

HISTORY AND DEVELOPMENT

BACKGROUND

The history of the Group can be traced back to June 1999 when Xinhua Company was established by the Founders with a registered capital of RMB30,000,000. In 2005, the Group commenced the business including the production and sales of non-woven fabrics, chemical fibres and fashion garments. In October 2005, to cope with its continuing expansion, the registered capital of Xinhua Company was increased from RMB30,000,000 to RMB80,000,000. The additional registered capital was contributed by the Founders in cash and fixed assets.

STREAMLINING OF BUSINESS

In order to better prepare for the continuing development and expansion of the Group in the future, the management of the Group decided to formulate a more focused business plan for the Group by leveraging on its past experience and its research and development capabilities to focus on developing and expanding the business of production and distribution of non-woven fabrics and other new non-woven fabrics materials and chemical fibres using recycled solid wastes as its principal and core business. The Group therefore commenced to streamline its business by clearly delineating its core business of the production and sales of non-woven fabrics and chemical fibres from other businesses it operated. On reasons that the Group's then fashion garment business was of a totally different nature from the Group's core business of production of non-woven fabrics and other new materials, in particular, (a) the fashion garment business was produced on an OEM basis or through sub-contracting; (b) the two businesses were targeting at different customers and markets with the fashion garment business principally focusing on export sales; (c) the suppliers of the two businesses were different; and (d) the operation, production and management systems of the two businesses were different. At the end of 2007, the Group ceased the fashion garment business and disposed of all the related production machinery and equipment to Hua Xin Weaving, a connected person, at a total consideration of approximately RMB0.9 million, being the net book value of the assets transferred. Other than the above, the Group also disposed of an ancillary production line relating to fashion garment business to a connected person, Hua Xin Plastic whose principal business is recollection of waste tyres and to a lesser extent, manufacture of garment accessories, in December 2007, at a consideration of approximately RMB0.5 million, being the net book value of the production line. Hua Xin Weaving, a connected person and the principal business of which is the trading of fashion garments and woven products with focus on the fashion garment business, was also engaged in the production and sales of non-woven fabrics previously. To better delineate the Group's core business from that of Hua Xin Weaving, Hua Xin Weaving ceased the manufacture of non-woven fabrics business and in 2007, transferred to the Group the machinery and equipment in relation to the production of non-woven fabrics at the consideration of approximately RMB17.1 million and the related inventories at RMB19.8 million respectively, being the net book value of the machinery and equipment and inventories transferred.

In addition, in the end of 2007, Hua Xin Plastic also disposed of the boilers equipment, which are used for the production of steam for the use in the production process of non-woven fabrics and chemical fibres, to the Group at a consideration of approximately RMB1.3 million, being the net book value of the boilers equipment transferred. Since the consideration in respect of the disposal of the fashion garment business and related machinery and equipment and the acquisition of the machinery and equipment in relation to the production of non-woven fabrics and the related inventories and the boilers equipment were based at their respective net book value, the Directors are of the view that the considerations for such transactions are reasonable and at an arm's length basis.

HISTORY AND DEVELOPMENT

BUSINESS DEVELOPMENT

The Group continued to develop and upgrade the functions and the application spectrum of its non-woven fabrics to areas including footwear, roofing materials and interlining. Recognising that strong research and development ability is the key to the success of the Group's products and expansion, the Group continued to enhance its technology level, invest in its research centre, recruit experienced technical staff and collaborate with academic institutes. In 2006, Xinhua Company co-operated with Tianjin Polytechnic University to jointly carry out certain research and development projects. Xinhua Company has also been a training centre for students of Tianjin Polytechnic University since the second half year of 2006. The Group has established its own research centre in 2006, and such research centre is recognised as a Provincial research centre. In 2008, the Group entered into a research agreement with Wuhan University of Science and Engineering to jointly carry out research projects on new materials.

In November 2006, the Group was granted the solid waste import license. As a result, the Group could import solid wastes for use as raw materials with higher guarantee on safety and quality.

The management is of the view that production of high quality products will enable the Group to establish a leading position in the market and compete effectively with its competitors. The Group strived to improve the quality of its products. In November 2006, in recognition of the Group's effort and accomplishment, the Group's "CO.ST.IN" branded non-woven cloth was awarded as the Provincial Famous Product in 2006 (2006福建省名牌產品) by the People's Government of Fujian Province, the PRC.

In addition to formulating its plan of development and streamlining its business, the Group has placed great effort in enhancing its operational and management system. The Group adopted the ISO standards in its production process. In January 2001, the Group was first awarded the ISO 9001 series certificate. The Group has just renewed and obtained the ISO9001:2008 certificate in January 2010. In April 2008, the Group was awarded the ISO 14001:2004 certificate.

In September 2008, the Group's brand "CO.ST.IN" was awarded by Fujian Province Industry and Commerce Bureau as Provincial Famous Trademark (福建省著名商標).

In 2008, leveraging on its strong research and development skills, the Group commenced the production of non-woven fabrics for use as filtration materials.

To further cope with the expansion of the Group's business and as part of the Group's restructuring in preparation of the Listing, on 14 September 2009, Gerfalcon PRC was established in the PRC as a wholly-owned subsidiary of Gerfalcon Hong Kong with a registered capital of US\$13,990,000. The principal business of Gerfalcon PRC is the manufacture of filtration materials and non-woven fabrics, provisions of information technology and management supporting services.

In January 2010, the Group's "CO.ST.IN" branded non-woven fabrics was again awarded the Provincial Famous Product in 2009 (2009福建名牌產品) by the People's Government of Fujian Province, the PRC.

On 19 January 2010, Xinhua Company received from Jinjiang City Finance Bureau (晉江市財政局) the government grant of RMB11.0 million, which is to be used for the needle-punch filtration materials project of Xinhua Company and the approval of such government grant, which jointly was

HISTORY AND DEVELOPMENT

issued by the Fujian Provincial Development and Reform Commission (福建省發展和改革委員會) and the Fujian Provincial Economic and Trade Commission (福建省經濟貿易委員會) dated 14 August 2009, was obtained in August 2009, with conditions including the restriction from the alternation of the entity nature of Xinhua Company. As direct acquisition of the entire equity interest in Xinhua Company by Gerfalcon Hong Kong will result in a change of the entity nature of Xinhua Company from a domestic company into a foreign invested enterprise, the Structure Contracts were entered into amongst Gerfalcon PRC, Xinhua Company and the Founders on 20 October 2009, 29 December 2009 and 17 March 2010, pursuant to which Xinhua Company would be controlled by Gerfalcon PRC and, as a result, Xinhua Company would be regarded as if it were a subsidiary of the Company. Subsequently, in March 2010, the Company obtained a consent letter from Jinjiang City Economic and Development Bureau (晉江市經濟發展局) dated 31 March 2010, which has been delegated the responsibility of monitoring the implementation of the project in relation to the Government Grant by Quanzhou City Development and Reform Commission (泉州市發展和改革委員會) and Quanzhou City Economic Commission (泉州市經濟委員會), confirming that the acquisition of Xinhua Company's 100% equity interest by Gerfalcon PRC and Gerfalcon Trading, which would result in Xinhua Company becoming a foreign re-invested enterprise, will have no impact on Xinhua Company's right to retain and continuously use the government grant of RMB11.0 million. On 17 March 2010, the parties entered into a termination agreement to terminate all of the Structure Contracts in all respects.

On 17 March 2010, Gerfalcon Trading was established in the PRC as a wholly-owned subsidiary of Gerfalcon Hong Kong with a registered capital of HK\$1,000,000, whose principal business is wholesale of filtration materials and non-woven fabrics. On the same date, a share transfer agreement (supplemented by a supplemental agreement dated 20 April 2010) was entered into amongst the Founders, Gerfalcon PRC and Gerfalcon Trading, pursuant to which the Founders had agreed to transfer 99% and 1% equity interest in Xinhua Company to Gerfalcon PRC and Gerfalcon Trading respectively. The filing in respect of the above transfers was made with the relevant administration of industry and commerce on 22 March 2010 and the payment of the consideration in relation to the acquisition of Xinhua Company's 100% equity interest by the Group was fully paid by 12 May 2010.

PRE-IPO INVESTMENT

Pursuant to the Pre-IPO Investment Agreements dated 23 July 2007, 23 September 2009 and 18 October 2009, Chim Wai Kong, Chim Wai Shing Jackson and Chim Fo Che, being then shareholders of Nian's Holding, agreed that, among others, Modern Creative (or its nominee) would provide financial investment of an amount of US\$7,936,507 ("Investment Amount") in the Company by purchasing from Chim Wai Kong, Chim Wai Shing Jackson and Chim Fo Che certain number of Shares held by Nian's Holding calculated according to the following formula with reference to the forecast profits of Xinhua Company in 2007:

$$\text{Number of Shares} = \frac{\text{Investment Amount}}{\text{RMB300,000,000}} \times 100\% \times \frac{\text{Number of issued Shares before the Global Offering}}{\text{Global Offering}}$$

As Gerfalcon Holding, Sze Fo Chau and Hui Cheung Mau are not parties to the Pre-IPO Investment Agreements and Gerfalcon Holding as a Shareholder does not have pre-emptive rights in respect of transfer of Shares under the Articles of Association as at the date of the Pre-IPO Investment Agreements, the entering into the Pre-IPO Investment Agreements did not require the consent of Gerfalcon Holding, Sze Fo Chau and Hui Cheung Mau.

HISTORY AND DEVELOPMENT

The principal terms of the Pre-IPO Investment Agreements, including the above formula of calculating the number of the Shares to be transferred, were first determined by the parties as early as in 2007. Under the Pre-IPO Investment Agreements, the Investment Amount would be settled immediately upon the completion of the purchase of Shares. Pursuant to the Pre-IPO Investment Agreements, the parties to the Pre-IPO Investment Agreements agreed that they would complete the purchase of Shares as soon as practicable after all conditions precedent under the Pre-IPO Investment Agreements have been satisfied, including the completion of the steps of reorganisation whereby Nian's Holding had acquired 90% interest in the total issued share capital of the Company. The Pre-IPO Investment Agreements had been completed before the Listing on 5 February 2010. The Investment Amount would be held by Nian's Holding and would subsequently become part of the assets of the Nian's Brother Trust. The Nian's Brother Trust was established in accordance with the family wish of the Founders of Xinhua Company. Pursuant to their wish, Chim Wai Kong and Chim Wai Shing Jackson would be the settlors of the trust and Chim Fo Che would be one of the beneficiaries. Further details of the settlors and beneficiaries of the Nian's Brother Trust are set out in the paragraph headed "The Reorganisation" under the section headed "History and Development" in this prospectus. The discount of the investment cost per Share of the Pre-IPO Investor to the Offer Price is equivalent to approximately 78.14% based on the lowest Offer Price at HK\$2.36 and 84.18% on the highest Offer Price at HK\$3.26.

Furthermore, under the Pre-IPO Investment Agreements, the Pre-IPO Investor, being the nominee of Modern Creative and which is also a wholly-owned subsidiary of Modern Creative, has a right to nominate a non-executive Director upon completion of the Pre-IPO Investment Agreements. This nomination right will be lapsed upon the Listing. Other than this nomination right, the Pre-IPO Investor (being the nominee of Modern Creative) has no other special right.

Wee Kok Keng is the non-executive Director nominated by the Pre-IPO Investor (being the nominee of Modern Creative) pursuant to the nomination right under the Pre-IPO Investment Agreements, whose appointment is with an initial term of three years subject to the retirement and re-election requirements under the Company's Articles.

Both Modern Creative and the Pre-IPO Investor (being the nominee of Modern Creative) are companies incorporated in the BVI with limited liability and whose ultimate shareholders are Liu Shu Fa as to 50% and Wang Juan as to 50%. Liu Shu Fa and Wang Juan are PRC natural residents who, other than becoming the Substantial Shareholders pursuant to the Pre-IPO Investment Agreements, are independent of and have no connection with the Company and its connected persons. In mid-2006, Liu Shu Fa was introduced to Chim Wai Shing Jackson by a friend. Liu Shu Fa has been engaging in providing consultancy services to enterprises. The principal business of Modern Creative and the Pre-IPO Investor (being the nominee of Modern Creative) are the provision of consultancy services and investment holding. Pursuant to the Pre-IPO Investment Agreements, Modern Creative has been retained by Chim Wai Kong, Chim Wai Shing Jackson and Chim Fo Che to provide consultancy services to the Group in respect of various aspects including but not limited to operation, management and internal control system. Since 2007, Modern Creative and/or its associates have been providing consultancy and advisory services including but not limited to the following:

- (a) provided detailed studies and analysis on the Group's then business segment, which included non-woven fabrics, chemical fibres and fashion garments. Based on the studies, it recommended the Group to streamline its business by focusing on non-woven fabrics and

HISTORY AND DEVELOPMENT

chemical fibres and suggested the disposal of the fashion garment business to enhance its overall efficiency and economic benefit. The recommendation had been adopted by the Group at the end of 2007;

- (b) conducted a preliminary feasibility study on a non-woven fabrics production facility for the production of synthetic leather and filtration materials which involved an estimated investment amount of approximately RMB800.0 million. The report contained certain profitability analysis as well as preliminary recommendation as to the selection of equipment supplier and appointment of recognised technical institute to prepare further feasibility to apply for approval of such facility. The said project is eventually approved by the relevant government authority and forms part of the New Production Facilities;
- (c) assisted the Group in formulating various internal rules and guidelines for the purpose of upgrading the efficiency and effectiveness of the Group's management and organisation. Below are some of these guidelines:
 - Rules on file management
 - Rules on fire prevention and safety
 - Responsibility of each division of the Group
 - Responsibility of the senior management of each division of the Group
 - Procedures on recruitment
 - System on promotion of the Group's staff
 - Guidelines on the management of the Group's information technology system
 - Organisational and management structure
 - Safety production guidelines for chemical fibres
 - Safety production guidelines for non-woven fabrics
 - Rules on customer's data management
 - Rules on providing quotations to customers
 - Rules for the sales division
 - System for employees benefit
 - System for employees training
 - Rules for use of the Group's vehicles
- (d) assisted the Group in implementing its internal control system.

HISTORY AND DEVELOPMENT

In consideration of the provisions of the consultancy and advisory services, a service fees (including the incurred pre-paid expenses) of US\$1,984,126 (the “Service Fees”) would be paid to Modern Creative, and the Pre-IPO Investment Agreements provide that such Service Fees could be settled by the Shares. The Service Fees had formed part of the Investment Amount and were settled upon completion of the Pre-IPO Investment Agreements on 5 February 2010.

In addition to the provisions of the consultancy and advisory services, Modern Creative had, through its wholly-owned subsidiary, employed employees equipped with knowledge and experience in the textile industry to provide advice and service to the Group on its business operations. Therefore, the Directors considered that the completion of the Pre-IPO Investment Agreements resulting the Pre-IPO Investor (being the nominee of Modern Creative) becoming a Substantial Shareholder would benefit the Group as a whole. The Directors confirmed that the terms of the Pre-IPO Investment Agreements were determined on an arm’s length basis with reference to the financial performance of the Group in 2007. The Sponsor and RSM Nelson Wheeler, the reporting accountants of the Company, confirmed that they never relied on the financial consultancy services rendered by the Pre-IPO Investor, Modern Creative or any of their respective associates.

Completion of the Pre-IPO Investment Agreements was conditional upon, among others, completion of the steps of Reorganisation up to step (g) as set out in the paragraph headed “The Reorganisation” under the section headed “History and Development” in this prospectus, whereby Nian’s Holding had acquired 90% interest in the total issued share capital of the Company and all permits and approvals from government and competent authorities in respect of the Pre-IPO Investment Agreements had been obtained. Investment of the Pre-IPO Investor (being the nominee of Modern Creative) in the Company under the Pre-IPO Investment Agreements was completed on 5 February 2010. As a result of the completion of investment of the Pre-IPO Investor (being the nominee of Modern Creative) under the Pre-IPO Investment Agreements, the Pre-IPO Investor (being the nominee of Modern Creative) was interested in 20% of the issued share capital of the Company immediately before completion of the Global Offering. The Pre-IPO Investor’s shareholding in the Company will not be counted towards the public float under the Listing Rules. The Pre-IPO Investor (being the nominee of Modern Creative) has provided the Company with written confirmation that, except for the Sale Shares, it has irrevocably confirmed, agreed and undertaken that in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date, it shall not, and procure its shareholders and associates or controlled companies shall not

- dispose of, transfer, sell or otherwise create any rights (including but not limited to creating any options, pledges, mortgages, other encumbrances or interests) in respect of any Shares or related interests (or any other Shares, securities or interests accrued or arisen from Capitalisation Issue, scrip dividend or other means) owned by it, its shareholders or associates, or directly or indirectly held by it, its shareholders or any of its associates immediately after the completion of the Global Offering; or
- dispose of, transfer, sell or otherwise create any rights (including but not limited to creating any options, pledges, mortgages, other encumbrances or interests) in respect of any Shares or interests (or any Shares, securities or interests accrued or arisen from Capitalisation Issue, scrip dividend or other means) controlled by and any of the Shares or relevant interests mentioned in the above paragraph (directly or indirectly) beneficially owned by it, its shareholders or any of its associates.

HISTORY AND DEVELOPMENT

THE REORGANISATION

The companies comprising the Group underwent the Reorganisation to rationalise the Group's structure in preparation for the Listing. As a result, the Company became the holding company of the Group. Set out below are the major steps of the Reorganisation:

(a) Incorporation of holding companies

- (i) On 25 August 2009, Nian's Holding was incorporated in the BVI with an authorised capital of 50,000 shares of US\$1.00 each. On 23 September 2009, 2,800 shares, 2,000 shares and 960 shares were allotted and issued for cash at par to Chim Wai Kong, Chim Wai Shing Jackson and Chim Fo Che respectively.
- (ii) On 25 August 2009, Gerfalcon Holding was incorporated in the BVI with an authorised capital of 50,000 shares of US\$1.00 each. On 23 September 2009, 1,000 shares and 1,000 shares were allotted and issued for cash at par to Sze Fo Chau and Hui Cheung Mau respectively.

(b) Incorporation of the Company and its subsidiaries

- (i) On 13 November 2008, Gerfalcon Hong Kong was incorporated in Hong Kong with limited liability with an authorised capital of HK\$10,000 divided into 10,000 of HK\$1.00 each. Upon incorporation, one share was allotted and issued to Chim Wai Kong and one share was allotted and issued to Chim Wai Shing Jackson for cash at par.
- (ii) On 25 August 2009, Costin BVI was incorporated in the BVI with an authorised share capital of 50,000 shares of US\$1.00 each. On 23 September 2009, nine shares were issued and allotted to Nian's Holding and one share was issued and allotted to Gerfalcon Holding for cash at par.
- (iii) On 26 August 2009, the Company was incorporated in the Cayman Islands with an authorised share capital of HK\$380,000 divided into 3,800,000 Shares. Upon incorporation, one Share was allotted and issued to Offshore Incorporations (Cayman) Limited at par and such Share was transferred to Chim Wai Shing Jackson on the same date at par value. On 23 September 2009, the one Share held by Chim Wai Shing Jackson was transferred to Gerfalcon Holding at par and nine Shares were issued and allotted to Nian's Holding at par.
- (iv) On 31 August 2009, Gerfalcon International was incorporated in the BVI with an authorised share capital of 50,000 shares of US\$1.00 each. On 24 September 2009, one share was issued and allotted to Costin BVI for cash at par.
- (v) 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.

HISTORY AND DEVELOPMENT

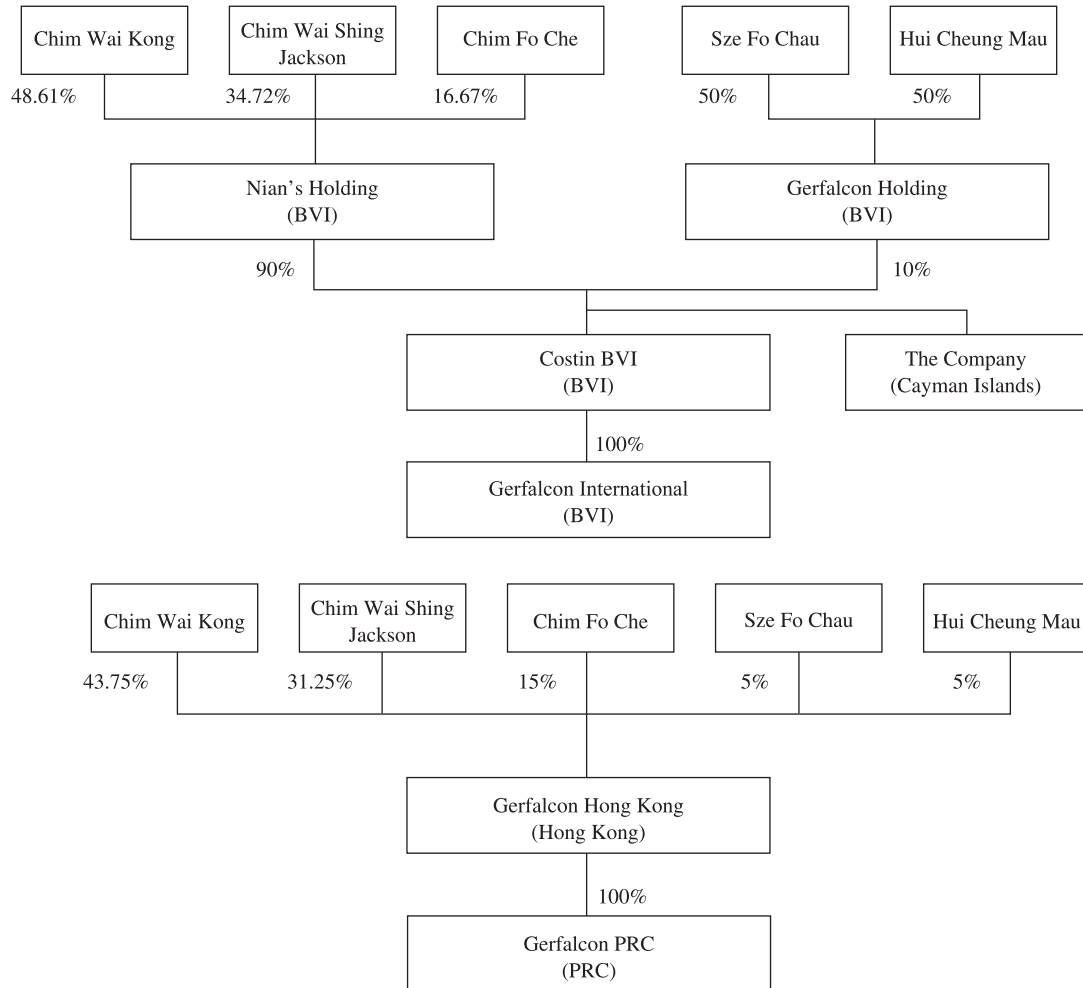
(c) Allotment of shares in Gerfalcon Hong Kong

On 23 September 2009, Gerfalcon Hong Kong allotted and issued for cash at par 34 shares, 24 shares, 12 shares, 4 shares and 4 shares to Chim Wai Kong, Chim Wai Shing Jackson, Chim Fo Che, Sze Fo Chau and Hui Cheung Mau respectively. As a result of the allotment, Gerfalcon Hong Kong was held by Chim Wai Kong as to 43.75%, Chim Wai Shing Jackson as to 31.25%, Chim Fo Che as to 15%, Sze Fo Chau as to 5% and Hui Cheung Mau as to 5%.

These shareholdings were arrived at by reference to the shareholdings of the Founders in Xinhua Company as set out in the paragraph headed “History and Development — The Subsidiaries — (f) Xinhua Company” of this prospectus and by readjustment of such shareholdings after taking into account that Nian Wei Deng, Hong Ming Qu and Hong Lian Qiao would not become the shareholders of the Company after the Reorganisation but before establishment of the Nian’s Brother Trust. As a result of the readjustment and the Reorganisation, Hui Cheung Mau and Sze Fo Chau together hold 10% interest in the Company immediately before the completion of the Global Offering and the Capitalisation Issue.

HISTORY AND DEVELOPMENT

The charts below show the Group structure upon completion of the Reorganisation steps up to paragraph (c) above:



(d) Transfer of shares in Gerfalcon Hong Kong to Costin BVI

Pursuant to a share transfer agreement dated 24 September 2009, the shareholders of Gerfalcon Hong Kong transferred all their shares in Gerfalcon Hong Kong to Costin BVI and in consideration for the transfers, Costin BVI issued and allotted nine shares of US\$1.00 each in Costin BVI to Nian's Holding and one share of US\$1.00 each in Costin BVI to Gerfalcon Holding, all credited as fully paid.

(e) Allotment of shares in Gerfalcon Hong Kong to Costin BVI

On 3 February 2010, the authorised share capital of Gerfalcon Hong Kong was increased from HK\$10,000 divided into 10,000 ordinary shares of HK\$1.00 each to HK\$100,000,000 divided into 100,000,000 ordinary shares of HK\$1.00 each by the creation of an additional 99,990,000 ordinary shares of HK\$1.00 each.

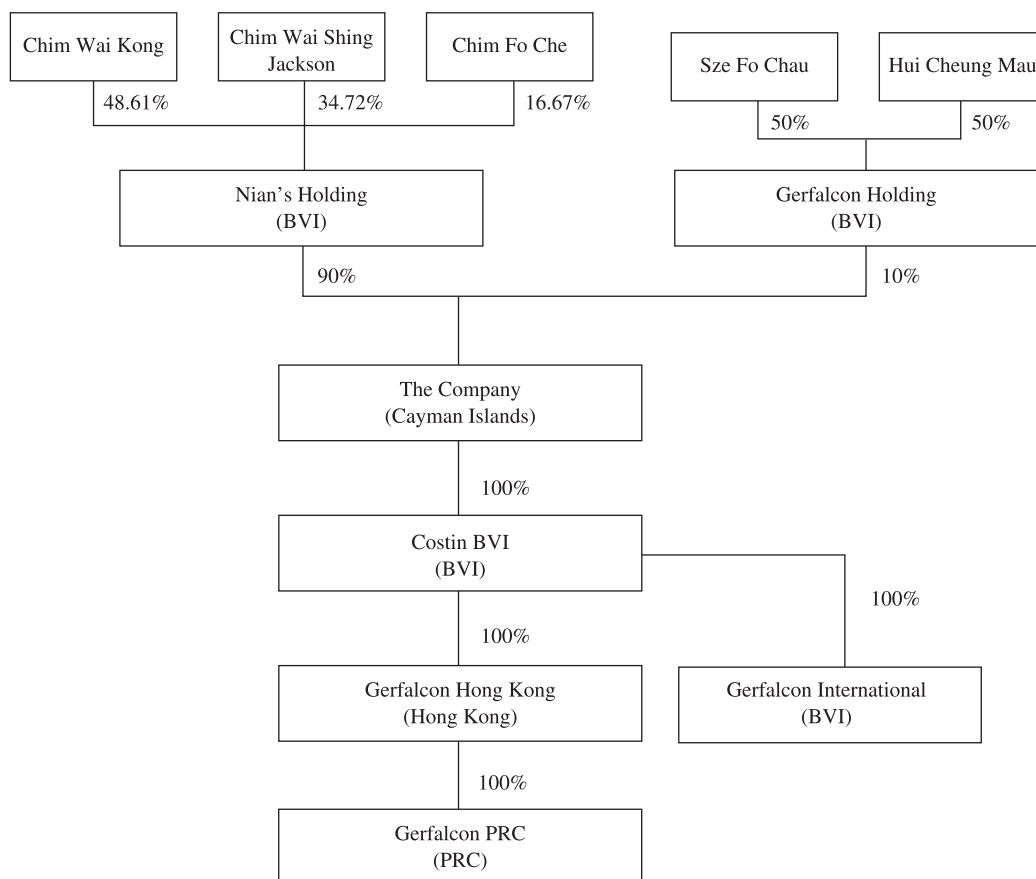
HISTORY AND DEVELOPMENT

(f) Transfer of shares in Costin BVI to the Company

On 3 February 2010, the authorised share capital of the Company was increased from HK\$380,000 divided into 3,800,000 Shares of HK\$0.10 each to HK\$200,000,000 divided into 2,000,000,000 Shares of HK\$0.10 each by the creation of an additional 1,996,200,000 Shares of HK\$0.10 each.

On 4 February 2010, Nian's Holding, Gerfalcon Holding and the Company, amongst others, entered into a sale and purchase agreement pursuant to which Nian's Holding transferred 18 shares of US\$1.00 each in Costin BVI to the Company and Gerfalcon Holding transferred two shares of US\$1.00 each in Costin BVI to the Company in consideration of the Company (i) allotted and issued 269,991 and 29,999 Shares to Nian's Holding and Gerfalcon Holding respectively, all credited as fully paid, and (ii) credited as fully paid at par the then existing nine nil paid Shares held by Nian's Holding and the then existing one nil paid Share held by Gerfalcon Holding. Upon completion of the above share transfers, Costin BVI became a wholly-owned subsidiary of the Company.

The chart below shows the Group structure upon completion of the Reorganisation steps up to paragraph (f) above:



HISTORY AND DEVELOPMENT

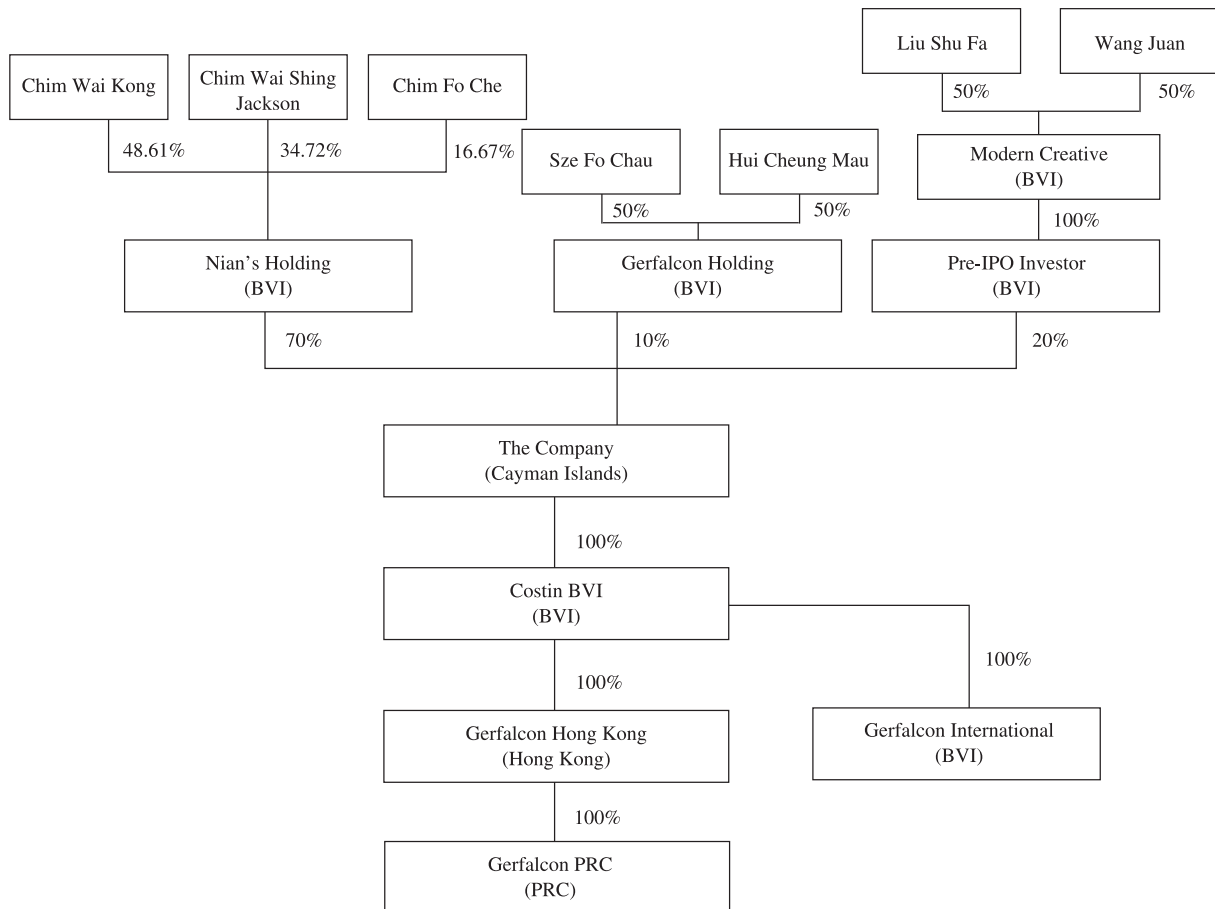
(g) Capitalisation Issue of Gerfalcon Hong Kong

Pursuant to a loan capitalisation agreement entered into amongst Gerfalcon Hong Kong, Chim Wai Kong, Chim Wai Shing Jackson, Chim Fo Che, Sze Fo Chau and Hui Cheung Mau dated 4 February 2010, Gerfalcon Hong Kong allotted and issued 23,789,920 ordinary shares of HK\$1.00 each to Costin BVI, credited as fully paid.

(h) Completion of the Pre-IPO Investment Agreements

As a result of the completion of investment of the Pre-IPO Investor under the Pre-IPO Investment Agreements on 5 February 2010, the Pre-IPO Investor was interested in 20% of the issued share capital of the Company immediately before completion of the Global Offering.

The chart below shows the Group structure up to completion of the Pre-IPO Investment Agreements:



HISTORY AND DEVELOPMENT

(i) Establishment of family trust

Nian's Brother Trust was established on 16 February 2010 as a discretionary trust by Chim Wai Kong and Chim Wai Shing Jackson as settlors for the benefits of their family members, namely, Chim Wai Kong, Chim Wai Shing Jackson, Hong Ming Qu, Chim Fo Che, Nian Wei Deng and Hong Lian Qiao. The details of Xinhua Company's Founders are set out in the paragraph headed "History and development — the Subsidiaries — (f) Xinhua Company" of this prospectus.

On 9 October 2009, Nian's Investment was incorporated in the BVI with limited liability. It is a company with an authorised capital of US\$50,000 divided into 50,000 shares of US\$1.00 each, whose only issued share is held by JMJ Holdings Limited as nominee in favour of RBS Coutts Trustees (Switzerland) Ltd, the trustee of Nian's Brother Trust.

On 16 February 2010, each of Chim Wai Kong, Chim Wai Shing Jackson and Chim Fo Che entered into an instrument of transfer with Nian's Investment, pursuant to which, Chim Wai Kong, Chim Wai Shing Jackson and Chim Fo Che transferred the entire issued share capital of Nian's Holding to Nian's Investment for the purpose of establishing Nian's Brother Trust for the benefits of their family members.

Each of the Founders of Xinhua Company has confirmed that Nian's Brother Trust was established in accordance with their family wish. The settlors of Nian's Brother Trust are Chim Wai Kong and Chim Wai Shing Jackson. The beneficiaries of Nian's Brother Trust include Chim Wai Kong, Chim Wai Shing Jackson, Nian Wei Deng, Chim Fo Che, Hong Lian Qiao and Hong Ming Qu. As a result, even though Chim Wai Kong, Chim Wai Shing Jackson, Nian Wei Deng, Chim Fo Che, Hong Lian Qiao and Hong Ming Qu do not end up legally holding any Shares of the Company after the Reorganisation, their ultimate interests in the Group are already contemplated by arranging them being the beneficiaries of Nian's Brother Trust. While for the remaining two Founders of Xinhua Company, namely, Hui Cheung Mau and Sze Fo Chau, not being beneficiaries of the Nian's Brother Trust, their legal interest in Xinhua Company has already been reflected in the shareholding structure of the Company through their being the shareholder of Gerfalcon Holding after the Reorganisation and so they are not beneficiaries of the Nian's Brother Trust.

(j) Establishment of Gerfalcon Trading

On 17 March 2010, Gerfalcon Trading was established in the PRC as a wholly-owned subsidiary of Gerfalcon Hong Kong with a registered capital of HK\$1,000,000, whose principal business is wholesale of filtration materials and non-woven fabrics.

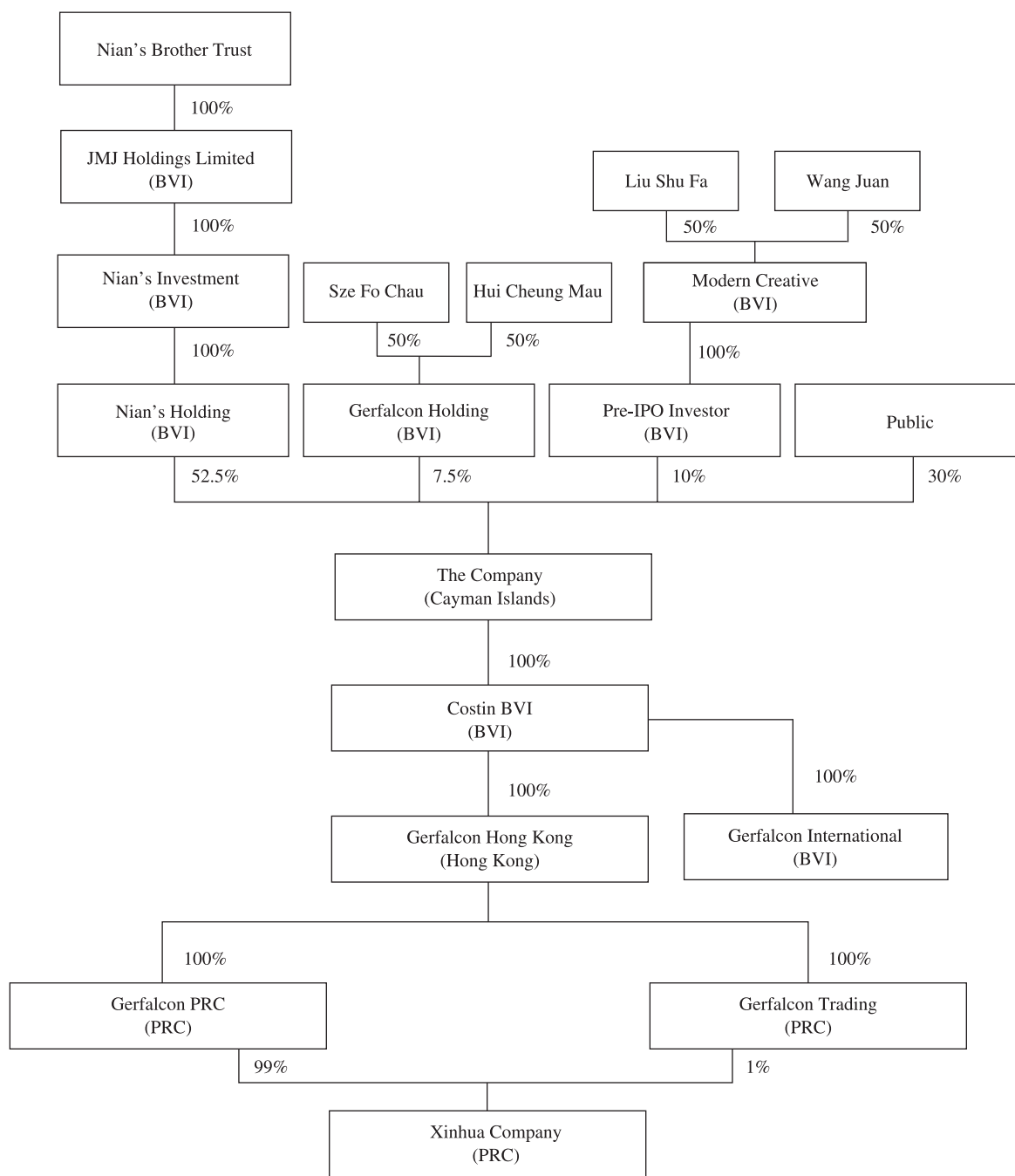
(k) Transfer of shares in Xinhua Company

On 17 March 2010, a share transfer agreement (supplemented by a supplemental agreement dated 20 April 2010) was entered into between the Founders of Xinhua Company as transferors on the one hand and Gerfalcon PRC and Gerfalcon Trading as transferees on the other hand, pursuant to which, the Founders of Xinhua Company transferred 99% and 1% shareholding in Xinhua Company to Gerfalcon PRC and Gerfalcon Trading respectively at an aggregate cash consideration

HISTORY AND DEVELOPMENT

of RMB80.0 million. The consideration was determined with reference to the fully-paid registered capital of Xinhua Company as at the date of transfer. The Founders agreed to return to Gerfalcon PRC and Gerfalcon Trading such cash consideration of RMB80.0 million at nil consideration.

The chart below shows the Group's corporate and shareholding structure upon the completion of the Reorganisation steps up to paragraph (k) above and after completion of the Global Offering and Capitalisation Issue, assuming the Over-allotment Option has not been exercised and no Shares are issued pursuant to the options that may be granted under the Share Option Scheme:



HISTORY AND DEVELOPMENT

THE SUBSIDIARIES

Upon completion of the Reorganisation, the Company has the following subsidiaries:

(a) Costin BVI

Costin BVI is a company with limited liability incorporated in the BVI on 25 August 2009, which was owned by Nian's Holding as to 90% and Gerfalcon Holding as to 10%. Upon completion of the Reorganisation, Costin BVI became a direct wholly-owned subsidiary of the Company. The principal business of Costin BVI is investment holding.

(b) Gerfalcon International

Gerfalcon International is a limited liability company incorporated in the BVI on 31 August 2009. Upon incorporation, its entire issued share capital was owned by Costin BVI. As a result of the Reorganisation, Gerfalcon International became an indirect wholly-owned subsidiary of the Company. The principal business of Gerfalcon International is investment holding.

(c) Gerfalcon Hong Kong

Gerfalcon Hong Kong is a company with limited liability incorporated in Hong Kong on 13 November 2008 with Chim Wai Kong holding 50% interests and Chim Wai Shing Jackson holding 50% interests. As a result of the Reorganisation, Gerfalcon Hong Kong became an indirect wholly-owned subsidiary of the Company. The principal business of Gerfalcon Hong Kong is investment holding.

(d) Gerfalcon PRC

Gerfalcon PRC is a limited liability company established in the PRC on 14 September 2009. Upon its establishment, its registered capital was US\$13,990,000 and was wholly-owned by Gerfalcon Hong Kong. As a result of the Reorganisation, Gerfalcon PRC became an indirect wholly-owned subsidiary of the Company. The principal business of Gerfalcon PRC is manufacture of filtration materials and non-woven fabrics, provisions of consultancy and management services. The Directors confirmed that at the Latest Practicable Date, Gerfalcon PRC had not commenced the manufacture of non-woven fabrics and chemical fibres.

(e) Gerfalcon Trading

Gerfalcon Trading is a limited liability company established in the PRC on 17 March 2010. Upon its establishment, its entire issued share capital of HK\$1,000,000 was wholly-owned by Gerfalcon Hong Kong. As a result of the Reorganisation, Gerfalcon Trading became an indirect wholly-owned subsidiary of the Company. The principal business of Gerfalcon Trading is wholesale of filtration materials and non-woven fabrics. On 17 March 2010, a consultancy service agreement was entered into between Gerfalcon PRC and Gerfalcon Trading, pursuant to which, Gerfalcon Trading shall provide consultancy service of marketing and quality control to Gerfalcon PRC at a consideration of RMB1.0 million.

HISTORY AND DEVELOPMENT

(f) Xinhua Company

Xinhua Company is a joint stock company established in the PRC on 22 June 1999. Since its establishment and throughout the period up to the Latest Practicable Date, Chim Wai Kong, Chim Wai Shing Jackson, Chim Fo Che and Hong Ming Qu have been the directors of Xinhua Company. The changes of the shareholding structure of Xinhua Company since its establishment and up to the Latest Practicable Date were as follows:

Upon its establishment, the registered capital of Xinhua Company was RMB30,000,000 and was held by the following persons in the following proportion:

| Shareholder | Percentage of interests |
|-------------------------------------|----------------------------|
| 1. Chim Wai Kong | 30% |
| 2. Chim Wai Shing Jackson | 30% |
| 3. Chim Fo Che | 12% |
| 4. Nian Wei Deng | 12% |
| 5. Hong Lian Qiao | 5% |
| 6. Hui Cheung Mau | 5% |
| 7. Sze Fo Chau | 5% |
| 8. Hong Ming Qu | 1% |
| | 100% |

Note: Chim Wai Kong, Chim Wai Shing Jackson, Chim Fo Che and Hong Ming Qu are Directors of the Company. Chim Wai Kong, Chim Wai Shing Jackson, Chim Fo Che, Nian Wei Deng and Hong Ming Qu are natural brothers, while Hong Lian Qiao, Hui Cheung Mau and Sze Fo Chau are their brother-in-laws. Accordingly, the Founders of Xinhua Company are considered as connected persons of the Company pursuant to the Listing Rules.

HISTORY AND DEVELOPMENT

On 28 October 2005, the registered capital of Xinhua Company was increased to RMB80,000,000 and upon such increase in registered capital, Xinhua Company was held by the following persons in the following proportion:

| Shareholder | Percentage of interests |
|-------------------------------------|----------------------------|
| 1. Chim Wai Kong | 35% |
| 2. Chim Wai Shing Jackson | 25% |
| 3. Chim Fo Che | 12% |
| 4. Nian Wei Deng | 12% |
| 5. Hong Lian Qiao | 4% |
| 6. Hui Cheung Mau | 4% |
| 7. Sze Fo Chau | 4% |
| 8. Hong Ming Qu | 4% |
| | 100% |

On 17 March 2010, a share transfer agreement (supplemented by a supplemental agreement dated 20 April 2010) was entered into between the Founders of Xinhua Company as transferors on the one hand and Gerfalcon PRC and Gerfalcon Trading as transferees on the other hand, pursuant to which, the Founders of Xinhua Company transferred 99% and 1% shareholding in Xinhua Company to Gerfalcon PRC and Gerfalcon Trading respectively at an aggregate cash consideration of RMB80.0 million. Upon the completion of the transfer, the shareholding structure of Xinhua Company was as follows:

| Shareholder | Percentage of interests |
|--------------------------------|----------------------------|
| 1. Gerfalcon PRC | 99% |
| 2. Gerfalcon Trading | 1% |

As a result of the Reorganisation, Xinhua Company became an indirect wholly-owned subsidiary of the Company.

Upon completion of the Reorganisation and immediately before the Listing (further details of which are set out in the section headed “History and Development — The Reorganisation” of this prospectus), the shareholding and controlling shareholders of the Company are as follows:

- The Company was owned by Nian’s Holding, Gerfalcon Holding and the Pre-IPO Investor as to 70%, 10% and 20% respectively.
- Gerfalcon Holding was owned by Sze Fo Chau and Hui Cheung Mau as to 50% and 50% respectively.

HISTORY AND DEVELOPMENT

- Nian's Holding was wholly-owned by Nian's Investment, which was a company incorporated in the BVI and in turn entirely held by JMJ Holdings Limited as a nominee in favour of RBS Coutts Trustees (Switzerland) Ltd., the trustee of Nian's Brother Trust.
- Nian's Brother Trust, a discretionary trust, was set up by Chim Wai Kong and Chim Wai Shing Jackson as settlors in accordance with the family wish of all Founders of Xinhua Company for their family interest.
- Chim Wai Kong, Chim Wai Shing Jackson, Chim Fo Che, Nian Wei Deng, Hong Lian Qiao and Hong Ming Qu did not end up legally holding any Shares in the Company after the Reorganisation, instead, each of them became the beneficiaries under the Nian's Brother Trust.
- Under the Nian's Brother Trust, Chim Wai Kong and Chim Wai Shing Jackson were the settlors. The Nian's Brother Trust did not constitute a replacement of their interest in Nian's Holding but they, being the settlors of the trust, reserved the power, amongst others, to remove the trustee, appoint the first protector to give directions to the trustee on the investment of trust assets and the trustee is obliged to follow such directions. They will be deemed as interested in all the 70% shareholding held by Nian's Holding in the Company for the purpose of Part XV of SFO immediately before the Listing.
- Nian's Investment, Nian's Holding, Chim Wai Kong and Chim Wai Shing Jackson all together controlled approximately 70% of the entire issued capital of the Company immediately before the Listing (which will be diluted to approximately 52.5% immediately after the Global Offering and Capitalisation Issue, assuming the Over-allotment Option has not been exercised and no Shares are issued pursuant to the options granted under the Share Option Scheme). As such, these parties were the Controlling Shareholders of the Company.

The Founders of Xinhua Company have confirmed that they are well aware of and agree with the structure of the Reorganisation and the establishment of Nian's Brother Trust, and that the Reorganisation and Nian's Brother Trust were established in accordance with their family wish.

Although six out of the eight Founders of Xinhua Company did not end up legally holding any Shares in the Company after the Reorganisation, namely Chim Wai Kong, Chim Wai Shing Jackson, Chim Fo Che, Nian Wei Deng, Hong Lian Qiao and Hong Ming Qu, their ultimate interests in the Group were already contemplated by arranging them being one of the beneficiaries of the Nian's Brother Trust. Each of the Founders of Xinhua Company, namely, Chim Wai Kong, Chim Wai Shing Jackson, Chim Fo Che, Nian Wei Deng, Hong Lian Qiao, Hui Cheung Mau, Sze Fo Chau and Hong Ming Qu, has provided the Group with written confirmations confirming that he would not claim against the Group for any of his rights, if any, in respect of the Reorganisation and the establishment of the Nian's Brother Trust.

HISTORY AND DEVELOPMENT

The Founders of Xinhua Company have further confirmed that the Reorganisation and the establishment of Nian's Brother Trust as such are agreed to by them and in the interest of them due to the following reasons:

- Although each of Chim Wai Kong, Chim Wai Shing Jackson, Chim Fo Che, Nian Wei Deng, Hong Lian Qiao, Hong Ming Qu, Sze Fo Chau and Hui Cheung Mau was a Founder of Xinhua Company, since the establishment of Xinhua Company, the business direction and development of Xinhua Company have been actually led and steered by Chim Wai Kong and Chim Wai Shing Jackson alone, the business growth of Xinhua Company was significantly attributable to the efforts contributed by them. Under these circumstances, it would be in the interest of the Founders of Xinhua Company that Chim Wai Kong and Chim Wai Shing Jackson shall continue to exercise the management and decision-making power in the Group after the Listing. The Directors confirmed that the Founders of Xinhua Company are described as “founders” in this prospectus merely meant to indicate that they participated in the establishment of Xinhua Company and kept on holding their respective shares in Xinhua Company since then up to the Reorganisation.
- The Nian's Brother Trust serves for the purpose of family succession. It is not a preference to appoint too many settlors to Nian's Brother Trust as which may lead to unnecessary dispute or disagreement and consequently affect the implementation of the trust. After taking into consideration of the contributions and importance of Chim Wai Kong and Chim Wai Shing Jackson to the Group, the Founders of Xinhua Company share a common view that Chim Wai Kong and Chim Wai Shing Jackson should make all decisions in respect of the trust. The Founders of Xinhua Company are of the opinion that Chim Wai Kong and Chim Wai Shing Jackson deserved to obtain the status of settlors of the Nian's Brother Trust, who will have the power, amongst others, to remove the trustee, appoint the first protector to give directions to the trustee on the investment of trust assets and the trustee is obliged to follow such directions.
- The Reorganisation and the establishment of Nian's Brother Trust have appropriately mirrored the management and decision-making power which Chim Wai Kong and Chim Wai Shing Jackson actually had in Xinhua Company.

Based on the foregoing, save and except Sze Fo Chau and Hui Cheung Mau who specifically required their legal interest in Xinhua Company to be reflected in the shareholding structure of the Company, each of the remaining Founders of Xinhua Company namely Chim Wai Kong, Chim Wai Shing Jackson, Chim Fo Che, Nian Wei Deng, Hong Ming Qu and Hong Lian Qiao considered that it would be more appropriate and preferable to reflect his interest in the Group by arranging him being one of the beneficiaries of the Nian's Brother Trust.

As Chim Wai Kong, Chim Wai Shing Jackson, Chim Fo Che, Nian Wei Deng, Hong Ming Qu and Hong Lian Qiao are only the beneficiaries of Nian's Brother Trust, they do not legally hold any Shares in the Company.

Each Founder of Xinhua Company has also confirmed that, during the period when each of them was a shareholder of Xinhua Company, there has never been any oral or written voting agreement amongst the Founders, notwithstanding that they are close family members and the past

HISTORY AND DEVELOPMENT

voting pattern showed that they voted in the same direction. Each of them had absolute discretion and freedom in exercising voting power as a separate and individual shareholder of Xinhua Company. During the Track Record Period, if they did not agree with any resolutions during the shareholders' meeting of Xinhua Company, they were not refrained from exercising their veto right.

Each Founder of Xinhua Company has confirmed that since the establishment of Xinhua Company, almost all major decisions were made by Chim Wai Kong and Chim Wai Shing Jackson. Apart from Chim Wai Kong and Chim Wai Shing Jackson, Chim Fo Che, Hong Lian Qiao and Hong Ming Qu will remain as directors of Xinhua Company after the Listing.

Given the circumstances that (i) Chim Wai Kong and Chim Wai Shing Jackson are the only settlors of Nian's Brother Trust; (ii) Chim Fo Che, Nian Wei Deng, Hong Ming Qu and Hong Lian Qiao do not have any shareholding and therefore do not have any voting right in the Company; (iii) Sze Fo Chau and Hui Cheung Mau are in aggregate interested in 7.5% in the Company through Gerfalcon Holding immediately upon the Listing; and (iv) the Founders of Xinhua Company have confirmed that they do not have any oral or written voting agreements among themselves regarding the matters of Xinhua Company, the Directors are of the view that only Nian's Investment, Nian's Holding, Chim Wai Kong and Chim Wai Shing Jackson shall be regarded as the Controlling Shareholders under the Listing Rules.

Save as those disclosed in the section headed "Connected Transactions" of this prospectus, each of the Founders of Xinhua Company has also confirmed that none of them or their respective associates has any transactions with the Group and nor is interested in any business that compete directly or indirectly with the Group after the Listing.

The Directors confirmed that Chim Wai Kong, Chim Wai Shing Jackson, Chim Fo Che, Hui Cheung Mau and Sze Fo Chau became Hong Kong permanent residents over the period from 2002 to 2006.

The Directors confirmed that substantially all operational licences (other than the business licences), production facilities and intellectual property rights are currently held by Xinhua Company, with some intellectual property rights are jointly owned by Xinhua Company and Tianjin Polytechnic University.

The PRC Legal Adviser has confirmed that all steps involved in the onshore reorganisation of the Group, including but not limited to the direct transfer of Xinhua Company's 100% equity interest to two wholly foreign owned enterprises in the Group, are in compliance with all applicable PRC laws, rules and regulations, and such direct transfer of Xinhua Company to wholly foreign owned enterprises in the Group would not constitute a related merger and acquisition under section 11 of the M&A Rules requiring the approval from the Ministry of Commerce of the PRC. However, it cannot rule out the possibility that the Ministry of Commerce of the PRC or other competent authorities may provide new stipulations or explanations in respect of the M&A Rules.

In addition, Xinhua Company has made a written enquiry with Jinjiang City Bureau of Commerce (晉江市商務局) dated 22 March 2010 as to whether the direct transfer of Xinhua Company's entire equity interest to two wholly foreign owned enterprises in the Group would constitute a related merger and acquisition under section 11 of the M&A Rules requiring the approval from the Ministry of

HISTORY AND DEVELOPMENT

Commerce of the PRC. Jinjiang City Bureau of Commerce has then made a written enquiry in respect of the same with Fujian Provisional Foreign Trade and Economy Co-operation Bureau (福建省對外貿易經濟合作廳) dated 22 March 2010 accordingly. The reply from Fujian Provisional Foreign Trade and Economy Co-operation Bureau, being the responsible provincial authority of the Ministry of Commerce of the PRC, dated 23 March 2010 has confirmed that such acquisition of Xinhua Company would not constitute a related merger and acquisition under section 11 of the M&A Rules requiring the approval from the Ministry of Commerce of the PRC.