You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our Shares in the Global Offering. You should pay particular attention to the fact that our business is located largely in China, where we are governed by a legal and regulatory environment that differs in many respects from that which prevails in other countries. Our business could be materially and adversely affected by any of the risks and uncertainties described below. The trading price of our Shares could decline due to any of these risks and uncertainties and you may lose all or part of your investment. This prospectus contains certain forward-looking statements regarding our Director's or our Group's plans, objectives, expectations and intentions which involve risks and uncertainties.

RISKS RELATING TO OUR BUSINESS

We derive a significant proportion of our revenue from the sales of dobby fabrics.

A significant proportion of our revenue was derived from the manufacturing and sale of dobby fabrics during the Track Record Period. Sales of dobby fabrics accounted for approximately 79.38%, 74.27% and 69.11%, respectively, of our total revenue for the years ended 31 December 2009, 2010 and 2011, respectively. Our revenue is therefore dependent on the demand and supply of the dobby fabric segment of the textile markets in which we sell our products.

The demand for, and the price of, our dobby fabrics are subject to fluctuations, uncertainties and the availability of substitute products. Our revenue may also be affected by trade barriers imposed or to be imposed by countries importing textile products manufactured in the PRC, which may adversely affect the export performance of textile manufacturers in the PRC. Further, any significant downturn in the textile industry is also likely to affect the demand for our dobby fabrics. If any of the foregoing factors occur and we are unable to develop alternative revenue sources, our business, financial condition, results of operations and prospects may be adversely affected which could be material.

Based on our belief that the demand for high-end home textile fabrics and high-end home textile products in the PRC will continue to grow in the long run and that the expected gross margins from their sale are relatively higher, since 2008, we have increased our focus on the manufacturing and sale of jacquard fabrics. For the years ended 31 December 2009, 2010 and 2011, sales of jacquard fabrics amounted to approximately RMB97.42 million, RMB132.93 million and RMB233.87 million respectively, representing approximately 18.39%, 17.18% and 25.21% respectively of our total revenue. We also maintained a steady growth of the gross margins from their sale. For the years ended 31 December 2009, 2010 and 2011, the gross margins of our jacquard fabric sales amounted to approximately 23.73%, 32.84% and 28.71% respectively. Nevertheless, there is no assurance that we can successfully increase our revenue or gross margins from the sale of jacquard fabrics, or, even if we can, there is no assurance that such revenue could generate revenue or gross margins for us at a level comparable to that from the sale of dobby fabrics. In the event that the sales of our jacquard fabrics do not perform as expected so that we have to rely significantly on the sales of dobby fabrics as our major source of revenue, and if there is any material adverse change in the market demand for and/or price of our dobby fabrics, our business, financial condition, results of operations and prospects could be adversely affected.

Decrease in our domestic sales, together with insufficient overseas sales, could adversely affect our financial condition and operating results.

During the Track Record Period, a significant proportion of our sales were derived from domestic sales. For the years ended 31 December 2009, 2010 and 2011, our domestic sales amounted to approximately RMB453.70 million, RMB601.68 million and RMB818.90 million, representing approximately 85.65%, 77.76% and 88.27%, respectively, of our total revenue. Our performance in domestic sales is dependent largely upon, amongst others, the continuing prosperity and sustained economic development, improving living standard and increasing people's spending power in China as well as a wide variety of other favourable political, social and macroeconomic conditions in China which have stimulated the domestic demand for high-end home textile and home textile fabric products in the recent years. There is no assurance that the China economy will continue to prosper and the demand for high-end home textile and home textile fabric products in the PRC will continue to grow, and if there is any adverse change in the political, social or economic conditions in China, our business, financial condition, results of operations and prospects could be adversely affected.

Although PRC is our major market, for the years ended 31 December 2009, 2010 and 2011, revenue derived from our export sales amounted to approximately RMB76.01 million, RMB172.09 million and RMB108.87 million, representing approximately 14.35%, 22.24% and 11.73%, respectively, of our total revenue. As such, in the event that we are unable to maintain our growth in our domestic sales and there is any adverse change in the overseas market supply and demand of home textile and home textile fabric products so that we are unable to diversify our revenue source, our business, financial condition, results of operations and prospects could be adversely affected.

Price fluctuation of our products may adversely affect our turnover.

During the years ended 31 December 2009, 2010 and 2011, our total revenue amounted to approximately RMB529.71 million, RMB773.77 million and RMB927.77 million respectively, and our profit before taxation during the same period amounted to approximately RMB42.35 million, RMB131.76 million and RMB187.89 million respectively. The average selling price of our jacquard fabrics was approximately RMB18.55, RMB24.03 and RMB24.20 per meter for the years ended 31 December 2009, 2010 and 2011, respectively. The average selling price of our dobby fabrics was approximately RMB9.24, RMB14.83 and RMB16.82 per meter for the years ended 31 December 2009, 2010 and 2011, respectively. The significant increase in our total revenue and profit before taxation for the year ended 31 December 2010 compared with those for the year ended 31 December 2009 was partly a result of the increase in the selling price of our Fabric Products during that period. Please refer to the paragraph headed "Year ended 31 December 2010 compared to year ended 31 December 2009 — Turnover" under the "Financial Information" section in this prospectus for further analysis of the fluctuation.

There is no assurance that our product price will continue to grow or will not decline in the future, and in the event that our product price declines significantly in the future, our business, revenue and results of operations could be materially and adversely affected.

Our operating results may be adversely affected by fluctuations in prices and supplies of our raw materials.

Our cost of raw materials accounted for approximately 66.93%, 71.45% and 76.93% of our cost of sales for the years ended 31 December 2009, 2010 and 2011, respectively. The principal raw materials for use in our production process are yarns, cotton and sizing agent. We rely on cotton for the production of yarns and use yarns for the production of Fabric Products. Cost of yarns accounted for approximately 63.06%, 68.59% and 74.55%, respectively of our cost of sales for the years ended 31 December 2009, 2010 and 2011. Our average purchase cost of yarns was approximately RMB19,410, RMB36,180 and RMB35,831 per tonne for the years ended 31 December 2009, 2010 and 2011, respectively. Since yarns are the principal raw materials used in the production of fabrics, fluctuations in yarn prices and supplies will affect the prices and supplies of fabrics.

For the year ended 31 December 2011, a significant proportion of our Fabric Products were made with cotton or cotton blended yarns which were produced from cotton (or from the blending of cotton and other fibers). Our average purchase cost of cotton was approximately RMB10,736, RMB16,163, and RMB21,748 per tonne for the years ended 31 December 2009, 2010 and 2011, respectively. Fluctuations in cotton prices and supplies will affect the prices and supplies of cotton yarns or cotton blended yarns. Cotton prices have significantly decreased since March 2011 to August 2011 but generally have become stabilised since October 2011. CC Index 328, a cotton index from China Cotton Association decreased by approximately 30.33% for year ended 31 December 2011. Since cotton is an agricultural product, its supplies and quality are vulnerable to many factors beyond our control, including weather, infestations and other forces of nature that can result in shortage in supplies and an increase in cotton price. Further, as a domestically and internationally traded commodity, the market prices of cotton are also subject to fluctuation from time to time.

As such, notwithstanding our pricing policy will take into account the cost of our raw materials for manufacturing the products ordered by our customers, if there is any significant increase in the prices of raw materials in the future, our business and results of operations would be materially adversely affected if we are unable to pass on the increased cost of raw materials to our customers.

To meet our production and delivery schedules, we must obtain sufficient quantities of raw materials on a timely basis at commercially reasonable terms. Although we consider that our principal raw materials are commodities readily available in the PRC as well as from overseas suppliers, there is no assurance that we are able to source sufficient raw materials at competitive prices, or at all, in a timely manner. Any shortage of supplies of our principal raw materials may cause disruption to our production. During the Track Record Period, we did not experience any disruption in our production due to shortage of raw materials supplies or significant increases in raw material prices.

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

During the years ended 31 December 2009, 2010 and 2011, purchases from our five largest suppliers accounted for approximately 43.12%, 41.76% and 27.27% of our total raw material purchase, respectively, and total purchases from our largest supplier during the same period accounted for approximately 29.33%, 26.18% and 9.04% of our total raw material purchase, respectively.

We do not enter into long-term contracts with our raw material suppliers for constant supply of our raw materials in order to maintain flexibility in the sources of raw materials and pricing. We enter into supply contracts with our suppliers when we place procurement order with them. The ability to source our raw materials at competitive prices in a timely manner is crucial to our success. Such ability allows us to meet our production requirements while managing our costs. Any failure to maintain good relationships with any of our major raw material suppliers could cause disruption in our raw material supplies necessary for our production requirements. To avoid over-reliance on a single supplier, we normally maintain at least three potential suppliers from time to time for the supply of the principal raw materials we require. However, there is no assurance that these suppliers are able to provide alternative source of raw materials in a timely manner or at commercially reasonable terms. If our major suppliers cease to supply the raw materials we need and we are unable to locate alternative source of raw materials on time or at commercially reasonable terms or at all, we could experience material production delays and materially increase our production costs, which could materially adversely affect our profit margin.

To ensure consistency in the quality of yarn supplies and benefit from the proximity of the production premises of Yinlong Industrial to our warehouse and production facilities, during the Track Record Period, we sourced a significant portion of our yarn supplies from, and had yarn processing arrangements with, Yinlong Industrial, a company controlled by Mr. LIU Dong until 29 October 2010 and thereafter, by his associate until 21 April 2011, and which was our largest supplier for the years ended 31 December 2009 and 2010. During the years ended 31 December 2009, 2010 and 2011, purchases (including the processing fee paid to Yinlong Industrial) from Yinlong Industrial amounted to approximately RMB99.12 million, RMB131.01 million and RMB15.38 million, respectively, accounting for approximately 29.33%, 26.18% and 3.19%, respectively, of our total raw material purchase. For further details of our yarn procurement from and processing arrangements with Yinlong Industrial, please see "Business — Products — Yarns" in this prospectus.

On 31 December 2010, to cater to the increasing scale of our fabric productions and to secure a reliable and quality yarn supplies, Yinshilai Textile completed the Yinlong Assets Acquisition pursuant to which it purchased from Yinlong Industrial approximately 90,000 spindles and other spinning machineries and supporting equipment. Since then, we can leverage on our internal yarn spinning facilities for the supply of yarns and purchase additional yarns from other suppliers if our internal yarn production is insufficient to satisfy our need. There is no assurance that, if our internal yarn production is insufficient to satisfy our need, we will be able to source from alternative suppliers sufficient yarn supplies at competitive price, or at all, in a timely manner, and if any of such events occur, our business, financial condition and results of operations could be adversely affected.

We operate in the competitive textile manufacturing industry.

Given the competitive environment that we operate in and the low entry barrier into the textile manufacturing industry as a whole in terms of regulatory restrictions and capital requirements, we are subject to competition from both existing manufacturers and new market entrants in and outside of the PRC. For domestic sales of Fabric Products, we mainly face direct competition from major players in the industry in China, although we believe that our present operating scale are still much larger than many domestic competitors and we strategically focus on offering high-end, functional and differentiated Fabric Products which enables us to maintain a competitive edge. For Fabric Products exported to overseas markets, we believe that we face competition from both domestic and foreign manufacturers such as manufacturers from Turkey for the sale of jacquard fabrics, which include many companies that are larger in size and have greater financial resources than us. In addition, for overseas competitors in India, Pakistan and other cotton textile producing countries, since cotton is abundant and the cost of labour is relatively low, they are therefore very competitive in terms of production costs. If we are unable to stay ahead in the face of progressively intense competition from the local and overseas manufacturers, our business, financial condition, results of operations and prospects may be adversely affected.

We generally do not enter into long-term contracts with our customers.

We generate our revenues primarily from purchase orders our customers place with us and we generally do not enter into any long-term contracts with our customers. Our customers may cancel, reduce or defer purchase orders at any time. Accordingly, the volume of our customers' purchase orders and the type of products sold may vary significantly from period to period. Therefore, it is difficult for us to forecast the quantities and trends of future orders. There is no assurance that our customers will continue to place purchase orders with us in the future at the same quantity and price level as in the current or prior periods, or at all. Furthermore, the actual volume of our customers' purchase orders may not be the same as our expectations at the time we make our future production and development plans. Accordingly, our results of operations may vary from period to period and may fluctuate significantly in the future.

We may not be able to develop commercially successful products.

The success of our business is dependent upon our ability to continuously develop, in a timely fashion, new products through research and development to meet our customers' requirements, diversify revenue streams and introduce new product designs to cater to customers' preferences. Product design, research and development require investments in time, resources and capital expenditure. We cannot assure you that our product development and research efforts will result in the development of popular fabric products or innovative production technique that lead to production technology breakthroughs, or will be completed on time, or will generate expected benefits. Further, we cannot assure you that we will be able to acquire the sole intellectual property rights over our research efforts which are made in collaboration with external parties although it would generally be our requirement that the intellectual property rights are to be transferred to us or to be co-owned by us or to be used by us on favourable terms pursuant to the cooperation arrangements, or that any newly developed products will be commercially successful. Whether a product is commercially successful depends on a number of factors, such as the absence of other products with similar characteristics or properties and the effectiveness of our sales and marketing and distribution efforts.

If our research and development efforts do not lead to introduction of new products that meet market demand on a timely basis, or manufacture of products that are innovative or superior to those of our competitors or commercially successful or are well accepted by the market, our business, financial condition, results of operations and prospects may be adversely affected.

We have had net current liabilities at times during the Track Record Period.

As at 31 December 2009, 2010 and 2011, our net current liabilities were approximately nil, RMB259.90 million and RMB141.68 million respectively. The net current liabilities as at 31 December 2010 and 31 December 2011 mainly arose as a result of the amounts due to related parties incurred for arranging restructuring of our Group. Our Group has repaid approximately RMB30 million in cash to the related party subsequent to 31 December 2011, and the repayment obligation of the balance of the amounts due to such related party had been waived by it prior to the Listing. Please see the section headed "Financial Information — Liquidity and Capital Resources — Net current assets/(liabilities)" in this prospectus for further details.

We cannot assure you that we will not experience periods of net current liabilities in the future. A net current liabilities position would expose us to liquidity risks if we were unable to refinance certain loans when they come due. There can be no assurance that we will always be able to obtain the necessary funding to refinance our short-term borrowings upon maturity and finance our capital commitments. If we were unable to refinance such borrowings when due, and we were not otherwise able to repay such amounts at maturity, we may be in default of such loans, which may result in cross-defaults. In such circumstances, our business operations, liquidity, financial condition and prospects could be materially and adversely affected.

We need additional capital to fund the expansion of our operations and growth in the future, which we may not be able to obtain on acceptable terms, or at all.

We need additional capital to fund our capital expenditure associated with expansion of our production capacity through the acquisition of new production machinery and technology upgrades in the future. There is no assurance that we will generate sufficient cash flow from operating activities for our intended expansion plans. In the event we do not have such operating cash flow, we will need to obtain alternative financing.

There is no assurance that we will be able to obtain adequate financing on acceptable terms, or at all. Our ability to obtain additional capital on acceptable terms will be subject to a variety of uncertainties, including:

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

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

We may not be able to fully realise our intended expansion plan.

As disclosed under "Business — Business Strategies" in this prospectus, we plan to adopt a number of strategies, including expanding our product mix, expanding and upgrading our production facilities, strengthening our brand building efforts and exploring strategic investments and cooperative alliances opportunities. The successful implementation of our business plans depends on a number of factors which may or may not be within our control, including but not limited to whether the home textile industry, particularly in the PRC, will continue to grow at a pace anticipated by our Directors, whether we will be able to timely and effectively capture the opportunities associated with such growth, the level of competition arising from other fabric manufacturers, our ability to manage our business growth strategically and cost effectively, our ability to cope with any increase in product demands, our ability to enhance our research and development capabilities and the availability of funds to finance our strategic plans. There is no assurance that we can successfully manage any of these factors. If we fail to implement our plans, our business, financial condition, results of operations and prospects may be adversely affected.

Our business prospects may be difficult to evaluate due to our relatively short operating history.

Although most of our senior management members have nearly 20 years of experience in the textile industry, we commenced our fabric manufacturing business in 2003. As our operating history is relatively short, there may be limited operating data available to establish long term trends to evaluate the performance and prospects of our Fabric Products, especially our jacquard fabric business which we expect, will become increasingly important to our business. Due to our limited operating history, there is no assurance that we are able to successfully expand this line of business in the future. Further, same as dobby fabrics, the demand for, and the price of, our jacquard fabrics in the textile markets are subject to fluctuations, uncertainties and the availability of substitute products. In the event that we fail to identify the risks and uncertainties emerging from this market and tackle them effectively, our business, financial condition, results of operations and prospects may be adversely affected.

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

Our operating subsidiaries in China, namely, Yinshilai Textile and Huiyin Textile, are required to make social insurances contributions and housing fund contribution for the benefit of their own employees under the PRC laws and regulations. In addition, each of Yinshilai Textile and Huiyin Textile is required to make work-related injury insurance contribution for the workforce sourced from Zibo Kangye since April 2011 pursuant to the labour sourcing agreements with Zibo Kangye. Due to the differences in local regulations, inconsistent implementation by local authorities in the PRC, high mobility of rural population and different levels of acceptance of the social insurances and housing fund systems by employees, each of Yinshilai Textile and Huiyin Textile did not make social insurances and housing fund contributions in full for its employees during the Track Record Period.

As of 31 December 2011, the aggregate outstanding amount of social insurances and housing fund contributions were approximately RMB9,631,518.94 and RMB2,407,062.5 respectively. We may be ordered to make the outstanding contributions and be subject to penalties for late payment. The penalties for failure to make social insurance contributions are calculated at 0.2% per day of the outstanding amount and the penalties for failure to make housing fund contribution are not less than RMB10,000 and not more than RMB50,000. Our Directors are of the view that, since it is not probable that an outflow of resources will be required to settle the outstanding amount of social insurances and housing fund contributions, no provision has been made by our Group in this regard. Please refer to the paragraphs headed "Social insurances and housing fund" under the "Directors, Senior Management and Employees" section of this prospectus for details.

We face certain risk relating to the real properties we owned or leased.

As at 31 December 2011, we did not obtain the relevant construction planning permits for five buildings with a total gross floor area of approximately 3,893.56 sq.m. The said five structures are being used as warehouse and compressed air station purposes. As advised by our PRC legal advisers, due to the fact that we fail to obtain the required planning permits, we could be ordered by the relevant PRC authorities to demolish these buildings and undertake other remedial measures, or the relevant buildings could be confiscated by the relevant PRC authorities. We could also be liable to a fine of up to a maximum of 10% of the construction costs in respect of the buildings that we have failed to obtain the relevant planning permits, which amounts to approximately RMB392,437.23.

We leased a property situated in Yinlong Village, Economic Development Zone, Boshan District, Zibo City from Yinlong Villagers' Committee for our yarn production purpose. As at the Latest Practicable Date, we had yet to receive from the relevant lessor the land use rights certificate and other evidence of title to the said piece of land, and we also have not received any building ownership certificate of the property on such land. Our PRC legal advisers have advised that, if the lessor of the relevant leased property does not have the requisite rights to lease out the relevant leased property, the relevant lease agreements may be deemed invalid, and as a result, we may be required to move out from the relevant leased property and relocate our production facilities. Besides, due to the lack of land use rights certificate of the aforesaid leased property, if the property is not used in accordance with its prescribed usage, according to the applicable PRC laws and regulations, we may also be required to relocate our relevant production facilities and face a fine up to RMB30 per square meter of the illegally occupied property.

We cannot assure you that the relevant PRC authorities will not order the demolition of those buildings we owned for the failure as mentioned above, or to vacate us from our leased premises if our lease agreement is declared void and unenforceable by the relevant PRC authorities, in which case we will need to relocate, but may not be able to successfully find alternative sites to locate our facilities or obtain alternative source of yarns during the period of relocation on commercially reasonable terms, or at all. If any of such events occur, our business operations and future growth may be adversely disrupted, and this could have an adverse effect on our business, financial condition, results of operations and prospects. The Controlling Shareholders have undertaken to indemnify our Group against any damages, losses or liabilities which are or will become payable by any members of our Group as a result of the above non-compliance by our Group in relation to our properties, which are owned or leased by our Group. Please see "Business — Properties" in this prospectus for details.

We are potentially liable for the payment of the Outstanding Settlement Amount under the Civil Mediation Agreement.

On 29 April 2008, Mr. LIU Dong, Mr. LIU Yanjiang, Ms. LIU Hongrui, Yinlong Industrial, Yinshilai Textile and Yinshan Chemical Fiber entered into a mediation agreement. As advised by our PRC legal advisers, such mediation agreement was subsequently endorsed by the Jurisdiction Court (as defined in the section headed "Connected Transactions" in this prospectus).

Pursuant to the Civil Mediation Agreement (as defined in the section headed "Connected Transactions" in this prospectus), in consideration of the transfer of all equity interest held by Mr. LIU Yanjiang and Ms. LIU Hongrui in Yinlong Industrial, Yinshilai Textile and Yinshan Chemical Fiber and as the compensation to Mr. LIU Yanjiang and Ms. LIU Hongrui for their interest in and any loan made to the aforementioned companies, Mr. LIU Dong agreed to pay Mr. LIU Yanjiang and Ms. LIU Hongrui RMB5,000,000 before 19 May 2008 and RMB 5,000,000 before 3 June 2008, and Mr. LIU Dong, Yinlong Industrial, Yinshilai Textile and Yinshan Chemical Fiber agreed to be jointly and severally liable to Mr. LIU Yanjiang and Ms. LIU Hongrui for the remaining balance of RMB45,000,000 divided into 9 instalments of RMB5,000,000 each payable half-yearly. As advised by our PRC legal advisers and based on the terms of the Mediation Agreement (as defined in the section headed "Connected Transactions" in this prospectus), the settlement sum was payable to Mr. LIU Yanjiang and Ms. LIU Hongrui (who are married couple) jointly and collectively.

As confirmed by our Directors, the first 7 instalments up to 31 December 2011 for the aggregate sum of RMB35,000,000 had been duly paid by Mr. LIU Dong pursuant to the Civil Mediation Agreement. The Jurisdiction Court also confirmed that the instalments had been duly paid. The remaining two instalments for the Outstanding Settlement Amount (as defined in the section headed "Connected Transactions" in this prospectus) are to be paid on or before 30 June 2012 and 31 December 2012, respectively.

On 25 June 2012, Mr. LIU Dong remitted the Outstanding Settlement Amount to the designated bank account of the Jurisdiction Court on a non-refundable basis and irrevocably agreed and undertook to Yinlong Industrial, Yinshan Chemical Fiber and Yinshilai Textile that he would be primarily liable for all liabilities and obligations to Mr. LIU Yanjiang and Ms. LIU Hongrui under the Civil Mediation Agreement. As confirmed by the Jurisdiction Court, since Mr. LIU Dong had irrevocably paid to it the Outstanding Settlement Amount on a non-refundable basis, it will not release the Outstanding Settlement Amount to Mr. LIU Dong or his associate's creditors in any circumstance and will only pay such amount in full directly to Mr. LIU Yanjiang and Ms. LIU Hongrui pursuant to the payment schedule under the Civil Mediation Agreement, and accordingly, all obligations and liabilities of Yinshilai Textile under the Civil Mediation Agreement had been discharged and released. Having considered that (i) the Outstanding Settlement Amount has been paid in full into the designated bank account of the Jurisdiction Court which will proceed to pay such amount to Mr. LIU Yanjiang and Ms. LIU Hongrui pursuant to the payment schedule under the Civil Mediation Agreement as confirmed by the Jurisdiction Court in a confirmation letter dated 25 June 2012, and (ii) the joint obligations and liabilities of Yinshilai Textile under the Civil Mediation Agreement is to be discharged by way of cash payment of the Outstanding Settlement Amount to Mr. LIU Yanjiang and Ms. LIU Hongrui, our PRC legal advisers advised that, on the basis that the Jurisdiction Court, which is the competent authority in making the relevant confirmation, will have paid the Outstanding Settlement Amount to Mr. LIU Yanjiang and Ms. LIU Hongrui in full pursuant to the payment schedule under the Civil Mediation Agreement, the joint obligations and liabilities of Yinshilai Textile under the Civil Mediation Agreement can be deemed as having been discharged and released in substance.

As at the Latest Practicable Date, the Outstanding Settlement Amount had been deposited at the designated bank account of the Jurisdiction Court and the disposal thereof was at its absolute discretion. There is no assurance that, if Mr. LIU Dong becomes insolvent, any of his creditors will not be able to successfully file a claim for seizing the assets of Mr. LIU Dong, including the money of Mr. LIU Dong deposited to the Jurisdiction Court, to the extent that those money has not yet been paid to Mr. LIU Yanjiang and Ms. LIU Hongrui, in satisfaction of the debt owed to them. If any of these events occurs, Yinshilai Textile will be jointly and severally liable with Mr. LIU Dong, Yinlong Industrial and Yinshan Chemical Fiber for the payment of the Outstanding Settlement Amount, and any payment of such amount in full or in part by Yinshilai Textile or our Group may adversely affect our cashflow position and financial condition. The Controlling Shareholders have undertaken to indemnify our Group against any damages, losses or liabilities which are or will become payable by our Group as a result of the Civil Mediation Agreement.

For further details relating to the above, please refer to "Connected Transactions — Financial Assistance Provided by the Company for the Benefit of a Connected Person" in this prospectus.

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

We believe that our success is, to a certain extent, attributable to the expertise and experience of our key management team, which comprised Mr. LIU Dong, Mr. LIU Zongjun (劉宗君), Mr. TIAN Chengjie (田成杰) and Ms. SUN Hongchun (孫紅春) as at the Latest Practicable Date. During the Track Record Period, our senior management team also included Mr. LV Ruichuan, our former director of Huiyin Textile until March 2012, who was primarily responsible for enterprise daily management and implementation of business plan. Mr. LV Ruichuan has ceased to be our employee and has become our consultant since late June 2012. Details of the consultancy agreement entered into between our Company and Mr. LV Ruichuan and his biographical details are set out in "Connected Transactions — Exempt Continuing Connected Transactions". Details of our current management team, including their relevant areas of expertise, are set forth in "Directors, Senior Management and Employees". Our current management members possess in-depth know-how in their respective area of expertise, have made significant contribution to our business development and are responsible for implementing our business strategies. Our continued success is dependent, to a large extent, on the ability to attract and retain the services of the key management team members. Accordingly, the loss of services of any of our key management team members without suitable and timely replacements may lead to disruption in our operations, loss or deterioration of important business relations and have a material adverse effect on our business, results of operations and prospects.

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

Although our production facilities are highly mechanized and do not require a large amount of labour force to operate, we rely on skilled labour force who has technical capabilities to monitor, operate and administer these facilities, to design our products and improve our production technique.

There is no guarantee that our supply of skilled labour and the average labour cost will continue to be stable. If we fail to retain our existing skilled labour and/or recruit sufficient skilled labour in a timely manner, we may not be able to cope with sudden increase in demand for our products or our expansion plans. If we are not able to manufacture and deliver our products on schedule or if we are unable to implement our expansion plans, our business, financial condition, results of operations and prospects would be materially and adversely affected. Moreover, if there is a significant increase in labour cost or shortage of skilled labour, the cost of our business operation would increase and our business, financial condition, results of operations and prospects would be adversely affected.

We may face disruptions in our production process.

Our revenue is dependent on the continued operation of our production facilities. Our production process is subject to risks beyond our control including, amongst others, fire, breakdown, failure or substandard performance of our equipment, power shortage, labour strikes, natural disasters and any interruption in our operations as a result of any failure to comply with all applicable laws, regulations and standards in the PRC. Frequent or prolonged occurrence of any of the aforesaid events may have a material adverse effect on our business, financial condition and results of operations.

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

We rely on a combination of registration and contractual rights to protect our intellectual property rights. For further details of our intellectual property rights, please see "Further Information about the Business of our Company — 9. Intellectual property rights of our Group" in Appendix VI to this prospectus. In addition to registration of our intellectual property rights, we have taken other appropriate measures such as signing of non-disclosure and confidentiality agreements to protect our intellectual property rights. There is no assurance that any of the above measures will be sufficient to prevent any misappropriation of our intellectual property. In the event that any third party infringes our intellectual property rights, we may face considerable difficulties and time consuming and costly litigation in order to enforce our intellectual property rights. If we are not able to effectively protect our intellectual property rights, our business, financial condition and results of operations could be adversely affected.

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

We are subject to foreign exchange risks.

Our domestic sales and purchases and operating expenses are denominated in RMB whereas our overseas sales and purchases are mainly denominated in U.S. dollars. For the years ended 31 December 2009, 2010 and 2011, approximately 14.35%, 22.24% and 11.73% of the revenue generated by our Group during the respective period were denominated in US dollars, whereas the remaining percentage thereof was denominated in RMB. In addition, most of our core weaving machineries and equipment were imported from overseas. Accordingly, we are required to make payments in US$, Euro, Japanese Yen or other foreign currencies, particularly when we undertake major purchases of machineries and equipment. Our foreign currency exchange risk arises mainly from a mismatch between the currency of our sales, purchases, operating expense, purchase of imported machines and equipment, and bank loans denominated in foreign currencies. To the extent that our sales, purchases, operating expenses and purchase of imported machines and equipment from overseas countries are not denominated in the same currency, and to the extent that there are timing differences between invoicing, payment and collections, we will be exposed to foreign currency exchange gains and losses arising from transactions in currencies other than RMB. Our exposure to foreign exchange fluctuations and movements in the exchange rate of RMB may adversely affect our financial condition and results of operations. We recorded foreign exchange loss of approximately RMB10.60 million for the year ended 31 December 2010.

Currently, we do not have any hedging policy with respect to our foreign exchange exposure. In view of the nature of our business, foreign exchange risks will continue to be an integral aspect of our risk profile in the future. We will continue to monitor our foreign exchange exposure in the future and will consider hedging any material foreign exchange exposure should the need arise.

The preferential tax treatment we currently enjoy may be changed or discontinued.

The PRC government provides tax incentive schemes to foreign-owned enterprises. Under PRC tax laws, a WFOE is entitled to a two-year income tax exemption period commencing from the first profit making year and a 50% reduction in EIT for the next three years. One of our PRC operating subsidiaries, Huiyin Textile, fulfills the requirements to receive preferential EIT treatments. Huiyin Textile started making profits in the year ended 31 December 2008. As a result, Huiyin Textile was entitled to EIT exemption for the period from 1 January 2008 to 31 December 2009 and a 50% reduction in EIT from 2010 to 2012. Starting from 1 January 2013, Huiyin Textile will be subject to the uniform tax rate of 25% after our tax benefits expire on 31 December 2012.

In light of the above taxation treatment, during the years ended 31 December 2009, 2010 and 2011, the effective tax rate of our Group was approximately 3.67%, 19.88% and 13.71% respectively. The increase in effective tax rate for the year ended 31 December 2010 compared to the year ended 31 December 2009 was mainly due to (a) a change in the applicable tax rate of Huiyin Textile as mentioned above; and (b) the deferred tax of approximately RMB10.02 million.

For the period from 26 September 2010 to 25 September 2013, Yinshilai Textile is granted the status of a "High and New Technology Enterprise" and, according to the applicable PRC laws and regulations, will be entitled to the reduced EIT rate of 15% after obtaining yearly consent from the local tax authorities. Yinshilai Textile is in the process of applying for the consent to the aforesaid tax reduction from local tax authorities.

There is no assurance that the PRC policies on preferential tax treatments and/or supporting textile industry will not change or that the current preferential tax treatments we enjoy or will be entitled to enjoy will not be cancelled. If such change and cancellation occur, the resulting increase in our tax liability or reduction in the amount of subsidies we receive would have an adverse effect on our net profits and cash flow.

We may be deemed a PRC resident enterprise under the New EIT Law and be subject to the PRC taxation on our worldwide income.

The New EIT Law was promulgated by the National People's Congress on 16 March 2007 and became effective on 1 January 2008. The new law imposes a uniform income tax rate of 25% on both domestic and foreign invested enterprises. It also contemplates various transition periods for existing preferential tax treatments. According to the "Notice of the State Council on the Implementation of the Transitional Preferential Policies in respect of Enterprise Income Tax" 《(國務院關於實施企業所得税過渡優惠政策的通知》) ("**Notice**") promulgated by the PRC State Council and effective from 26 December 2007, enterprises entitled to preferential tax treatments of lower taxation prior to the New EIT law came into effect must gradually transit to the uniform tax rate of 25% within five years from 1 January 2008. Enterprises entitled to preferential tax treatment of tax reduction such as "two-years exempt and three-years halved" prior to the New EIT law came into effect are able to continue to enjoy the relevant preferential treatments after the implementation of the New EIT Law until they expire.

Under the New EIT Law, our Company and non-PRC subsidiaries may be classified as a "resident enterprise" of the PRC. Under the New EIT Law, an enterprise established outside the PRC with "de facto management bodies" within the PRC is considered a "resident enterprise", meaning that it can be treated in a manner similar to a PRC enterprise for enterprise income tax purposes. The implemented rules of the New EIT Law define "de facto management" as "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise. It is unclear how the PRC tax authorities will determine whether an enterprise should be classified as a "resident enterprise". If the PRC tax authorities determine that our Company is a "resident enterprise" for PRC enterprise income tax purposes, we may be subject to enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In our case, this would mean that income such as interest earned on offering proceeds and other income sourced from outside the PRC would be subject to PRC enterprise income tax at a rate of 25%, in comparison to no taxation in the Cayman Islands. Moreover, if we are considered a PRC "resident enterprise," the dividends our Company pay in respect to our Shares, and the gain investors of our Company may realise from the transfer of our Shares, would be treated as income derived from sources within the PRC and be subject to PRC withholding tax, which may materially and adversely affect the value of the investment in our Shares.

In addition to the above uncertainties, there can be no assurance that the PRC Government will not amend or revise taxation laws, rules and regulations to impose stricter tax requirements or higher tax rates, or apply the New EIT Law or any subsequent changes in PRC taxation laws, rules or regulations retrospectively. If these changes occur and/or if such changes are applied retrospectively, they might materially affect our business, financial condition and results of operations.

We may incur additional costs or liquidated damages in the event of product recalls, defects or claims.

We may encounter disputes with our customers in relation to defects in workmanship, materials used and non-compliance with product specifications. Disputes and claims could result in undue delays in payment by our customers or protracted litigation, which will have a negative impact on our profits and financial position. In addition, we may face negative publicity with respect to our products, and will incur costs if we are required to undertake a massive recall of our products in the event of defects in workmanship, materials used and non-compliance with product specifications. Such additional costs will have an adverse effect on our business, financial condition, results of operations and prospects.

We may be exposed to credit risks of our customers.

For the years ended 31 December 2009, 2010 and 2011, our average trade receivables turnover periods were 28 days, 32 days and 23 days. We may have to relax our existing credit policies to enhance our market position when competition intensifies. We also face uncertainties over the timeliness of our customers' payments and their ability to pay. Although we have in place credit checking policy and during the Track Record Period, we had not experienced any material difficulties in collecting payments from our customers, there is no assurance that we will always be able to collect our trade debts on a timely basis or at all. Our financial position and results of operation would be adversely affected if the rate of recovery of our trade receivables deteriorates. A material increase in bad and doubtful debts will adversely affect our financial performance.

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

Our principal financial instruments comprise trade and other receivables, amounts due from/to related companies, pledged bank deposits, bank balances, trade and other payables, amount due to a shareholder, and bank and other borrowings. The main risks associated with certain of these financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. As at the Latest Practicable Date, we did not hold or issue derivative financial instruments for hedging purposes. Our policies for financial risk management may not be sufficient. Further, there is a lack of hedging tools against financial risks in the PRC. If we fail to maintain effective risk management policies in respect of any of the financial risks in the future, our business, financial condition and results of operation may be materially and adversely affected.

We have limited insurance coverage.

We maintain insurance policies covering risks in respect of properties and vehicles and goods in transit. There is no assurance that our insurance coverage would be sufficient to cover all our potential losses. For further details on the insurance policies we maintain, please see "Business — Insurance" in this prospectus. In the event that our insurance policies cannot sufficiently compensate for our losses sustained as a result of damage to items covered or howsoever incurred, we would have to pay for the difference ourselves and our cash flow and liquidity could be adversely affected.

Investors may experience difficulty in effecting service of legal process and enforcing judgments against us and our management.

Almost all of our assets are located in the PRC. In addition, most of our Directors and officers reside within the PRC, and their respective assets may also be located within the PRC. It may be difficult to serve process on our Directors and officers in the PRC. In addition, a judgment of a court of another jurisdiction may only be recognized or enforced if the jurisdiction has a treaty with the PRC or as a matter of reciprocity, subject to satisfaction of other requirements. However, the PRC does not have treaties providing for the recognition or enforcement of civil judgements of the courts of the United States or other western countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in the PRC or Hong Kong of judgments of a court in these jurisdictions is subject to uncertainties.

Investors may experience difficulties in enforcing their shareholder rights as our Company is incorporated in the Cayman Islands, and Cayman Islands laws for protection of minority shareholders may be different from those under the laws of Hong Kong and other jurisdictions.

Our corporate affairs are governed by, amongst other things, the Memorandum and Articles of Association, Cayman Islands Companies Law and common law of the Cayman Islands. The law of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in Hong Kong and other jurisdictions. The remedies available to the minority Shareholders may be different compared to the laws of Hong Kong or other jurisdictions. For example, the Cayman

Islands Companies Law does not contain an express provision which is equivalent to section 168A of the Companies Ordinance which provides a remedy for shareholders who have been unfairly prejudiced by the conduct of the company's affairs. For further details, please see "Summary of the Constitution of our Company and Cayman Islands Companies Law" in Appendix IV to this prospectus.

Dividends paid in the past may not be indicative of the amount of future dividend payments or our future dividend policy.

Each of Yinshilai Textile and Huiyin Textile declared a dividend of approximately RMB120.92 million and RMB27.18 million respectively on 4 January 2010 to our then eligible Shareholders. As advised by our PRC legal advisers, according to the articles of association of Yinshilai Textile and Huiyin Textile and the applicable PRC laws and regulations, the principal procedures for the payment of dividends by Yinshilai Textile and Huiyin Textile to their eligible shareholders are (a) passing of board resolutions by Yinshilai Textile and Huiyin Textile for the declaration of dividends, (b) obtaining relevant taxation certificates from the responsible taxation authorities, and (c) submitting any other documents required by SAFE and the relevant designated remitting banks. Yinshilai Textile and Huiyin Textile had passed relevant board resolutions for the declaration of the special dividends and made applications to the local taxation authorities for the issue of the necessary taxation certificates. The aforesaid dividends were paid to the eligible shareholders after the aforesaid procedure had been completed. We financed the payment of such dividends with our internal resources. Save as disclosed above, no other dividend was paid by our Group to any Shareholder during the Track Record Period. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future. In the future, our dividend payment will be subject to our results of operations, cash flows, financial conditions and future prospects and other factors considered relevant by our Directors. Potential investors should note that the dividend payments in the past should not be used as a reference for the determination of our future dividend policy.

RISKS RELATING TO THE INDUSTRY

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

The fabric manufacturing industry is highly competitive. We compete with large, vertically-integrated fabric and yarn manufacturers and numerous smaller manufacturers. For domestic sales of our products, we mainly face direct competition from major players in the industry in the PRC. For products exported to overseas markets, we face competition from both domestic and foreign manufacturers, which include many companies that are larger in size and have greater financial resources than us.

The principal competitive factors that influence our customers' purchasing choices include product variety, product quality and price. The importance of these factors is determined by the needs of particular customers and the characteristics of particular products. If our competitors are able to offer more variety of products of comparable quality at lower prices, our sales and market share could be materially and adversely affected. Moreover, an overall decline in demand for our products could exert a downward pressure on our prices and erode our profit margins.

We are exposed to the risk that companies, whether they are smaller, more specialized manufacturers or multinationals with greater financial resources, may enter our market in the future. There may also be consolidation in the industry resulting in larger and integrated players with significantly increased market share. Furthermore, in order to gain market share, our competitors may price their products aggressively, resulting in more intense competition. Increased competition may result in price reduction, reduced margins and loss of market share, any of which could materially and adversely affect our results of operations.

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

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

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

Under current WTO rules, the United States, the European Union or other WTO member nations may impose import quotas, higher tariffs or other trade barriers on specific categories of textiles from China to prevent domestic market disruptions. If the countries to which we export were to impose quota restrictions or any other forms of trade restrictions such as annual growth limits on imports, technical regulations and standards on imports and environmental protection requirements against textile products from the PRC, our business, financial condition, results of operations and prospects may be adversely affected.

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

During the Track Record Period, a significant proportion of our products are cotton-based products. There are a variety of non-cotton and synthetic materials which can be used as substitutes for cotton in the manufacturing of fabric products. Accordingly, the demand for cotton-based fabric products may be adversely affected by an increase in the demand or ease of availability of non cotton-based substitute products. To reduce our reliance on the sale of cotton-based fabric products, we also offer Fabric Products made with non-cotton fibers, including Tencel and/or new materials and fibers thereby increasing the differentiation of our Fabric Products and broadening our product mix. For details of the sales of our Fabric Products made with Tencel or new material and fiber, please see "Business — Products — Product Category by Raw Materials Component" in this prospectus. There is no assurance that we will successfully expand our sale of Fabric Products made with such non-cotton fibers or that the demand for Fabric Products made with such fibers will increase. In the event that there is a decrease in market demand for cotton-based or non cotton-based fabric products, our business, financial condition, results of operations and prospects may be adversely affected.

RISKS RELATING TO THE PRC

The current global market fluctuations and economic downturn could materially and adversely affect our business, financial condition and results of operations.

The global capital and credit markets have been experiencing extreme volatility and disruption since 2008. Concerns over inflation, energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market and the state of the residential real estate market in the U.S. and elsewhere have contributed to unprecedented levels of market volatility and weak investor sentiment for the global economy and the capital and consumer markets in the future. These factors, combined with volatile oil prices, declining business activities and consumer confidence and increased unemployment, have precipitated an economic slowdown and a possible prolonged global recession. Recently, the instability of the Greek and other European states' credit and financial markets has threatened the stability of the European Union's monetary policies, which may negatively impact the Euro, the members of the European Union, the world economy as well as the global credit and capital markets. These events have led to a slowdown in the Chinese and global economy which is expected to continue in the near future. As a result, consumer demand for our products may significantly decrease, thereby materially and adversely affecting our business, financial condition, results of operations and prospects. Moreover, many banks have been tightening credit, which may increase our financing costs. Banks may also reduce the amount of or discontinue the banking facilities currently available to us. If any of these events occurs, our business, financial condition, results of operations and prospects may be adversely affected which could be material.

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

The majority of our assets are located in the PRC. A substantial portion of our revenue is generated from sales in the PRC. Our results of operations and prospects will be 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 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 promulgated various reforms of its economic systems. Such reforms have resulted in economic growth for the PRC in the last three decades. However, many of the reforms are unprecedented or experimental, and are expected to be refined and modified from time to time. Other political, economic and social factors may also lead to further readjustment of the reform measures. Moreover, we cannot assure you that the PRC government will continue to pursue economic reforms. A variety of policies and other measures that could be taken by the PRC government to regulate the economy could have a negative impact on our business, including the introduction of measures to control inflation or reduce growth, changes in the rate or method of taxation or the imposition of additional restrictions on currency conversions and remittances abroad. Our business, financial condition, results of operations and prospects may be adversely affected by the PRC government's political, economic and social policies and regulations or changes in laws, regulations or the interpretation or implementation thereof.

Introduction of new laws or changes to existing laws by the PRC government may adversely affect our business.

Our business and operations in the PRC are governed by the legal system of the PRC. The PRC legal system is a codified system with written laws, rules and regulations. The PRC government is still in the process of developing its legal system, so as to meet the needs of investors and to encourage foreign investment. As the PRC economy is developing generally at a faster pace than its legal system, some degree of uncertainty exists in connection with whether and how existing laws and regulations will apply to certain events or circumstances. Some of the laws and regulations, and the interpretation, implementation and enforcement thereof, are still at an experimental stage and are therefore subject to policy changes. Further, prior court decisions may be cited for reference but have limited precedential value. Accordingly, the outcome of dispute resolution may not be as consistent or predictable as in the other more developed jurisdictions. Even after the relevant legislation has been enacted, it may be difficult to obtain swift and equitable enforcement of the laws in the PRC, or to obtain enforcement of a judgment by a court or another jurisdiction. Any introduction of new laws or amendments to existing laws by the PRC government which is detrimental to the business environment in which we operate will adversely affect our profitability.

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

Our PRC subsidiaries are subject to the PRC rules and regulations on currency conversion. In the PRC, SAFE and its local branches regulate the conversion of the RMB into foreign currencies. Foreign investment enterprises ("**FIEs**") are required to apply to SAFE or its local branches for Foreign Exchange Registration Certificates. With such registration certifications (which need to be inspected annually), FIEs are allowed to open foreign currency accounts including the basic account and capital account after approval of SAFE or its local branches. Currently, conversion within the scope of the basic account (such as remittance of foreign currencies for payment of dividends) does not require the approval of SAFE by complying with certain procedure requirements. However, conversion of currency in the capital account (such as for capital items such as direct investments, loans and securities) still requires the approval of SAFE or its local branches.

We cannot assure you that the PRC regulatory authorities will not impose further restrictions on the convertibility of the RMB. As our subsidiaries in the PRC generate all of our revenue and these revenues are substantially denominated in RMB, any future restrictions on currency conversion may limit our ability to repatriate such revenues for the distribution of dividends to our Shareholders or for funding our other business activities outside the PRC.

The implementation of the new Employment Contract Law and increase in labour costs in the PRC may adversely affect our business and profitability.

The new Employment Contract Law became effective on 1 January 2008 in China. It imposes more stringent requirements on employers in relation to entry into fixed term employment contracts, hiring of temporary employees and dismissal of employees. In addition, under the newly promulgated "Regulations on Paid Annual Leave for Employees" (《職工帶薪年休假條例》), which became effective on 1 January 2008, employees who have worked continuously for more than one year are entitled to a paid vacation ranging from 5 to 15 days, depending on the length of the employees' work time. Employees who waive such vacation time at the request of employers shall be compensated for three times their normal daily salaries for each vacation day being waived. As a result of the new law and regulations, our labour costs may increase. Our Directors cannot assure you that any disputes, work stoppages or strikes will not arise in the future. Increases in our labour costs and future disputes with our employees could adversely affect our business, financial condition and results of operations.

RISKS RELATING TO THE GLOBAL OFFERING

The trading volume and price of our Shares may fluctuate.

The trading volume and price of our Shares may be highly volatile and subject to wide fluctuations. These fluctuations may be exaggerated if the trading volume of our Shares is low. Factors, some of which are beyond our control, such as variations of our operating results, changes in analysts' estimates of our financial performance, strategic alliances or acquisitions, additions or departures of our senior management, material changes or uncertainty in the political, economic and regulatory environment in the markets that we operate, involvement in litigation, fluctuations in the market prices for our products or raw materials, or other general economic and stock market conditions could cause large and sudden changes in the volume and price at which our Shares will trade. In addition, the Stock Exchange and other securities markets have from time to time experienced significant price and volume fluctuations that are not related to the operating performance of any particular company. These fluctuations may also materially and adversely affect the market price of our Shares.

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

Upon completion of the Global Offering, our Controlling Shareholders and their associates will collectively own approximately 69.20% of our issued share capital. Our Controlling Shareholders may be able to significantly influence our corporate actions such as mergers or takeover attempts in a manner that could conflict with the interests of other Shareholders.

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

There has been no public market for our Shares prior to the Listing. The Offer Price will be the result of negotiations between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company, and may differ from the market prices for our Shares after Listing. We have applied to the Stock Exchange for the listing of, and permission to deal in, our Shares. However, a listing on the Stock Exchange does not guarantee that an active market for our Shares will develop following the Global Offering or in the future. If an active market for our Shares does not develop after the Global Offering, the market price and liquidity of our Shares may be materially and adversely affected. There can be no assurance as to the ability of our Shareholders to sell their Shares, or as to the prices at which our Shareholders would be able to sell their Shares. Consequently, our Shareholders may not be able to sell their Shares at prices equal to or greater than the price paid for their Shares in the Global Offering.

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

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

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

Future sales of a substantial number of our Shares, or the possibility of such sales, could negatively impact the market price of our Shares and our ability to raise equity capital in the future at a time and price that we deem appropriate. The Shares held by our Controlling Shareholders are subject to certain lock-up undertakings for periods ending six to twelve months after the date on which trading in our Shares commences on the Stock Exchange, details of which are set out in the section headed "Underwriting" in this prospectus. While we are not aware of any intentions of our Controlling Shareholders to dispose of significant amounts of Shares after the completion of the lock-up periods, there is no assurance that any of them will not dispose of any Share they now own or may own in the future.

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

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

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

Certain facts and other statistics in this prospectus are derived from various sources including the Euromonitor Report and official government publications. Whilst our Directors and the Sole Sponsor have exercised reasonable care to ensure that such facts and statistics presented are accurately reproduced from their respective sources, the quality or reliability of such source materials cannot be guaranteed and have not been prepared or independently verified by us, the Sole Sponsor, the Underwriters or any of their respective directors, affiliates or advisers. Therefore we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between published information, market practice and other problems, the official government statistics and unofficial statistics referred to or contained in this prospectus may be inaccurate or may not be comparable to statistics produced for other publications or purposes and should not be relied upon. Furthermore, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to, or place on, such facts or statistics.

Forward-looking statements contained in this prospectus are subject to risks and uncertainties.

The information in this prospectus contains certain forward-looking statements and information relating to our Group that are based on the belief of our Directors as well as assumptions based on the information currently available to them. In this prospectus, the words "believe", "consider", "intend", "may", "plan", "estimate", "expect", "with a view to" and similar expressions, as they relate to our Company or our Group or our Directors, are intended to, among others, identify forward-looking statements. Such statements reflect the current views of our Directors with respect to, among others, future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Should one or more of these risks or uncertainties materialise, or should underlying assumptions are proved to be incorrect, our financial condition may be adversely affected and vary materially from those described herein as believed, considered, estimated or expected.

Subject to the requirements of the Listing Rules, we do not intend to publicly update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way as expected, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement. Our Directors have confirmed that any forward-looking statements contained in this prospectus are made after due and careful consideration and on the basis and assumptions that are fair and reasonable.

You should read the entire prospectus and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering.

We wish to emphasize to potential investors that we do not accept any responsibility for the accuracy or completeness of any information regarding our Group, our Shares or the Global Offering that may be revealed or expressed by public press or any other sources without authorisation by us (the "**Information**"). We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the Information and the underlying assumptions. To the extent that any of the Information is inconsistent or conflicts with the information contained in this prospectus, we disclaims it. Accordingly, prospective investors are cautioned to make their investment decisions regarding our Shares on the basis of the information contained in this prospectus only and should not rely on any other information.