RISKS RELATING TO OUR BUSINESS

Heavy reliance on our major customers

During the Track Record Period, our five largest customers accounted for approximately [99.1]%, [87.1]% and [85.7]% of our total turnover and the largest customer accounted for approximately [52.7]%, [39.8]% and [50.0]% of our total turnover. Our five largest customers are domestic import and export companies and overseas trading companies. To the best knowledge of our Directors, an Independent Third Party controlled 100% and 35% of two out of the five largest customers respectively with an aggregate sales amount of approximately RMB[48.3] million, RMB[59.1] million and RMB[10.5] million, representing approximately [45.2]%, [41.0]% and [29.5]% of our turnover during the Track Record Period.

In light of the competition among apparel manufacturers and in line with the general practice in the PRC apparel industry, our Group does not have long-term contractual arrangements with our customers. There is no assurance that our major customers will continue their business dealings with us or that the income generated from dealings with them will increase or be maintained in the future. Any cessation of, or substantial reduction in the volume of business with any of our major customers could adversely affect our financial performance or profitability and our prospects.

Possible infringements of our trademarks, designs and counterfeit products

Since March 2008, we have marketed our products in the wholesale market in the PRC using "e[illegible]" as our brand name, which we have applied for the registration as our trademark in the PRC in October 2008, and the registration has yet been granted. In June 2009, we have acquired a trademark "珍珠泉 ZHENZHUQUAN" from an Independent Third Party. Any significant infringement of our brand name or trademark could have an adverse effect on our business and operation.

As advised by our legal advisers as to PRC laws, generally speaking, it takes approximately 2 to 3 years to complete the registration process of a trademark in the PRC and approximately 4 to 6 months to complete the registration process of an assignment of trademark in the PRC. Both the trademark application and the assignment of trademark are currently under process by the Trademark Office, the State Administration of Industrial and Commerce, the PRC, and we expect the registration process for the trademark application to complete in [2011], and the assignment of trademark to complete by the end of 2009. Our legal advisers as to PRC laws further advised that they did not find any impediments for such registration.

In addition, as there are numerous variations of product styles for each product, it is impractical to effect registrations thereof as significant costs and time would be involved. During the Track Record Period, our Directors are not aware of any infringement of our unregistered product or graphic designs by others. Nevertheless, our sales and profitability could be adversely affected if a third party engages in an unauthorised imitation of our unregistered designs.

Possible infringements of others' trademarks and designs

As part of our value added services to our domestic customers, we provide product designs to our customers from time to time. There can be no assurance that our designs will not infringe any third parties' intellectual property rights. During the Track Record Period, we did not receive any material claim of this nature. Nonetheless, there can be no assurance that we will not face such claims in the future. In such event, the business of our customers and thus the business of our Group could be adversely affected. Furthermore, we might also lose our customers and our business reputation could also be adversely affected.

No assurance that future business plans will materialize

Our future business plans are based on the existing intention of our Directors and some of them are at preliminary stages. These business plans and intention are based on assumption as to the occurrence of certain future events, which may or may not materialize, and the real situation might differ materially.

There is no assurance that our future business plans will materialize, or result in the conclusion or execution of any agreement within the planned time frame, or that our objectives will be fully or partially accomplished. For instance, our ability to expand our business scope to apparels distribution depends on factors such as:

- our ability to reach agreements with our suppliers on commercial terms
- the availability of adequate management and financial resources
- the hiring, training and retention of skilled staff
- sustainable consumer demand for our products
- our ability to obtain all required government approvals and permits

We may therefore not be able to achieve our planned future business growth and our operating results may be adversely affected in the event that we fail to accomplish all or any of our future business plans or doing so in a timely manner. Besides, failure to effectively manage our future business plan may also lead to increased costs and reduced profitability for us.

In addition, our Directors expect that the net proceeds from the [●] of the [●] together with our internally generated funds will be sufficient to implement our current business plans. If our Group is unable to generate sufficient revenue from our business or our financial needs are larger than expected, we may need to raise funds from debt or equity markets or make certain modifications to our current intended use of proceeds as described in the sections headed "Future Plans and Prospects" in this [●], which could have an adverse effect on our operations and future profitability.

Product liability and insurance coverage

We do not maintain any product liability insurance or any insurance coverage against our property, business interruption or personal injury. As confirmed by our legal advisers as to PRC laws, there is no mandatory requirement under the PRC laws for companies to maintain any product liability insurance or any insurance against a property, business interruption or personal injury in the PRC. We had not been subject to any product liability claims during the Track Record Period, nor have we experienced any significant business interruptions due to accidents or natural disasters. In the event that any product liability claim is successfully brought against us, or if major accidents or natural disasters occur that cause prolonged suspension of our operations, or that significant costs would be incurred as a result of any of the above events, our business and financial position could be adversely affected.

Fluctuations in the purchase price of production materials

The principal raw materials used by us comprise of different sorts of fabric and accessories including tags, crests, zippers and buttons. We have not entered into any long-term contractual arrangements with our raw materials suppliers. Whilst we have not experienced any supply interruptions or shortages of raw materials during the Track Record Period, there is no assurance that we will not suffer from any shortages of raw materials in the future. Any shortage of raw materials could have a material adverse effect on our production, reduce our production output, and in turn resulting in reduced sales revenue of our Group.

Raw materials are our largest cost items in our operation. For each of the Track Record Period, the cost of raw materials accounted for approximately 84.1%, 83.6% and 82.2% respectively of our cost of sales. The prices of many of our raw materials are affected by changing market supply and demand. Fabric prices may be affected by the prices of crude oil and cotton as they are the primary raw materials of fabric. The average prices we paid for fabric, which is calculated as the total amount paid to fabric suppliers divided by the purchased quantity in meters, were RMB[5.2] per meter, RMB[5.3] per meter and RMB[6.5] per meter, respectively. We did not enter into any hedging transactions or adopt any measures during the Track Record Period to mitigate any associated risk resulting from such price fluctuations. When the fabric prices go up, we typically negotiate price adjustments with our customers, and generally have been able to pass on part if not all of the increases to our customers. Any increases in raw material costs that we are unable to pass onto our customers would have a negative impact on our profit margin.

Reliance on key executives and skilled labour

Our success is attributable to, amongst other things, the expertise and experience in the apparel industry of the executive Directors and the members of our senior management and their relationships with our major customers and suppliers. Although each of the executive Directors has signed a service agreement with us, the loss of service of any of the executive Directors or members of our senior management in the absence of any suitable replacements could have a material adverse effect on our operations and future profitability.

By nature of our business, we, to a significant extent, rely on skilled workers who mainly acquire their skills through on the job training provided by our Group. The failure in retaining these skilled workers and in recruiting replacement staff which would result in loss of the services of these skilled workers could have an adverse effect on our production.

Occurrence of acts of god, acts of war, epidemics and other disasters

Any occurrence of acts of god, acts of war, epidemics, including the recent outbreak of new influenza (H1N1) virus (also known as swine flu), and other disasters that are beyond our control may have a material and adverse effect on the results of our operations, financial performance and business. In April 2009, swine flu was discovered in North America and has quickly spread to a number of countries. Although China has not been reported to be widely affected by the swine flu as at the [●], we cannot predict the effect, if any, that the swine flu may have on our business.

Acts of war and terrorist attacks may cause damage or disruption to us, our employees and our markets, any of which could materially impact our sales, cost of sales, overall results of operations and financial condition. The potential for war or terrorist attacks may also cause uncertainty and cause our business to suffer in ways that we cannot predict.

Climate change may affect demand for certain of our products

Demand for our certain products, namely cotton and sweat jackets, is seasonal. Any changes in climate in the PRC or in any of our targeted overseas markets may adversely affect consumer demand for these products and thus our business and profitability. During the Track Record Period, the aggregate sales of cotton and sweat jackets accounted for approximately [52.1]%, [61.1]% and [59.7]% of our total turnover, respectively.

In addition, for the foregoing reason, comparisons of sales volumes and operating results between different periods within the same financial year, between same periods in different financial years or between different financial years, may not be meaningful and should not be relied on as indicators of our future performance.

Our cost advantage may not be sustainable

During the Track Record Period, our selling and distribution costs accounted for approximately 0.2%, 0.2% and 0.5% respectively of our total revenue and our administrative expenses accounted for approximately 0.9%, 0.7% and 0.9% respectively of out total revenue. Though we have adopted stringent cost measures to reduce unnecessary expenditures in our operation, our Company will incur additional costs in order to fulfill our future plans and objectives and ensure compliance with [●] and other provisions of the new law and regulations, and may not be able to maintain our operating expenses at such a low level.

RISKS RELATING TO THE INDUSTRY

Competition

We face competition from domestic and overseas manufacturers and suppliers engaged in the same or similar businesses that have larger production capacity and stronger financial bases than our Group. Consequently, we may not be able to compete effectively, operation wise and/or financially, with our competitors in the future. In the event that we fail to sustain our competitive advantage or to effectively implement our business strategies, our business, operations and financial position could be adversely affected.

Potential risk of imposition of anti-dumping or other duties

During the Track Record Period, approximately [99.9]%, [96.1]% and [94.4]% of our turnover are derived from apparels sold to domestic import and export companies and overseas trading companies for export. Some countries in South America and Europe may impose anti-dumping duties on products exported from another country if such exported products are being sold (i) at less than the producer's sale prices in home market or (ii) at prices that are lower than its production costs. To the best knowledge of our Directors, there is no anti-dumping measure in force in the Middle East. Although our Directors consider that the anti-dumping provision does not apply to our exported sales as (i) our OEM products are not distributed in the PRC, therefore there is no reference price on the sale prices of our OEM products in our home markets; and (ii) our OEM products are sold at prices higher than our production costs, there is no assurance that our OEM products exported by domestic import and export companies and overseas trading companies may not and will not be subject to any anti-dumping measures or any forms of duty, levy or other trade sanction adopted by the countries where our OEM products are exported to. In the event that there is any anti-dumping measure or other unfair trade practice imposed on our OEM products by overseas countries, it could significantly increase the prices of our products which in turn could result in a loss of our competitive advantage. Consequently, our export sales and profitability may be adversely affected.

RISKS RELATING TO CONDUCTING OPERATIONS IN CHINA

Political, economic and social consideration

Substantially all of our business assets and operations are located in the PRC. Accordingly, our profitability, financial position and prospects will be affected by the economic, political and social development in China.

Since late 1970s, the PRC government has undertaken economic reform measures in order to transform the PRC economy into a socialist market-oriented economy. These reforms have resulted in rapid economic growth in the PRC and an increased emphasis on the utilization of market forces. Although economic growth in the PRC is generally expected to continue, there is no assurance that all economic reform measures will continue or will continue to be effective. Although we believe these reforms will have a positive effect on our overall and long-term development, we cannot predict whether changes in the PRC's political, economic and social conditions will have any adverse effect on our current or future business, operations or financial condition.

Legal consideration

The PRC legal system which regulates domestic and foreign investments has undergone substantial changes in the past 20 years. Nevertheless, these laws and regulations are relatively new, as well as the limited number of published cases and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, as the legal system in PRC is subject to further development from time to time, foreign investors may face uncertainties as a result of any introduction of new laws and changes in the existing legislation. There is no assurance that future changes in legislation or the interpretation thereof will not have an adverse effect on our operations.

Currency conversion in the PRC and exchange rate risk

Our operations are primarily in China and we receive most of our revenues in Renminbi. Fluctuations in the Renminbi exchange rate against other currencies currently do not have a material impact on the results of our operations.

Nevertheless, we may be required to pay dividends in currency other than Renminbi to our Shareholders which will increase our foreign currency denominated obligations and in turn, our exchange rate risk exposure. Since 1994, the conversion of Renminbi into foreign currencies, including the Hong Kong dollar and US dollar, has been based on the rate set by the People's Bank of China and the official exchange rate for the conversion of Renminbi to US dollars has generally been stable. As of 21 July 2005, the Renminbi was no longer pegged to the US dollar but to a basket of currencies. The revaluation of the Renminbi resulted in an appreciation of the Renminbi against the US dollar and the Hong Kong dollar by approximately 2%, and the Renminbi has appreciated by approximately an additional 16% since that date until 31 March 2008. Despite such developments, Renminbi is still not a freely convertible currency. There is also no assurance that the exchange rates of Renminbi will not be subject to fluctuation due to administrative or legislative intervention by the PRC government or adverse market movements. There could be an adverse effect on the value of our income generated from PRC caused by any fluctuation in the exchange rates of Renminbi against foreign currencies.

Preferential tax treatment

Under the PRC Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises and its Implementation Rules (中華人民共和國外商投資企業和外國企業所得稅法), Xiangyun Fiber, Xiefeng Textitle and Wannianxing Textile are granted preferential tax treatments with a two-year full exemption for the two years ending 31 December 2009 followed by a three-year 50% tax concession for the three years ending 31 December 2012 from PRC national Enterprise Income Tax. In addition, according to a confirmation jointly issued by Committee of Foreign Trade and Economic Cooperation of Wannian County (萬年縣對外貿易經濟合作委員會) and Local Tax Bureau of Wannian County (萬年縣地方稅務局) dated 23 June 2009, a preferential tax treatment with a five-year exemption followed by a five-year 50% tax concession from local tax is offered as an incentive to encourage foreign enterprises to invest in Wannian County. As a result, Xiangyun Fiber, Xiefeng Textitle and Wannianxing Textile are exempted from local tax for the five years ending 31 December 2010 and are subject to a 50% tax concession from local tax for the five years ending 31 December 2015. Such preferential tax treatment is a local tax policy formulated by local tax bureau and may subject to national or local policy change in the future.

The Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) ("New EIT Law"), as promulgated by the People's National Congress on 16 March 2007 and came into effect on 1 January 2008, consolidates the previous two separate tax regimes for domestic enterprises and foreign-invested enterprises and imposes a unified corporate income tax rate of 25% for both types of enterprises. Pursuant to Notice [2007] 39 "Notice on Implementation of Enterprise Income Tax Transitional Preferential Treatment" (《關於實施企業所得稅過渡優惠政策的通知》) issued by the State Council on 26 December 2007, enterprises that previously enjoyed a preferential tax rate prior to 1 January 2008 will gradually transit to the new tax rate over five years from 1 January 2008. Foreign-invested enterprises that previously enjoyed a fixed period of tax exemption and reduction will continue to enjoy such preferential tax treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment has not commenced due to lack of profit, such preferential tax treatment commences from 1 January 2008. As a result of the New EIT Law, the applicable income tax rates for our Group companies are 25%, subject to the preferential tax rates to which our Group companies are currently entitled. Our legal advisers as to PRC laws confirms that the enactment of the New EIT Law does not affect the preferential tax treatments on local tax granted to us.

If there is any revocation of or unfavourable change to the above tax benefit currently enjoyed by our Group as a result of any change in the government policy or law, the tax payable by our Group may be materially increased which would have an adverse impact on our profitability and financial position of our Group.

Implementation of the new employment contract law

A new employment contract law became effective in China on 1 January 2008. The Employment Contract Law contains a number of provisions that are more favourable to employees than the prior labour laws and regulations in China. For instance, an employer is obligated to compensate an employee if the employer decides not to renew an existing employment contract, unless the employee refuses the employer's offer to renew the expiring employment contract with the same or better terms. In addition, an employer is obligated to provide an open-ended employment contract after an employee has completed two consecutive terms of fixed-term employment, under which the employer will be liable to pay damages to an employee if the employer terminates the employment without cause, until the employee reaches an age at which he or she is eligible for pension payment. Under the newly promulgated Regulations on Paid Annual Leave for Employees (職工帶薪年休假條例), which came into effect on the same date, employees who have continuously worked for more than one year are entitled to a paid holiday ranging from 5 to 15 days, depending on their length of service. Our Directors consider that the implementation of the compensation on non-renewal of existing employment contracts and the obligation of providing open-ended employment contracts would not have any substantial financial impact on our Group as it is beneficial to our Group in retaining our skilled labour following the establishment of the new production plant. We have announced to our employees that the paid holidays they would have entitled to in 2008 under the Regulations on Paid Annual

Leave for Employees will be realized in 2009, together with the paid holidays they are entitled to in 2009. Therefore, we expect to incur no more than RMB[600,000] for paid holidays to our staff in 2009. As confirmed by our Directors and as endorsed by the relevant labour bureau, we have fully complied with the Employment Contract Law and the Regulations on Paid Annual Leave for Employees since they became effective. As advised by our legal advisers as to PRC laws, [the labour bureau has the authority in the enforcement and implementation of the Employment Contract Law and the Regulations on Paid Annual Leave for Employees.

As a result of the new law and regulations, we may incur higher levels of labor costs in order to comply with the provisions of the new law, which may adversely affect our business, financial condition and operating results.