

## SUMMARY

*This summary aims to give you an overview of the information contained in this prospectus and should be read in conjunction with the full text of this prospectus. Since this is only a summary, it does not contain all information that may be important to you. You should read the entire prospectus before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set forth in the section headed “Risk factors” to this prospectus. You should read that section carefully before making any decision to invest in the Offer Shares.*

### OVERVIEW

#### Principal business

The Group is principally engaged in the research and development, production and sales of non-woven fabrics and chemical fibres which are mainly targeted for industrial applications. The Group’s non-woven fabrics provide various functions including liquid repellency, washability, filtering, stretch and cushioning and are widely applied as raw materials for the manufacture of footwear, apparels, apparel lining, texture products, hand-bag and suitcase lining, household decoration and filters, etc.. The chemical fibres produced by the Group are recycled polyester staple fibres, which can be widely used as raw materials for production of synthetic leather, shoe materials and non-woven fabrics.

#### Business model

##### *Production facilities*

The Group owns and operates its production facilities located in Xinhua Industrial Garden, Niancuopu, Longhu Town, Jinjiang, Fujian Province, the PRC which occupy a site area of approximately 177,522.48 sq.m. (with a total gross floor area of approximately 54,783.56 sq.m.) and a lettable area of 10,433.57 sq.m.. The equipment for production of non-woven fabrics include equipment and machinery from Germany, Taiwan and the PRC. As at the Latest Practicable Date, the Group’s production facilities principally consisted of a total of 11 production lines with a total annual production capacity of 81,500,000 yards of non-woven fabrics, 2 production lines with a total production capacity of 30,000 tons of chemical fibres and 5 function-adding and ancillary lines with a total annual

## SUMMARY

production capacity of 60,000,000 yards for non-woven fabrics. The table below sets out the Group's existing production capabilities and average utilisation rate during the Track Record Period:

	Number of lines as at 31 December 2007	Approximate annual production capacity as at 31 December 2007	Average utilisation rate for the year ended 31 December 2007	Number of lines as at 31 December 2008	Approximate annual production capacity as at 31 December 2008	Average utilisation rate for the year ended 31 December 2008	Number of lines as at 31 December 2009	Approximate annual production capacity as at 31 December 2009	Average utilisation rate for the year ended 31 December 2009
<b>Non-woven fabrics</b>									
<i>Production lines</i>									
Needle-punching	6	44,500,000 yards	99%	6	44,500,000 yards	90%	6	44,500,000 yards	91%
Stitch-bonding	5	37,000,000 yards	91%	5	37,000,000 yards	59%	5	37,000,000 yards	69%
<i>Function-adding and ancillary lines</i>									
Finishing process	4	50,000,000 yards	97%	5	60,000,000 yards	61%	5	60,000,000 yards	74%
<b>Chemical fibres</b>									
<i>Production lines</i>									
Recycled polyester staple fibres	1	15,000 tons	33%	2	30,000 tons	71%	2	30,000 tons	99.6%

*Notes:*

- In the third quarter of 2007, one needle-punching line was added, contributing to an additional annual production capacity of 9,500,000 yards.
- In the fourth quarter of 2007, two needle-punching lines, one stitch-bonding line and two function-adding and ancillary lines (finishing process) were added, contributing to an additional annual production capacity of 16,000,000 yards, 9,300,000 yards and 20,000,000 yards respectively.
- In the first quarter of 2008, one function-adding and ancillary line (finishing process) and one chemical fibres production line were added, contributing to an additional annual production capacity of 10,000,000 yards and 15,000 tons respectively.

*Procurement of raw materials*

The principal raw materials for non-woven fabrics include polyester staple fibres and other functional fibres. Solid wastes including recycled PET chips are the main raw materials for the Group's chemical fibres. Different types of these raw materials may be combined to produce different types of non-woven fabrics. The Group sources its raw materials from both the PRC and overseas.

Throughout the Track Record Period, direct materials accounted for around 90% of the total cost of goods sold of the Group. As such, the Group's business and its profitability may be affected by the fluctuations in the price of raw materials. Please refer to the paragraph headed "Risk factors — Risks relating to the industry — The Group's business may be affected by fluctuations in the price of raw materials" of this prospectus for the risks in this respect.

*Sales and marketing*

The Group promotes and markets its products primarily through direct contacts with potential customers and participation in conferences and exhibitions. To expand its customer base and reach customers from overseas, the Group also promotes and markets its products through internet trading platform.

## SUMMARY

### *Customers*

The Group has a diversified customer base. Its customers include trading companies and manufacturers of textiles, apparels, footwear, luggage and leather-ware, which are mainly located in Fujian, the PRC. The Group also sells its products to customers in Zhejiang, Jiangxi, Guangdong, Shandong and Shanghai in the PRC and exports its products to overseas customers. The Group's major foreign customers during the Track Record Period included customers in Hong Kong, India, Indonesia, Brazil, Egypt and Dubai. The Group sells its products directly to its customers through its in-house sales team.

Set out below is the breakdown of the Group's revenue by geographical location:

	Year ended 31 December					
	2007		2008		2009	
	RMB (million)	%	RMB (million)	%	RMB (million)	%
<b>Revenue</b>						
PRC except Hong Kong . . . . .	413.0	89.8%	440.9	71.2%	426.4	57.1%
Hong Kong . . . . .	24.8	5.4%	77.2	12.5%	206.0	27.6%
Indonesia . . . . .	6.9	1.5%	27.9	4.5%	1.5	0.2%
India . . . . .	2.5	0.5%	37.4	6.0%	7.5	1.0%
Dubai . . . . .	—	—	—	—	101.8	13.6%
Others . . . . .	<u>12.9</u>	<u>2.8%</u>	<u>36.0</u>	<u>5.8%</u>	<u>3.4</u>	<u>0.5%</u>
<b>Total . . . . .</b>	<u><u>460.1</u></u>	<u><u>100.0%</u></u>	<u><u>619.4</u></u>	<u><u>100.0%</u></u>	<u><u>746.6</u></u>	<u><u>100.0%</u></u>

*Note:* In presenting the geographical information, revenue is based on the locations of the customers which is the principal place of operation of the customers.

### *Cessation of the fashion garment business*

Prior to 2008, the Group also engaged in the production and sales of fashion garment. As a result of the streamlining of the Group's business and the cessation of the fashion garment business by the end of the year 2007, the Group has been able to focus its resources on its current business of research and development, production and distribution of non-woven fabrics and chemical fibres. Turnover attributable to the fashion garment business accounted for approximately 26.2% of the total revenue of the Group for the year ended 31 December 2007, and approximately 15.5% of the total gross profit of the Group over the same period.

## SUMMARY

### Segment revenue and gross profit

Set out below is the segment revenue and segment gross profit of the Group during the Track Record Period:

#### Revenue

	Year ended 31 December		
	2007	2008	2009
	RMB (million)	RMB (million)	RMB (million)
<i>Existing business</i>			
Non-woven fabrics . . . . .	305.3	457.4	565.8
Chemical fibres . . . . .	34.3	162.0	180.8
Sub-total: . . . . .	<u>339.6</u>	<u>619.4</u>	<u>746.6</u>
<i>Ceased business</i>			
Fashion garment . . . . .	120.5	— (note)	— (note)
Total: . . . . .	<u>460.1</u>	<u>619.4</u>	<u>746.6</u>

#### Gross profit

	Year ended 31 December		
	2007	2008	2009
	RMB (million)	RMB (million)	RMB (million)
<i>Existing business</i>			
Non-woven fabrics . . . . .	102.3	145.3	178.1
Chemical fibres . . . . .	10.8	39.0	42.6
Sub-total: . . . . .	<u>113.1</u>	<u>184.3</u>	<u>220.7</u>
<i>Ceased business</i>			
Fashion garment . . . . .	20.8	— (note)	— (note)
Total: . . . . .	<u>133.9</u>	<u>184.3</u>	<u>220.7</u>

*Note:* At the end of 2007, the Group ceased the fashion garment business and disposed of all relevant production machinery and equipment to Hua Xin Weaving as a result of streamlining of its business. The Directors confirm that the cash and treasury function of fashion garment business could not be clearly distinguished from other business segments. As such, the net profit of the fashion garment business is not available. Also, there were unallocated expenses to the individual business segments and therefore the net profit of the non-woven fabrics and chemical fibres business segments are not available.

## SUMMARY

### *Research and development*

The Group has established a research and development centre and platform mainly responsible for developing new products and upgrading the application functions of its existing products with an aim to enhance the quality and widen the application scope of its products. It is recognised by CTDC as Textiles Development Enterprise — Filtration Materials (國家紡織產品開發基地企業 — 國家環保過濾材料開發基地) and by Fujian Economic and Trading Bureau (福建省經濟貿易委員會) and others as a Provincial-Level Corporate Technology Centre in the Fujian Province (福建省級企業技術中心).

The Group's research team, including the senior management who are principally responsible for research and development, currently comprises 17 full-time staff. The Group's research team is currently led by Prof. Guo Bing Chen, a former professor in textile engineering of Tianjin Polytechnic University with over 37 years of experience in the industry. To enhance its research and development capacity, the Group has been co-operating with Tianjin Polytechnic University since 2006 to establish a joint research centre and conduct various research projects on non-woven fabrics with new functions and applications. In November 2008, the Group also entered into a co-operation agreement with Wuhan University of Science and Engineering to jointly conduct research projects.

Leveraging on its research and development capacity, the Group is able to improve its existing products, widen the spectrum of functions of its products and develop new non-woven fabrics materials for industrial purpose with new functions, which on one hand satisfy the requirements of its customers and capture the market, and on the other hand maintain price competitiveness of its products. From 2006 to 2009, the Group's research centre had successfully completed a number of research projects which had applied to 19 products as at the Latest Practicable Date. Staff of the Group have published various research theses either in their own names or in association with other parties. The Group has registered one patent jointly with Tianjin Polytechnic University and is applying for registration of 15 patents which consist of one patent being jointly applied for registration by the Group and Tianjin Polytechnic University and the remaining 14 patents being applied for registration by the Group only. Details of the Group's intellectual properties over the patents are set out in the paragraph headed "Intellectual Property Rights — Patent" of Appendix V to this prospectus.

In April 2008, Xinhua Company, together with CNITA and other entities, was approved by NDRC as one of the organisations to compile the industry guidelines and standard for three types of non-woven fabrics namely Stitch-Bonded Non-woven Reinforcing Material (縫編非織造增強材料), Needle-punched Elasticity Non-woven Material (針刺彈性非織造材料) and Needle-punched Non-woven Fibre Sheet (針刺非織造纖維片材). As confirmed by the Directors and CNITA, there are six organisations including Xinhua Company and CNITA to take part in the compilation works and Xinhua Company is the principal organisation responsible for the compilation of the three industry guidelines and works with other entities selected to collect and analyse industry data for the purpose of the compilation. The three draft industry guidelines have been submitted for review and will be further amended after comments received among the industry. The amended guidelines will be approved and published by the relevant authority and may become the industry yardsticks and references for any dispute.

The Directors believe that the approval granted by NDRC to compile the industry guideline is a recognition of the Group's accomplishment and high standard in the industry.

## SUMMARY

In late 2009, Xinhua Company was recognised as a high and new technology enterprise (高新技術企業) by Fujian Provincial Department of Science and Technology (福建省科學技術廳), Fujian Provincial Department of Finance (福建省財政廳), Fujian Provincial office of State Administration of Taxation (福建省國家稅務局) and Fujian Local Taxation Bureau (福建省地方稅務局). With such research and development capability, the Group is able to improve and upgrade its products and reduce its production costs. Details of the Group's research and development competence are set out in the paragraph headed "Business — Research and development" of this prospectus.

### Competition

The non-woven fabrics industry in the PRC is highly fragmented and there are no significant legal barriers for entering into the business. The Directors believe that the Group is primarily competing with large and well-established foreign enterprises who produce high quality products with advanced equipment as well as a number of local enterprises. Since the non-woven fabrics industry is a relatively new industry in the PRC and therefore has a shorter history of development than in the overseas countries, these foreign enterprises will possess advantages over the Group in aspects including technology, production efficiency and varieties and quality of products. In addition, some of these competitors may have greater financial and other resources than those of the Group.

### Future direction of the industry

The Eleventh Five Years Framework sets out the development direction of the textile industry. The Eleventh Five Years Framework directs enterprises to follow the principles set out in the Eleventh Five-years Economy and Social Development Plans of the PRC (《中華人民共和國國民經濟和社會發展第十一個五年規劃綱要》) to enhance technology levels, cultivate own brands, upgrade industrial uses, maximise resources efficiency and encourage environmental-friendly technology and production, etc.. In respect of textile products used for industrial uses, the Eleventh Five Years Framework provides that the industry shall enhance the technology development and application, develop new materials and functions and place emphasis on new materials for civil engineering geosynthetic materials, agricultural use, medical use, new tent-type materials (新型篷蓋材料), automobile use and high performance filtration materials, etc.. Pursuant to the Plans to Adjust and Enhance the Weaving Industry (《紡織工業調整和振興規劃》) announced by the State Council in April 2009, one of the targets is to widen the applications of weaving products to industrial use and enhance the development of new products with a focus on composite materials with high performance for uses in areas including civil engineering and as filtration materials. Policies will be adopted to support the development of the enterprises in the weaving industry and such policies include providing government grants for specific projects. The Directors believe the Group's business focus and research and development capacity enable it to capture potential business opportunities as set out in the Eleventh Five Years Framework and relevant government policies.

The Directors believe that the ability to improve and upgrade the functions and applications of non-woven materials will be a crucial factor to sustain the Group's continuing growth and success. It is expected that the PRC government is to highly regulate industries that traditionally release pollutants, such as the steel, cement and coal-fired power station industries, and in turn the demand for environmental protection products, such as filtration materials with specific functions, such as high thermal-resistance, in these industries will be increasing. With the co-operation of Tianjin Polytechnic

## SUMMARY

University and Wuhan University of Science and Engineering, the Directors are of the view that the Group is in an advantageous position to capture the potential business opportunities by the development and production of non-woven fabrics which is able to deliver such functions.

### **Expansion plans**

The Directors believe that the Group's production facilities which are equipped with production equipment and machinery from overseas and purchased from the PRC, have provided a competitive advantage over its PRC competitors. As stated above, the Group has 11 production lines with an aggregate annual production capacity of approximately 81,500,000 yards and 5 function-adding and ancillary lines with an annual production capacity of approximately 60,000,000 yards for the production of non-woven fabrics. In respect of the chemical fibres business, the Group has two production lines for the production of polyester staple fibres with an aggregate annual production capacity of approximately 30,000 tons. The Group will continue to upgrade and improve its production facilities by expanding its production facilities and importing advanced equipment and machinery.

The Expanded Production Facilities, which is expected to commence operation in the end of the second quarter of 2010, will occupy a site area of 6,666 sq.m. and consist of 6 production lines principally for the production of stitch-bonded non-woven fabrics with an estimated annual production capacity of approximately 40,800,000 yards and the investment amount of which is estimated to be approximately RMB38.6 million, and is financed by the Group's internal resources.

The New Production Facilities, which are expected to commence operation in the first quarter of 2011, will occupy a total site area of approximately 74,204 sq.m. and comprise 6 production lines and 10 function-adding and ancillary lines with an aggregate estimated annual production capacity of 50,500,000 sq.m. and the investment amount of which is estimated to be approximately RMB852.0 million. Currently, the Group intends to use approximately 80.2% of the net proceeds from the Global Offering for the construction of the New Production Facilities and the remaining of the investment amount of the New Production Facilities will be financed by the net proceeds from the Global Offering, bank borrowings, the government grants and internal resources. The New Production Facilities will principally be used for the production of non-woven fabrics, including high performance composite synthetic leather, filtration materials and materials for automobile interior decoration, which are different from the Group's existing products. The New Production Facilities are targeting to produce products with higher performance, density and composition with enhanced filtration functions, corrosion-resistance, thermal-resistance, sound-resistance and erosion-resistance to be applied for industrial use and as construction materials. The target customers will be principally from the steel, cement, coal-fired power station and automobiles manufacture industries. Upon completion of the Expanded Production Facilities and the New Production Facilities, the Directors expect to offer more non-woven fabrics which may contribute higher gross profit margins than the products currently produced by the Group, and this in turn may increase the Group's profitability. For details of the Group's future plans, please refer to the section headed "Future plans and use of proceeds" of this prospectus.

## SUMMARY

### BUSINESS OBJECTIVES AND STRATEGIES

The Group's business objectives are to expand its production capacity, expand its product range and target to become one of the market leaders in the non-woven fabrics and chemical fibres industries in the PRC. To this end, the Group has been carrying out the following strategies to achieve these objectives:

- The Group intends to expand its production capacity
- The Group will continue to strengthen and focus on its research and development works and upgrade its products according to the expected growth trend as a result of PRC's national policy in promoting stricter environmental protection standards
- The Group will continue to improve production operation efficiency thereby enhancing competitiveness of the Group
- The Group will continue to expand its sales network

### COMPETITIVE STRENGTHS

The Directors believe that the Group is well-positioned to achieve its business objectives. The Directors consider the principal competitive advantages of the Group to be as follows:

- The Group has strong research and development support and established a research and development centre recognised by CTDC as Textiles Development Enterprise — Filtration Materials (國家紡織產品開發基地企業 — 國家環保過濾材料開發基地) and by Fujian Economic and Trading Bureau (福建省經濟貿易委員會) and others as Provincial-level Corporate Technology Centre in Fujian Province (福建省級企業技術中心) and was selected by NDRC as one of the entities to compile industry guidelines for three types of non-woven fabrics materials
- The Group's expansion and development plans are well-positioned to capture the market for industrial consumables used for the reduction of discharges and pollutants
- The Group has experienced and professional technical staff and management team with extensive experience in the industry
- Having a diversified customer base covering a wide range of industries, the Group is well-positioned to diversify its risk
- The Group has obtained recognitions for the high quality of its products



# SUMMARY

## SUMMARY OF COMBINED FINANCIAL INFORMATION

The following table sets out a summary of the audited combined financial information of the Group during the Track Record Period which has been prepared in accordance with IFRSs issued by the International Accounting Standards Board. This summary should be read in conjunction with the Accountants' Report of the Group as set out in Appendix I to this prospectus.

### Combined statement of comprehensive income

	Year ended 31 December					
	2007		2008		2009	
	RMB (million)	% to turnover	RMB (million)	% to turnover	RMB (million)	% to turnover
<b>Turnover</b> . . . . .	460.1	100%	619.4	100%	746.6	100%
Cost of goods sold . . . . .	(326.2)	(70.9%)	(435.1)	(70.2%)	(525.9)	(70.4%)
<b>Gross profit</b> . . . . .	133.9	29.1%	184.3	29.8%	220.7	29.6%
Other income . . . . .	2.0	0.4%	6.0	1.0%	10.8	1.4%
Distribution expenses . . . . .	(5.4)	(1.1%)	(9.7)	(1.6%)	(11.6)	(1.6%)
Administrative expenses . . . . .	(17.8)	(3.9%)	(19.8)	(3.2%)	(27.1)	(3.6%)
Other operating expenses . . . . .	—	—	(4.3)	(0.7%)	—	—
<b>Profit from operations</b> . . . . .	112.7	24.5%	156.5	25.3%	192.8	25.8%
Finance costs . . . . .	(7.3)	(1.6%)	(9.5)	(1.6%)	(12.2)	(1.6%)
<b>Profit before tax</b> . . . . .	105.4	22.9%	147.0	23.7%	180.6	24.2%
Income tax expense . . . . .	(38.4)	(8.3%)	(40.8)	(6.6%)	(32.0)	(4.3%)
<b>Profit for the year</b> . . . . .	67.0	14.6%	106.2	17.1%	148.6	19.9%
<b>Other comprehensive income for the year, net of tax</b>						
Exchange differences on translating foreign operations . . . . .	—	—	—	—	(0.1)	(0.0%)
<b>Total comprehensive income for the year</b> . . . . .	67.0	14.6%	106.2	17.1%	148.5	19.9%
<b>Earnings per share</b>						
Basic (RMB) . . . . .	0.11		0.18		0.25	

## SUMMARY

### Combined statement of financial position

	As at 31 December		
	2007	2008	2009
	RMB (million)	RMB (million)	RMB (million)
<b>Non-current assets</b>			
Property, plant and equipment . . . . .	183.5	140.0	137.7
Construction in progress . . . . .	18.2	24.6	—
Investment properties . . . . .	—	27.1	21.2
Prepaid land lease payments . . . . .	9.3	8.8	78.7
Long term prepayments . . . . .	51.9	46.6	—
	262.9	247.1	237.6
<b>Current assets</b>			
Inventories . . . . .	36.2	14.7	27.0
Trade and bills receivables . . . . .	104.8	140.3	161.5
Prepayments, deposits and other receivables . . . . .	2.3	3.3	13.0
Due from a related company . . . . .	—	—	19.1
Due from related parties . . . . .	—	20.0	—
Current tax assets . . . . .	—	—	18.8
Pledged bank deposits . . . . .	17.1	68.7	26.5
Bank and cash balances . . . . .	72.0	66.4	124.5
	232.4	313.4	390.4
<b>Current liabilities</b>			
Trade and bills payables . . . . .	57.1	146.4	93.1
Accruals and other payables . . . . .	11.9	21.7	11.5
Due to related companies . . . . .	166.0	6.7	7.3
Due to a related party . . . . .	—	—	20.1
Loan from related companies . . . . .	—	—	5.4
Interest-bearing bank borrowings . . . . .	100.0	129.7	158.3
Current tax liabilities . . . . .	18.0	8.8	16.1
	353.0	313.3	311.8
<b>Net current (liabilities)/assets . . . . .</b>	<b>(120.6)</b>	<b>0.1</b>	<b>78.6</b>
<b>Total assets less current liabilities . . . . .</b>	<b>142.3</b>	<b>247.2</b>	<b>316.2</b>
<b>Non-current liabilities</b>			
Loan from related companies . . . . .	—	65.0	—
Deferred tax liabilities . . . . .	—	3.7	9.2
	—	68.7	9.2
<b>NET ASSETS . . . . .</b>	<b>142.3</b>	<b>178.5</b>	<b>307.0</b>
<b>Capital and reserves</b>			
Share capital . . . . .	80.0	80.0	80.0
Reserves . . . . .	62.3	98.5	227.0
<b>TOTAL EQUITY . . . . .</b>	<b>142.3</b>	<b>178.5</b>	<b>307.0</b>

## SUMMARY

The Group's turnover increased from approximately RMB460.1 million in 2007 to approximately RMB746.6 million in 2009, representing a CAGR of approximately 27.4%.

The Group's total comprehensive income increased from approximately RMB67.0 million in 2007 to approximately RMB148.5 million in 2009, representing a CAGR of approximately 48.9%.

### GLOBAL OFFERING STATISTICS

	Based on an Offer Price of HK\$2.36	Based on an Offer Price of HK\$3.26
Market capitalisation of the Shares <sup>(1)</sup> . . . .	HK\$1,888 million	HK\$2,608 million
Unaudited pro forma adjusted combined net tangible assets per Share <sup>(2)</sup> . . . . .	RMB0.87 (approximately HK\$0.98)	RMB1.06 (approximately HK\$1.20)
Historical 2009 price/earnings multiple <sup>(3)</sup> .	11.25 times	15.54 times

*Notes:*

- (1) The calculation of market capitalisation is based on 800,000,000 Shares expected to be in issue following completion of the Global Offering and the Capitalisation Issue assuming the Over-allotment Option and options which may be granted under the Share Option Scheme are not exercised.
- (2) The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after the adjustments referred to in "Unaudited Pro Forma Financial Information — A. Unaudited Pro Forma Adjusted Net Tangible Assets" in Appendix II to this prospectus and on the basis that 800,000,000 Shares expected to be in issue following the Global Offering and the Capitalisation Issue, but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme.
- (3) The calculation of the historical 2009 price/earnings multiple is based on the combined statement of comprehensive income for the year ended 31 December 2009 of approximately RMB148.5 million, at the respective Offer Prices of HK\$2.36 and HK\$3.26 and on the assumption that 800,000,000 Shares were already in issue on 1 January 2009. This calculation does not take into account of any Shares which may be issued upon exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme. The combined statement of comprehensive income for the year ended 31 December 2009 is translated at the exchange rate of RMB1 to HK\$1.13.

### DIVIDENDS

For each of the three years ended 31 December 2009, the Group paid dividends of RMB30.0 million, RMB70.0 million and RMB20.0 million, respectively. The payment and the amount of any future dividends will depend on the results of the Group's operations, cash flow, financial condition, statutory and regulatory restrictions on the payment of dividends, future prospects and other factors that the Directors may consider relevant. Holders of the Shares will be entitled to receive such dividends on a pro rata basis according to the amounts paid up or credited as paid up on the Shares. The declaration, payment and amount of any future dividends will be subject to the Directors' discretion.

Dividends may be paid out of the Company's distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such profits will not be available to be reinvested in the Company's operations. There can be no assurance that the Company will be able to

## SUMMARY

declare or distribute any dividend in the amount set out in any of its plans or at all. The Group's 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 the Company in the future.

Subject to the factors described above, the Company currently intends to recommend at the next annual shareholders' meeting of the Company an annual dividend of around 20% of its net profit available for distribution to Shareholders after the Global Offering.

### USE OF PROCEEDS

Assuming an Offer Price of HK\$2.81 per Share (being the midpoint of the indicative Offer Price range of HK\$2.36 to HK\$3.26 per Share), the net proceeds of the Global Offering, after deducting the underwriting fees and estimated expenses payable by the Company in connection with the Global Offering, are estimated to be approximately HK\$528.8 million. The Company presently intends to apply (i) approximately 80.2% of the net proceeds for the construction and establishment of the New Production Facilities, details of which are set out in the paragraph headed "Business — Production Facilities — New Production Facilities" of this prospectus; (ii) approximately 10.7% of the net proceeds to enhance the Group's research and development and ancillary facilities; and (iii) approximately 9.1% of the net proceeds as the Group's general working capital, details of which are as follows:

- approximately 43.2% (HK\$228.4 million) to be used in connection with the establishment of the production facilities for the production of non-woven fabrics for use as composite synthetic leather, of which approximately 13.4% (HK\$30.6 million) to be used as properties construction costs, approximately 72.6% (HK\$165.8 million) to be used for purchase and installation of machinery and equipment and approximately 14.0% (HK\$32.0 million) to be used for purchase of raw materials;
- approximately 37.0% (HK\$195.7 million) to be used in connection with the establishment of the production facilities for the production of non-woven fabrics for use as filtration materials, of which approximately 20.5% (HK\$40.1 million) to be used as properties construction costs, approximately 59.6% (HK\$116.6 million) to be used for purchase and installation of machinery and equipment and approximately 19.9% (HK\$39.0 million) to be used for purchase of raw materials;
- approximately 8.4% (HK\$44.4 million) to be used in connection with the expansion of the Group's existing technology centre and the establishment of the research centre for new materials, of which approximately 79.7% (HK\$35.4 million) to be used as construction costs for the research centre building and approximately 20.3% (HK\$9.0 million) to be used for purchase and installation of research equipment;
- approximately 2.3% (HK\$12.2 million) to be used for the construction of ancillary facilities; and
- approximately 9.1% (HK\$48.1 million) to be used as general working capital of the Group.

## SUMMARY

In the event that the Offer Price is determined at the highest end of the indicative Offer Price range between HK\$2.36 to HK\$3.26 per Share, the net proceeds from the Global Offering will be approximately HK\$612.9 million. The Company presently intends to apply the additional net proceeds to the above purposes in the proportion stated above.

In the event that the Offer Price is determined at the lowest end of the indicative Offer Price range between HK\$2.36 to HK\$3.26 per Share, the net proceeds from the Global Offering will be approximately HK\$441.5 million and the Company presently intends to adjust the allocation of the net proceeds to the above uses in the proportion stated above.

The estimated net proceeds to be received by the Selling Shareholder from the Global Offering will be approximately HK\$106.0 million (assuming the same midpoint of the stated Offer Price range as stated in the above), after deducting the underwriting fees and estimated expenses payable by the Selling Shareholder in relation to the Global Offering. The Company will not receive any of the net proceeds from the Sale Shares by the Selling Shareholder.

Should the Over-allotment Option be exercised in full, the Company will receive additional net proceeds of approximately HK\$98.6 million (assuming the Offer Price of HK\$2.81 per Share). The Company presently intends to apply the additional net proceeds to the above uses in the proportion stated above. The Selling Shareholder will not receive any of the net proceeds from the exercise of the Over-allotment Option.

To the extent that the net proceeds of the Global Offering are not immediately used for the above purposes, it is the present intention of the Directors that such proceeds will be placed on short term deposits with license banks and/or authorised financial institutions in Hong Kong and/or the PRC.

## RISK FACTORS

The Directors consider that there are certain risks involved in the Group's business and the details of such risks are set out in the section headed "Risk factors" to this prospectus. The risks can be broadly divided into five main categories including (i) risks relating to the Group; (ii) risks relating to the industry; (iii) risks relating to the PRC; (iv) risks relating to the Global Offering; and (v) risks relating to the statements made in this prospectus, which are summarised below:

### **Risks relating to the Group**

- The Group's expansion plans, commencement of the operation of the Expanded Production Facilities and the construction of the New Production Facilities are subject to risks which may be delayed or lead to cost over-runs
- The intellectual property rights in respect of the projects jointly researched and developed by the Group and Tianjin Polytechnic University are jointly-owned
- The Group's strategies in developing new products and upgrading its existing products are subject to uncertainties and risks

## SUMMARY

- The Group's indebtedness and gearing ratio may increase as a result of additional bank borrowings for making capital contribution to Gerfalcon PRC, a wholly-owned subsidiary of the Company
- Increase in interest rates will increase the Group's finance costs
- The Group may incur increasing costs or investments should the PRC government adopt any new or stricter national standards on the products the Group produces
- The success of the Group depends significantly on its ability to retain its senior management and experienced technical team and its ability to attract additional management and other qualified personnel to join the Group
- The Group's business requires significant capital investments
- The Group had net current liabilities position as at 31 December 2007
- The Group's financial results during the Track Record Period included the ceased business of fashion garment and the Group may have difficulty in sustaining its turnover and profit
- The Group's customers were concentrated in Fujian during the Track Record Period and the Group's business may be affected if it fails to develop other markets
- The Group has not entered into any long-term agreements with its customers and most of the major customers have a business relationship with the Group of less than three years
- The Group relies on major suppliers and the Group may not be able to maintain the business relationships with those suppliers in the future
- The Group may not have adequate insurance coverage for its potential losses and liabilities
- The Company may be subject to conflict of interests between the Controlling Shareholders and its other Shareholders
- The Group's solid waste import licenses are subject to renewal from time to time or inspection by the PRC government
- The Group's past loan advancing activities with related parties may be subject to penalties
- The details, standard and scale of the needle-punch filtration materials project are subject to restrictions in relation to the government grant of RMB11.0 million and cannot be altered by the Group without consent from the relevant authorities
- The recent global financial crisis may affect the Group's operation

## SUMMARY

### **Risks relating to the industry**

- The Group faces intense competition and the entry barriers to the industry are low
- The Group's business may be affected by fluctuations in the price of raw materials
- The Group may have to incur additional costs or investments should the PRC government adopt stricter or additional environmental laws or requirements
- Acts of God, acts of war and other disasters could affect the Group's business

### **Risks relating to the PRC**

- PRC political and economic policies could affect the Group's business
- The Company may be deemed as a PRC resident enterprise under the new PRC Enterprise Income Tax Law and its worldwide income may be subject to the PRC taxation
- The preferential tax treatment the Group currently enjoys may be changed or discontinued which may adversely affect the Group's profitability
- Dividends payable by the Company to its foreign investors and gain on the sale of the Shares may become subject to withholding taxes under the PRC tax laws
- The Company is a holding company and its ability to pay dividends is dependent upon the earnings of, and distributions by, its subsidiaries
- The implementation of the new labour contract law and increase in labour costs in the PRC may adversely affect the Group's business and profitability
- PRC government control over currency conversion may affect the Group's operations and financial conditions, the value of investment in the Company and limit the Group's ability to use its cash effectively
- The registration procedures as required under No. 75 Notice promulgated by SAFE are under progress and have not been completed

### **Risks relating to the Global Offering**

- There has been no prior public market for the Shares and the liquidity and market price of the Shares may be volatile
- The subscribers of the Shares may experience immediate dilution and may experience further dilution if the Group issues additional Shares in the future
- The Group's historical dividends do not indicate its future dividend policy

## SUMMARY

### **Risks relating to the statements made in this prospectus**

- Certain facts and statistics included in this prospectus may not be relied upon
- Forward looking statements may be inaccurate
- Potential investors should read the entire prospectus carefully and should not consider any particular statements in this prospectus or in published media reports without carefully considering the risks and other information contained in this prospectus