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

This prospectus contains certain forward-looking statements regarding the Company's plans, objectives, expectations, and intentions which involve risks and uncertainties. The Group's actual results could differ materially from those set out in this prospectus. The trading price of the Offer Shares could decline due to any of these risks and you may lose all or part of your investment.

RISKS RELATING TO THE GROUP AND ITS BUSINESS

The cotton yarn and fabric manufacturing industry is highly competitive and the Group may lose market share if it does not compete successfully

The cotton yarn and fabric manufacturing business is highly competitive. The Group competes with both domestic and foreign textile manufacturers of different sizes. The principal factors that determine the procurement decision of its customers include product variety, product quality, reliability of supply and prices. The Group's products are produced in accordance with general commercial standards. If its competitors are able to offer more product choices with comparable quality at lower prices, the sales and results of operations of the Group could be materially and adversely affected.

The Group is also exposed to the risk that other companies may enter the market or expand their scales of operation in the future. There may also be significant consolidation in the industry. Its competitors may mark down their selling prices aggressively to achieve market penetration, resulting in more intense competition. Consequently, the intensified competition may drive the market prices down, squeeze the margin and/or eventually lead to loss of market shares, any of which could materially and adversely affect its results of operations. Indeed, the Group may not compete effectively against current and future competitors.

The Group's success relies on its ability to respond to the fast changing market demands for yarn and fabric products

The performance of the Group is determined by the market demand of its cotton yarn and grey fabric products. The supply and demand for these products depends on the market trend, customer needs as well as macroeconomic conditions and other factors. Whether or not the Group can sustain its growth hinges on the ability to cater for its customers' production needs. In addition, the production cycle of its customers and their demands may also be affected by changes in the economic conditions.

In order to enhance its business performance and profitability, the Group has strategically aligned its actual production volume of cotton yarns and grey fabrics over the Track Record Period in response to the market demand. The Directors believe that cotton yarns are relatively more adaptable to changes in market environment resulting from variations in customers' preferences and the availability of higher quality and greater diversity of yarn products enables the Group to produce a greater variety of fabric products. The Group will primarily focus on expanding its product spectrum in cotton yarn products by construction and/or upgrading and modification of production facilities. The Group's sales in cotton yarn increased from approximately RMB166,678,000 in 2008 to approximately RMB181,392,000 in 2009 and further increased to approximately RMB501,323,000 in 2010. During the Track Record Period, the Group's grey fabric sales increased from approximately RMB292,226,000 in 2008 to approximately RMB372,948,000 in 2009 and then declined to approximately RMB208,625,000 in 2010. Since the fourth quarter of 2009, the Group has experienced a decline in demand for its current grey fabric product models, leading to change in demand and supply for the products of the Group. Details of an analysis of the revenue of the Group during the Track Record Period are set out in the section headed "Financial Information" in this prospectus. The portion of revenue generated from cotton yarn decreased slightly from approximately 36.3% in 2008 to approximately 32.7% in 2009 and significantly increased to approximately 70.6% in 2010. Hence, the corresponding portion of revenue generated from grey fabric increased slightly from approximately 63.7% in 2008 to approximately 67.3% in 2009 and decreased significantly in 2010 to approximately 29.4%. The average sales volume and selling price of cotton yarn for the five-month ended 31 May 2011 increased by approximately 14% and 29% respectively compared with the average monthly sales volume and selling price in 2010. The average sales volume of grey fabrics for the five-month ended 31 May 2011 decreased by approximately 1.2% when compared with the average monthly sales volume in the last quarter of 2010 while the selling price of grey fabrics for the five-month ended 31 May 2011 increased by approximately 15% when compared with the average selling price in the last quarter of 2010.

The gross profit of the Group increased from approximately RMB114.3 million in 2008 to approximately RMB152.9 million in 2009 and further to approximately RMB156.0 million in 2010 during the Track Record Period, in line with the increase in scale of operations of the Group. During the Track Record Period, the gross profit margin increased from 24.9% in 2008 to 27.6% in 2009 and then declined to 22.0% in 2010 due to the change in proportion of cotton yarns and grey fabrics in the Group's sales. The grey fabric, as a product of cotton yarn, generally derives a higher unit gross profit. The net profit increased from approximately RMB76.0 million in 2008 to approximately RMB98.9 million in 2009 and slightly dropped to approximately RMB97.4 million in 2010 while the net profit margin increased from approximately 16.5% in 2008 to 17.9% in 2009 and decreased to 13.8% in 2010. This was in line with the change in gross profit during the Track Record Period. Details of an analysis of the gross profit, net profit and product mix of the Group during the Track Record Period are set out in the section headed "Financial Information" in this prospectus.

Due to the competition from higher density grey fabric products from other manufacturers, the Group may experience drop in the demands for its grey fabric products in the future. There is no guarantee that the Group will be able to capture and respond to changes in market or its change in marketing and production strategies may achieve desired outcome in the future. If the Group is unable to respond rapidly and effectively to the fast changing market trend and customers' demand, its operating results may be materially and adversely affected.

Adverse changes in the market demand for the products offered by the Group may affect its revenue and profit

All the sales of the Group are generated in the PRC. Since the fourth quarter of 2009, the Group has experienced a decline in demand for its current grey fabric product models, leading to the change in demand and supply for the Group's products. For the three years ended 31 December 2010, sales of the Group amounted to approximately RMB458.9 million, RMB554.3 million and RMB709.9 million, respectively while its gross profit margin was 24.9%, 27.6% and 22.0% respectively. The net profit for the Track Record Period was RMB76.0 million, RMB98.9 million and RMB97.4 million, respectively. The demand for and the price of cotton yarn and grey fabric are subject to fluctuations. It is uncertain that the Group can successfully broaden its revenue sources or generate additional revenue at a level comparable to that from the sales of cotton yarn and grey fabrics. In the event that there is any material adverse change in market demand for and/or prices of cotton yarns and grey fabrics, the Group's revenue and profitability may be materially and adversely affected.

The demand for cotton textile products could be adversely affected by the availability of non-cotton substitutes

The Group principally manufactures and sells cotton made textile products. Apart from cotton, a spectrum of non-cotton materials such as wool and linen and synthetic materials such as polyesters can be used as substitutes for cotton in the manufacture of textile products. Accordingly, the demand for cotton-manufactured products may be adversely affected by an increase in the demand or ease of availability of non cotton-based substitute products. In the event that there is a decrease in market demand for cotton-manufactured products, and the Group is unable to adapt its operations to produce non cotton-manufactured products, its future prospects and results of operation may be adversely affected.

The Group does not have long-term sale contracts with its customers, which may result in significant uncertainty and volatility of its turnover

The Group generates its revenues primarily from purchase orders placed by its customers and had not entered into any long-term sales agreements with its customers during the Track Record Period. Its customers may cancel, reduce or defer purchase orders at any time. Accordingly, the volume of its customers' purchase orders and its product mix may vary significantly from period to period, and it is difficult to forecast future order quantities and trends. There is no assurance that any of its customers will continue to place purchase orders with the Group in the future at the same quantity and pricing level as in the current or prior periods, or at all. Furthermore, the actual volume of its customers' purchase orders may be inconsistent with the expectations of the Group at the time the Group prepares its future production and development plan. As a result, its results of operations may vary from period to period and may fluctuate significantly in the future.

The Group relies on its core experienced management team in its operations

The Group believes that its success in the past depended significantly on contribution from its core experienced management team. The management members, led by Mr. Chen, the managing director of the Company, have devoted significant effort to its business development and are responsible for business strategies implementation. Details of the management team are set forth in the section headed "Directors, Senior Management and Employees" in this prospectus. The future success of the Group is also dependent on their continued involvement, effort, performance and the Group's ability to attract and retain the services of the core management team. If members of the core management team terminate their service without suitable and timely replacements, it may result in the loss of strategic direction and adversely affect business operations, future prospects and results of operation of the Group.

The Group's success depends on key suppliers for raw materials, any failure in obtaining raw materials may adversely affect its business

The principal raw material used in the production of cotton yarn and grey fabric products is lint cotton and is sourced from domestic suppliers, mainly in Xinjiang. During the Track Record Period, approximately 66.9%, 70.5% and 60.9% of the lint cotton purchase was sourced from the top five suppliers of the Group respectively. In general, the Group may enter into medium supply contract, typically 3 to 6 months with a number of major suppliers from time to time to set out the quantity and prices of supply. The monthly average domestic cotton prices (CC Index 328 type) continued to escalate to approximately RMB30,732 per tonne for March 2011 and then declined to approximately RMB29,005 per tonne and RMB25,042 per tonne respectively for April and May 2011. The decline was resulted from market adjustment following the upsurge in international and domestic cotton prices for approximately 7 consecutive months since September 2010 and decline of mill consumption of cotton. Details of the trend of cotton prices in 2011 (up to May 2011) are set out in the section headed "Industry Overview" in this prospectus. As such, there is no guarantee that the Group is able to source sufficient lint cotton at competitive prices in a timely manner. The Group could also experience material production delays and increase in production costs if the Group is unable to locate alternative source of raw materials on time and at favourable or similar prices.

In addition, in case of continuous declining trend of lint cotton price over medium term or a prolonged period, the use of medium supply contracts for lint cotton purchases may result in the Group suffering reductions in gross margin or even losses.

The Group's operations heavily depend on lint cotton suppliers from Xinjiang

During the Track Record Period, the lint cotton purchases from suppliers in Xinjiang accounted for approximately 70.7%, 65.7% and 61.0% of the total cotton purchases respectively. The Directors consider that the high reliance on lint cotton supply from Xinjiang provides quality consistency for the Group's products. However, in the event that the lint cotton supply from Xinjiang is interrupted due to the occurrence of adverse weather conditions or unforeseeable natural disasters and the Group is not able to locate sufficient alternative lint cotton source in a timely manner, the Group's operations and its financial performance will be materially and adversely affected.

The operating results may be adversely affected by fluctuations in prices and supplies of raw cotton

Lint cotton is the major material used in the production of cotton yarn and grey fabric. During the Track Record Period, the cost of lint cotton accounted for 60.3%, 65.1% and 75.3% of total cost of production respectively. As an agricultural product, the supplies and quality of lint cotton are vulnerable to various factors beyond the Group's control, including weather, infestations and other forces of nature that can result in shortage and inferior quality in supplies and an increase in cotton price. As a domestically and internationally traded commodity, the market prices of lint cotton are also subject to fluctuation from time to time. During the Track Record Period, the unit purchase costs per ton of lint cotton were approximately RMB10,733, RMB10,936 and RMB14.501, respectively. As illustrated by the above figures, the Group experienced an approximately 32.6% increase in lint cotton purchase price from the year ended 31 December 2009 to the year ended 31 December 2010 as a result of increase in cotton prices in the domestic PRC market. According to the U.S. Department of Agriculture (USDA), the increase in PRC cotton prices was driven by shortage in supply due to higher actual consumption than forecast in 2009/10 cotton marketing year. The shortage in supply of lint cotton was further intensified by the relatively low stock level of cotton as a result of the loss in cotton growing area to other competing crops such as soybeans, maize and wheat. Any shortage of supplies of lint cotton may cause disruption to the production schedule. If there is a significant increase in the prices of raw materials in the future, the Group's profitability would be materially and adversely affected if the Group is unable to pass on the increased cost to its customers.

The Group may face risks and uncertainties associated with its future expansion plans and may fail to manage its growth effectively

To further capture market opportunities and achieve a desired scale of economies, the Group has expanded and intended to continue to expand its production capacities. In the event such expansion and construction plan does not materialize or is not completed on time, the profitability and development of the Group may be materially and adversely affected. Any failure to successfully manage its expansion may make it difficult to compete effectively, develop new products or take advantage of new markets.

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

As disclosed in the section headed "History and Corporate Structure", three of the Group's production plants, namely Jing Yang Production Plant, Dali Production Plant and Guang Hua Production Plant have been set up through acquisition and subsequent modification.

As part of its growth strategy, the Group may continue to pursue selective strategic acquisitions of businesses and assets which complement its existing business and/or operations along with its own expansion plan. The Group 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, including but not limited to redundancy payments and other third party liabilities;

— failure to achieve the intended objectives, benefits or revenue-enhancing opportunities;

— costs and difficulties of integrating acquired businesses and/or assets with existing operation and managing a larger business if further tightening of industry policies such as scope expansion in "eliminated category" in the Guiding Catalog for Adjustment in the Structure of Industries (產業結構調整指導目錄); and

— diversion of resources and management attention.

The Group may face risks and uncertainties if further tightening of industry policies in the Guiding Catalog for Adjustment in the Structure of Industries (產業結構調整指導目錄)

Pursuant to the Tentative Regulation to Promote the Adjustment in the Structure of Industries (促進產業結構調整暫行規定) issued on 2 December 2005, "eliminated" category refers to the production technique, equipment and product: (i) not fulfilling the relevant rules and regulations of the PRC; (ii) causing significant wastage and pollution to the environment; or (iii) not complying with safety production requirements. Under the Guiding Catalog for Adjustment in the Structure of Industries (產業結構調整指導目錄) (2005 version), production facilities classified as "eliminated category" in cotton textile industry (Group I(12)) include the following models of spinning machines:

(1) Models manufactured before the establishment of the PRC;

(2) All series 1 models;

(3) A512 and A513 models manufactured in or prior to 1979;

(4) B581 and B582 models for fine count yarn production; and

(5) BC581 and BC582 models for coarse count yarn production.

On 6 February 2010, the State Council issued the Notice of Expediting the Elimination of Backward Production Capacity (關於進一步加強淘汰落後產能工作的通知) setting out a concrete timeframe for elimination of production facilities classified as "eliminated category" in the 2005 version of Guiding Catalog for Adjustment in the Structure of Industries (產業結構調整指導目錄) for various manufacturing industries including steel, non-ferrous metals, light and textile industries.

On 27 March 2011, the NDRC issued Order No. 9 in respect of promulgation of the 2011 version of the Guiding Catalog for Adjustment in the Structure of Industries (產業結構調整指導目錄(2011年本)) to replace the 2005 version, with effect from 1 June 2011. The 2011 version of the Guiding Catalog for Adjustment in the Structure of Industries expands the scope of "eliminated category" Group I (13) for cotton textile industry as follows:

1. All "1" series cotton spinning facilities including blowing, carding, drawing, roving and spinning equipment; Series 1332 cone-winding machines; Series 1511 weaving machine; all "1" series warping and sizing equipment;

2. Spinning machine models A512 and A513; and

3. Spinning machine models B581 and B582 models for fine count yarn production and models BC581 and BC582 models for coarse count yarn production.

The Directors have conducted a review of the Group's production facilities and noted that approximately 1,261 units of loom for grey fabric production were classified as Series 1511 weaving machines as specified in item 1 above as at 30 April 2011, of which approximately 721 units and 540 units were located in Dali Production Plant and Guang Hua Production Plant respectively and have been suspended from production and fully written off upon the 2011 version of the Guiding Catalog for Adjustment in the Structure of Industries came into effect on 1 June 2011. These weaving machines subject to elimination represented approximately 81.0% and 38.3% of the number of looms in Dali Production Plant and Guang Hua Production Plant respectively.

As at 31 May 2011, the net book value of these 1,261 units of looms amounted to approximately RMB207,000 and had been fully written off upon the new catalog came into effect. The Directors estimate that the Group's grey fabric production capacity will be reduced to approximately 45.2% of current level or approximately 57,216.8 kilometers in term of grey fabric model C 19.5/19.5 236/228

170 cm upon suspension of the above eliminated weaving machines. Based the Group's record, the Group produced grey fabric products amounting to approximately 45,575 kilometers in term of grey fabric model C 19.5/19.5 236/228 170 cm in 2010.

If the industry policies in the Guiding Catalog for Adjustment in the Structures of Industries is further tightened, the facilities of the Group may fall within the "eliminated category". If the Group's facilities fall within the "eliminated category" in the future, the Group's production, sales and profitability would be materially and adversely affected.

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

At present, 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 the current structure, the Company's source of funds will primarily consist of dividend payments by its subsidiary in the PRC denominated in RMB. There is no assurance that the Group will be able to meet all of its foreign currency obligations or to remit profit out of China. If the Group is unable to obtain approval from SAFE or if future changes in relevant regulations were to place restrictions affecting the ability of the Group to remit dividend payments to the Company, the Company's liquidity and ability to satisfy its third party payment obligations and its ability to distribute dividends in respect of the Shares may be materially and adversely affected.

Certain production facilities are situated in leasehold properties

Jing Yang Golden Shield leased certain properties including various buildings and structures for production purposes from Shaanxi Golden Shield. According to the building lease agreement dated 20 June 2010, 48 buildings, covering all buildings and structures located at Dali Production Plant and Guang Hua Production Plants, are leased for a term of 20 years commencing from 5 August 2009 at nil cost. The lease constitutes an exempted continuing connected transaction upon Listing. For details, please refer to the paragraph headed "Leased properties" under the sub-section headed "Properties" in the "Business" section in this prospectus.

Pursuant to the lease agreement, Jing Yang Golden Shield has the priority to renew the leases upon expiration of the lease. Moreover, the Group has the first right of refusal to purchase the properties at any time during the lease term. There is no assurance that Shaanxi Golden Shield will be able to honour its obligations to sell the buildings together with respective land use rights to the Group when Jing Yang Golden Shield exercises the first right of refusal. In addition, in the event of an early termination by Shaanxi Golden Shield of the lease agreement for any reason, Jing Yang Golden Shield would be required to find alternative location to relocate the production facilities, which could cause disruption to the operations.

Certain buildings are not granted with building ownership certificates

In the Jing Yang Production Plant, 15 buildings with total gross floor area of approximately 15,978.14 sq.m., representing approximately 36.8% of total gross floor area in the plant, are used for workshop, office, warehouse, dormitory and anciliary purposes without building ownership certificates. These buildings are part of the production and ancillary facilities acquired from the State-owned Assets Supervision and Administration Bureau of Jing Yang County in 2001 and are in use since their completion between 1970s and 1990s. In the event that the local authority orders the Jing Yang Golden Shield to remove these properties for safety purpose, Jing Yang Golden Shield would be required to find alternative location to relocate the dormitory, which may cause additional costs to the operations.

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

Although the Group only generates a minimal level of pollutants and wastes in various stages of the manufacturing process, its operations are subject to periodic inspections by the relevant PRC environmental protection authority. The discharge, storage and disposal of pollutants and wastes are subject to prevailing environmental laws and regulations in the PRC, including laws and regulations requiring clean-up of contamination and reclamation. However, more stringent standards may be introduced and/or stricter interpretations and enforcement of existing laws may occur in the future. Changes in the regulatory requirements may impose additional operating costs and liabilities for which the Group has not provided.

Non-compliance with the social insurances and housing fund contribution regulations in the PRC could lead to imposition of penalties or other liabilities

Jing Yang Golden Shield, being the primary operating subsidiary of the Group in the PRC, is required to make social insurance contributions, such as retirement fund insurance, work-related injury insurance and housing fund, for the benefit of its own employees in accordance with relevant PRC laws and regulations. For each of the three years ended 31 December 2009 (the "Period"), Jing Yang Golden Shield had a total of 660, 2,480 and 2,615 full time employees respectively. According to the contribution rates enacted in Shaanxi provinces, Jing Yang Golden Shield's outstanding amounts of social insurance contributions amounted to approximately RMB1,568,000, RMB3,079,000 and RMB9,105,000, respectively, whereas the estimated contribution for housing fund for the Period amounted to approximately RMBNil, RMB637,000 and RMB1,844,000 respectively. As at 31 December 2010, all outstanding social insurance in relation to prior year contributions were settled in full. As such, the Directors consider that the social insurance contribution had been sufficiently and adequately provided during the Track Record Period.

On 12 May 2010, Jing Yang Golden Shield made an inquiry with the local social insurance bureau as well as the local housing fund administration centre on how Jing Yang Golden Shield could make the relevant contributions. On 20 May 2010, the local social insurance bureau issued a letter confirming that Jing Yang Golden Shield (i) was permitted to make outstanding social insurance contributions in installments by the end of 2010; (ii) would not be subject to any penalties; and (iii) had complied with the relevant social insurance laws and regulations for the three years preceding the issue of the said letter. On 9 July 2010, local social insurance bureau issued another confirmation letter that Jing Yang Golden Shield had made sufficient amount for the social insurance contributions in accordance with relevant laws and regulations since its establishment to 31 December 2006.

On 25 September 2010, Jing Yang Golden Shield made an application to Xian Yang Housing Fund Administration Centre (咸陽市住房公積金管理中心) to make an outstanding contribution in respect of housing fund for the Period and current year contribution.

On 9 October 2010, the local housing fund administration centre issued a confirmation to Jing Yang Golden Shield that (i) no penalty had been imposed on it due to outstanding housing fund contribution and (ii) the local housing fund administration centre agreed to waive the right to seek outstanding housing fund contributions, including any penalties, prior to 2010. According to the confirmation, Jing Yang Golden Shield is only required to settle the housing fund contributions with effect from 2010 and hence, the outstanding contributions for housing fund as at 31 December 2010 was related to current year contribution. For further details of social insurance and housing fund contribution, please refer to the paragraph headed "Social Insurances and Housing Fund" in the section headed "Directors, Senior Management and Employees" and the sub-paragraph headed "Social Insurances and Housing Fund" of the paragraph headed "Labour Laws and Safety Matters" in Appendix V to this prospectus.

The insurance coverage may not be sufficient to cover the risks related to the Group's operations and losses

The Group's manufacturing process may be associated with risks and hazards that may cause significant harm to persons or damage to properties. There is no assurance that the Group's operations will be free from accidents or that the insurance policies will be adequate to cover all losses incurred. Losses incurred and associated liabilities may have a material adverse effect on the Group's results of operations if such losses or liabilities are not covered by the insurance policies.

Maintaining the Group's reputation is a key to the success of its business and operating results

The Group believes that its reputation for product quality, product variety and customer service has contributed significantly to its success. Defects in products, failure to meet delivery schedules or other factors could damage its reputation and business relationships with customers and consequently, leading to lower product turnover and higher remedy costs. As the cotton textile market becomes increasingly competitive, maintaining its reputation and enhancing its competitive position may be increasingly difficult.

The Group may be unable to secure enough capital to implement the expansion plans in full and to finance the increased need for working capital

The Group plans to expand its business in order to capture market opportunities. It is expected to spend a total of RMB117 million on capital expenditures between 2011 and 2013 to construct new production facilities and install new machineries in all its production plants. Additional working capital for increasing capital expenditures may also be required in the future as the operation grows. The Group anticipates that the capital requirements will be financed primarily by the proceeds of the New Issue as well as cash from operating and financing activities.

However, the proceeds of the New Issue and cash from the operating and financing activities may not be sufficient to fund all of the future business plans. The Group expects to use cash generated from the operations, bank borrowings and issue of new equity or debt securities to fill any gap of capital requirement. The ability of the Group to obtain external financing depends on various factors, including financial conditions, operating results, cash flow, Share price and other factors, some of which are beyond its control. The Group may need to raise funds through the issuance of new equity or debt securities. In the event the Group issues new equity securities, the percentage shareholding of existing Shareholders may be diluted. Issuance of debt securities, on the other hand, may impose debt covenants which may limit the Group's ability to develop its business and obtain other financing. In addition, in either case, the Group may incur a higher financing cost than the current level. In such event, the business, financial conditions, results of operations and growth prospects of the Group may be materially and adversely affected.

Registration of the Group's logos as trademarks is pending approval

As at the Latest Practicable Date, the Group has applied for registration of the Company's logos of "", "" and "金盾控股 GOLDEN SHIELD" in Hong Kong. For details of the pending trademark application, please refer to the table set out in the sub-paragraph headed "Intellectual property" of the paragraph headed "Further Information about the Business" in Appendix VI to this prospectus.

The brand names and intellectual property rights, including the registered and pending registrations, are important assets of the Group. The Directors are not aware of any material infringement of the Group's intellectual property rights during the Track Record Period and the period up to the Latest Practicable Date. The Directors believe that the Group has taken all reasonable measures to prevent any infringement of its intellectual property rights and to avoid any losses as a result of infringement of the intellectual property rights by third parties including the use of Company's logos.

Notwithstanding the above, there is no assurance, that the Group will receive approval for the pending trademark registrations. In the event that the Group is unable to secure the trademark registrations, the use of the Company's logos by the Group may expose to potential litigation risk in the future.

RISKS RELATING TO THE PRC

Increases in labour costs in the PRC could materially and adversely affect the Group's profitability

The Group's operation is labour intensive. As at the Latest Practicable Date and 31 December 2010, the Group had 2,736 and 2,572 employees respectively. During the Track Record Period, labour cost amounted to approximately RMB13.7 million, RMB34.9 million and RMB45.9 million, which accounted for about 4.0%, 8.7% and 8.2% of total production cost respectively. If the Group fails to secure sufficient labour for its operations, it may not be able to manufacture and deliver its products on schedule or to implement its expansion plans, whereby its business, financial condition, results of operations and prospects would be materially and adversely affected. Moreover, if there is a significant increase in labour cost, the cost of its operations would increase and its profitability would be adversely affected.

On 29 June 2007, the Standing Committee of the National People's Congress promulgated the PRC Labour Contract Law (中華人民共和國勞動合同法) (the "Labour Contract Law"), which became effective on 1 January 2008. The Labour Contract Law imposes greater liabilities on employers and significantly impacts on the cost of an employer's decision to reduce its workforce. Furthermore, it requires certain terminations to be based upon seniority and not on merit. If the Group decides to significantly scale down its workforce in the PRC, the Labour Contract Law could materially and adversely affect its ability to enact changes most advantageous to its situation or in a timely and cost effective manner, thus the results of operations could be materially and adversely affected. The Group also could incur additional substantial compliance costs in connection with the Labour Contract Law.

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

The profit attributable to equity shareholders is affected by the level of income tax rate that the Group is subject to and the level of the preferential tax treatment that the Group is 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 Enterprise 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 Enterprise Income Tax Law of the PRC on 6 December 2007 and a GuoFa [2007] No. 39 Notice on the Implementation of the Transitional Preferential Enterprise Income Tax Law Policies (關於實施企業所得稅過渡優惠政策的通知) 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 enterprise 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 under the above GuoFa [2007] No. 39 Notice. Enterprises which enjoyed a fixed period of tax exemption and reduction 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 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 the Group that are not incorporated in the PRC may in the future be recognised as a PRC tax resident enterprise in accordance with the interpretation of the New Tax Law by the PRC taxation authorities. Pursuant to the New Tax Law, dividends received by a qualified PRC tax resident from another PRC tax resident are exempt from enterprise 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 the Group in the PRC to their overseas holding companies will be exempted from enterprise income tax if they are recognised as PRC tax residents. The Group's 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, the Group 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 the Shares and dividends on the 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 the Group is required under the New Tax Law to withhold

PRC income tax on capital gains on sales of Shares and/or dividends on the Shares payable to foreign equity shareholders, the value of foreign equity shareholders' investment in the Shares may be materially and adversely affected.

Changes in political and economic policies may have a negative impact on the Group's operations

The majority of the Group's assets are located in the PRC. Substantially all of the turnover is derived from products manufactured by its facilities in the PRC. Hence, the Group's 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 the Group has benefited from some of the economic reforms implemented by the PRC government, government control of the economy nevertheless may have a negative effect on the Group. It is difficult to predict how future policies will affect the cotton textile industry.

Moreover, there is no assurance that the PRC government will continue to pursue economic reforms. A variety of policies and other measures taken by the PRC government to regulate the economy could have a negative impact on the Group's 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. The Group's business, financial condition and results of operations may be adversely affected by the PRC government's political, economic and social policies and regulations.

Shareholders who are PRC residents may be subject to personal liability in relation to the PRC regulations relating to the establishment of offshore special purpose vehicles by PRC residents and the ability to inject capital into PRC subsidiaries and to distribute profits by PRC subsidiaries may be limited

Pursuant to the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles (國家外滙管理局關於境內居民通過境外特殊目的公司融資及返程投資外滙管理有關問題的通知) ("Circular 75"), PRC residents are required to register with the local SAFE before establishing or controlling any company, referred to in the circular as a special purpose vehicles ("SPV"), outside of the PRC for the purpose of capital financing and to register again after completing an investment in or acquisition of any operating subsidiaries in the PRC, referred to herein as a "round-trip investment". Besides, any change of shareholding or any other material capital alteration in such SPV must be filed within 30 days starting from the date of shareholding transfer or capital alteration.

The Company's PRC legal advisers have advised that Mr. Qiu, Mr. Li and Mr. Chen applied for a foreign exchange registration of overseas investment at the local SAFE in Xian Yang City in accordance with Circular 75 in December 2010.

By a confirmation letter dated 8 December 2010, the SAFE of Xian Yang City confirmed that there is no legal impediment for Mr. Qiu, Mr. Li and Mr. Chen to obtain the foreign exchange registrations. The PRC legal advisers to the Company have advised that the SAFE of Xian Yang City is the appropriate authority to issue the confirmation, the foreign exchange registrations for Mr. Li, Mr. Qiu and Mr. Chen were properly executed and do not have any legal impediment.

The Company's PRC legal advisers have advised that there remain substantial uncertainties in the interpretation and implementation of Circular 75 and its implementation rules. If the relevant authorities in the PRC later determine that the registrations are invalid and that Mr. Qiu, Mr. Li and Mr. Chen had not otherwise complied with Circular 75, they may be subject to fines, administrative penalties and other legal sanctions. This may limit their ability to inject capital into the PRC subsidiaries of the Group or limit the ability of the PRC subsidiaries of the Group to distribute profits to the Company, any of which may materially and adversely affect the business and financial condition of the Group.

RISKS RELATING TO THE SHARE OFFER

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

Prior to the Share Offer, there has been no public market for the Shares. The Offer Price may not be indicative price at which the Shares will trade following completion of the Share Offer. Accordingly, the Group 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 Shares may experience fluctuations in its price and/or trading volume

The price and trading volume of the Shares may be highly volatile. Large and sudden changes in trading volume and share price of the Shares may be caused by different factors such as variations in turnover, earnings and cash flow, announcements of new technologies, strategic alliances or acquisitions, industrial or environmental accidents suffered by the Group, loss of key personnel, litigation or fluctuations in the market prices of products or raw materials.

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.

The Group will continue to be controlled by the Controlling Shareholders whose interests may not align with those of the other Shareholders

Immediately following the Share Offer, Mr. Qiu, the non-executive Chairman of the Group, will through the Major Shareholder beneficially own approximately 56.0% of the entire issued Shares. The interests of Mr. Qiu may differ from the interests of the other Shareholders. Mr. Qiu could have significant influence in the outcome of any corporate transaction or other matter submitted for the Shareholders' approval, including mergers, consolidations and the sale of all or substantially all of the Group's assets, the election of Directors and other significant corporate actions, and the power to prevent or cause a change in control.

Future issue or sale of substantial amounts of Shares in the public market could adversely affect the prevailing market price of Shares

Except for the Shares to be issued pursuant to the Share Offer and the Capitalisation Issue, the Company has agreed with the Sponsor, the Lead Manager and the Public Offer Underwriters not to issue any Shares or securities convertible into, or exchangeable for, Shares during the period from the date of this prospectus up to and including the date which is six months from the Listing Date. The Covenantors have also agreed not to sell or transfer any of the Shares owned by them during such period. For details of such restrictions, please refer to the section headed "Underwriting" in this prospectus. After these restrictions lapse, the market price of Shares could decline as a result of future sale of substantial amounts of Shares or other securities relating to Shares in the public market, the issuance of new Shares or other securities relating to Shares, or the perception that such sale or issuances may occur. This could also materially and adversely affect the Group's ability to raise capital in the future at a time and at a price the Group deems appropriate.

The issue of new Shares will have a dilutive effect and may affect the Group's profitability

The Group may need to raise additional funds in the future to finance expansions of the existing operations and/or new acquisitions. If additional funds are raised through issuance of new Shares or other securities that may be converted into Shares other than on a pro rata basis to existing Shareholders, the percentage ownership of existing Shareholders may be reduced and Shareholders may experience subsequent dilutions.

Difficulties in protecting Shareholders' interests may be encountered because the Company is incorporated under Bermuda law and Bermuda law may provide different protection to minority shareholders than the laws of Hong Kong and other jurisdictions

The Company's corporate affairs are governed by the Memorandum and Bye-laws and by the Companies Act and the common law of Bermuda. The laws of the Bermuda relating to the protection of the minority shareholders' interests may differ in certain respects from those established under statutes or judicial precedents in Hong Kong or other jurisdictions. Such differences may mean that minority Shareholders may have different protection than they would have under the laws of Hong Kong or other jurisdictions.

Risks relating to statistics

Certain statistics included in this prospectus may not be accurate and precise statistics, and industry data and other information relating to the economy and the industry contained in this prospectus have been derived from various publicly available government or official publications and research reports. The Group makes no representation as to the accuracy or completeness of such information. None of the Group, any of the Group's respective affiliates or advisers, the Sponsor, the Lead Manager, the Underwriters or any of their respective affiliates or advisers, have prepared or independently verified the accuracy or completeness of such information directly or indirectly derived from official or government sources. Statistics, industry data and other information relating to the economy and the industry derived from official or government sources may not be consistent with other information available from other sources and should not be unduly relied upon. Due to possible flawed collection methods, discrepancies between published information, different market practices or other problems, the statistics, industry data and other information relating to the economy and the industry derived from official or government sources might be inaccurate or might not be comparable to statistics produced from other sources. In all cases, the potential investors should give careful consideration as to how much weight or importance should be attached or placed on such statistics, projected industry data and other information relating to the economy and the industry.