Investing in our Offer Shares involves a high degree of risk. Potential investors should consider carefully all the information set out in this Prospectus and, in particular, should consider and evaluate the following risks associated with an investment in our Company before making any investment decision in relation to our Company. Additional risks and uncertainties not presently known to our Group or that our Group currently deems immaterial could also harm the business, financial condition and operating results of our Group.

RISKS RELATING TO OUR BUSINESS

We may not be successful in effectively and efficiently implementing our business plans and we may not achieve our desired results from the implementation of such plans.

We seek to maintain our leading position in the textile industry in Jiangxi Province in terms of revenues and to continue to increase our sales in the domestic market by expanding our production capacities and our product portfolio for our yarn products. We plan to further increase our production capacity beyond approximately 321,000 spindles after Listing. In addition, we plan to engage in the production of coloured polyester-cotton blended yarns. We plan to construct two workshops with an aggregate production capacity of approximately 60,000 spindles for the production of coloured polyester-cotton blended yarns and 20,000 spindles for the production of open-end spun yarns.

Any unanticipated delay in completion of the workshops or any cost overrun may result in a material adverse effect on our business, financial condition, results of operations and growth prospects. Even if we complete the workshops within our desired time frame and budget, we may still be subject to various operational risks and we cannot guarantee that there will not be: (i) any failure to operate at the expected designed capacity or efficiency; (ii) any insufficiency in purchase orders for our products or in the raw materials for our additional production capacity; (iii) any difficulty in recruiting and retaining adequate skilled and experienced staff with technical expertise; or (iv) any other factors beyond our control. Any event of such kind may result in a material adverse effect on our business, financial condition, results of operations and growth prospects, and may result in our failure to achieve our expected results of operations.

The implementation of these business plans requires us to effectively and efficiently manage our sales, marketing, procurement, construction and other aspects of our operations. If we fail to effectively and efficiently implement our business plans, or if we fail to anticipate customer needs and market demands accurately, in particular, in regions which have not historically been our focused markets, we may not be successful in achieving desirable and profitable results. Even if we effectively and efficiently implement our business plans, there may be other unexpected events or factors that prevent us from achieving the desirable and profitable results from the implementation of our business plans. Our financial condition, results of operations and growth prospects may be materially and adversely affected if our future business plans fail to achieve positive results.

Our financial performance may be affected by fluctuations in raw material prices as we may not be able to pass on the increase in raw material costs to our customers.

Our raw materials consist of polyester staple fibre and raw cotton. For the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, polyester staple fibre accounted for 83.7%, 79.2%, 76.3% and 67.8% of our total cost of raw materials, respectively. During the same periods, raw cotton accounted for the remaining 16.3%, 20.8%, 23.7% and 32.2% of our total cost of raw materials, respectively. Our total cost of raw materials accounted for 82.3%, 78.3%, 81.7% and 83.2% of our total cost of sales for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30

June 2011, respectively. Polyester staple fibre is derived from crude oil and therefore fluctuations in crude oil price and supply also affect the price and supply of polyester staple fibre. Cotton is an agricultural product and therefore its supply and quality are vulnerable to factors beyond our control, including weather, infestations and other forces of nature that can result in shortages in supply and increases in cotton price. During the Track Record Period, the prices of polyester staple fibre fluctuated between RMB7,000.0 per tonne and RMB14,000.0 per tonne during the three-year period from 2008 to 2010 according to the *China Chemical Fibre* website. According to *Wind Info*, price of polyester staple fibre increased significantly from RMB7,500.0 per tonne in January 2009 to RMB14,900.0 per tonne in February 2011. From 2008 to 2010, the movements in prices of cotton in China demonstrated a similar trend as that of the international prices of cotton, and recorded an average price of RMB13,096.8 per tonne, RMB12,804.4 per tonne and RMB19,373.3 per tonne, respectively. To meet our production and delivery schedules, we must obtain sufficient quantities of raw materials on a timely basis at commercially reasonable terms from our suppliers.

During the Track Record Period, we did not experience any disruption in our production due to shortage of raw material supplies or significant increases in raw material prices. If there is a significant increase in the prices of raw materials in the future, our profitability would be materially adversely affected if we are unable to pass on the increase in cost of raw materials to customers.

During the Track Record Period, we had maintained an average inventory level to meet four weeks of production demand for polyester staple fibre and four to five weeks of production demand of raw cotton. If the market prices for our finished goods materially decrease subsequent to our purchase of the raw materials for the production of such products, the selling prices of our yarn products may need to follow such reduced market prices such that we would absorb the relatively high raw material costs at the expense of our gross profit margins.

We rely on a small number of suppliers for a significant portion of our raw material purchases.

We rely on a small number of suppliers to supply us with a significant portion of raw materials for our production. We generally do not enter into any long-term supply agreement with our raw material suppliers, except for certain framework supply agreements with a few suppliers. For the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, purchases from our five largest suppliers was RMB344.4 million, RMB402.1 million, RMB453.5 million and RMB281.2 million, which accounted for 72.4%, 72.9%, 59.5% and 69.3%, respectively, of our total purchases. We cannot assure you that our major suppliers will not give priority or more favourable terms to other customers, or that they will maintain the same quality and quantity of raw material supply to us, or that they will continue to supply us with raw materials at all. If any of the abovementioned events occur, we may need to find alternative suppliers and on terms acceptable to us. If we fail to do so in a timely manner and/or on acceptable terms, our production may be interrupted, our production costs may increase and our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

We may be unable to secure enough capital to implement our expansion plans in full and to finance our increased working capital requirements.

We need additional capital to fund our capital expenditure associated with expansion of our production capacity through the acquisition of new production equipment and machinery and technology upgrades in the future. For the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, our capital expenditure was RMB137.0 million, RMB12.3 million, RMB20.7 million and RMB31.6 million, respectively, primarily as a result of the expansion of our production capacity.

Based on our current plan, we estimate that an aggregate expected future capital expenditure of approximately RMB401.4 million will be required to fund the construction of our new workshops. We expect to utilise the aggregate projected capital expenditure over a period of approximately 16 months depending on market conditions. There is no assurance that we will generate sufficient cash flow from operating activities for our intended expansion plans. In the event we do not have such operating cash flow, we will need to obtain alternative financing. There is no assurance that we will be able to obtain adequate financing on acceptable terms, or at all. Our ability to obtain additional capital on acceptable terms will be subject to a variety of uncertainties, including:

- investor perceptions of and appetite for securities of companies engaged in the manufacture of polyester yarns, polyester-cotton blended yarns and cotton yarns, as well as any of our future products;
- conditions in the capital and financial markets in which we may seek to raise funds;
- our future results of operations, financial condition and cash flows;
- PRC governmental regulation of foreign investment in companies engaged in the manufacture of polyester yarns, polyester-cotton blended yarns and cotton yarns, as well as any of our future products;
- economic, political and other conditions in China and the rest of the world;
- the amount of capital that other Chinese entities may seek to raise in the foreign capital markets; and
- PRC governmental policies relating to foreign currency borrowings.

We may be required to scale back our planned capital expenditures, which may adversely affect our ability to achieve economies of scale and implement our planned growth strategy. The terms of any future debt facilities may also impose restrictive covenants, which may further restrict our business and operations. In the event that we breach any of these covenants, we may not be able to obtain waivers from our lenders. Our inability to raise additional funds in a timely manner and on terms favourable to us, or at all, may have a material adverse effect on our business, prospects, financial condition and results of operations.

We may not be able to maintain the increasing trend of our gross profit margins or to maintain our net profit margins at the levels we recorded during the Track Record Period.

The gross profit margin increased from 5.5% for the year ended 31 December 2008 to 13.1% for the year ended 31 December 2009 and further to 16.1% for the year ended 31 December 2010. However, we cannot assure you that we will be able to maintain the increasing trend of our gross profit margin or to maintain our gross profit margin at or higher than its historical level during the Track Record Period as the average unit selling price of our products and our raw material prices may be affected by a variety of factors, including changes in the general market supply and demand of polyester yarns, polyester-cotton blended yarns and cotton yarns and other materials, the changes in taxation and export policies, and various other factors that are beyond our control.

In addition, we had not made any provision for EIT during the Track Record Period because the tax concession granted to Jinyuan, as a result of the purchase of certain domestic manufactured equipment and machinery, had offset the EIT otherwise payable for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011. As such, we will be required to make prevision and pay EIT at a statutory EIT rate of 25% starting from July 2011.

Our financial conditions and results of operations may be adversely affected by any decrease in gross profit margin or any provision of EIT in the future.

We recorded net current liabilities positions during the Track Record Period.

As at 31 December 2008, 2009 and 2010 and 30 June 2011, we recorded net current liabilities of RMB229.7 million, RMB180.2 million, RMB181.1 million and RMB154.5 million, respectively. We had continuous net current liabilities during the Track Record Period, mainly due to our historical use of note payables and the drawdown of short-term bank borrowings to finance the capital expenditures for the expansion of production capacity and to fund the working capital as a result of the expansion of production capacity since 2008, in particular, for the construction of our production facilities and purchase of equipment and machinery. Starting from 2009 onwards, we increased the use of short-term bank borrowings and reduced the use of note payables to finance our working capital and capital expenditures. We cannot assure you that we will not record any net current liability in the future. Our net current liabilities position exposes us to certain liquidity risks. Our future liquidity, the payment of trade and other payables, and the repayment of outstanding debt obligations as and when they become due will primarily depend on our ability to maintain adequate cash inflows from operating activities and adequate external financing. Further, we might have to finance part or all of our capital expenditure in the future by means of short term borrowings. Our operating cash flows could be adversely affected by numerous factors, including the increase in market competition, decreased demand for our products and higher raw material prices. We had recorded net cash outflow of RMB15.6 million from our operating activities in 2009, mainly due to an increase in inventory level to meet customers' demand and significant cash outflow for the settlement of note payables. Servicing our debt and other fixed payment obligations will further divert our cash flow from our operations and planned capital expenditures. Furthermore, the interest cost of such obligations could undermine our future profitability.

We were previously involved in bill financing transactions through issuance of note payables and endorsement of note receivables that were not fully in compliance with the relevant credit agreements and *PRC Negotiable Instrument Law*.

From May 2008 to August 2009, we obtained additional funding for our business operations through issuing bank acceptance notes that were within the credit limits stipulated by the endorsing banks and supported by the initial deposits by us, but were used for purposes other than the payment for the purchases from relevant suppliers as stipulated in the relevant credit agreements. See "Business — Non-Compliant Bill Financing." Our PRC legal adviser, Commerce & Finance, advised us that such bill financing arrangements did not comply with the credit agreements and Article 10 of the *PRC Negotiable Instruments Law*. Although we have obtained the written confirmation letters from the relevant endorsing banks and regulatory authorities, there is no assurance that the relevant regulatory authorities will not penalise us for these bill financing arrangements in the future. Any such penalties may materially and adversely affect our business, financial condition and results of operations.

As at 31 December 2008, 2009 and 2010, RMB0.9 million, RMB1.6 million and RMB2.1 million of our note receivables, respectively, was endorsed in favour of Baoyuan, which is our related company, for financing purposes. As at 30 June 2011, we have not endorsed any note receivables to any related companies for financing purposes. As advised by our PRC legal advisors, Commerce & Finance, the arrangement that Jinyuan endorsed the note receivable to Baoyuan for financing purposes was not in compliance with the *PRC Negotiable Instruments Law*. Such endorsement arrangements for financing purposes did not result in any loss to our Endorsing Banks or any third party and no dispute or liability has arisen or will arise from such endorsement arrangements and no civil litigation or arbitration has arisen or will arise from such endorsement arrangements as at the Latest Practicable Date. However, we cannot assure you that any other third party involved in the transactions concerning such notes will not claim against us as a result of our endorsement. Any such claim may materially and adversely affect our business, financial condition and results of operations.

We are exposed to credit risks of our customers and do not have access to all credit information of our customers to determine their credit worthiness.

We rely on the businesses generated by our customers. While we usually receive advance payment of one or two days or note receivables from our customers as payment for our products before we deliver our products, we may grant credit periods of 15 to 90 days to certain customers depending on the relationship and credibility of such customers. However, we do not have access to all information of our customers to determine their credit worthiness. Some of our customers have only had a short business history with us. Our customers may discontinue, limit or fail to enhance their respective current level of business engagements with us. The complete financial and operational information of our customers is not always available to our Directors, and our Directors are not in any position to obtain such information. If any of our major customers experience any financial difficulty, our business with such customers and settlement of outstanding amounts owing to us may be adversely affected notwithstanding that we have conducted our ongoing credit analysis of our customers, including relying on factors such as the duration of business relationships, third party or governmental referral or introduction, our experience in dealing with such customers, market reputation, our business judgement and the settlement history in assessing our customers and monitoring our business and credit risks. However, any deterioration of the financial status of our customers may cause reduction in their orders for our products and/or expose us to higher credit risks in terms of their timeliness of payments which may in turn adversely affect our results of operations and profitability. In addition, while we had not incurred any bad debt during the Track Record Period, there is no assurance that we will not incur any bad debts in the future.

We generally do not enter into long-term contracts with our customers and are thus subject to uncertainty and potential volatility with respect to our revenue from period to period.

We enter into individual sales orders with our customers for sales of our products and we do not have long-term contracts with them. We typically deliver our yarn products within one to two days after we enter into such sales orders, as we implement inventory policies to maintain at least the required level of raw material inventory and the required level of finished goods inventory, respectively, at our storage facilities. As a result, if our customers decide not to purchase any of the yarn products from us, change any of their yarn products suppliers or propose new terms of sales unacceptable to us, change their business models, change the raw materials used in their production or other industrial, political or environmental reasons or otherwise, our sales may decline if we are unable to find alternative purchasers in a timely manner. In such event, our business, financial condition, results of operations and growth prospects may be adversely affected.

Our sales are geographically concentrated in Guangdong Province and Zhejiang Province.

Although our sales are not concentrated in a small number of customers, a majority of our sales are concentrated in Guangdong Province and Zhejiang Province. Our revenue derived from sales to our customers situated in Zhejiang Province, Guangdong Province, Jiangxi Province and Jiangsu Province, from where over 46%, 26%, 6% and 1% of our total revenue, respectively, for each year/period during our Track Record Period were generated. For the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, revenue generated from customers situated in Guangdong Province accounted for 26.6%, 32.1%, 26.3% and 28.6% of our total revenue, respectively, while revenue generated from customers situated in Zhejiang Province accounted for 50.6%, 50.7%, 53.3% and 46.6% of our total revenue, respectively. Due to such revenue concentration, our business may be affected significantly by natural, economic or social events and circumstances in Guangdong Province or Zhejiang Province. If events or circumstances arise in Guangdong Province or Zhejiang Province that cause detrimental effect to us, our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

Our success and continued growth are dependent on our key management team.

We believe that our success is, to a certain extent, attributable to the extensive industry knowledge and experience of our management team. The details of our management team, including their relevant areas of expertise, are set out in the section headed “Directors, Senior Management and Employees” in this Prospectus. The dedication of our senior management team has contributed to the stability of our senior management. Our continued success is dependent, to a large extent, on the ability to attract and retain the services of the key management team, including our executive Directors, Mr. Zheng, who is also our chairman, and Mr. Zheng Yongxiang, who is also the general manager of Jinyuan. We believe that an experienced management team as well as dedicated members of staff will contribute significantly to our future growth. Accordingly, the loss of services of any of our key management without suitable and timely replacements may lead to disruption in our operations, loss or deterioration of important business relations and have a material adverse effect on our business operations and prospects.

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

Our production remains highly labour-intensive. As at 30 June 2011, we had a total of 1,855 employees. Our total labour costs excluding Directors’ remuneration amounted to RMB33.7 million, RMB45.3 million, RMB47.1 million and RMB27.0 million for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively. There is no guarantee that our supply of labour and 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 accommodate sudden increase in demand for our yarn products or our expansion plans. If we are not able to manufacture and deliver our yarn products on schedule or if we are unable to implement our expansion plans, our business, financial condition, results of operations and prospects would be materially adversely affected. Furthermore, if there is a significant increase in labour cost, the cost of our business operation would increase and our profitability would be adversely affected.

We may face disruptions in our production.

Our revenue is dependent on the continued operation of our production facilities. Our production process is subject to risks beyond our control including, amongst others, fire, breakdown, failure or substandard performance of our equipment and machinery, power shortage, labour strikes, natural disasters and any interruption in our operations as a result of any failure to comply with all applicable laws, regulations and standards in the PRC. Frequent or prolonged occurrence of any of the aforesaid events may have a material adverse effect on our business, financial condition and results of operation. We had experienced intermittent power supply disruption in our production due to the ice storm in southern China from late January to early February 2008, which also caused intermittent interruption to our production. As a result, our production volume in January was slightly reduced and our production was also suspended for four days in early February 2008. We cannot assure you that similar disruption will not occur in the future.

We rely on external supplies of electricity and water for our production processes.

We rely on external supply of electricity and water in our production. The continued and stable supply of electricity and water is therefore crucial to our production activities. Our electricity is supplied through a designated power line that is directly connected to our production base. We do not have any contingency plan in the event of power cut. We rely on the local municipal water supply system for the water used in our production. We had experienced intermittent power supply disruption in our production due to the ice storm in southern China from late January to early February 2008, which also caused intermittent interruption to our production. As a result, our production volume in January was slightly reduced and our production was also suspended for four days in early February 2008. We cannot assure you that similar disruption will not occur in the future, that our power line can provide us with electricity in a continued and stable manner or at all, nor that our water conservation system alone can provide us with sufficient water to carry on our operations. If our electricity or water supply is disrupted and if we are unable to restore such supply or find alternative sources in a timely manner or at all, our production may be disrupted and our business, financial condition, results of operations and growth prospects may be adversely affected.

Failure to maintain an effective quality control system may result in loss.

The performance and quality of our products are critical to the success of our business. These factors depend significantly on the effectiveness of our quality control system, which in turn, depends on a number of factors, including the design of the system, the quality training programme, and our ability to ensure that our employees adhere to our quality control policies and guidelines. Any significant failure or deterioration of our quality control systems could have a material adverse effect on our business, financial condition, results of operation and growth prospects. Accordingly, any significant failure or deterioration of our quality control system could result in us harming our recognition and certifications, which in turn could have a material adverse effect on our reputation and growth prospects.

The preferential EIT rate we have enjoyed may not recur.

The EIT Law was promulgated by the *National People's Congress* on 16 March 2007 and became effective on 1 January 2008. The EIT Law imposes a uniform income tax rate of 25% on both domestic and foreign invested enterprises. It also contemplates various transition periods for existing preferential tax treatments. According to the *Notice of the State Council on the Implementation of the Transitional Preferential Policies in respect of Enterprise Income Tax* (《國務院關於實施企業所得稅過渡優惠政策的通知》) (the "Notice") and effective from 26 December 2007, enterprises entitled to preferential EIT rate prior to the effective date of the EIT Law must gradually apply the uniform tax rate of 25% within five years from 1 January 2008. Enterprises entitled to preferential EIT deduction and exemption periods prior to the effective date of the EIT Law are able to continue to enjoy the relevant preferential treatments after the implementation of the EIT Law until they expire. Jinyuan was approved to be exempted from EIT for two years starting from its first profit making year since its establishment and followed by a 50% tax relief for the next three years. Our first profit making year was 2006. Jinyuan was therefore entitled to a reduced tax rate of 12.5% from 1 January 2008 to 31 December 2010. Jinyuan is subject to a tax rate of 25% from 1 January 2011 onwards and the preferential EIT rate we have enjoyed may not recur. No income tax expense had been recorded for our Group for each of the years ended 31 December 2008, 2009 and 2010 as any EIT payable for each of the years had been offset by the Equipment Tax Reduction. Jinyuan was entitled to a total tax reduction of RMB38.4 million for the years ended 31 December 2006 and 2007 (the "Equipment Tax Reduction"). Among them, RMB0.3 million, RMB8.5 million, RMB14.8 million, RMB5.5 million and RMB12.8 million had been utilised to offset the EIT of Jinyuan in 2008, 2009, 2010 and the six months ended 30 June 2010 and 2011, respectively. In addition, we cannot anticipate that the PRC Government will not increase the tax rate for foreign-invested enterprises in China. The resulting increase in our tax liability would have a material adverse effect on our net profits and cash flow.

We complied with regulations and policies of social insurance funds and housing funds only to the extent required by the local authority during the Track Record Period, which have different interpretation and implementation of the national laws and policies on the same matter.

We contribute to social insurance funds and housing fund to the extent required by the local authority where we operate our business. We have been making payments to selected social welfare schemes in accordance with relevant social insurance policies and regulations carried out by the local social insurance authority, including the *Notice on the City Labour and Social Security Bureau's, Approved by the People's Government of Yichun City, Suggestions to Further Promote Industrial Enterprises to Participate in Social Insurance ([2008] No. 20)* (《宜春市人民政府批轉市勞動和社會保障局關於進一步促進工業園區企業參加社會保險的幾點意見的通知》(宜府發[2008]20號)). As acknowledged by the social insurance authority, Jinyuan has complied with the relevant local regulations and policies.

The *Fengxin County Human Resource and Social Security Bureau* (奉新縣人力資源和社會保障局) has confirmed in writing that: (i) since the incorporation of our PRC subsidiary, Jinyuan, we have fully paid all social insurance payments in compliance with the relevant local social insurance policies and regulations; (ii) we will not be required to make further contributions; and (iii) we were not subject to any investigation or administrative penalty by the *Fengxin County Human Resource and Social Security Bureau*. The *Fengxin County Office of the Housing Fund Management Centre of Yichun City* (宜春市住房公積金管理中心奉新縣辦事處) has confirmed in writing that: (i) since the incorporation of our PRC subsidiary, Jinyuan, we have provided dormitories for our employees; (ii) we have fully paid all housing funds in compliance with the relevant local housing fund policies and regulations; and (iii) we will not be subject to any investigation or administrative penalty by the *Fengxin County Office of the Housing Fund Management Centre of Yichun City* (宜春市住房公積金管理中心奉新縣辦事處). Accordingly, we do not consider it is necessary to make a provision for the difference between social insurance and housing fund contributions required under relevant local policies and regulations.

We cannot assure you that the interpretation and implementation of relevant social insurance policies and laws and regulations by the local social insurance authority will remain consistent in the future or if there is any change in their interpretation or implementation, whether such change would have retrospective effect. We also cannot assure you that there will not be labour disputes or claims in respect of employee complaints regarding payment of basic pension, basic medical, unemployment, work-related injury and/or maternity insurance and housing fund contributions or that such claims will not be brought against us in the future, and that we will not be required to pay such contributions or any related damage in the future. The occurrence of any of the above could have an adverse effect on our results of operation and financial performance.

In addition, we can give no assurance that the local authorities do not interpret and implement the national laws and policies on social insurance and housing funds differently. In particular, according to the *Social Insurance Law of the PRC*, which was promulgated at the national level and became effective on 1 July 2011, employers are required to make contributions to, and employees, including migrant workers from rural areas, are required to participate in, all social insurance schemes. To the extent that there are any difference between the *Social Insurance Law of the PRC* and the policies and regulations of the local authorities, we may be required to comply with the *Social Insurance Law of the PRC*.

Our operations are subject to uncertainties and we may not have sufficient insurance coverage for all the risks related to our operations.

According to the relevant PRC laws and regulations on social insurance, we are required to pay basic pension, basic medical, unemployment, work-related injury and maternity insurances for our employees. Our social insurance contributions did not cover all of our employees during the Track Record Period. We maintain insurance policies covering risks in respect of buildings in our production base, equipment and machinery and vehicles used in our operations. There is no assurance that our insurance coverage would be sufficient to cover all our potential losses. For further details on the insurance policies we maintain, please see the section headed ''Business — Insurance'' in this Prospectus. In the event that our insurance policies cannot sufficiently compensate for our losses sustained as a result of damage to items covered or howsoever incurred, we would have to pay for the difference ourselves and our cash flow and liquidity could be adversely affected. In addition, we do not maintain product liability insurance, business interruption insurance or third-party liability insurance for claims of personal injury or property damage arising from accidents relating to our operations. If any of these events which we have not maintained insurance occur, it may cause significant cost and our business, financial condition and results of operations may be adversely affected.

We may not be able to adequately protect our intellectual property rights or may inadvertently infringe upon third party intellectual property rights.

We rely on registration to protect our intellectual property rights. As at the Latest Practicable Date, our application to register the trademark “ ” was opposed by a third party and is pending the ruling of the *Trademark Office of the State Administration for Industry and Commerce of the PRC*. Although we have not used the trademark in relation to our business or granted other parties the right to use this trademark, if the *Trademark Office of the State Administration for Industry and Commerce of the PRC* rules against our application, we will not have the exclusive rights to use this trademark for our business operations. As at the Latest Practicable Date, we were in the process of registering the trademark “ ” with the Hong Kong Trademark Registry of the Intellectual Property Department of Hong Kong. For further details of our intellectual property rights, please see the section headed “Business — Intellectual Property Rights” in this Prospectus and “Statutory and General Information — Further Information about the Business of our Group — Intellectual Property Rights of Our Group — (a) Trademarks” in Appendix VI to this Prospectus. There is no assurance that our registration is sufficient to prevent any misappropriation of our intellectual property. In the event that third parties infringe our intellectual property rights, we may face considerable difficulties and time consuming and costly litigation in order to enforce our intellectual property rights. If we are not able to effectively protect our intellectual property rights, our business, results of operations and financial condition could be adversely affected.

Similarly, there is no assurance that we will not be involved in intellectual property disputes. It is possible that we may inadvertently infringe the intellectual property rights of others and face liabilities for such infringements during the course of our business. We may, in the future, receive allegations from third parties asserting the infringement of their intellectual property rights in relation to our business and operations. Actions brought against us for infringement of third party intellectual property rights may adversely affect our reputation and business operations. In the event of an infringement claim, we may be required to engage significant resources to defend and/or to develop a non-infringing alternative and/or to obtain appropriate licences. We may not be successful in developing the alternative or obtaining the licences on reasonable terms, or at all. Any litigation, including frivolous litigation, can also result in significant costs and diversion of resources and may adversely affect our business and operating results.

Our policies in respect of management of financial risks may not be sufficient or effective.

Our principal financial instruments include loans, trade receivables, note receivables, trade payables, note payables and bank borrowings. The main risks associated with certain of these financial instruments are interest rate risk, credit risk and liquidity risk. We do not hold or issue derivative financial instruments either for hedging or for trading purposes. Our policies for financial risk management may not be sufficient. Further, there is a lack of hedging tools against financial risks in the PRC. If we fail to maintain effective risk management policies in respect of any of the financial risks in the future, our business, financial condition and results of operation may be materially adversely affected.

RISKS RELATING TO THE INDUSTRY

Our business depends on China's economic and the global economic growth.

Growth in demand for our yarn products is driven largely by the growth of the fabric and textile industries in China. In 2009, the economies of the United States, Europe and certain countries in Asia experienced economic slowdowns. In 2011, the credit rating of the United States was downgraded by Standard & Poor from AAA to AA-plus rating and certain European countries continue to suffer from an ongoing sovereign debt crisis. The global economic slowdown and financial crisis will affect global economic activity and potentially affect economic growth in China, such as the potential credit crisis in China arising from the liquidity issues for corporations in Wenzhou of Zhejiang Province. Our business and future prospects depend on China's economic growth, which in turn affects the demand for fabric and textile and its related products. Any further significant slowdown in economic growth rates in China or globally may reduce the demand, which may adversely affect our sales volumes, average unit selling prices of our yarn products, cause cancellation of sales or default on payment by our customers, and materially and adversely affect our business, financial condition, results of operations and profitability.

In addition, a continuation of the global financial crisis may also result in a low level of liquidity in many financial markets, including China, and increased volatility in credit and equity markets, which may adversely affect our ability to secure financing to fund our expansion plan to increase our production capacities and overall business as well as our customers' capital expenditure plans. In response to a rapid increase in liquidity in the market as a result of fiscal stimulus measures, the PRC Government has recently implemented a number of measures to control such increase, including raising interest rates. The continuation of these trends may make it difficult for us to obtain financing in the future and may have a material and adverse effect on our business, financial condition and results of operations.

We operate in a highly competitive industry and we may lose our business opportunity in the market if we do not compete successfully.

Our industry is highly competitive. In particular, competition among polyester yarn and cotton yarn manufacturers in the PRC is intense. Our competitors include domestic and international manufacturers of polyester yarns, polyester-cotton blended yarns and cotton yarns and numerous smaller companies which produce more common types of polyester, polyester-cotton blended and cotton yarns. We expect that competition in the polyester yarns and cotton yarns market will continue to be intense and some of these competitors may be able to adapt to changes in the industry more quickly than we can by adopting more aggressive pricing policies or other measures. Increased competition could result in material price reductions in the products we sell or may lose our business opportunity in the market. If we are unable to remain competitive, our business, financial condition, results of operations and growth prospects may be adversely affected.

Import quotas, higher tariffs or other trade barriers imposed by 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.

After the phase-out of the *Agreement on Textiles and Clothing* (紡織品與服裝協議) as at 1 January 2005, which imposed import quotas on textiles and garments from developing countries, the United States and the European Union imposed import restrictions on textiles from China to reduce the impact of an influx of Chinese textiles imports according to the relevant provisions of the special safeguards on importing textiles from China stipulated under the paragraph 242 of the *Report of the Working Party on the Accession of China to the WTO* (中國加入世貿組織工作組報告書). The PRC Government settled the trade disputes with both the United States and European Union through separate memoranda of understanding that prescribed annual quotas and caps on annual increases of quotas on 21 categories and 10 categories of Chinese textiles imports into the United States and European Union, respectively. The memoranda of understanding entered into between the European Union and China as well as between United States and China had expired on 31 December 2008. The special safeguards on importing textiles from China under paragraph 242 of the *Report of the Working Party on the Accession of China to the WTO* also had expired on 31 December 2008.

In September 2006, the *Ministry of Commerce of the PRC* promulgated the *Measures for the Administration of the Export of Textiles (Provisional)*. Under this system, effective on 18 September 2006, China-based textile manufacturers exporting to countries or regions that have imposed restrictions on Chinese textile exports or entered into bilateral agreements with China regarding temporary arrangements relating to the quantity of their imports of China-made textiles, are required to apply for a licence in order to export the affected categories of textiles products to these markets.

We do not export our products directly to overseas markets. However, our products may be utilised by our customers to produce textile products to be exported. Under current WTO rules, the United States, the European Union or other WTO member nations may impose import quotas, higher tariffs or other trade barriers on specific categories of textiles from China to prevent domestic market disruptions. If the countries to which our customers 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 sales may decrease and our financial condition and results of operation may be adversely affected as a result.

Anti-dumping investigations and trade protection measures conducted by other countries on cotton or polyester yarns may have an adverse effect on our operations.

In recent years, the United States and the European Union have launched a number of anti-dumping trade protection measures and investigations against products produced in the PRC. Although none of these measures or investigations target the products that we produce and we have not been subject to any anti-dumping trade protection measure or investigation in any country in the past, we cannot assure you that our products may not become the subject of such measures or investigations in the future. In the event our products become subject to anti-dumping trade protection measures, our business, financial condition, results of operations and growth prospects may be adversely affected.

RISKS RELATING TO THE PRC

Fluctuations in consumer spending in the PRC may significantly affect our business and financial performance.

We believe the majority of our yarn products are used to produce fabrics and textiles which are then sold to manufacturers to produce consumer goods. Our sales and growth are indirectly dependent on consumer spending and the continued improvement of macroeconomic conditions in the PRC, where a substantial portion of our revenue have been generated in the past and are expected to be generated in the future. There are many factors affecting the level of consumer spending, including but not limited to, interest rates, currency exchange rates, recession, inflation, deflation, political uncertainty, taxation, stock market performance, unemployment levels and general consumer confidence. In addition, we believe that our historical growth rates were largely dependent on the general growth of the PRC economy. We can provide no assurance that the PRC economy will continue to grow at historical rates, or at all, and any slowdowns or declines in the PRC economy or consumer spending may materially and adversely affect our business, financial condition, results of operations and growth prospects.

Adverse changes in the PRC economic, political and social conditions as well as laws and government policies, may materially and adversely affect our business, financial condition, results of operations and growth prospects.

The economic, political and social conditions in the PRC differ from those in more developed countries in many respects, including structure, government involvement, level of development, growth rate, control of foreign exchange, capital reinvestment, allocation of resources, rate of inflation and trade balance position. For the past three decades, the PRC Government has implemented economic reform and measures emphasising the utilisation of market forces in the development of the PRC economy. Although we believe these economic reforms and measures will have a positive effect on the PRC's overall and long-term development, we cannot predict whether the resulting changes will have any adverse effect on our current or future business, financial condition or results of operations. Despite these economic reforms and measures, the PRC Government continues to play a significant role in regulating industrial development, allocation of natural resources, production, pricing and management of currency, and there can be no assurance that the PRC Government will continue to pursue a policy of economic reform or that the direction of reform will continue to be market friendly.

Our ability to successfully expand our business operations in the PRC depends on a number of factors, including macro-economic and other market conditions, and credit availability from lending institutions. The *China Banking Regulatory Commission* began implementing restrictions on bank lending in early 2010. Stricter lending policies in the PRC may affect our ability to obtain external financing, which may reduce our ability to implement our expansion strategies. We cannot assure you that the PRC Government will not implement any additional measure to tighten lending standards, or that, if any such measure is implemented, it will not adversely affect our future results of operations or profitability.

Demand for yarn products and our business, financial condition and results of operations may be adversely affected by the following factors:

- political instability or changes in social conditions of the PRC;
- changes in laws, regulations, and administrative directives or the interpretation thereof;
- measures which may be introduced to control inflation or deflation;
- changes in the rate or method of taxation; and
- reduction in tariff protection and other import and export restrictions.

These factors are affected by a number of variables which are beyond our control.

PRC foreign exchange control may limit our ability to utilise our revenue effectively and affect our ability to receive dividends and other payments from our PRC subsidiaries.

The use and exchange of foreign currencies are heavily regulated in the PRC and the Renminbi is not permitted to be wired directly to offshore accounts. As a foreign invested enterprise, our PRC subsidiary is subject to the regulatory restrictions imposed by the *State Administration of Foreign Exchange of the PRC* ("SAFE"). In general, foreign invested enterprises are allowed to open two types of foreign currency accounts, namely, "current account" and "capital account". Conversion between the Renminbi and of the foreign currencies in the "current account" can be effected without requiring the approval by the SAFE while such conversion in the "capital account" requires approval. A payment to its foreign shareholders by a PRC foreign invested enterprise is considered a transaction under "capital account" and therefore subject to approval by the SAFE. In addition to the requirements imposed by the PRC laws and regulations, SAFE also has the discretionary authority to decide if an approval shall be granted. We cannot guarantee that our PRC subsidiary may always be able to obtain such approval from the SAFE for a distribution of dividends to our Company. As substantially all our operations are based in the PRC, we rely on dividends from our PRC subsidiary for cash resources to distribute dividends to our shareholders. If the SAFE rejects our request to exchange the Renminbi to foreign currencies and remit such amount to our offshore account, we may not be able to distribute dividends to our shareholders and your investment value in us may be materially affected.

The regulations on the management of foreign exchange may also affect our ability to utilise our proceeds from our Global Offering. Further, we cannot assure you that the PRC authorities will not impose further restrictions on methods by which the Renminbi can be converted into foreign currencies. If such measures are imposed in the future, our financial condition, results of operations and growth prospects may be adversely affected.

The value of Renminbi and foreign currencies we trade in may fluctuate and may affect our results of operations.

The value of the Renminbi has been under pressure of appreciation in recent years. There have been international pressures on the PRC to allow more flexible exchange rates for the Renminbi, hence allowing the Renminbi to appreciate. In June 2010, the PBOC announced that in view of the recent economic situation and financial market developments in the PRC and abroad, and the balance of payments situation in the PRC, it has decided to proceed further with reform of the Renminbi exchange rate regime and to enhance the Renminbi exchange rate flexibility. In addition, the exchange rate for the foreign currencies that our operations are exposed to, including but not limited to U.S. dollars and Euros, may also fluctuate against Renminbi.

Any appreciation in the value of the Renminbi or depreciation of foreign currencies that our operations are exposed to will affect our business in different ways. Although the appreciation of the Renminbi or the depreciation of foreign currencies may give us access to less expensive raw materials, it may adversely affect the price competitiveness and profitability of the export-oriented apparel products manufactured by the PRC garment manufacturers in the PRC, as a result of which our sales may be affected. We may also face more intense competition from imported polyester yarns, polyester-cotton blended yarns and cotton yarns at a cheaper price due to the appreciation of the Renminbi or depreciation of foreign currencies. In such events, our business, financial condition, results of operations and growth prospects may be adversely affected.

The PRC economy may experience inflationary pressure and the potential inflation may affect our business.

The global economy is in the course of recovery and there exists inflationary pressure on various economies in the world. It has been expected that the PRC may experience inflation in the coming years, which may result in general increases in prices of goods. Along with the increase in prices of goods, the prices of yarn products as well as our raw materials are expected to rise as well. Inflation in the PRC may also lead to an increase in interest rates and a slowdown in economic growth in the PRC, which may negatively impact our business. The overall impact of inflationary pressure may adversely affect our business, financial condition, results of operations and growth prospects.

We may be deemed as a PRC resident enterprise under the EIT Law and be subject to the PRC taxation on our worldwide income, which may significantly increase our income tax expenses and materially decrease our profitability.

Under the EIT Law, which took effect on 1 January 2008, enterprises established outside China whose "de facto management bodies" are located in China are considered "resident enterprises" and will generally be subject to the uniform 25% EIT rate as to their global income. Under the implementation rules of the EIT Law, "*de facto* management bodies" is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. In April 2009, the *State Administration of Taxation* (國家稅務總局) (the "SAT") promulgated a circular to clarify the criteria to determine whether the "de facto management bodies" are located within the PRC for enterprises incorporated overseas with controlling shareholders being PRC enterprises.

The EIT Law and its implementation rules have certain ambiguities with respect to the interpretation of the provisions relating to resident enterprise issues. As most of our management is currently based in China and may remain in China in the future, we may be treated as a PRC resident enterprise for PRC enterprise income tax purposes. If we are deemed as a PRC resident enterprise, we will be subject to PRC EIT at the rate of 25% on our worldwide income. In that case, however, dividend income we receive from our PRC subsidiaries may be exempt from PRC enterprise income tax because the EIT Law and its implementation rules generally provide that dividends received by a PRC resident enterprise from its directly invested entity that is also a PRC resident enterprise is exempt from enterprise income tax. However, as there is still uncertainty as to how the EIT Law and its implementation rules will be interpreted and implemented, we cannot assure you that we are eligible for such PRC enterprise income tax exemptions or reductions.

Additionally, even if we or our overseas subsidiaries are considered as non-resident enterprises under the EIT Law, if our Hong Kong subsidiary, Treasure Resources, directly transfers the equity interest in our PRC subsidiary, Jinyuan, we would be subject to the PRC enterprise income tax at the rate of 10% for the gains received in such transfer, and, under the *Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprise (Circular Guoshuihan*

(2009) No. 698) (關於加強非居民企業股權轉讓所得稅管理的通知) ("Circular 698")) issued by the SAT on 10 December 2009, if we or any of our overseas subsidiaries indirectly transfer the equity interests in our PRC subsidiaries at the overseas holding companies level, we may be subject to examinations by our PRC subsidiaries' tax authorities and may be subject to the PRC EIT rate of 10%. See the section headed "— Gains on the Sales of our Shares by Foreign Investors and Dividends on our Shares Payable to Foreign Investors may Become Subject to PRC Income Taxes" below.

Gains on the sales of our Shares by foreign investors and dividends on our Shares payable to foreign investors may become subject to PRC income taxes.

Under the EIT Law and its implementation rules, any gain realised by "non-resident enterprises" is subject to PRC income tax at the rate of up to 10% to the extent such gain is sourced within the PRC and: (i) such "non-resident enterprise" has no establishment or premise in the PRC; or (ii) it has an establishment or premise in the PRC, but its income sourced within the PRC has no real connection with such establishment or premise, unless otherwise exempted or reduced by tax treaties. The EIT Law and its implementation have certain ambiguities with respect to the interpretation of the provisions relating to identification of PRC-sourced income. If we are recognised as a PRC resident enterprise under the EIT Law by the PRC tax authorities, our foreign Shareholders that are "non-resident enterprises" may become subject to PRC income tax at the rate of up to 10% under the EIT Law as to the capital gains realised from sales of our Shares by and dividends distributed to such foreign Shareholders as such income may be regarded as income from "sources within the PRC," unless any such foreign Shareholder is qualified for a preferential income tax rate or tax exemption under a tax treaty or tax law, and we may be required to withhold such income tax on the dividends payable by us to such foreign Shareholders.

If the PRC tax authorities recognise us as a PRC resident enterprise under the EIT Law, Shareholders who are not PRC tax residents and seek to enjoy preferential tax rates under relevant tax treaties will need to apply to the PRC tax authorities for recognition of eligibility for such benefits in accordance with the *Measures on Tax Conventions Treatments for Non-Residents (for Trial Implementation)* (非居民享受稅收協定待遇管理辦法(試行)), issued by the SAT on August 24, 2009. It is likely that eligibility will be based on a substantive analysis of the Shareholder's tax residency and economic substance. With respect to dividends, the beneficial ownership tests under the *Notice on Interpretation and Recognition of "Beneficial Owner" under Tax Conventions* (關於如何理解和認定稅收協定中"受益所有人"的通知) will also apply. If determined to be ineligible for treaty benefits, such a Shareholder would become subject to PRC tax rates higher than the preferential tax rates under the relevant tax treaties on capital gains realised from sales of our Shares and on dividends on our Shares. In such circumstances, the value of such foreign Shareholders' investment in our Shares may be materially and adversely affected.

Similarly, Circular 698 provides that except for the purchase and sale of equity through a public securities market, where a foreign corporate investor indirectly transfers the equity of a PRC resident enterprise by disposing the equity of an overseas holding company ("Indirect Transfer") located in a tax jurisdiction that: (i) has an effective tax rate of less than 12.5%; or (ii) does not tax its residents on their foreign income, the foreign corporate investor shall report the Indirect Transfer to the competent PRC tax authority within 30 days from the date when the equity transfer agreement was made. In this case, the PRC tax authority will examine the true nature of the Indirect Transfer. Should it deem the foreign investor to have made the Indirect Transfer without reasonable commercial purpose and in order to avoid the PRC tax, the PRC tax authority may disregard the existence of the overseas holding company that is used for tax planning purpose and re-characterise the Indirect Transfer. As a result, gains derived from such Indirect Transfer by the foreign investor may be subject to the PRC enterprise income tax.

We will be required to record a deferred PRC withholding tax liability if we intend to distribute dividends from our PRC subsidiary to our offshore holding company, which will adversely impact our financial results.

Under the EIT Law, dividends payable to foreign investors that are "derived from sources within the PRC" may be subject to withholding income tax at the rate of 10%, unless otherwise reduced by PRC laws, rules and regulations or through agreements between the PRC Government and the government of other countries or regions. Jiangxi Jinyuan is our sole operating subsidiary in the PRC and a wholly-owned subsidiary of Treasure Resources, our Hong Kong subsidiary. As a result, Jiangxi Jinyuan may be subject to PRC withholding tax at a rate of 10% for dividends we pay from Jiangxi Jinyuan to Treasure Resources, unless Treasure Resources is otherwise exempted from PRC withholding tax under the PRC laws and regulations for such dividends paid. However, if our Directors decide to distribute dividends from Jiangxi Jinyuan to Treasure Resources in the future such as forming a dividend policy that specifies the percentage of our divided over our after-tax earnings, we will be required to record a deferred PRC withholding tax liability in our accounts of 5% according to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對於所得避免雙重徵稅和防止偷漏稅的安排》) (or other applicable percentages as we may be entitled to under the EIT Laws or other applicable rules from time to time) of gross dividend amounts or the prescribed percentage of after-tax earnings. Upon such event, our financial results might be affected.

Negative publicity on PRC products may adversely affect our business and reputation.

Substantially all of our business operations are located and carried out in the PRC. There have been incidents in the past which involved serious allegations of China-made products containing harmful types or levels of chemicals. If such incidents occur again in the future, their associated negative publicity may have an adverse impact on the general manufacturing sector in the PRC and may indirectly create an adverse impact on our business, especially our sales to overseas customers, which may, in turn, create a negative impact on our profit and revenue. In such event, our financial condition, results of operations and growth prospects may be adversely affected.

The PRC environmental laws and regulations may change and our environmental compliance liabilities and costs may increase.

During the Track Record Period, we complied with all relevant environmental protection laws and regulations of the PRC in all material aspects and had not received any notice or warning of non-compliance with the PRC laws and regulations relating to environmental protection. However, with the increasing concern over the deteriorating environment in the PRC, we cannot assure that new laws or regulations will not be introduced in the future or that current laws will not be amended with higher requirements and emission standards applicable to manufacturing enterprises. In such event, in order to comply with the new laws or regulations, we may incur additional costs and take more measures and assign more personnel to make sure our compliance with such laws and regulations. As a result, our financial condition, results of operations and future prospects may be adversely affected.

Any outbreak of severe communicable diseases in the PRC may cause suspension of our operations and affect the economic condition of the PRC which may, in turn, affect our operations.

All of our production facilities and operations are located and carried out in the PRC. If any outbreak of severe communicable disease occurs in the PRC and is inadequately controlled, there may be a negative impact on domestic consumption, labour supply and potentially the overall GDP growth of the PRC, which, in turn, may hinder market activities and slow down the general economic growth of the PRC. As our business is sensitive to the demand for our end customers in the domestic market, the negative effects on our end customers' business may also adversely affect our financial condition, results of operations and growth prospects.

Changes and uncertainties in the PRC legal system may have an adverse effect on our operations.

The PRC is still in the process of developing a comprehensive statutory framework. Since 1979, the PRC Government has established a commercial law system, and significant progress has been made in promulgating laws and regulations relating to economic affairs and matters such as corporate organisation and governance, foreign investment, commerce, taxation and trade. However, many of these laws and regulations are relatively new, and the implementation and interpretation of these laws and regulations remain uncertain in many areas. Consequently, developments and changes in PRC laws and regulations, including their interpretation and enforcement, may have a material and adverse effect on our business, financial condition and results of operations.

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 not been a public market for our Shares. While we have applied to list and deal in the Shares on the Stock Exchange, we cannot assure you that an active or liquid public market for our Shares will develop or be sustained if developed. The Offer Price of the Shares will be determined through negotiations between us and the Sole Bookrunner (on behalf of themselves and the other underwriters of the Global Offering), and it may not necessarily be indicative of the market price of the Shares after the Global Offering is complete. An investor who purchases Shares in the Global Offering may not be able to resell such Shares at or above the Offer Price and, as a result, may lose all or part of the investment in such Shares. In addition, as there will be a five Business Day gap between the pricing and trading of the Shares offered in the Global Offering, the initial trading price of our Shares could be lower than the Offer Price due to a variety of reasons including material negative events affecting us.

The liquidity, trading volume and trading price of our Shares may be volatile, which could result in substantial losses for Shareholders.

The price at which the Shares will trade after the Global Offering will be determined by the marketplace, which may be influenced by many factors, some of which are beyond our control, including:

- our financial results;
- changes in securities analysts' estimates, if any, of our financial performance;
- the history of, and the prospects for, us and the industry in which we compete;

- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future revenues and cost structures such as the views of independent;

- research analysts, if any;

- the present state of our development;

- the valuation of publicly traded companies that are engaged in business activities similar to ours; and

- general market sentiment regarding polyester yarns and cotton yarn companies.

In addition, the Stock Exchange has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of companies quoted on the Stock Exchange. As a result, investors in our Shares may experience volatility in the market price of their Shares and a decrease in the value of Shares regardless of our operating performance or prospects.

Prior dividend distributions are not an indication of our future dividend policy.

Jinyuan, our sole operating subsidiary in the PRC, declared dividends of approximately RMB42.9 million and RMB85.8 million for the years ended 31 December 2009 and 2010, respectively, to its then owners and representing 64.8% and 73.0% of our net profit, respectively. Jinyuan did not declare dividends for the year ended 31 December 2008 and the six months ended 30 June 2011.

Historical dividend distributions are not indicative of our future distribution policy and we can give no assurance that dividends of similar amounts or at similar rates will be paid in the future. Any future dividend declaration and distribution by us will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors deem relevant. Any declaration and payment as well as the amount of dividends will also be subject to our constitutional documents and the Companies Law, including (where required) the approval of shareholders. In addition, our future dividend payments will depend upon the availability of dividends received from our subsidiary in the PRC, which are subject to restrictions described in " — Risks Relating to the PRC — We may be Deemed as a PRC Resident Enterprise under the EIT Law and be Subject to the PRC Taxation on our Worldwide Income, which may Significantly Increase our Income Tax Expenses and Materially Decrease our Profitability" above. For further details of our dividend policy, see the section headed "Financial Information — Dividend and Dividend Policy" in this Prospectus.

Our Controlling Shareholders may exert substantial influence over our Group and may not act in the best interest of the other Shareholders.

The Controlling Shareholders will control the exercise of voting rights of 46.76% of the Shares eligible to vote in our general meeting immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised). Therefore, the Controlling Shareholders will continue to be able to exercise controlling influence over our business through their ability to control actions which do not require the approval of independent shareholders. Subject to our Memorandum and Articles as well as the Companies Law, the Controlling Shareholders will also be able to control the election of our Directors, alter our share capital, make amendments to our Memorandum and Articles, determine the timing and amount of our dividends, if any, and pass resolutions to acquire or merge with another company not connected with the Controlling Shareholders. The Controlling Shareholders may cause us to take actions that are not in, or may conflict with, the interests of us or the public Shareholders. In the case where the interests of the Controlling Shareholders conflict with those of our other Shareholders, or if the Controlling Shareholders choose to cause us to pursue objectives that would conflict with the interests of our other Shareholders, such other Shareholders could be left in a disadvantageous position by such actions caused by the Controlling Shareholders and the price of the Shares could be adversely affected.

Shareholders' interests may be diluted as a result of additional equity fund-raising.

We may need to raise additional funds in the future to finance further expansion of our capacity and business. If additional funds are raised through the issuance of new equity or equity-linked securities of us other than on a *pro rata* basis to existing Shareholders, the percentage ownership of such Shareholders in us may be reduced, and such new securities may confer rights and privileges that take priority over those conferred by the Shares.

Future sales of a substantial number of our Shares in the public market could materially adversely affect the prevailing market price of our Shares.

Additional sales of our Shares in the public market after the completion of this Global Offering, or the perception that these sales could occur, could adversely affect the market price of our Shares. All Shares sold in this Global Offering will be freely transferable. We and our Controlling Shareholders have agreed, subject to certain exceptions, not to transfer or dispose of any of our Shares, in the form of Shares or otherwise, for a period of six months after the Listing Date. After the expiration of the six months period, the Shares held by these Shareholders may be sold, and we may sell additional Shares. To the extent Shares are sold into the market, the market price of our Shares could decline.

The costs of share options to be granted under the Share Option Scheme may adversely affect our results of operations and any exercise of the options granted will result in dilution to our Shareholders.

We have adopted the Share Option Scheme pursuant to which we will in the future grant to our employees options to subscribe to Shares. Such options if exercised in full will represent 10% of our issued share capital immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised). The fair value of the options at the date of which they are granted with reference to the valuer's valuation will be charged as share-based compensation which may have a negative effect on our results of operations. Issuance of Shares for the purpose of satisfying any award made under the Share Option Scheme will also increase the number of Shares in issue after such issuance, and thus will result in the dilution to the percentage of ownership of the Shareholders, the earnings per Share and the net asset value per Share. Details of the Share Option Scheme and the options granted thereunder are set out in the sections headed "Statutory and General Information — Other Information — Share Option Scheme" in Appendix VI in this Prospectus.

You may face difficulties in protecting your interests under Cayman Islands law.

Our corporate affairs are governed by, among other things, the Articles of Association, the Companies Law and common law of the Cayman Islands. The rights of Shareholders to take action against the Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands and our Articles of Association. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in 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 in Hong Kong and other jurisdictions. The remedies available to the minority Shareholders may be limited compared to the laws of other jurisdictions.

The current market conditions may not be reflected in the statistical information provided in this Prospectus.

The historical information provided in this Prospectus relating to market conditions and valuation may not reflect the current market due to rapid changes in global and the PRC economy. In order to provide context to the industries in which we operate, and greater understanding of our market presence and performance, various statistics and facts have been provided throughout this Prospectus. However, this information may not reflect current market conditions as the gradual economic recovery may not be fully factored into these statistics. As such, any information relating to market value, sizes and growth, or performance in these markets and other similar industry data should be viewed as historical figures that are not indicative of future results.

Investors should not place undue reliance on industry and market information and statistics from official government publications contained in this Prospectus.

This Prospectus contains information and statistics derived from official government publications, including but not limited to information and statistics relating to the PRC, and the cotton yarn and home textile industries and markets. We cannot ensure the accuracy of such information and statistics and such information may not be consistent with other information publicly available or available from other sources. Prospective investors should not place undue reliance on any of such information and statistics contained in this Prospectus.

Investors should not place undue reliance on information derived from research reports contained in this Prospectus.

This Prospectus contains information derived from research reports, including but not limited to information and statistics relating to the PRC as well as the polyester yarns, polyester-cotton blended yarns, cotton yarns and home textile industries and markets. We believe that the sources of this information are appropriate sources for such information and 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 information has not been independently verified by us, the Sole Sponsor, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy. Prospective investors should not place undue reliance on any of such information contained in this Prospectus.