positive effect on our profit after taxation during the financial years ended 31 December 2006 and 2007. Under the New Tax Law, Fuqing Hong Liong is subject to tax rates of 18%, 20%, 22%, 24% and 25% for the financial years ended 31 December 2008, 2009, 2010, 2011 and 2012 onwards, respectively.

Under the New Tax Law, Fuqing Ecotex is subject to tax rates of 9%, 10%, 11%, 24% and 25% for the financial years ended 31 December 2008, 2009, 2010, 2011 and 2012 onwards, respectively.

Fuzhou Aike and Shishi Maigen have not been entitled to enjoy any tax exemption or reduction since its incorporation or acquisition. They were subject to a tax rate of 25% in 2008.

Under the New Tax Law, if an enterprise incorporated outside the PRC has its "effective management" located within the PRC, such enterprise may be recognised as a PRC tax resident enterprise and be subject to the unified enterprise income tax rate of 25% for its worldwide income. Members of our Group which are not incorporated in the PRC may in the future be recognised as a PRC tax resident enterprises according to the New Tax Law by the PRC taxation authorities. According to the New Tax Law, dividends received by a qualified PRC tax resident from another PRC tax resident are exempted from corporate income tax. However, given the limited history of the New Tax Law, it remains unclear as to the detailed qualification requirements for such exemption and whether dividends declared and paid by members of our Group in the PRC to their overseas holding companies will be exempted from corporate income tax if they are recognised as PRC tax residents. Our financial performance will be materially and adversely affected if such dividends are subject to corporate income tax.

In addition, under the New Tax Law and its implementation rules, our Company may in the future be recognised as a PRC tax resident enterprise by the PRC tax authorities, and capital gains realised by foreign equity shareholders from sales of our Shares and dividends on our Shares payable to foreign equity shareholders may be regarded as income from "sources within the PRC" and therefore become subject to a 10% withholding income tax. If we are required under the New Tax Law to withhold PRC income tax on capital gains on sales of Shares and/or dividends on our Shares payable to foreign equity shareholders, the value of our foreign equity shareholders' investment in our Shares may be materially and adversely affected.

Changes in political and economic policies may have a negative impact on our operations

The majority of our assets are located in the PRC. A substantial majority of our turnover is generated from products manufactured in our facilities in the PRC. Our results of operations and prospects are affected, to a significant degree, by economic, political and legal developments in the PRC. The economy of the PRC differs from the economies of most developed countries in many respects, including the extent of government involvement in the allocation of resources, capital investment, level of development, growth rate and control of foreign exchange.

Historically, the PRC economy has been centrally planned, through a series of economic plans promulgated and implemented by the PRC government. Since 1978, the PRC government has been promoting economic and political reforms. These reforms have brought about rapid economic growth and social progress in the PRC and the economy of the PRC has shifted gradually from a planned economy towards a market-oriented economy. Although we have benefited from some of the economic reforms implemented by the PRC government, government control of the economy nevertheless may have a negative effect on us. It is difficult to predict how future policies will affect the fabric industry. The PRC government's continued control over exports of goods could materially and adversely affect our business.

Moreover, we cannot assure you that the PRC government will continue to pursue economic reforms. A variety of policies and other measures that could be taken by the PRC government to regulate the economy could have a negative impact on our business, including the introduction of measures to control inflation or reduce growth, changes in the rate or method of taxation or the imposition of additional restrictions on currency conversions and remittances abroad. Our business, financial condition and results of operations may be adversely affected by the PRC government's political, economic and social policies and regulations.

Gains generated from the sales of our shares and dividends on our Shares may be subject to PRC income taxes

Under the New Tax Law and its implementation rules, our Company may in the future be recognised as a PRC tax resident enterprise by the PRC tax authorities, and capital gains realised by foreign equity shareholders from sales of our Shares and dividends on our Shares payable to foreign equity shareholders may be regarded as income from "sources within the PRC" and therefore become subject to a 10% withholding income tax. If we are required under the New Tax Law to withhold PRC income tax on capital gains on sales of Shares and/or dividends on our Shares payable to foreign equity shareholders, the value of our foreign equity shareholders' investment in our Shares may be materially and adversely affected.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares and an active trading market may not develop

Prior to the Global Offering, there has been no public market for our Shares. The Offer Price for the Shares will be determined by the Sole Lead Manager (on behalf of the Underwriters) and us. The Offer Price may not be indicative of the price at which the Shares will trade following the completion of the Global Offering. Although the Sole Lead Manager has indicated that it intends to make a market in the Shares, it is not obligated to do so, and any such market making will be subject to the limits imposed by applicable law, and may be interrupted or discontinued at any time without notice.

Accordingly, we cannot predict whether an active trading market for the Shares will develop or be sustained. Consequently, investors may be required to hold their Shares for an indefinite period of time or sell them for an amount less than the price paid.

The trading volume and share price of our Shares may fluctuate

The price and trading volume of our Shares may be highly volatile. Factors such as variations in our turnover, earnings and cash flow, announcements of new technologies, strategic alliances or acquisitions, industrial or environmental accidents suffered by us, loss of key personnel, changes in ratings by financial analysts and credit rating agencies, litigation or fluctuations in the market prices for our products or raw materials could cause large and sudden changes in the volume and price at which our Shares will trade. In addition, the Stock Exchange and other securities markets have, from time to time, experienced significant price and volume fluctuations that are not related to the operating performance of any particular company. These fluctuations may also materially and adversely affect the market price of the Shares.

Future sales of substantial amounts of our Shares in the public market could adversely affect the prevailing market price of our Shares

Except for the Shares issued in the Global Offering, we have agreed with the Sole Lead Manager not to issue any of our Shares or securities convertible into, or exchangeable for, our Shares during the period beginning from the date of this prospectus and continuing through the date which is six months from the date on which dealings in the Shares commence on the Stock Exchange, except with the prior written consent of the Sole Lead Manager. The Sole Lead Manager may, in its discretion, waive or terminate these restrictions. Please refer to the section headed "Underwriting — Underwriting Arrangements and Expenses — Undertakings" in this prospectus for a more detailed discussion of restrictions that may apply to future sales of our Shares by us.

After these restrictions lapse, the market price of our Shares could decline as a result of future sales of substantial amounts of our Shares or other securities relating to our Shares in the public market, the issuance of our new Shares or other securities relating to our Shares, or the perception that such sales or issuances may occur. This could also materially and adversely affect our ability to raise capital in the future at a time and at a price we deem appropriate.

Issue of new Shares under the Share Option Scheme or issuance of additional Shares will have a dilution effect and may affect the Group's profitability

We may need to raise additional funds in the future to finance expansions of our operations or new acquisitions. If additional funds are raised through issuance of new Shares or other securities that may be converted into the Shares other than on a pro rata basis to our existing shareholders, the percentage ownership of the existing shareholders may be reduced and shareholders may experience subsequent dilutions. In addition, any such new securities may have preferred rights, options or pre-emptive rights that make them more valuable than or senior to the Shares.

You may face difficulties in protecting your interests because we are incorporated under Cayman Islands law and Cayman Islands law may provide different protection to minority shareholders than the laws of Hong Kong and other jurisdictions

Our corporate affairs are governed by our memorandum and articles of association and by the Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes or judicial precedents in existence in Hong Kong and other jurisdictions. Such differences may mean that our minority shareholders may have different protection than they would have under the laws of Hong Kong or other jurisdictions.

Certain facts and statistics contained in this prospectus may not be reliable

Certain facts and statistics from official sources contained in this prospectus are derived from various publicly available government or official publications and generally believed to be reliable. However, we cannot guarantee the quality and reliability of these publications. We believe that the sources of this information are appropriate sources for such information. Our Directors and the Sole Sponsor have taken reasonable care in extracting and reproducing such information. We 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 facts, statistics or information have not been independently verified by us, the Sole Sponsor, the Underwriters, their respective directors and advisers or any other parties involved in the Global Offering. No representation is given as to its accuracy or any other facts and statistics derived from government or official publications, which may not be consistent with other information and may not be complete or up-to-date. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics derived from government or official publications may be inaccurate or may not be comparable from period to period or to statistics produced for other economies and should not be unduly relied upon.