Potential investors should consider carefully all the information set out in this prospectus and, in particular, should evaluate and consider the following risks associated with an investment in the Company before making any investment decision in relation to the Company. You should pay particular attention to the fact that the Company is incorporated in Bermuda and that most of the Group's operations are conducted in the PRC and are governed by a legal and regulatory environment which in some respects may differ from that which prevails in other countries. Additional risks and uncertainties not presently known to the Group or that the Group currently deems immaterial could also harm the business, financial condition and operating results of the Group.

The occurrence of any of the following risks could have a material adverse effect on the trading prices of the Shares, and you may lose all or part of your investment. For more information concerning the PRC and certain related matters discussed below, please refer to the section headed "Regulations" in this prospectus.

RISKS RELATING TO THE GROUP'S BUSINESS

The Group's operation results are mainly subject to several risk factors which can be categorised in the following areas: (i) risks relating to the Group; (ii) risks relating to the apparel manufacturing industry; (iii) risks relating to the PRC and (iv) risks relating to the Share Offer, which are summarised as follows:

RISKS RELATING TO THE GROUP

Reliance on several major customers

The Group's five largest customers, all being Independent Third Parties, are well recognised apparel brand owners with headquarters located in the USA and the European countries, together accounted for approximately 88.4%, 89.9%, 89.4% and 93.9%, respectively of the Group's total turnover and the Group's largest customer accounted for approximately 52.6%, 55.4%, 56.3% and 70.0%, respectively of the Group's total turnover for each of the three years ended 31 December 2010 and the four months ended 30 April 2011.

The Group has developed business relationships with its top five customers for a period ranging from 5 to over 10 years. The Group only enters into short-term purchase orders instead of long-term sales contracts with its customers. There is no assurance that the agreements between the customers and the Group will continue on the same or similar terms, and the customers may terminate their respective relationships with the Group at any time as they wish in the future. Accordingly, the volume of the customers' purchase orders and the product mix may vary significantly from period to period, and it is difficult to forecast the number of future orders. As a result, the Group's business, results of operations and financial condition may vary from period to period and be determined by the volume of purchase orders from the existing and new customers.

Seasonal fluctuation in sales, negative net operating cash flow of the Group and net loss for the four months ended 30 April 2011

Demand for the Group's knitted garments is subject to seasonal fluctuation. Generally, demand for knitwear products is relatively higher in Winter and the Group normally delivers the products of Winter collection to customers in the third quarter. During the three years ended 31 December 2010, the Group's sales were higher during the period from July to September, which accounted for approximately 39.9%, 38.4% and 45.2% of the Group's annual turnover for each of the three years ended 31 December 2010 respectively. The Group's turnover of the first quarter was relatively lower than that of the other quarters, which accounted for approximately 11.6% to 16.9% of the Group's annual turnover for the three years ended 31 December 2010. For the four months ended 30 April 2011, the Group's turnover was approximately HK$49.2 million, representing approximately 13.8% of the Group's annual turnover for the year ended 31 December 2010 which was in line with the conventional trend of slack season of the Group.

In view of the seasonal fluctuation in sales of the Group's products mentioned above, the Group recorded net loss of approximately HK$3.2 million and approximately HK$4.2 million for the four months ended 30 April 2010 and 30 April 2011 respectively. Due to the same reason, the Group recorded net cash outflows in operating activities of approximately HK$1.6 million and approximately HK$16.3 million for the four months ended 30 April 2010 and 30 April 2011 respectively. In view of the recent economic market downturn in the USA and some European countries, potential credit crisis in the PRC arising from the liquidity and capital problem of the corporations in Wenzhou, Fujian Province, the PRC and the slowing down of the growth of the PRC's apparel retail market, the Directors expect that the overall market environment may impose pricing pressure of the Group's products and the sales orders may be affected thereby.

Given the estimated increase in administrative expenses (which are expected to be mainly attributable to the increase in staff costs and listing expenses of approximately HK$1.9 million and approximately HK$8.1 million respectively) to be charged to the statement of comprehensive income of the Group for the year ending 31 December 2011 of approximately HK$12.4 million represent approximately 44.8% of the net profit of Group for the year ended 31 December 2010, the Directors expect that the net profit of the Group for the year ending 31 December 2011 will underperform the results in previous year significantly.

This seasonality fluctuation may affect the Group's production costs and the utilization rate of the production facilities in the FC Factory and the Processing Factory and thus leading to negative net operating cash flow of the Group during the slack season. The operating results of the Group for the peak seasons of each calendar year or between any interim periods may not be taken as an indication of its performance for the entire calendar year. Hence, prospective investors should be aware of this seasonal fluctuation when making any comparison of the Group's operating results.

Reliance on the consumer spending level around the world, especially in USA and Europe

Most of the customers of the Group are located in USA and Europe whilst their products are sold in their respective chain stores or franchised stores under their labels, department stores and other specialty retailers around the world. According to a research report issued by Datamonitor in December 2010, the USA and European apparel retail market in aggregate accounted for approximately 66.9% of the global apparel retail value forecast for the year 2009. The Group's performance and profitability are dependent on the consumer consumption level and the macroeconomic conditions around the world especially in USA and the European countries. According to the Group's expansion plan, it intends to penetrate into the PRC market in view of estimated growing demand driven by the expanding population of the style conscious class in the PRC. There are many factors affecting the level of consumer spending, including but not limited to, disposal income, interest rates, currency exchange rates, recession, inflation, political uncertainty, taxation, tariff regime, stock market performance, unemployment level and general consumer confidence. In particular, the recent downgrade of the long-term sovereign credit rating of U.S. from AAA to AA+ by Standard & Poor's Ratings Services ("S&P") may impose higher costs of borrowing on the corporations and individuals in the USA and cause depreciation of the U.S. dollars relative to other currencies and hence the imported apparel products may become more expensive to the U.S. customers. Besides, the outbreak of the European debt crisis and the downgrade of credit ratings of Italy by S&P may also have negative impact on the consumer spending level in the Europe. Any further worsening of the general economic conditions caused by the U.S. credit rating downgrade and the European debt crisis may cause slowing down of orders from the U.S. and European customers, potential delay and/or default in payment by the customers, and cutting or reducing the banking facilities of the Group provided by the financial institutions. All these potential events may have a negative impact on the Group's future performance and profitability.

Future expansion plans are subject to uncertainties and risks

The Group has set out its future plans in the section headed "Future plans and use of proceeds" in this prospectus. Whether the Group's future plans can be implemented successfully may be beyond the Group's control and some future events may affect the smooth running of the expansion plan such as change in costs related to the changes in compliance with the environmental laws, rules and regulations, delays in obtaining the necessary licences and approvals from the government.

The Group also plans to secure more sales and has been in frequent communication with the potential customers such as the PRC local high-end branded products retailers and international brands retailers which intend to establish sales channel in the PRC market in respect of the style, design, type, quality and pricing of the potential sales orders. Some of the potential customers have exchanged specific requirements with the Group and have considered the designs recommended by the Group. However, in view of the possible uncertainty of the PRC future economic environment, there is no guarantee that the Group can secure more sales from the new markets with margin up to the estimation of the Group or at all even though the Directors estimate a growing demand for consumption as driven by the expanding population of the style conscious class in the PRC and with the Group putting more resources on marketing and development.

Reliance on the processing arrangements under the Processing Agreements and the Processing Factory

During the Track Record Period and up to the Latest Practicable Date, the Group's production was carried out in, among others, the premises of the Processing Factory under the Processing Agreements, details of which are set out in the paragraph headed "Production" in the section headed "Business" in this prospectus. Given that the premises of the Processing Factory forms part of the production capacity of the Group and before the estimated commencement of operation of a new production factory by the fourth quarter of 2012 as set out in the section headed "Future plans and use of proceeds" in this prospectus, the operations and profitability of the Group could be adversely and materially affected if the counterparties to the Processing Agreements are in breach of the Processing Agreements, or otherwise the use or operations of the premises of the Processing Factory by the Group is prohibited or restricted for any reason, or there occurs any change in the relevant PRC laws and regulations which may adversely affect the operations of the premises of the Processing Factory.

Besides, should there be any disastrous events beyond the control of the Group, including but not limited to riots and fire, occurring at or affecting the Processing Factory or in the vicinity of the Processing Factory, which is located in Dongguan City, Guangdong Province, the PRC, the production activities and financial performance of the Group would be adversely affected.

Reliance on the PRC Processing Party

Under the Processing Agreements, the PRC Processing Party is responsible for the production of the knitwear products in return for the Processing Fees which should include the rental of the Processing Factory, the labour cost and the utility cost. Details of the obligations of the PRC Processing Party are set out in the paragraphs headed "The Processing Factory" and "Processing Agreements" in the section headed "Business" in this prospectus. Any breach by the PRC Processing Party of its obligations under the Processing Agreements could have a material adverse effect on the Group's business. Further, in the event that the PRC Processing Party takes any action that is contrary to the Group's instructions, requests, policies or objectives, or becomes unable or unwilling to fulfill its obligations under the processing arrangement, or encounters financial or any other difficulties, the operations and financial performance of the Group would be adversely affected.

Reliance on subcontractors

Certain manufacturing steps of the Group were outsourced to numerous independent subcontractors by the Processing Factory. For each of the three years ended 31 December 2010 and the four months ended 30 April 2011, through the engagement of the subcontractors by the Processing Factory, subcontracting fees paid by the Group represented approximately 31.1%, 36.6%, 38.8% and 41.5% of the Group's cost of sales respectively and there were approximately 178, 160, 182 and 85 subcontractors respectively responsible for the production of the Group's products. Details of the mechanisms and current and future policies in respect of the subcontracting arrangements are set out in the paragraph head "Outsourcing" in the section headed "Business" in this prospectus. In the event that the Processing Factory is unable to secure suitable subcontractors when required, or if the subcontractors overcharge their subcontracting fees, the production process and/or financial position of the Group may be adversely affected. Furthermore, although the Directors consider that there are numerous subcontractors working with the Processing Factory, the quality of subcontracting services from all subcontractors is stable, and the Group has sufficient and effective mechanisms in place to monitor the performance of the subcontractors to ensure timely delivery, the subcontractors may nevertheless be late in completing the production and/or producing products with unsatisfactory quality. Problems with any of the subcontractors' production facilities or production could result in deteriorating quality of the Group's products. In such event, the operations and profitability of the Group would be adversely affected. During the Track Record Period, the Group has not experienced any material adverse consequence from any unsatisfactory products produced by the subcontractors.

Reliability of electricity supply for the FC Factory and the Processing Factory

The operations of the FC Factory and the Processing Factory require continuous and steady supply of electricity which is currently provided by local utilities company and bureau, and each of the FC Factory and the Processing Factory has an internal standard power generator to supply electricity for the running of the FC Factory or the Processing Factory (as the case may be). Total cost incurred for the supply of electricity at the FC Factory and the Processing Factory amounted to approximately HK$1,673,000, HK$1,680,000, HK$1,831,000 and HK$468,000 for each of the three years ended 31 December 2010 and the four months ended 30 April 2011 respectively. Reliance on electricity supply will further increase as the Group expands its overall production capacity. Any disruption to such supply may adversely affect the Group's production flow, hinder its ability to meet customer orders and/or increase its production cost. Should there be any disruption to electricity supply, the Group's business and financial performance may be adversely affected.

Defects on the property titles of the leased factories

The FC Factory

As at the Latest Practicable Date, the FC Factory was located in Changping Town, Dongguan City, Guangdong Province, the PRC and comprised one 3-storey factory building, two blocks of 4-storey dormitory and other ancillary facilities with a gross floor area of approximately 12,000 sq.m.

According to the due diligence work conducted by the PRC Legal Advisers, the type of rights held by the Baishigang Village Committee was allocated land use rights. Pursuant to《劃撥土地使用權管理暫行辦法》(Provisional Rules on Administration of Allocated Land Use Rights*), the lessor of the FC Factory, being Baishigang Village Committee, shall not transfer, lease or mortgage the land occupied by the FC Factory to any parties without (i) the approval of the relevant government authorities for the land use rights assignment; (ii) conducting land use rights assignment procedure; and (iii) payment of land use right assignment fee. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Baishigang Village Committee has not conducted, and will not conduct the land use right assignment procedure for the leased land occupied by the FC Factory because they will only do so if they need these certificates to obtain loans from banks and currently they do not have such intention. As such, according to Article 46 of《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》(Interim Regulations of the PRC Concerning the Assignment and Transfer of the Right to the Use of the State-owned Urban Areas*), the relevant government authorities are entitled to confiscate the illegal rental income and impose a fine on the lessor according to the severity of the breaches. In addition, Baishigang Village Committee has not obtained the building ownership certificate and thus it shall not lease the buildings occupied by the FC Factory to any parties.

In respect of the unauthorized leasing of the FC Factory by the lessor as detailed above, the PRC Legal Advisers advised that (i) Baishigang Village Committee, instead of Fung Ching, should bear all the legal consequences resulting therefrom; (ii) there is a risk that the FC Tenancy Agreements may be deemed as void; (iii) the leasing of the FC Factory may be suspended if any third parties file an opposition thereto; and (iv) the Group may not claim from the lessors all related losses but is entitled to claim against the lessor for reduction or exemption of rental if a third party claims its rights upon the leased properties and makes it impossible for the Group to use the leased property.

The Processing Factory

As at the Latest Practicable Date, the leased production facilities of the Processing Factory were located in Dongguan City, Guangdong Province, the PRC and comprised a 4-storey factory building, a 4-storey dormitory, another 6-storey dormitory, a 3-storey staff quarters and other ancillary facilities with a total gross floor area of approximately 21,237 sq.m.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the lessor of the production premises for the Processing Factory has not obtained the relevant state-owned land use rights certificates and the building ownership certificates in respect of the production premises of the Processing Factory, and thus it is not allowed to lease such production premises. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the lessor will only do so if they need these certificates to obtain loans from the banks and currently they have no such intention. In respect of the above, the PRC Legal Advisers advised that (i) the lessor of the premises for the Processing Factory, instead of Nice Regent, should bear all the legal consequences resulting therefrom; (ii) there is a risk that the Processing Factory Tenancy Agreement 2000 may be deemed as void; (iii) the leasing of such production premises to Nice Regent may be suspended in the event any third parties file an opposition thereto; and (iv) Nice Regent may not claim from the lessors all related losses but is entitled to claim for reduction or exemption of rental if a third party claims its rights upon the leased properties and makes it impossible for the Group to use the leased property.

In the event that Fung Ching and the Processing Factory are required to cease occupation of the premises due to the aforesaid defects, the operations and financial results of the Group may be adversely affected as the Group will have to relocate the existing production facilities to the spare factories, which may result in temporary suspension of production for several days.

Non-compliance with relevant regulations relating to social insurance

The Processing Factory

Pursuant to《工傷保險條例》(Regulations on Occupational Injury Insurance*),《企業職工生育保險試行辦法》(Interim Measures concerning the Maternity Insurance for Enterprise Employees*),《社會保險費徵繳暫行條例》(Interim Regulations on the Collection and Payment of Social Insurance Premiums*) and《社會保險登記管理暫行辦法》(Interim Measures concerning the Administration of the Registration of Social Insurance*), the Processing Factory is required to make insurance contributions for all of its employees for occupational injury insurance, maternity insurance, basic pension insurance, medical insurance and unemployment insurance (collectively referred as the "social insurance"). As advised by the management of the Processing Factory, as at the Latest Practicable Date, the Processing Factory has not made social insurance contributions for every employee as some of the employees of the Processing Factory were unwilling to participate in the contributions. For each of the three years ended 31 December 2010 and the four months ended 30 April 2011, the unpaid contributions thereof amounted to approximately HK$4.9 million, HK$4.9 million, HK$6.0 million and HK$1.9 million, respectively.

As advised by the PRC Legal Advisers, pursuant to the PRC Social Insurance Law, if the Processing Factory fails to make the full contribution on time, the relevant social insurance fee levy authorities are entitled to order the non-complying unit to make the social insurance contribution for its employees within a specified time limit and pay the daily surcharges of 0.05% calculated on the unpaid contribution from the due date on which the social insurance contribution should have been made. If the Processing Factory fails to make the contribution within the period set out in any payment demand that might be issued to the Processing Factory by the relevant social insurance fee levy authorities, the Processing Factory will be subject to fines equal to one to three times of the unpaid contribution. No provision has been provided by the Group for such potential penalty and no rectification measures by the Group are necessary for the non-compliance of the Processing Factory because (i) as at the Latest Practicable Date, the Processing Factory has not received any notification or directive from the relevant authority for the social insurance contributions, and there is no penalty imposed on the Processing Factory for failure to make punctual and full social insurance contributions for its employees; (ii) there is also no claim made by the employees of the Processing Factory in respect of the non-contribution towards the social insurance schemes; and (iii) as advised by the PRC Legal Advisers, the Processing Factory will be solely liable for all the liabilities arising from the social insurance contributions and Nice Regent or the Group will not be liable for the said liabilities.

Non-compliance with relevant regulations relating to housing provident fund

Fung Ching

Pursuant to《住房公積金管理條例》(the Regulations on the Administration of Housing Provident Fund*) and《東莞市住房公積金繳存管理辦法》(Measures Concerning the Administration of Payment of Housing Provident Fund in Dongguan*), Fung Ching is required to register with the applicable housing provident fund management centre and establish a housing provident fund account with an entrusted bank for each employee and make contributions for all its employees to the housing provident fund account as part of its employees' welfare and benefits. As at the Latest Practicable Date, Fung Ching has not made contributions to the housing provident fund for every employee as some of the employees of Fung Ching were unwilling to participate in the housing provident fund scheme. During the Track Record Period, the unpaid contributions of the housing provident fund amounted to approximately HK$487,000, HK$382,000, HK$319,000 and HK$67,000 respectively.

As advised by the PRC Legal Advisers, according to《住房公積金管理條例》(Regulations on the Administration of Housing Provident Fund*) and《東莞市住房公積金繳存管理辦法》(Measures Concerning the Administration of Payment of Housing Provident Fund in Dongguan*), the housing provident fund management centre possesses the discretion right to notify the non-complying unit to establish a housing provident fund account for each employee and/or to make contributions towards the housing provident fund within a specific time limit. Should the unit fail to establish housing provident fund account for its employees and/or to contribute towards housing provident fund within that specified time limit, the management center of housing provident fund may impose fines ranging from RMB10,000 to RMB50,000 and may apply to the People's Court to enforce the payment of any housing provident fund under the relevant PRC laws and regulations. No provision has been provided by the Group for such potential penalty because (i) as at the Latest Practicable Date, Fung Ching has not received any notification or directive from the relevant authority for housing provident fund contribution and, there is no penalty imposed on Fung Ching for failure to make punctual and full housing provident fund contributions; (ii) there is also no claim made by the employees of Fung Ching in respect of the non-contribution towards the housing provident fund; and (iii) the amount of the possible penalty is insignificant. Notwithstanding the above, the Company will comply with the necessary filing requirements for all of Fung Ching's employees and settle all the outstanding housing provident fund contribution to the relevant authorities prior to the Listing.

Should any enforcement action be taken against Fung Ching by the relevant PRC authorities and/or any claims be made by employees against the Group, the Group's business, results of operations and financial condition may be adversely affected.

Processing Factory

Pursuant to《住房公積金管理條例》(Regulations on the Administration of Housing Provident Fund*) and《東莞市住房公積金繳存管理辦法》(Measures Concerning the Administration of Payment of Housing Provident Fund in Dongguan*), the Processing Factory is required to register with the applicable housing provident fund management centre, establish a housing provident fund account with an entrusted bank for each employee and make contributions for all of its employees to the housing provident fund account as part of its employees' welfare and benefits. As advised by the management of the Processing Factory, as at the Latest Practicable Date, the Processing Factory has not made contributions to the housing provident fund for every employee as some of the employees of the Processing Factory were unwilling to participate in the housing provident fund scheme. The unpaid contributions thereof amounted to approximately HK$1.1 million, HK$1.1 million, HK$1.3 million and HK$0.4 million for each of the three years ended 31 December 2010 and the four months ended 30 April 2011.

As advised by the PRC Legal Advisers, according to《住房公積金管理條例》(Regulations on the Administration of Housing Provident Fund*) and《東莞市住房公積金繳存管理辦法》(Measures Concerning the Administration of Payment of Housing Provident Fund in Dongguan*), the housing provident fund management centre possesses the discretion right to notify the non-complying unit to establish a housing provident fund account for each employee and/or to make contributions towards the housing provident fund within a specific time limit. Should the unit fail to establish housing provident fund account for its employees and/or to contribute towards housing provident fund within that specified time limit, the management center of housing provident fund may impose fines ranging from RMB10,000 to RMB50,000 and may apply to the People's Court to enforce the payment of any housing provident fund under the relevant PRC laws and regulations. No provision has been provided by the Group for such non-compliance and no rectification measures by the Group are necessary for the non-compliance of the Processing Factory because (i) as at the Latest Practicable Date, the Processing Factory has not received any notification or directive from the relevant authority for housing provident fund contribution and, there is no penalty imposed on the Processing Factory for failure to make punctual and full housing provident fund contributions; (ii) there is also no claim made by the employees of the Processing Factory in respect of the non-contribution towards the housing provident fund; (iii) as advised by the PRC Legal Advisers, the Processing Factory will be solely liable for all the liabilities arising from the housing provident fund contributions and all possible penalty; and (iv) the amount of penalty is insignificant.

Reliance on certain key personnel and management

The Directors believe that the Group's success, to a large extent, is attributable to, amongst other things, the contribution of Madam Wong and Mr. Wong. Details of their expertise and experience are set out in the section headed "Directors and Senior Management" in this prospectus. As at the Latest Practicable Date, each of the three executive Directors has entered into a service agreement, with the Company for an initial term of two years which will continue thereafter until terminated by not less than 3 months' prior written notice by either party to the other.

The Group's key personnel and management talents, efforts and expertise in the knitting industry are crucial to the operations and financial performance of the Group. The unanticipated departure of any key personnel and management of the Group would have a material adverse effect on the Group's business. There is no assurance that the Group will not experience such retention issue in the future. The Group may not be able to retain the leaving key personnel or replace them in a timely manner without incurring higher compensation and other benefits. If the Group cannot retain or have a suitable candidate for replacement in a timely manner, the Group's performance may be adversely affected and the business objective of the Group may not be achieved.

Exposure of product liability or personal injury claims

During the Track Record Period, all of the Group's knitwear products were sold to overseas market including the apparel markets in the USA and Europe. The knitwear products manufactured by the Group is subject to compliance with the USA and EU regulatory standards including but not limited to product safety controls. In addition, certain compliance agreements entered into between the Group and its customers also contain provisions requiring the Group and its subcontractors to comply with all applicable product safety laws, rules and regulations and with all product safety standards and to hold such customers harmless against claims for damages of third parties arising from the nature of the knitwear products manufactured by the Group.

Although the Group has established measures to ensure sufficient control over the quality of its products as set out in the paragraph headed "Quality Assurance" in the section headed "Business" of this prospectus, it may still be exposed to product liability claims and may, as a result, have to utilise significant financial and managerial resources to defend against such claims and if any such claim is successful, for damages arising therefrom.

The Directors believe that the risks of product liability claims exist as legal concept of product liability is relatively mature in the regions where the Group's apparel products will be sold. The Group may not have effective or sufficient control over the quality of its apparel products and cannot give any assurance that the business, financial condition, results of operations and prospects will not be materially and adversely affected by a successful product liability claim against the Group. The Group currently does not maintain any product liability insurance. In addition, the Group does not maintain any third-party liability insurance against claims for product, personal injury or environmental liabilities. Should there be any product liability or personal injury claim taken out against the Group, the Group may incur significant costs and expenses to defend against such claims and/or making payments for damages. The Group may also be fined or sanctioned, which could adversely affect its reputation, business, prospects, financial condition and results of its operations.

Potential fluctuation in the prices of raw materials

Raw material costs mainly comprise cotton yarns and wool yarns mixed with a small extent of other materials. The purchase of yarns accounted for a substantial amount of the Group's total raw materials costs and cost of sales, representing approximately 43.8%, 40.8%, 40.2% and 22.4% of the Group's total cost of sales for each of the three years ended 31 December 2010 and the four months ended 30 April 2011 respectively.

For the year ended 31 December 2008, all the top five suppliers of the Group were yarn suppliers. For each of the two years ended 31 December 2010, four of the top five suppliers of the Group were yarn suppliers. As it is an industry practice that the supply contracts are entered into separately for each season, the Group has not signed any long-term supply contracts with any of its suppliers. Accordingly, the fluctuation in prices of yarn has a material effect on the cost of sales of the Group.

Both cotton and wool, being the major components of the yarns, have volatile prices. The prices of cotton and wool are largely determined by the weather, industry demand and supply. The Group did not undertake any hedging activities or any other strategy to minimize the exposure to the possible price fluctuation of the raw materials during the three years ended 31 December 2010 and the four months ended 30 April 2011. The Group cannot give assurance that future price increases in raw materials or changes in the supply of raw materials will not materially and adversely affect the Group's operation results and performance.

Increase in the cost of labour and the availability of labour

The Group's production of knitted garments is labour intensive and therefore relies, to a significant extent, on skilled workers especially in the process of knitting and linking. The Group's performance relies on the low cost and steady supply of labour in the PRC. The FC Factory's labour cost as well as the Processing Factory's labour cost included in the Processing Fees accounted for approximately 10.5%, 9.2%, 8.1% and 14.4% of the total cost of sales for each of the three years ended 31 December 2010 and the four months ended 30 April 2011 respectively. The Group has acquired additional 129 sets of computerised knitting machines during the second and third quarter of year 2011 and there were in total 149 sets of computerised knitting machines in place as at the Latest Practicable Date and an additional 100 sets of computerised knitting machines is expected to be in place in the third quarter of 2012.

Labour cost in the PRC is basically affected by the demand for and supply of labour, economic factors in the PRC including the inflation rate, standard of living. The FC Factory was under-utilised during the Track Record Period due to, among other things, labour shortage prevailing in the Guangdong Province arising from substantive outflow of workers back to their hometown following the outburst of the financial crisis in 2008. The labour cost may further increase in future due to shortage of skilled labour and growing industry demands for skilled workers. The failure to identify and recruit replacement staff immediately following unanticipated loss of services of the skilled workers could have an adverse effect on the Group's operation. In view of the potential increase in labour cost, if the Group is not able to apply effective strategy to control the labour cost or increase the price of its products correspondingly, the Group's competitiveness and profitability could be adversely affected.

Dividend policy

The Group declared a special dividend of approximately HK$53 million and an interim dividend of approximately HK$20 million for the year ended 31 December 2010 and a final dividend of approximately HK$1.7 million for the year ended 31 December 2009. The Group did not declare any dividend for the year ended 31 December 2008. No assurance can be given that dividends of similar amounts or at similar rates will be paid in the future or that dividends will be paid at all. Any future dividend declaration and distribution by the Group will be at the discretion of Directors and will depend upon the Group's financial results, the Company's shareholders' interests, general business conditions, strategies and future expansion needs, the Company's capital requirements, the payment by its subsidiaries of cash dividends to the Company, possible effects on liquidity and financial position of the Company and such other factors as the Board may consider relevant. As a result, there is no reference to the basis for forecasting the amount of dividend payable in future in this prospectus. The past dividend distribution record should not be used as a reference of the amount of dividend payable in the future.

RISKS RELATING TO THE APPAREL MANUFACTURING INDUSTRY

Competitive market

The Group faces competition from existing and new players in the knitwear manufacturing industry in the PRC, Vietnam, Bangladesh and other countries. To compete effectively and maintain its sales level, the Group may be forced to, among other actions, reduce prices, provide more sales incentives to customers and increase capital expenditures, which may in turn negatively affect the Group's profit margins.

The Group's main manufacturing process was based in Guangdong Province, the PRC. The industry is highly fragmented, with substantive number of apparel manufacturers of various sizes operating in the PRC. The Directors believe that the success of the Group depends on its ability to compete effectively against these competitors in terms of product quality, customer service, pricing, timely delivery, scale and capacity, efficiency and technical advancement. There is no assurance that the Group will continue to compete successfully or respond rapidly to a fast changing business environment in the future, and if the Group fails to do so, its business, financial results of operations and prospects would be adversely affected.

Potential import regulations imposed by USA and Europe

The Group's customers are mainly international apparel groups based in USA and the European countries with their products sold all over the world. Following the removal of textile quotas among the WTO members from 2005 and the expiration of the agreement on the re-imposition of quotas from 1 January 2006 through 31 December 2008, covering a total of 21 groups involving 34 categories of textile and clothing products, textile and clothing shipments to USA made on or after 1 January 2009 are no longer subject to any quotas. Similarly, Europe's regime of double checking surveillance system expired on 31 December 2008, accordingly textile and clothing products originating in the PRC no longer require any import licence or surveillance document before entering Europe starting from 1 January 2009. There is no assurance that import quotas, higher tariffs or other trade barriers will not be imposed by USA, Europe or other countries and the performance and operating results of the Group could be negatively impacted.

Failure to obtain or renew licences, certificates and permits required in the production of knitted garments

Currently, Fung Ching and the Processing Factory possess all necessary licences, certificates and permits for the production of their respective products in the PRC. However, the Group can give no assurance that it will be able to renew such licences, certificates or permits upon their expiration. In addition, eligibility criteria for these licences, certificates, and permits may change from time to time and additional licences, certificates and permits may be required and higher compliance standards may have to be observed. In the event of the introduction of any new laws and regulations or changes in the interpretation of any existing laws and regulations that increase compliance costs for the Group or prohibit or make it more expensive for the Group to continue with the operation of any part of its business, the Group may have to restrict the operations and its business and performance could be adversely affected.

Natural disasters, acts of war, political unrest and outbreak of a contagious or epidemic disease

The production facilities of the FC Factory and the Processing Factory are located in the PRC and the remaining operations of the Group are located in Hong Kong. Natural disasters, acts of war, political unrest and outbreak of a contagious or epidemic disease, which are beyond the Group's control, may cause material damage to, or the loss of, the Group's operational facilities, including the FC Factory and the Processing Factory. The damage or the loss may not be adequately covered by the proceeds of the Group's and the Processing Factory's insurance coverage. Furthermore, any one or more of these events could significantly disrupt the Group's operations and the operations of the FC Factory and/or Processing Factory by, among other things, impeding the ability of personnel to report to work. The time required to rectify such problems could be lengthy, and could result in significant increases in costs or reduction in sales.

Moreover, several countries in Asia or Asia Pacific including Japan, Burma, Australia and New Zealand have reported Tsunami or earthquake (as the case may be) recently. Past occurrence of Tsunamis or earthquakes have caused different degrees of damage to the national and global economies. In addition, recent nuclear crisis happened in Fukushima, Japan will adversely affect the Japan's economy. The global economy may also be adversely affected if the situation exacerbates. The Group's financial condition and results of operations may also be adversely affected in this regard. The occurrence of any natural disasters may also adversely affect the Group's performance.

RISKS RELATING TO THE PRC

Economic, political and social considerations

Substantial part of the Group's assets is located in the PRC and substantial part of the Group's business operations are conducted in the PRC. Accordingly, the Group's results of operations, financial condition and prospects are subject to a significant degree to the economic, political and legal developments in the PRC. The PRC economy differs from those in more developed countries in many respects, including political structure, degree of government involvement, degree of development, level and control of capital reinvestment, control of foreign exchange, allocation of resources, rate of inflation and trade balance position.

The PRC economy has been transitioning from a centrally planned economy to a more market-oriented economy. For the past three decades, the PRC Government has implemented economic reform and measures emphasizing on the utilisation of market forces in the development of the PRC economy. The Group cannot predict whether these changes in the PRC economic, political and social conditions, laws, regulations and policies will have any adverse effect on its current or future business, financial condition or results of operations.

Moreover, the Group cannot assure that the policy of economic reform and the direction of reform towards market-oriented in the PRC will continue in the future. A variety of policies and other measures that could be taken by the PRC Government to regulate the economy could have a negative impact on the Group's business, including the introduction of measures to control inflation or reduce growth, changes in the interest rate or method of taxation. The Group's business, financial condition and results of operations may be adversely affected by the PRC Government's economic, political and social policies and regulations.

Restriction on foreign exchange

The PRC Government regulates the conversion between Renminbi and foreign currencies. Over the years, the government has significantly reduced its control over routine foreign exchange transactions under current accounts, including trade and service-related foreign exchange transactions and payment of dividends. However, strict foreign exchange control continues to apply to capital account transactions. These transactions must be approved by or registered with SAFE or its branches, and repayment of loan principal, distribution of return on direct capital investment and investment in negotiable instruments are also subject to restrictions. Fung Ching is a WFOE established in the PRC by the Group. It is expected that Fung Ching will purchase equipment from overseas equipment suppliers for which the Group is required to pay in foreign currencies. Besides, it is expected that Fung Ching may pay dividends in foreign currencies by complying with certain procedural requirements. Further, the Group has in the past paid and expects to continue to pay processing fees to the Processing Factory under the Processing Agreements. Any tightening of such restriction may adversely affect the performance of the Group's obligations under the Processing Agreements. Shortages in foreign currency may restrict the ability of Fung Ching to remit sufficient foreign currency to pay dividends or other payments to the Group, or otherwise satisfy its foreign currency-denominated obligations.

Foreign exchange rate fluctuations

The exchange rates between Renminbi and Hong Kong dollars, the U.S. dollars and the Euro and other foreign currencies are subjected to changes in the PRC Government's policies and international political and economic conditions. On 21 July 2005, the PRC Government reformed the exchange rate regime by moving into a managed floating exchange regime based on market demand and supply with reference to a basket of currencies, determined by the PBOC. This change in policy has resulted in the value of the Renminbi appreciating against the U.S. dollars significantly. For the period from January 2008 to September 2011, the Renminbi appreciated against the U.S. dollars from RMB7.1853 to US$1.00 to RMB6.3549 to US$1.00.

There remains significant pressure from foreign countries on the PRC Government to adopt a more flexible currency policy, which could result in a more significant appreciation of the Renminbi against the U.S. dollars and other foreign currency. The Renminbi may be revalued further against the U.S. dollars or other foreign currencies, or may be permitted to enter into a full or limited free float, which may result in an appreciation or depreciation in the value of the Renminbi.

The Group derives a substantial part of their revenue from the United States in U.S. dollars and European countries in Euro. If the Renminbi fluctuates against the U.S. dollars and/or the Euro, these fluctuations may result in exchange losses or gains or increases or reductions in the Group's revenue and receivables after translation into Renminbi. Besides, the appreciation of Renminbi may lead to increase of the Group's manufacturing costs, which may in turn affect the Group's competitiveness against overseas competitors. To the extent that the Company needs to convert the proceeds of the Share Offer and future financing into Renminbi for its operations, appreciation of the Renminbi against the relevant foreign currencies would have an adverse effect on the purchasing power of the Renminbi amount the Company would receive from the conversion. On the other hand, any depreciation of Renminbi would materially and adversely affect the Group's financial position and the value of, and any dividends payable on, the Shares in HK dollars, as well as the Group's ability to pay for foreign currency obligations. As at the Latest Practicable Date, the Group had a foreign currency hedging policy as described in the paragraph headed "Forward contracts" under the section headed "Financial Information". In addition, the Group's currency exchange losses may be amplified by the PRC exchange control regulations that impose limits on the amount of Renminbi to be converted into foreign currency.

Changes and uncertainties in the PRC legal system

Substantial part of the Group's assets is located in the PRC and substantial part of the Group's business operations is conducted in the PRC. The PRC legal system is based on written statutes, and prior court decisions can only be cited as reference and are non-binding. 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 the PRC laws and regulations, including their interpretation and enforcement, may lead to additional restrictions and uncertainty for the Group's business and uncertainty with respect to the outcome of any legal action investors may take against the Group in the PRC.

The PRC Labour Contract Law

The LCL became effective on 1 January 2008. Compliance with the requirements under the LCL, in particular, the requirements of non-fixed term employment contracts and severance payment, imposes greater liabilities on employers and significantly impacts the cost of an employer's decision to reduce its workforce.

Pursuant to the provisions of Article 14 of the LCL, Fung Ching and the Processing Factory are required to enter into non-fixed term employment contracts with employees who have worked for them for more than 10 years or, unless otherwise provided in the LCL, for whom a fixed term employment contract has been concluded for two consecutive terms since 1 January 2008. The Group and the Processing Factory may not be able to efficiently terminate non-fixed term employment contracts under the LCL without cause.

Pursuant to the provisions of LCL, Fung Ching and the Processing Factory are also required to make severance payments to fixed term contract employees when the term of their employment contract expires, unless the employee voluntarily terminates the contract or voluntarily rejects an offer to renew the contract in circumstances where the conditions offered by the employer are the same as or better than those stipulated in the current contract. The amount of severance payment is equal to the monthly wage of the employee multiplied by the number of full years that the employee has worked for the employer, except in circumstances where the employee's monthly wage is three times greater than the average monthly wage in the relevant district or locality, in which case the calculation of the severance payment will be based on a monthly wage equal to three times the average monthly wage multiplied by a maximum of twelve years.

A minimum wage requirement has also been incorporated into the LCL. Liability for damages or fines may be imposed for any material breach of the LCL. If the Group decides to significantly change the workforce or perform major adjustments in human resources management policies, the LCL could adversely affect the Group's ability to enact such changes or adjustments in a timely and cost effective manner, thus the operating results of the Group could be adversely affected.

RISKS RELATING TO THE SHARE OFFER

No prior public market for the Shares and an active trading market may not develop

Prior to the Share Offer, there has not been a public market for the Shares. While the Group has applied to list and deal in the Shares on the Stock Exchange, the Group cannot assure that an active or liquid trading market will develop or be sustained if developed. The Offer Price has been determined through negotiation between the Company and the Bookrunner, and it may not necessarily be indicative of the market price of the Shares after the completion of the Share Offer.

Liquidity, trading volume and the market price of the Shares may be volatile

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

Dilution effect

The Group may issue additional Shares upon exercise of options to be granted under the Share Option Scheme in the future. The increase in the number of Shares outstanding after the issue would result in the reduction in the percentage ownership of the Shareholders and may result in a dilution in the earnings per Share and net asset value per Share.

In addition, the Group may need to raise additional funds in the future to finance business expansion or new development plans and acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of the Company, other than on a pro rata basis to existing Shareholders, then (i) the percentage ownership of those existing Shareholders in the Company may be reduced, and they may experience subsequent dilution in the percentage ownership, and/or (ii) such newly issued securities may have preferred rights, options or privileges superior to those of the Shares of the existing Shareholders.

Statistics and industry information have come from various sources which may not be reliable

Certain facts, statistics and data presented in the section headed "Industry overview" and elsewhere in this prospectus relating to the global and PRC markets of the apparel industries have been derived, in part, from various publications and industry-related sources prepared by government officials or Independent Third Parties. The Company believes that the sources of the information are appropriate sources for such information and the Sponsor and the Directors have taken reasonable care to extract and reproduce the publications and industry-related sources in this prospectus, and the Company has no reason to believe that such information is false or misleading or that any fact that would render such information false or misleading has been omitted. However, neither the Group, the Directors, the Sponsor nor any of the parties involved in the Share Offer have independently verified, or make any representation as to, the accuracy of such information and statistics. It cannot be assured that statistics derived from such sources will be prepared on a comparable basis or that such information and statistics will be stated or prepared at the same standard or level of accuracy as, or consistent with, those in other publications within or outside the PRC. Accordingly, such information and statistics may not be accurate and should not be unduly relied upon.

There are risks associated with forward-looking statements contained in this prospectus

Included in this prospectus are various forward-looking statements that are based on numerous assumption. For details of these statements including the associated risks, please refer to the section headed "Forward-looking statements" in this prospectus.