Prospective investors in the Offer Shares should consider carefully all of the information set forth in this prospectus and, in particular, the following risks in connection with an investment in the Company. The Group's business, financial condition or results of operations could be materially and adversely affected by any of these risks. The trading price of the Shares could decline due to any of these risks and you may lose all or part of your investment.

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 Expanded Production Facilities are expected to commence production in the end of the second quarter of 2010.

The current estimated total investment amount for New Production Facilities will be approximately RMB852.0 million. Approximately 80.2% of the net proceeds from the Global Offering will be utilised for the establishment of the New Production Facilities and the expansion in its existing production capacity and operating efficiency by importing advanced equipment and machinery. The Group also plans to finance the New Production Facilities mainly through the net proceeds from the Global Offering, government grants, bank borrowings and internal resources. It is expected that the Group will incur significant capital expenditures in connection with its future expansion, in particular the construction of the New Production Facilities, and any failure to successfully implement its expansion plans may materially and adversely affect its business, financial condition and results of operations.

The Group's future expansion plans involve significant risks and uncertainties beyond the Group's control, including but not limited to:

— the Expanded Production Facilities, the New Production Facilities and its future expansion plans may be unable to generate greater revenue and profitability for the Group. Currently, the Group expects the Expanded Production Facilities to commence operation in the end of the second quarter of 2010, and the New Production Facilities to commence operation in the first quarter of 2011. If the commencement of the operation of the Expanded Production Facilities or the New Production Facilities is delayed, the Group's profitability and cash flow may be adversely affected

— the Expanded Production Facilities, the New Production Facilities and its future expansion plans may be unable to complete in a timely and cost efficient manner. In particular, if the actual cost of construction exceeds the Group's estimation, the Group's future cash flow, working capital and future profitability will be adversely affected as a result of additional capital expenditures

— the construction works of the New Production Facilities may be disrupted by unforeseen engineering or design factors as well as other natural disasters such as typhoons, etc.

— the Expanded Production Facilities and the New Production Facilities may not be able to obtain necessary government approvals and licences, including but not limited to environmental assessments. Failure or delays in receiving the requisite approvals and licences may delay the commencement of operation of the Expanded Production Facilities and the New Production Facilities and severely affect the Group's expansion plans

— the Group may not be able to secure new customer orders or raw materials supplies to cope with the Group's expansion in its production capacity

— the Group may encounter difficulties in recruiting and retaining adequate experienced staff and skilled technical expertises for the Expanded Production Facilities and the New Production Facilities

— any delay in the completion or commencement of operation of the Expanded Production Facilities and the New Production Facilities may increase financial needs associated with the Group's expansion plans

— the Expanded Production Facilities and the New Production Facilities may not operate at the designed capacity or efficiency and may cost more to operate than expected

The intellectual property rights in respect of the projects jointly researched and developed by the Group and Tianjin Polytechnic University are jointly-owned

One of the strengths of the Group is its research and development capabilities in the development of new products. The Group is co-operating with tertiary institutions including Tianjin Polytechnic University to jointly conduct various research projects on non-woven fabrics and materials with new functions and applications. The Group and Tianjin Polytechnic University currently agreed that the intellectual property rights in respect of the projects jointly researched and developed by the Group and Tianjin Polytechnic University shall be jointly owned by both parties on an equal basis. All patents in respect of these jointly developed projects are to be applied in joint names of the Group and Tianjin Polytechnic University. Since their co-operation in 2006 and up to the Latest Practicable Date, the Group and Tianjin Polytechnic University had successfully conducted and completed 11 research projects on a joint basis, of which one patent in relation to a manufacturing method jointly developed by the Group and Tianjin Polytechnic University had been registered and one patent in relation to another manufacturing method also jointly developed by the Group and Tianjin Polytechnic University was in the process of applying for the relevant patent registration, both of which had been commercially launched. Under the PRC laws and the relevant agreements entered into between the Group and Tianjin Polytechnic University, both the Group and Tianjin Polytechnic University shall have equal rights over these patents and either of them is entitled to use these patents as the registered and beneficial owner on its own. In addition, neither the Group nor Tianjin Polytechnic University is entitled to assign or license its share of the patents to any third party without the other joint owner's consent. Although a supplemental agreement dated 17 March 2010 was entered into between Xinhua Company and Tianjin Polytechnic University whereby Tianjin Polytechnic University agreed not to use the jointly-owned patents and research projects in a manner which will compete with the business of Xinhua Company, the parties may have different interpretation as to the extent of competition and that Tianjin Polytechnic University may have used these patents and research projects in a way detrimental to the Group or assigned or licensed its share over these patents and research projects to a third party or which may adversely affect the Group's competitiveness, business and profitability.

The Group's strategies in developing new products and upgrading its existing products are subject to uncertainties and risks

One of the Group's strategies is to develop new products and upgrade its existing products, in particular, to develop and enhance non-woven filtration media and materials to carry the functions of thermal-resistance for use in various heavy industries, such as steel, cement, coal-fired power station, crude oil refinement industries. As disclosed in the paragraph headed "Business — Production facilities — New Production Facilities" of this prospectus, the Group intends to invest approximately RMB852.0 million for the construction of the New Production Facilities which is intended to produce products that are different from the Group's existing ones in terms of performance and production technology which might also involve new potential customers, who have higher technical requirement. The success in developing and upgrading the Group's products will depend on its research capability. The development and upgrading of products involves tremendous time and efforts in research works which could be time-consuming. The research works may encounter risks such as shortage of qualified and experienced technical personnel and unforeseen technical problems. There is neither assurance that the Group's research works can be completed within the timeframe as expected nor the products can be developed, upgraded and enhanced to provide the functions and standards as anticipated. In addition, there is no assurance that the Group's research and technical level can be upgraded in a timely manner to meet the requirements of customers for industrial use or the research works can be successfully carried out within the estimated budget.

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

On 14 September 2009, Gerfalcon PRC was established in the PRC as a wholly foreign-owned enterprise held by Gerfalcon Hong Kong with a registered capital of US$13,990,000. According to the approval granting the establishment of Gerfalcon PRC, 20% of the registered capital of US$13,990,000 is to be fully paid within three months from the registration date of 14 September 2009 of Gerfalcon PRC and the remaining 80% of the registered capital to be paid within two years from its registration date. As at the Latest Practicable Date, Gerfalcon Hong Kong, being the shareholder of Gerfalcon PRC, had paid US$2,800,000 of the registered capital and the balance of the registered capital remained unpaid. The Directors confirmed that the registered capital of Gerfalcon PRC will be principally funded by internal finance resources of Gerfalcon Hong Kong and/or banking facilities. Should Gerfalcon Hong Kong pay up the registered capital of Gerfalcon PRC entirely by additional bank borrowings, this may increase the indebtedness, gearing ratio and finance costs of the Group.

Increase in interest rates will increase the Group's finance costs

The Group may rely upon short-term loans to finance its expansion and operation. Part of the funding needs for the New Production Facilities may be financed by interest-bearing borrowings. As at 31 December 2009, the Group had short-term bank loans and factoring loans of approximately RMB158.3 million. During the Track Record Period, the interest rates of the Group's short-term bank loans ranged from 4.86% to 9.34%, and the interest rates of the factoring loans ranged from 1.92% to 5.20%. There is no assurance that the PBOC and other institutions will not increase the lending rate. A significant increase in the interest rates of the Group's loans from the prevailing rates will substantially increase the Group's finance costs, which could adversely affect the Group's business, expansion plans and financial conditions.

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 Directors confirm that at present, there are no compulsory national standards in respect of the products the Group produces. The Group produces its products in accordance with the specifications and standards provided by its customers, or in cases where customers do not have specific requirements on the product standards, the Group produces the products according to its own product standards. Should the PRC government impose any standards on the Group's products, and such new standards require higher and stringent technical requirements beyond the Group's existing technical capacity, additional costs and investments in upgrading the Group's research and development capacity, enhancing its production facilities and recruiting more experienced technical expertises are required in order to comply with the new product standards. The Group's production cost may also increase in order to meet such new standards. Should the Group fail to upgrade its production capacity and technical level to meet the national standards of the products it produces, this may adversely affect its operation and financial position.

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 success of the Group to date has been, and the future success of the Group will be, to a great extent dependent on the continued services of its key management including the Executive Directors, Hong Lian Qiao, Pang Jian Zhu, Chen Hui, Liu You Neng, Zhai Hong Bing and Chen Min Tsung and various engineering and technical personnel headed by Prof. Guo Bing Chen. The Group expects that its senior management team and technical personnel will continue to play a relatively pivotal role in the future growth and success of its business. However, there is no assurance that the Group will be able to continue to retain the service of any or all of its senior management team and the engineering and technical personnel. If any of these personnel was unable or unwilling to continue to serve in his/her present position, the Group may not be able to find a suitable replacement in a timely manner. The loss of their services and/or the Group's failure to find a suitable replacement may cause disruption to its business and have an adverse impact on its ability to manage or operate its business effectively. The results of operations of the Group may be adversely affected as a result.

The Group's business requires significant capital investments

To maintain a large production scale and continue to strengthen its research and development ability, the Group needs to make regular capital investments in its production facilities to sustain its growth, maintain its equipment, comply with environmental laws and regulations and remain competitive. The Group will also be required to make substantial capital investments in connection with its planned expansion and the New Production Facilities. For each of the three years ended 31 December 2009, the Group's total capital expenditures were approximately RMB106.9 million, RMB17.8 million and RMB98.7 million, respectively, primarily for acquiring its production facilities and equipment, and payments for land use rights. The capital expenditure for the New Production Facilities is expected to be of approximately RMB852.0 million. The Group intends to finance these capital expenditures through the net proceeds from the Global Offering, government grants, bank borrowings and internal resources.

The Group relies in part on external financing to fund its capital investments. The availability of external financing depends on many factors beyond the Group's control, including but not limited to market conditions and policies of the PRC government. The current disruptions in the credit markets may also limit its ability to obtain external financing. The Group's current financing may not be adequate to fund its expansion plans and the Group may not be able to obtain additional financing in the future to continue to fund these programs. If the Group does not have sufficient internally generated cash or acceptable external financing to make necessary capital expenditures in the future, it may be unable to develop or enhance its production facilities, take advantage of business opportunities and respond to competitive pressures. Any failure to obtain adequate financing for the Group's current operations or its expansion plans may materially and adversely affect its business, financial condition and results of operations.

The Group had net current liabilities position as at 31 December 2007

The Group had net current liabilities of approximately RMB120.5 million as at 31 December 2007. The Group's net current liabilities position was principally due to borrowings from banks and related companies to finance the Group's capital expenditure. The net current liabilities position was improved and the Group recorded a net current assets of approximately RMB0.1 million and RMB78.6 million as at 31 December 2008 and 2009 respectively principally as a result of the increase in trade and bills receivables, bank and cash balances and decrease in due to related companies. There can be no assurance that the Group will always be able to improve its collection of trade and bills receivables or raise the necessary finance by borrowings from banks and other financial institutions to finance its business, operations and capital expenditure. In the event that the collection of the Group's trade and bills receivables is longer than anticipated and the banks and other financial institutions providing existing banking and credit facilities do not continue to extend similar or more favourable facilities to the Group and the Group fails to obtain alternative banking and credit facilities on reasonable terms, the Group's business, liquidity, and financial position may be adversely affected.

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

During the Track Record Period, the Group's principal business included the production and sales of fashion garments, which was ceased and the related production machinery and equipment disposed to Hua Xin Weaving in the end of 2007 due to the streamlining of the Group's business, details of which are set out in the paragraph headed "History and development — Streamlining of business" of this prospectus. The fashion garment business accounted for approximately 26.2% of the Group's total turnover and approximately 15.5% of the Group's total gross profit for the year ended 31 December 2007. The Group's turnover and profit continued to grow in 2008 principally due to the Group's focus on exploring its exports business of non-woven fabrics and chemical fibres. The sustainability of the Group's turnover and net profit will depend upon the ability of the Group to maintain its competitiveness in the market and to produce high quality products. There is no assurance that the Group will be able to maintain its growth at current level in coming years and in such event, the Group's performance may be adversely affected by any decrease in 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

A significant portion of the Group's sales is derived from customers located in Fujian. During the Track Record Period, approximately 82.0%, 65.1% and 50.5% of the Group's products were distributed to customers located in Fujian. Over the years, the Group has been focusing resources in expanding its markets, both domestic and foreign markets, and its customer base. Sales to customers located in Fujian as a percentage of the total sales of the Group had been decreasing during the Track Record Period. There is no assurance that the Group is able to successfully continue to develop its markets, secure purchase orders and maintain business relationships with new or existing customers within a short period of time. Should the Group fail to diversify its markets and customers, or if there is adverse market condition in Fujian which affects the Group's customers, the Group's business and results of operation may be adversely affected.

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

During the Track Record Period, the Group's sales to its top five customers accounted for approximately 53.3%, 38.6% and 49.8% respectively of the Group's total turnover. Besides, approximately 37.8%, 8.9% and 16.5% respectively of the Group's total turnover during the Track Record Period were derived from the Group's largest customer.

During the Track Record Period, the Group had not entered into any long-term agreements with its customers and most of the major customers of the Group have a business relationship of less than three years. Generally, the Group entered into master agreements with its customers for one year, which set out the projected demand for the Group's products in the year ahead with specific terms and conditions to be further agreed on each purchase order to be made. Given the nature of the Group's products can be widely applied in various areas and there may be available substitutes in the markets, the Group's customers may be able to source from other enterprises. Should the Group fail to maintain its competitiveness over the prices, quality and functions of its products, customers may make purchases from other enterprises. There is no assurance that the Group is able to secure new customers in a timely manner in substitution of its major customers or maintain its existing customers, and if the Group fails to do so, its operation and financial results will be adversely affected.

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 derives a significant portion of its purchases from a certain number of its key suppliers.

During the Track Record Period, the Group's purchases from its top five suppliers accounted for approximately 51.7%, 38.7% and 33.1% of the total purchases of the Group respectively. Besides, approximately 17.5%, 14.6% and 7.8% respectively of the Group's total purchases during the Track Record Period were made from the Group's largest supplier.

The Directors anticipate that the Group will continue to derive a significant portion of its purchases from its major suppliers. There is no guarantee that the Group will not suffer from any interruptions, delays or shortages in the supply in the future. As such, any interruptions, delays or shortages in the supply or any significant fluctuations in any of the prices of the raw materials for the Group's production may have an adverse impact on the Group's operation and financial results.

The Group may not have adequate insurance coverage for its potential losses and liabilities

The Group has maintained insurance policies for its production facilities and equipment and machinery. The Group also maintains social security insurance policies for its employees pursuant to PRC laws. As it is not required by the PRC laws, the Group has not maintained any insurance on its business operations, including disruption in operations and product liabilities. However, there is no assurance that the insurance coverage the Group maintains will be adequate to cover its potential losses or liabilities. In addition, there are certain types of risks that are either uninsurable or that the Group cannot obtain insurance for at a reasonable cost. Should an uninsured liability or a liability in excess of its insured limit occur, the Group may suffer losses which could adversely affect its business, financial condition and results of operations.

The Company may be subject to conflict of interests between the Controlling Shareholders and its other Shareholders

Immediately following the Global Offering and the Capitalisation Issue, the Controlling Shareholders collectively will beneficially own approximately 52.5% of the Shares (assuming no exercise of the Over-allotment Option and taking into no account of any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme). The interests of the Controlling Shareholders may differ from the interests of other Shareholders.

The Controlling Shareholders could have significant influence in determining the outcome of any corporate transaction or other matters submitted to the Shareholders for approval, including mergers, consolidations and the sale of all or substantially all of the assets, election of Directors and other significant corporate action. In cases where their interests are aligned and they vote together, the Controlling Shareholders will also have the power to prevent or cause a change in control. Without the consent of some or all of the Controlling Shareholders, the Company may be prevented from entering into transactions that could be beneficial to the Company. There is no assurance that the Controlling Shareholders will act completely in the interests of the Group or that conflicts of interest will be resolved in favour of the Group. In addition, if any of Chim Wai Kong, Chim Wai Shing Jackson, Sze Fo Chau and Hui Cheung Mau violates his non-competition agreements with the Group by diverting business opportunities from the Group to others, the Group's business, financial condition and results of operations could be adversely affected.

The Group's solid waste import licenses are subject to renewal from time to time or inspection by the PRC government

The Group's solid waste import licenses have a term for one year and is for a fixed quantity and category of imported solid waste. The Group obtained its first solid waste import licence on 6 November 2006 and its current solid waste import licences were issued on 19 January 2010 and will expire on 31 December 2010 which allow the Group to import waste PET chips and solid wastes up to a quantity of 30,000 tons. As at the Latest Practicable Date, the Group had utilised approximately 16,300 tons of the quota granted under the solid waste import licence. Since the quantity and category of imported waste in each import license is fixed, the Group needs to apply for import licenses from time to time based on the requirements of the Group's operations. To apply for an import license, the Group is required to submit relevant documents to the Ministry of Environmental Protection of the PRC. There is no assurance that the Group will not encounter difficulties in obtaining additional or renew import licenses for solid wastes for use as raw materials or other required licenses in the future, or that the Group can obtain adequate import quota in a timely manner to satisfy its production requirements. Any failure or difficulty in obtaining or renewing such import licenses may adversely impact the volume of the Group's imported solid wastes for use as raw materials and the Group has to source its raw materials from the PRC, which are generally of a higher price than that of imported solid wastes, thereby adversely affecting the Group's business, financial condition and results of operations. In addition, there is no assurance that the PRC government will not adopt stricter standards (such as environmental requirements) in granting such licenses in the future or that the Group will be able to meet such standards in a timely manner or at all.

The Group's past loan advancing activities with related parties may be subject to penalties

The Group's related companies in the PRC have made advances (including both interest bearing and interest free) to and borrowed from the Group during the Track Record Period. The Group has fully settled and ceased such advances and borrowings prior to the Listing. As advised by the PRC Legal Adviser, such lending activities contravened certain provisions of the Lending General Provisions (貸款通則) promulgated by the PBOC in 1996. According to the Lending General Provisions, the PBOC may impose a fine equivalent to one to five times of the income (i.e. interests) generated from such advances and borrowings on the lenders and the PBOC shall suppress the activity. The Directors consider that, at the time of receiving such advances and borrowings, the Group comprised private companies, and in order to facilitate its funding, advances and borrowings were received from related companies for working capital purpose. Although the current provisions under the Lending General Provision does not provide any penalty on the borrowers and the Group is not aware of any plans of the PBOC to levy such a fine or other penalty on it, there is no assurance that the PBOC will not take such action in the future.

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

According to the notification from Quanzhou City Development and Reform Commission (泉州市發展和改革委員會) dated 14 September 2009, notification from CNITA dated 5 August 2009 and the notification from Jinjiang City Economic and Development Bureau (晉江市經濟發展局) dated 22 December 2009, Xinhua Company cannot change the details, standard and scale of the needle-punch filtration materials project to which the government grant of RMB11.0 million was granted. The PRC Legal Adviser confirmed that Xinhua Company has to obtain consent from the relevant government authorities approving the government grant should it change the details, standard and scale of the needle-punch filtration materials project. As such, the Group may not be able to adjust the construction plan and production facilities of the needle-punch filtration materials project flexibly on a timely basis in response to any change in the market condition. According to the reply from Jinjiang City Economic and Development Bureau (晉江市經濟發展局) dated 21 January 2010, if Xinhua Company changes the details, standard and scale of the needle-punch filtration materials project without consent from the relevant authorities, the non-compliance will be reported to the relevant authorities to withdraw the government grant according to the procedures.

The recent global financial crisis may affect the Group's operation

The recent global financial crisis during the second half of the financial year ended 31 December 2008 which can be reflected by the credit tightening, the increased unemployment rate and the liquidity problems of financial institutions, has adversely affected the US and the world economy. The availability of credit and capital to companies is significantly influenced by levels of investors' confidence and so any factors affecting the market and economic conditions could affect the cost or availability of funding for the Group. Any prolonged disruptions in the global economic, financial and credit conditions and lack of confidence in the markets may affect the prices of the Group's raw materials, interrupt the Group's operation, reduce the demand for the Group's products and affect the Group's plan in expanding the customer base, implementation of expansion plans and strategies and capability in enhancing its technical and research co-operation. In the second half year of 2008, as a result of the global financial crisis, the prices of the Group's raw materials were drastically reduced which triggered the Group to change its raw materials inventory policy by reducing the inventory turnover days.

In light of the financial crisis, the Group reduced the selling prices for certain types of its products resulting in a decrease in the gross profit margin for non-woven fabrics from 31.8% for the year ended 31 December 2008 to 31.5% for the year ended 31 December 2009 and chemical fibres from 24.1% for the year ended 31 December 2008 to 23.6% for the year ended 31 December 2009.

RISKS RELATING TO THE INDUSTRY

The Group faces intense competition and the entry barriers to the industry are low

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. These enterprises possess advantages over the Group in aspects including technology, production efficiency and varieties and quality of products. In addition, there are numerous small scale enterprises in the PRC engaging in the production of non-woven fabrics. With low entry barriers, the Group also faces increasing competition from the new-comers to the industry. The Directors are of the view that the Group is able to compete in aspects of quality and functions of its products. Should the Group fail to maintain its competitive strengths or the competition faced by the Group is intensified unexpectedly, the Group's financial results and operation will be adversely affected.

The Group's business may be affected by fluctuations in the price of raw materials

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. The raw materials for the Group's operations include recycled PET chips. The Group sources its raw materials from suppliers in the PRC and from foreign markets, including the Philippines and Indonesia. The price of these raw materials may be subject to fluctuations due to various factors beyond the Group's control, such as global economic and financial conditions and PRC government policy on the use and import of recycled wastes. There is no guarantee that the Group is able to pass the increased cost in raw materials in all cases to its customers and an increase in raw material prices where the Group is unable to pass the same to its customers will increase the Group's production cost and the Group's profit margin will be affected.

During the Track Record Period, if the purchase price of the raw materials for the Group's products increases or decreases by 5%, the Group's profit after tax will be reduced or increased by approximately RMB9.8 million, RMB14.4 million and RMB19.9 million, respectively, representing the reduction or increment of profit after tax by 14.7%, 13.6% and 13.4%, respectively.

The Group generally pays prevailing market prices for its raw materials at the time of purchase. In the event that the Group is unable to obtain sufficient raw materials at reasonable prices, or to pass on higher raw material costs to its customers, the Group's business, financial condition and results of operations could be materially and adversely affected.

The Group may have to incur additional costs or investments should the PRC government adopt stricter or additional environmental laws or requirements

The existing Environmental Protection Law and related regulations require the Group to establish an environmental protection and management system, which includes adopting effective measures to prevent and control exhaust gas, sewage, waste residues, dust or other waste materials, to discharge waste properly and to pay certain discharge fees. In the future, if a higher level of environmental laws or requirements is introduced, the Group may have to incur additional cost and/or investment in order to be in compliance with such new laws and regulations. Please also refer to the section headed "Relevant Regulations and Rules in the PRC" of this prospectus for details of the relevant environmental protection laws.

Acts of God, acts of war and other disasters could affect the Group's business

An outbreak of avian flu, severe acute respiratory syndrome or any epidemic, an increase in the severity of H1N1 flu (the swine flu) or the occurrence of any natural disaster, which may lead to serious disruption to the public in the PRC, may have a material and adverse effect on the Group's business, results of operations and financial performance. Acts of war and terrorist attacks may cause damage or disruption to the Group, the Group's employees, the Group's markets, the Group's customers and suppliers, any of which could materially impact the Group's sales power, the procurement of natural gas, overall results of operations and financial condition. Overall, natural disasters, acts of war and terrorist attacks may cause the Group's business to suffer in ways that the Group cannot predict.

RISKS RELATING TO THE PRC

PRC political and economic policies could affect the Group's business

Since 1970's, the PRC has undergone and is still undergoing various reforms including that of the economic system in the PRC. Such reforms have resulted in a shift in focus of the PRC government to economic establishment. The Directors consider that political and social factors may also lead to further adjustment of the reform measures. These adjustment process may not always have a positive effect on the operations of the Group. Further, if measures relating to inflation control, interest rates, bases for taxation and additional restrictions on currency exchange and remittances abroad by the PRC government are introduced, it may also lead to a negative impact on the Group's business. It is not within the Group's foreseeability whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any adverse effect on its current or future business, results of operations or financial condition.

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

Under the new PRC Enterprise Income Tax Law that took effect on 1 January 2008, enterprises established outside China whose "de facto management bodies" are located in China are considered as "resident enterprises" and will generally be subject to the uniform 25% enterprise income tax rate as to their global income. Under the implementation regulations of the new PRC Enterprise Income Tax Law, "de facto management bodies" is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise.

Substantially all of the Company's management is currently based in China, and may remain in China. Therefore, the Company may be treated as a PRC resident enterprise for PRC enterprise income tax purposes. The tax consequences of such treatment are currently unclear, as they will depend on the implementation regulations and on how local tax authorities apply or enforce the new PRC Enterprise Income Tax Law and the implementation regulations.

The preferential tax treatment the Group currently enjoys may be changed or discontinued which may adversely affect the Group's profitability

On 26 October 2009, Xinhua Company was recognised as a high and new technology enterprise. According to Article 4 of the Notice on the State Administration of Taxation Notice on the Implementation of High and New Technology Enterprises Income Tax Benefit (Guo Shui Han [2009] No. 203) (《國家税務總局關於實施高新技術企業所得税優惠有關問題的通知》(國税函[2009]203號)), qualified high and new technology enterprises will enjoy income tax benefit from the year of its recognition. Accordingly, Xinhua Company is entitled to enjoy an income tax concession at a preferential rate of 15% effective from 1 January 2009, and the applicable income tax rate for Xinhua Company is 15% since 1 January 2009. However, there is no assurance that Xinhua Company will be continuously granted the status of "high and new technology enterprise" with the favourable tax rate of 15%, and any change or discontinuation of such favorable tax treatments 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

Under the new PRC Enterprise Income Tax Law and its implementation regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are "non-resident enterprises" (enterprises that are set up in accordance with the law of the foreign country (region) whose actual administration institution is outside China, but they have set up institutions or establishments in China or they have income originating from China without setting up institutions or establishments in China) to the extent such dividends are sourced within China. Similarly, any gain realised on the transfer of Shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within China. The investors who are established in Hong Kong and are considered non-resident enterprises by the PRC tax authority are subject to a PRC withholding tax at a rate of 5%. If the Company is considered a PRC "resident enterprise", it is unclear whether the dividends it pays with respect to the Shares, or the gain Shareholders may realise from the transfer of the Shares, would be treated as income derived from sources within China and be subject to PRC tax. If the Company is required under the new PRC Enterprise Income Tax Law to withhold PRC income tax on its dividends payable to its foreign Shareholders, or if Shareholders are required to pay PRC income tax on the transfer of the Shares, the value of their investment in the Shares may be materially adversely affected.

The Company is a holding company and its ability to pay dividends is dependent upon the earnings of, and distributions by, its subsidiaries

The Company is a holding company incorporated under the laws of Cayman Islands, with limited liability. Substantially all of the Group's business operations are conducted through Xinhua Company. The Company's ability to pay dividends to the Shareholders is dependent upon the earnings of its subsidiaries and their distribution of funds to the Company, primarily in the form of dividends. The ability of its subsidiaries to make distributions to the Company depends upon, among other things, their distributable earnings. Under the PRC law, payment of dividends is only permitted out of accumulated profits according to PRC accounting standards and regulations, and the Company's subsidiaries in the PRC are also required to set aside part of its after-tax profits to fund certain reserve funds that are not distributable as cash dividends. Other factors such as cash flow conditions, restrictions on distributions contained in the Company's subsidiaries' articles of associations, restrictions contained in any debt instruments, withholding tax and other arrangements will also affect subsidiaries' ability to make distributions to the Company. These restrictions could reduce the amount of distributions that the Company receives from its subsidiaries, which in turn would restrict the Company's ability to pay dividends on the Shares.

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

A new labour 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 and dismissal of employees. In addition, under the newly promulgated "Regulations on Paid Annual Leave for Employees" (職工帶薪年休假期), 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 consent to waive such vacation at the request of employers shall be compensated an amount equal to three times their normal daily salaries for each vacation day being waived. As a result of the new law and regulations, the Group's labour costs may increase. There is no assurance that any disputes, work stoppages or strikes will not arise in the future. Increases in the Group's labour costs and future disputes with its employees could adversely affect its business, financial condition or results of operations.

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 PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of foreign currencies out of the PRC. Under existing PRC foreign exchange regulations, payments of current account items, including profit distribution, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from SAFE is required where Renminbi is to be converted into foreign currency and remitted out of the PRC to pay capital expenditures. The PRC government may also at its discretion restrict access to foreign currencies for current account transactions in the future. The Company relies on its PRC subsidiaries to pay dividends to the Shareholders. If the PRC foreign exchange control system prevents or restricts the Group from obtaining sufficient foreign currency, including Hong Kong dollars, to satisfy the Group's requirements, it may not be able to pay dividends in Hong Kong dollars to the Shareholders.

As at the Latest Practicable Date, Renminbi is not a freely convertible currency in the international currency market and its exchange rate system is a managed-floating-rate system. Since 21 July 2005, Renminbi was no longer pegged to the US dollars but to a basket of currencies. During the Track Record Period, approximately 89.8%, 71.2% and 57.1%, respectively, of the Group's sales are settled in Renminbi, while the remaining sales are settled in US dollars, any material exchange rate volatility relating to Renminbi may give rise to uncertainties in the value of the Group's PRC assets, earnings and dividends. Any devaluation of Renminbi may cause the Group to incur capital depreciation in its assets and investments in the PRC as well as causing material adverse effects on the Group's operations and financial condition.

The registration procedures as required under No. 75 Notice promulgated by SAFE are under progress and have not been completed

According to No. 75 Notice promulgated on 21 October 2005 by SAFE, domestic resident natural persons or domestic resident legal persons are required to register with the competent local branch of SAFE before they establish or control any offshore special purpose vehicles for capital raising with the assets or equity interest of PRC domestic companies owned by them. According to the PRC Legal Adviser, the Founders of Xinhua Company fall within the scope of the No. 75 Notice, they are required to register under the No. 75 Notice. The Company confirmed that the Founders of Xinhua Company have submitted their application for registration under No. 75 Notice and the application was accepted by the relevant PRC foreign exchange authority and is awaiting the confirmation on registration. However, the registration procedures had not yet been completed as at the Latest Practicable Date. Failure to complete the above registrations may limit the ability of Xinhua Company to pay the profits, dividends liquidation expenses, share transfer expenses and capital decreasing fees to the offshore special purpose vehicles, and punishment could be imposed upon for foreign exchange evasion or other non-compliance.

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

Prior to the Global Offering, there has been no public market for the Shares. The initial public offering price range per Share was the result of negotiations among the Company and the Global Coordinator, on behalf of the Underwriters. The Offer Price may differ significantly from the market price for the Shares following the Global Offering. The Company has made application to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in the Shares on the Stock Exchange. There is no assurance that the Global Offering will result in the development of an active, liquid public trading market for the Shares. In addition, the price and trading volume of the Shares may be volatile. Factors including variations in the Group's revenues, earnings and cashflows or any other developments may affect the volume and price at which the Shares will be traded.

The subscribers of the Shares may experience immediate dilution and may experience further dilution if the Group issues additional Shares in the future

The Offer Price is higher than the net tangible assets value per Share immediately prior to the Global Offering. Subscribers of the Shares in the Global Offering may experience an immediate dilution in unaudited pro forma adjusted combined net tangible assets value to approximately HK$1.20 per Share, based on the maximum Offer Price of HK$3.26, assuming the Global Coordinator will not exercise the Over-allotment Option.

To expand the Group's business, the Company may offer and issue additional Shares in the future. The Company may also issue additional Shares pursuant to the Share Option Scheme. Shareholders may be imposed dilution in the net tangible assets book value per Share if the Company issues additional Shares in the future at a price lower than the net tangible assets value per Share.

The Group's historical dividends do not indicate its future dividend policy

During the Track Record Period, the Group paid dividends of RMB30.0 million, RMB70.0 million and RMB20.0 million respectively. In the future, the amount of dividends the Company may declare and pay will be subject to, among others, the Group's future operations and earnings, capital requirements and surplus, general financial condition and any other factors which the Directors may consider relevant. Accordingly, the amount of distributions that the Company has declared and made in the past do not indicate the dividends that the Company may pay in the future.

RISKS RELATING TO THE STATEMENTS MADE IN THIS PROSPECTUS

Certain facts and statistics included in this prospectus may not be relied upon

Certain information and statistics contained in this prospectus are derived from industry reports. The Company believes that the sources of this information are appropriate sources for such information and has taken reasonable care in extracting and reproducing such information. The Company has no reason to believe that such information is false or misleading or that any fact has been omitted that would render such false or misleading. The information has not been independently verified by the Company, the Sponsor, the Global Coordinantor, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy. Prospective investors should not place undue reliance on any of such information contained in this prospectus.

Forward looking statements may be inaccurate

The information in this prospectus contains certain forward-looking statements and information relating to the Group that are based on the belief of the Directors as well as assumptions based on the information currently available to them. In this prospectus, the words "believe", "consider", "estimate", "expect", and similar expressions, as they relate to the Company or the Group or the Directors, are intended to, among others, identify forward-looking statements. Such statements reflect the current views of the 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, the Group's financial condition may be adversely affected and vary materially from those described herein as believed, considered, estimated or expected.

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

Prior to the publication of this prospectus, there was coverage in the media regarding the Global Offering, including an article on the Hong Kong Economic Journal on 2 June 2010, which contained certain information relating to the Global Offering that may or may not be accurate. As such, you should rely solely upon the information contained in this prospectus, the Application Forms and any formal announcements, if any, made by the Company in making your investment decision in the Offer Shares. The Directors, the Group, the Sponsor, the Global Coordinator, the Underwriters or any other parties involved in the Global Offering do not accept any responsibility and make no representation as to the accuracy or completeness of any information reported by the press or other media, nor the fairness, appropriateness or reliability of any forecasts, views or opinions expressed by the press or other media regarding the Shares, the Global Offering or the Group. To the extent that any of the information in the media is inconsistent or conflicts with the information contained in this prospectus, the Directors, the Group, the Sponsor, the Global Coordinator, the Underwriters or any other parties involved in the Global Offering disclaim it. Accordingly, prospective investors should not rely on any of the information in press articles or other media coverage.