

OVERVIEW

Principal business

The Group is principally engaged in the research and development, production and sales of non-woven fabrics and chemical fibres which are mainly targeted for industrial applications. The Group's non-woven fabrics provide various functions including liquid repellency, washability, filtering, stretch and cushioning and are widely applied as raw materials for the manufacture of footwear, apparels, apparel lining, texture products, hand-bag and suitcase lining, household decoration and filters, etc.. The chemical fibres produced by the Group are recycled polyester staple fibres, which can be widely used as raw materials for production of synthetic leather, shoe materials and non-woven fabrics. During the Track Record Period, a portion of chemical fibres produced by the Group was used in its production of non-woven fabrics, the detail of which is set out in the paragraph headed "Business — Procurement and suppliers" of this prospectus.

Business model

The Group promotes and markets its products primarily through direct contacts with potential customers and participation in large-scale conferences and exhibitions. To expand its customer base and reach customers from overseas, the Group also promotes and markets its products through internet trading platform. As at the Latest Practicable Date, the Group's sales and marketing department had 36 sales staff.

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

The Group has a well-established research and development centre and platform mainly responsible for developing new products and upgrading the application functions of the existing products of the Group with an aim to enhance the quality of the products and widen the application scope of the products. It co-operated with Tianjin Polytechnic University from 2006 onwards. In 2008, it entered into a cooperation agreement with Wuhan University of Science and Engineering to further enhance its research and development capacity and is recognised by CTDC as Textiles Development Enterprise — Filtration Materials (國家紡織產品開發基地企業 — 國家環保過濾材料開發基地) and Fujian Economic and Trading Bureau (福建省經濟貿易委員會) and others as Provincial-Level Corporate Technology Centre in the Fujian Province (福建省級企業技術中心). The Group's research team, including the senior management who are principally responsible for research and development, currently comprises 17 full-time staff. Please refer to the paragraph headed "Focus on research and development" below for further details in respect of the Group's research and development capabilities and development strategy.

Focus on research and development

The Group is one of the fastest growing enterprises in Jinjiang, Fujian Province, the PRC engaging in the research and development, production and sales of non-woven fabrics and chemical fibres with a well-established research and development centre meeting the requirements and standard of and is recognised by CTDC as Textiles Development Enterprise — Filtration Materials (國家紡織產品開發基地企業 — 國家環保過濾材料開發基地) and Fujian Economic and Trading Bureau (福建省經濟貿易委員會) and others as Provincial-level Corporate Technology Centre in the Fujian Province (福建省級企業技術中心). The Group's research team comprises well-experienced technical personnel and university academics in the industry. The Group's research team currently is led by Prof. Guo Bing Chen, a former professor in textile engineering of Tianjin Polytechnic University with over 37 years of experience in the industry. To enhance its research and development capacity, the Group has been co-operating with Tianjin Polytechnic University since 2006 to establish a joint research centre and conduct various research projects on non-woven fabrics with new functions and applications. In November 2008, the Group also entered into a co-operation agreement with Wuhan University of Science and Engineering to jointly conduct research projects.

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

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

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

BUSINESS

In late 2009, Xinhua Company was recognised as a high and new technology enterprise (高新技術企業) by Fujian Provincial Department of Science and Technology (福建省科學技術廳), Fujian Provincial Department of Finance (福建省財政廳), Fujian Provincial office of State Administration of Taxation (福建省國家稅務局) and Fujian Local Taxation Bureau (福建省地方稅務局). With its advanced technology know-how and strong research and development capability, the Group is positioned to expand the scope of the applications of its products to fit customers from various industries. The versatile and increasing applications of its products will in turn further broaden the Group's customer base and variety. Details of the Group's research and development competence are set out in the paragraph headed "Business — Research and development" of this prospectus.

Having integrated research and development and production, the Group is able to widen the quality and application spectrum of its non-woven fabrics to effectively satisfy the changing needs of its customers and capture the market share. During the Track Record Period, the Group had successfully upgraded and developed its non-woven fabrics for filtration purpose. The Group is aiming at upgrading its non-woven filter fabrics with specific functions such as thermal resistance and liquid repellency targeting at industries, including the steel, cement, coal-fired power station, coal processing and chemical industries.

Future direction of the industry

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

The Directors believe that the ability to improve and upgrade the functions and applications of non-woven materials will be a crucial factor to sustain the Group's continuing growth and success. It is expected that the PRC government is to highly regulate industries that traditionally release pollutants, such as the steel, cement and coal-fired power station industries, and in turn the demand for environmental protection products, such as filtration materials with specific functions, such as high thermal-resistance, in these industries will be increasing. With the co-operation of Tianjin Polytechnic University and Wuhan University of Science and Engineering, the Directors are of the view that the Group is in an advantageous position to capture the potential business opportunities by the development and production of non-woven fabrics which is able to deliver such functions.

BUSINESS

Business segments

During the Track Record Period, the Group also engaged in the manufacture and sales of fashion garment. As a result of the streamlining of the Group's business as referred to in the paragraph headed "History and development — Streamlining of business" of this prospectus, at the end of 2007, the Group's then fashion garment business was ceased and all related production machinery and equipment were disposed to Hua Xin Weaving. Set out below is the segment revenue and segment gross profit of the Group during the Track Record Period:

Revenue

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

Gross profit

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

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

BUSINESS

As a result of the streamlining of the Group's business and the cessation of the fashion garment business, the Group was able to focus its resources on its current business of research and development, production and distribution of non-woven fabrics and chemical fibres.

Expansion plans

The Directors believe that the Group's production facilities, which are equipped with production equipment and machinery imported from overseas and the PRC, have provided a competitive advantage over its PRC competitors. As at the Latest Practicable Date, the Group had 11 production lines with an annual production capacity of approximately 81,500,000 yards and 5 function-adding and ancillary lines with an annual production capacity of approximately 60,000,000 yards for the production of the non-woven fabrics. In respect of the chemical fibres business, as at the Latest Practicable Date, the Group had two production lines for the production of polyester staple fibres with an aggregate annual production capacity of approximately 30,000 tons. The Group will continue to upgrade and improve its production facilities by expanding its production facilities and importing advanced equipment and machinery. Upon completion of the Expanded Production Facilities and the New Production Facilities, the Directors expect to sell more non-woven fabrics which are expected to earn higher profit margins than the products currently produced by the Group, and this in turn may increase the Group's profitability. For details of the Group's future plans, please refer to the section headed "Future plans and use of proceeds" of this prospectus.

COMPETITIVE STRENGTHS

The Group has strong research and development support and established a research and development centre recognised by CTDC as Textiles Development Enterprise — Filtration Materials (國家紡織產品開發基地企業 — 國家環保過濾材料開發基地) and by Fujian Economic and Trading Bureau (福建省經濟貿易委員會) and others as Provincial-level Corporate Technology Centre in Fujian Province (福建省級企業技術中心) and was selected by NDRC as one of the entities to compile industry guidelines for three types of non-woven fabrics materials

The Group has been investing and upgrading its research and development capabilities and is dedicated to developing new products, improving product quality and reducing production cost. The Group has established its own research and development centre in second half of 2006 and such centre is recognised by CTDC as Textiles Development Enterprise — Filtration Materials (國家紡織產品開發基地企業 — 國家環保過濾材料開發基地) and Fujian Economic and Trading Bureau (福建省經濟貿易委員會) and others as Provincial-level Corporate Technology Centre in the Fujian Province (福建省企業技術中心) in October and December 2008 respectively. The Group's research centre currently consists of 17 full-time research staff who have been working in the industry for years.

The Group's research centre has accomplished a number of research results and successfully developed and improved various types of functional fabrics, non-woven fabrics and filtration materials. During the Track Record Period, the Group's research centre completed a number of research projects which have been applied to 19 products of the Group. As at the Latest Practicable Date, the Group has applied for patents for 16 technologies developed through its research centre, of which one registered patent was jointly applied for registration by the Group and Tianjin Polytechnic University.

BUSINESS

Since 2006, the Group has co-operated with Tianjin Polytechnic University to jointly carry out certain research and development projects on non-woven fabrics. The Group's research centre is also an on-site training centre for students of Tianjin Polytechnic University. In November 2008, the Group further co-operated with Wuhan University of Science and Engineering to jointly establish a research centre to carry out research and development projects. Staff of the Group have either in their own names or in association with other parties, published a number of research theses.

The Directors believe that the Group's strong research and development ability will enhance the quality of the Group's products and widen the product types to effectively satisfy customers' changing needs, which in turn will sustain growth for the Group.

Xinhua Company, together with CNITA and other entities were approved by NDRC as one of the organisations to compile the industry guidelines and standards for three non-woven fabrics namely Stitch Bonded Non-woven Reinforcing Material (縫編非織造增強材料), Needle-punched Elasticity Non-woven Material (針刺彈性非織造材料) and Needle-punch Non-woven Fibre Sheet (針刺非織造纖維片材). As confirmed by the Directors and CNITA, Xinhua Company is the principal organisation responsible for the compilation of the three industry guidelines and works with other entities selected to collect and analyse industry data for the purpose of the compilation. The other entities include a testing centre for fibres and three enterprises principally engaged in the production of non-woven fabrics. The three industry guidelines have been submitted for review and will be further amended after comments received from the industry. The amended guidelines will be approved and published by the relevant authority and may become the industry yardsticks and references for any dispute.

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

The Group's expansion and development plans are well-positioned to capture the market for industrial consumables used for the reduction of discharges and pollutants

The Directors expect that with the increasingly higher environmental protection standard on the reduction of discharges and pollutants in the PRC, the Group has been emphasizing and placing resources in enhancing its research and development capability and technology level to develop new products in this area. The Expanded Production Facilities and the New Production Facilities are intended to use for production of non-woven fabrics, including filtration materials as consumables used for industrial purposes, with high performance and new functions.

The Group has experienced and professional technical staff and management team with extensive experience in the industry

The Group has placed resources in fostering its technical staff. Members of the Group's senior technical personnel, including Chim Wai Shing Jackson, the chief executive officer of the Group and visiting professor of School of Textiles of Tianjin Polytechnic University, and Prof. Guo Bing Chen, a former professor in textile engineering of Tianjin Polytechnic University, have published various research theses on textile and earned recognition in the industry. The Directors believe that retaining its technical personnel with strong research skills and experience has enhanced the competitiveness of the Group.

BUSINESS

The Group's management team including the Executive Directors, Pang Jian Zhu, Chen Hui, Liu You Neng, Chen Min Tsung and Prof. Guo Bing Chen, has extensive experience in the industry. With the Group's industry expertise and good understanding of industry dynamics and regulatory regimes in the PRC, this will facilitate the Group to formulate its future plans and strategies.

Also, Zhu Min Ru, an independent non-executive Director, is the president of CNITA who has extensive experience in the industry. Having been appointed as an independent non-executive Director, the Directors believe Mr. Zhu will be able to provide to the Group guidances and insights of the PRC government policies to assist the Group in formulating its development strategies and plans.

Having a diversified customer base covering a wide range of industries, the Group is well-positioned to diversify its risk

The Group's non-woven fabrics can be customised to provide various functions such as liquid repellency, washability, filtering stretch and cushioning. As such, the Group's non-woven fabrics can be widely applied in various areas, including as raw materials for the manufacture of footwear, apparels, apparel lining, texture products, hand-bag and suitcase lining, household decoration and filters, etc.. The Group's polyester staple fibres can be used as raw materials for the production of synthetic leather, shoe materials and non-woven fabrics. Given the wide application of the Group's products, its customers come from diversified industries including producers of consumer products like textiles, footwear, luggage and leather-ware. The Group has been emphasising on enhancing the quality of its products and widening the scope of applications of the non-woven fabrics. During the Track Record Period, the Group has successfully developed the non-woven fabrics for use as filtration materials. It has expanded its business to the production and distribution of chemical fibres, principally the recycled polyester staple fibres.

With its strong research and development capability, the Group is positioned to expand the scope of the application of its products to fit customers from various industries. The versatile and increasing application of its products will in turn further broaden the Group's customer base and variety.

The Group has obtained recognitions for the high quality of its products

Leveraging on its solid experience and expertise in research and development, the Group is able to develop and produce high quality products. In January 2010, the Group's "CO.ST.IN" branded non-woven fabrics was again awarded as the Provincial Famous Product in 2009 (2009 福建名牌產品) by the People's Government of Fujian Province after 2006. In December 2009, Xinhua Company was awarded Fujian Province Famous Brand Enterprise (福建著名品牌企業) by Strait Brand Economic Development Research Institute in Fujian Province (福建省海峽品牌經濟發展研究院). In September 2008, the Group's brand "CO.ST.IN" was awarded by Fujian Province Industry and Commerce Bureau as Provincial Famous Trademark (福建名牌商標).

The Group has passed the inspections and was awarded the ISO-9001:2008 certificate and the ISO-14001:2004 certificate.

BUSINESS

BUSINESS OBJECTIVES AND STRATEGIES

The Group's business objectives are to expand its production capacity, expand its product range and target to become one of the market leaders in the non-woven fabrics and chemical fibres industries in the PRC. Below are the business strategies of the Group:

The Group intends to expand its production capacity

As at the Latest Practicable Date, the Group's production facilities occupied a site area of approximately 177,522.48 sq.m. (with a total gross floor area of approximately 54,783.56 sq.m.) and lettable area of 10,433.57 sq.m.. The Group's equipment for production of non-woven fabrics include advanced equipment and machinery from Germany, Taiwan and the PRC. The Group's total capital expenditure incurred for the purchases of property, plant and equipment and the payment of construction in progress during the Track Record Period amounted to approximately RMB106.9 million, RMB17.8 million and RMB98.7 million, respectively. As at the Latest Practicable Date, the Group had 11 production lines with an annual production capacity of approximately 81,500,000 yards and 5 function-adding lines and ancillary lines with an aggregate annual production capacity of approximately 60,000,000 yards for the production of non-woven fabrics. In respect of the chemical fibres business, the Group had two production lines for the production of polyester staple fibres with an aggregate annual production capacity of approximately 30,000 tons.

The Group is planning to expand its production facilities by building the Expanded Production Facilities and the New Production Facilities. Construction of the Expanded Production Facilities has completed and they are expected to commence operation in the end of the second quarter of 2010 with six stitch-bonding production lines for non-woven fabrics with an estimated annual production capacity of 40,800,000 yards. The New Production Facilities are expected to have 6 production lines and 10 function-adding and ancillary lines for non-woven fabrics with an estimated annual production capacity of 50,500,000 sq.m.. The New Production Facilities will principally be used for the production of non-woven fabrics, including high performance composite synthetic leather, filtration materials and materials for automobile interior decoration. For details of these new production facilities, please refer to the section headed "Business — Production facilities — New Production Facilities" of this prospectus. The Group may consider to expand its production capacity and regional coverage by selectively pursuing strategic acquisition opportunities, both domestic and overseas.

The Group will continue to strengthen and focus on its research and development works and upgrade its products according to the expected growth trend as a result of PRC's national policy in promoting stricter environmental protection standards

The Directors believe that one of the Group's advantages over its competitors is its strong research and development capability. The Group will continue to leverage on this advantage to upgrade and improve its technology level and increase investments in its research and development resources and support. The Group is aiming to utilise strong research and development centre as the foundation for developing and upgrading its products, expand the application spectrum of its products, expand its customer base and foster its expertise, in particular, its technical staff.

BUSINESS

According to the China Textile Industry Development Report 2008, in 2008, the PRC cement output has grown up to 800 million tons per annum, representing 40% of the total annual output of the world, and steel output has met 500 million tons, representing 25% total output of the world and coal-fired to generate electric power has produced 200 million kilowatts, representing the second largest country relying on coal-fired power generation. As a result, these industries create huge amounts of dust pollutants and it is expected that the demand for dust filtration materials will be increasing.

The Group is planning to develop, upgrade and improve the non-woven fabrics filtration materials it produces to carry the high thermal resistance function for application in areas of the production process of steel, cement and coal-fired power.

Since the PRC government has been focusing on environmental protection and enterprises are required to comply with environmental protection standards as imposed by applicable laws and regulations, the Directors are of the view that the demand for non-woven fabrics filtration materials will be increasing.

The Group will continue to improve production operation efficiency thereby enhancing competitiveness of the Group

The Group will continue to upgrade the quality of its products and reduce its production cost. The Group is also aiming at developing new products requiring high level of technology skills and large scale production facilities for the purpose of enhancing its competitiveness, expanding its customer base and securing a leading position in the market.

To achieve the above target, the Group will continue to:

- upgrade and maintain an effective and efficient management and operation system by strictly complying with the standards of ISO9001 and ISO14001;
- review and improve its control system over the production process, including inventory and production cost control;
- reinforce the strategy of researching and developing new products and extending and upgrading the functions of existing products to meet customers' needs; and
- based on its financial and technical capacity, expand its production facilities and capacity to enjoy cost efficiency and achieve better financial performance.

The Directors believe the above directions will further strengthen the operational and management foundation of the Group, increase its competitiveness and, in turn, expand its market and customer base.

BUSINESS

The Group will continue to expand its sales network

During the Track Record Period, the Group's sales were conducted through its own sales and marketing team directly with its customers. The Group will continue to recruit experienced sales and marketing staff and provide regular trainings to these staff. The Group aims to establish an energetic, self-motivated, experienced and well-trained sales and marketing team equipped with technical knowledge to provide professional services to the Group's customers.

Other than through its own sales and marketing team, depending on its future plans and development, the Group may consider other means of expansion in its sales network, such as through distribution agents.

PRINCIPAL PRODUCTS

Currently, the Group is specialised in the research and development, production and sales of non-woven fabrics and chemical fibres.

Prior to 2008, the Group also engaged in the manufacture and sales of fashion garment. As a result of the streamlining of the Group's business as referred to in the paragraph headed "History and Development — Streamlining of business" of this prospectus, the fashion garment business was ceased and all related production machinery and equipment were disposed to a connected person, Hua Xin Weaving, at the end of 2007 as part of the Group's strategy to focus on non-woven fabrics and chemical fibres business. Below is the segment revenue of the Group during the Track Record Period:

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

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

Products

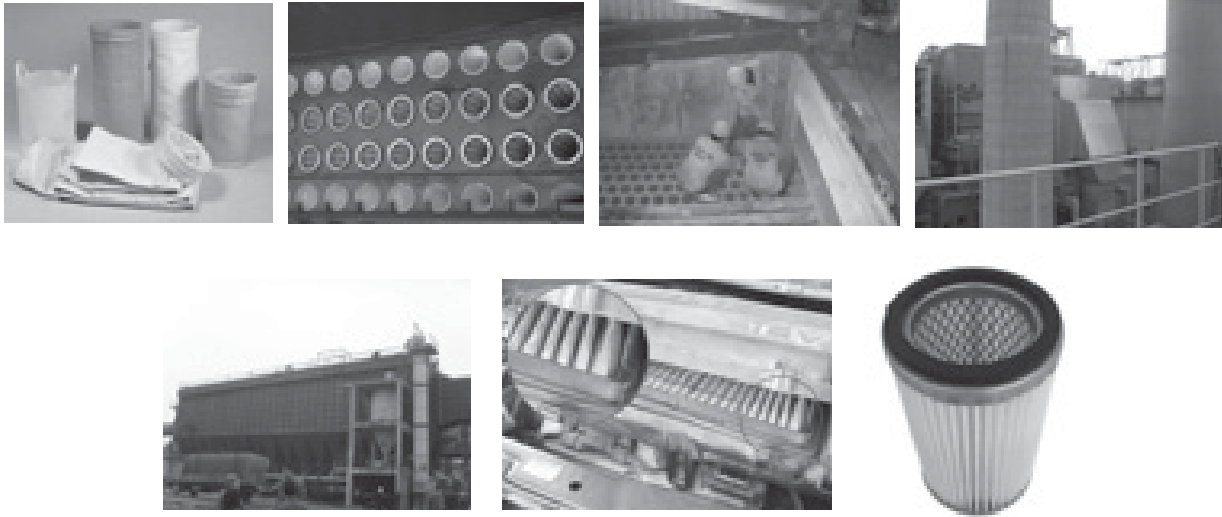
Non-woven fabrics

The Group's non-woven fabrics carry multi-functions and can be widely applied in various areas, including as raw materials in the manufacturing of footwear, civil engineering, shock absorbing materials, automobile, suitcase, filtration and household decoration.

Below are some of the principal applications of the non-woven fabrics products produced and distributed by the Group during the Track Record Period:

Filtration materials (過濾材料)

Depend on its specification, filtration materials carry different applications including fume and smoke filtration.



Shoe materials (鞋材)

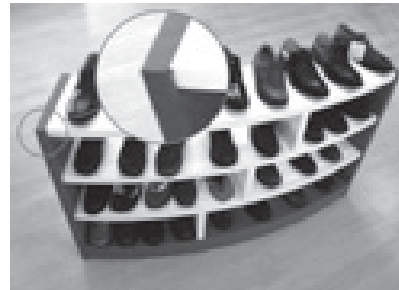
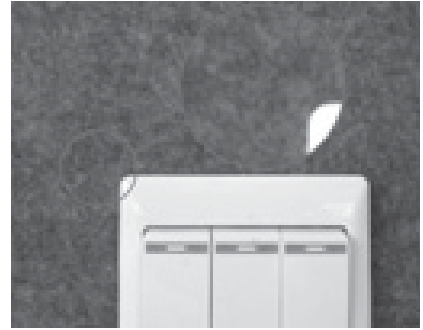
Non-woven fabrics produced by the Group such as stitch-bonded non-woven cloth and non-woven insole board can be used as shoe materials in the front or rare parts of the shoes or as innersole in sport and leather shoes:



BUSINESS

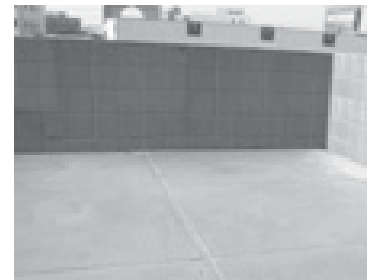
Decoration materials (裝飾建築用材料)

The non-woven fabrics produced by the Group such as PK non-woven fabrics can be used for wall decoration and as coverage materials.



Civil engineering materials (土木工程材料)

This category of the non-woven fabrics can be used for civil engineering purposes, such as water-proof materials in respect of infrastructure such as railways, roads, highways, dams, etc.



BUSINESS

Household materials (家紡材料)

The Group's non-woven fabrics including stitch-bonded non-woven cloth and needle-punched high elastic non-woven fabrics can be used as household materials such as curtains and mattress.



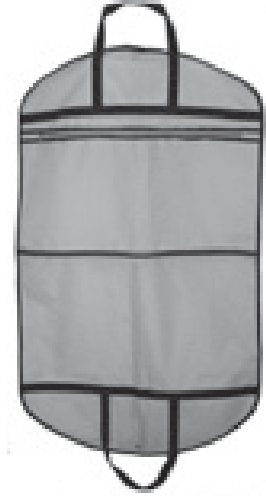
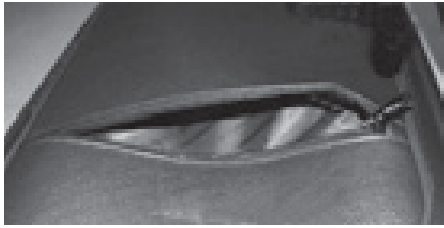
Interior decoration materials for automobile (汽車內飾)

The Group's non-woven fabrics products can be used as interior decoration materials for automobiles.



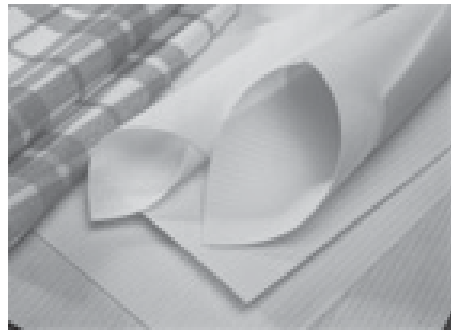
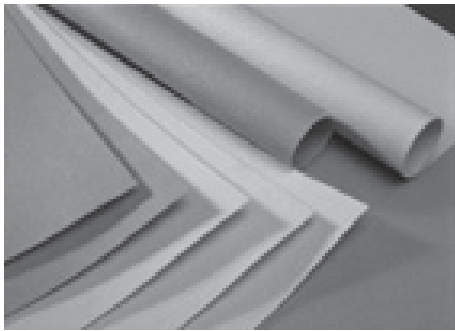
Suitcase and Packaging materials (箱包材料)

The Group's non-woven fabrics, such as reinforcement cloth and composite synthetic leather base fabrics, can be used for internal lines of shoes, suitcases and environmentally-friendly shopping bags.



Functional non-woven fabrics (功能無紡布)

After undergoing specific finishing processes, certain functions such as anti-bacteria, aroma, oil-resistance, water-repellancy and thermal-resistance, etc. can be added to meet the different requirements of the Group's customers.



BUSINESS

Chemical fibres

The Group's chemical fibres are manufactured from recycled materials, principally recycled PET chips extracted from used and waste PET bottles and other polyester scraps. Chemical fibres can be manufactured into any thickness, any colour and any pattern in accordance with the market demand and requirements of customers. The use of recycled PET chips imported from overseas to produce the chemical fibres generally gives a higher guarantee on the quality of products. The chemical fibres principally produced by the Group during the Track Record Period were polyester staple fibres which can be used as raw materials for production of synthetic leather, shoe materials and non-woven fabrics, etc..

PRODUCTION FACILITIES

Existing production facilities

The Group's production facilities are located in Xinhua Industrial Garden, Niancuopu, Longhu Town, Jinjiang, Fujian Province, the PRC which occupy a site area of approximately 177,522.48 sq.m. (with a total gross floor area of approximately 54,783.56 sq.m.) and a lettable area of 10,433.57 sq.m.. The equipment for production of non-woven fabrics include equipment and machinery from Germany, Taiwan and the PRC.

As at the Latest Practicable Date, the Group's production facilities principally consisted of a total of 13 production lines and 5 function-adding and ancillary lines for non-woven fabrics and chemical fibres. The table below sets out the Group's existing production capabilities and average utilisation rate during the Track Record Period:

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

Notes:

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

BUSINESS

The higher average utilisation rate of the non-woven fabrics production lines and function-adding and ancillary lines for the year ended 31 December 2007 than that for the year ended 31 December 2008 was because in the end of 2007, the Group acquired from Hua Xin Weaving the machinery and equipment in relation to the non-woven fabrics business as a result of the business streamlining exercise in 2007 and such acquisition increased the Group's production capacity. The annual production capacity for function-adding and ancillary lines is less than that of the other production lines for non-woven fabrics because not all non-woven fabrics have to undergo the finishing process which principally adds in certain value-adding functions such as water-resistance to the non-woven fabrics.

Expanded Production Facilities

Generally, after the acquisition of the relevant land use rights, it will take more than one year to complete the construction of the new production facilities. To better prepare for the Group's future expansion and targeting at providing stitch-bonded non-woven fabrics with higher density, the Company commenced the construction of the Expanded Production Facilities in the first quarter of 2009 and which is expected to commence operation in the end of the second quarter of 2010. The total investment amount of the Expanded Production Facilities is estimated to be RMB38.6 million, which are financed by the Group's internal resources. The Expanded Production Facilities are located next to the Group's existing production facilities at Xinhua Industrial Garden, Niancuopu, Longhu Town, Jinjiang City, Fujian Province, the PRC with a site area of approximately 6,666 sq.m.. The Expanded Production Facilities are expected to consist of six production lines principally for the production of stitch-bonded non-woven fabrics with an estimated annual production capacity of approximately 40,800,000 yards.

New Production Facilities

The New Production Facilities will be located next to the Group's existing production facilities at Xinhua Industrial Garden, Niancuopu, Longhu Town, Jinjiang Cities, Fujian Province, the PRC. The investment plan for the New Production Facilities has been filed with the Jinjiang City Economy Development Bureau (晉江市經濟發展局) in October 2008. The total investment amount for the New Production Facilities is approximately RMB852.0 million. Currently, the Group intends to use approximately 80.2% of the net proceeds from the Global Offering for the construction of the New Production Facilities and the remaining of the investment amount of the New Production Facilities will be financed by the net proceed from the Global Offering, bank borrowings, government grant and internal resources. The New Production Facilities are expected to occupy a total site area of approximately 74,204 sq.m.. Construction of the New Production Facilities has commenced in January 2010 and the operation is expected to commence in the first quarter of 2011. In the light of the general increasing awareness of and governmental policy in encouraging the production and use of non-woven fabrics for industrial use, the New Production Facilities will principally be used for the production of non-woven fabrics, including high performance composite synthetic leather, filtration materials and materials for automobile interior decoration, which are different from the Group's existing products and the Group's existing production facilities are unable to meet the technical requirements of the products to be produced by the New Production Facilities. The New Production Facilities are targeting to produce products with higher performance, density and composition with enhanced filtration functions, corrosion-resistance, thermal-resistance, sound-resistance and erosion-resistance to be applied for industrial use and as construction materials. The target customers will be principally from the steel, cement, coal-fired power stations and automobiles manufacture industries. Given the better functions and higher performance of the products to be produced from the New Production Facilities, their selling

BUSINESS

prices will be higher than those of the Group's existing products. It is intended that the New Production Facilities will have six production lines and 10 function-adding and ancillary lines with an aggregate estimated annual production capacity of 50,500,000 sq.m.. The Directors expect the New Production Facilities will broaden the Group's product types and customer base which in turn may contribute to the increase in the Group's revenue and growth.

Details of the Group's New Production Facilities are set out as below:

	<u>Expected commencement date of operation</u>	<u>Estimated investment amount (RMB million)</u>	<u>Number of estimated production lines</u>	<u>Estimated annual production capacity (million sq.m.) (note)</u>
Filtration materials	First quarter of 2011	269.9	6	10
<i>Production lines</i>				
— needle-punch			2	
<i>Function-adding and ancillary lines</i>				
— finishing process			1	
— ancillary			3	
Composite synthetic leather	Third quarter of 2011	292.5	5	22.5
<i>Production lines</i>				
— needle-punch			2	
<i>Function-adding and ancillary lines</i>				
— finishing process			2	
— ancillary			1	
Materials for automobile . .	Third quarter of 2011	289.6	5	18
<i>Production lines</i>				
— needle-punch			2	
<i>Function-adding and ancillary lines</i>				
— finishing process			1	
— ancillary			2	

Note: The products intended to be produced by the New Production Facilities will be different from the Group's current products and the products to be produced by the Expanded Production Facilities in terms of performance and production technology and therefore different measurement units in respect of their designated annual production capacity are used.

Production technique and process

The Group’s production process is highly automated which saves the Group from hiring large number of staff to operate its production equipment. The Group uses advanced equipment and machinery from the PRC and imported from Germany and Taiwan in its production to enhance effectiveness and quality of products and reduce production cost. In addition, the Group’s production process complies with the standards of ISO9001.

Non-woven fabrics

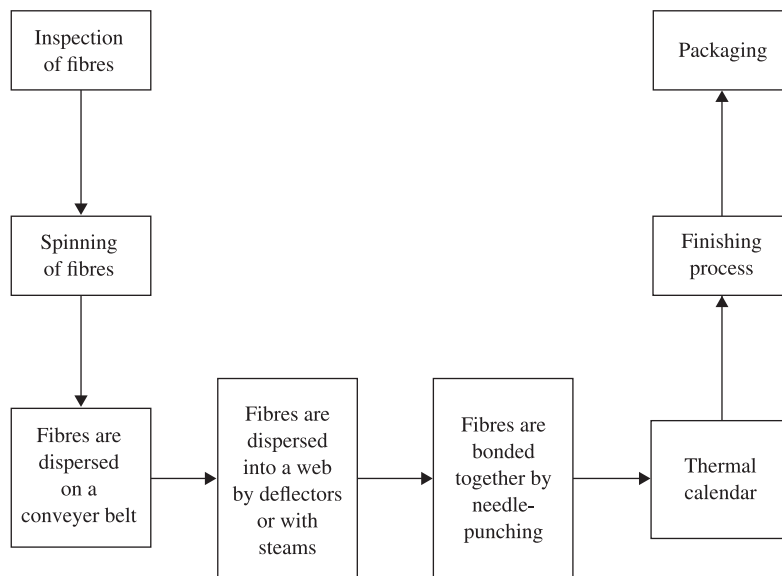
The Group mainly adopts two industry techniques in producing non-woven fabrics, namely stitch-bond and needle-punch.

Needle-punch is one of the traditional industry techniques. Generally, the technique involves consolidating, bonding and fixing fibres together through the frictions and cohesion created by movements and penetration of needles through the fibres.

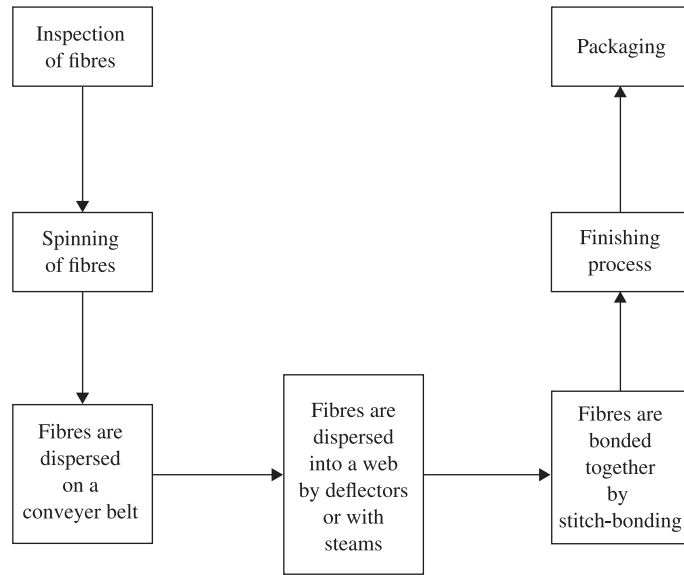
Stitch-bond is an important industry technique in the production of non-woven fabrics and it carries the characteristics of simple technical process and high production quantity. Generally, the technique involves the consolidating, bonding and fixing of fibre webs together by yarns.

The following charts show the typical production steps in generic terms for the Group’s non-woven products:

Needle — punching



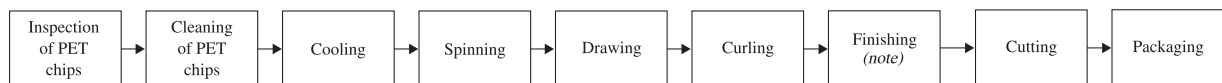
Stitch — bonding



The finishing process for non-woven fabrics principally is to add special functions to the fabrics. As at the Latest Practicable Date, the Group had function-adding and ancillary lines to undergo various finishing processes for non-woven fabrics to achieve functions including colouring, strengthening, softening, dimension stabilisation, water-resistance, oil-resistance and anti-bacteria, etc.

The Group's production process for polyester staple fibres includes collecting and inspection of recycled PET chips, cleaning, cooling, spinning, drawing, curling, finishing and cutting.

The following chart shows the typical production steps in generic terms for the Group's chemical fibres:



Note: The finishing process includes the processes of rolling up and putting into barrels, clustering together, drawing, curling and drying and setting.

Procurement and suppliers

Procurement

The principal raw materials for non-woven fabrics include polyester staple fibres and other functional fibres. Solid wastes including recycled PET chips are the main raw materials for the Group's chemical fibres. Different types of these raw materials may be combined to produce different types of non-woven fabrics. During the Track Record Period, the Group sourced its raw materials from both the PRC and overseas. Polyester staple fibres produced by the Group can be used as raw materials for the Group's non-woven fabrics. During the Track Record Period, the polyester staple fibres produced by the

BUSINESS

Group and used as raw materials for the Group's own non-woven fabrics accounted for approximately of 2.9%, 4.5% and 1.4% respectively of the Group's total cost of chemical fibres used as raw materials for the non-woven fabrics.

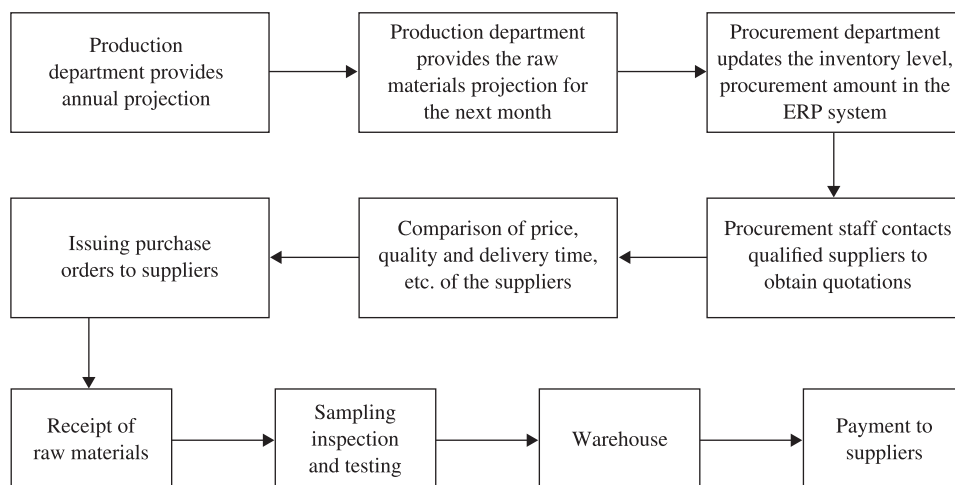
The main responsibility of the Group's procurement department is to maintain an inventory of raw materials to satisfy the Group's production needs. According to the Group's procurement manual, procurements of raw materials are normally carried in the following manner:

- bulk procurement: for raw materials which serve multi-purposes, the Group will bulk procure these raw materials from time to time on a regular basis to enjoy the benefit of lower price
- procurement under contracts: for commonly used raw materials, the Group will enter into contracts with selected suppliers and purchase these raw materials according to the terms of the contracts
- specific procurement: for raw materials required for specific sales orders, the Group will purchase such materials when the need arises

Based on the customers' orders and projected demands, the Group's production department provides annual and monthly estimates of the amount and types of raw materials required. The Group's procurement department procures the raw materials pursuant to these projections. It requests for price quotations from at least three suppliers from the Group's list of qualified suppliers to obtain the best price for the raw materials. In addition to procuring raw materials based on the annual and monthly projections, the procurement department also attends to procurements of raw materials to satisfy unexpected or urgent sale orders. Depending on the types of raw materials purchased, the Group's quality control staff conduct on-site inspection and sampling testing on the raw materials.

The chart below shows the typical procurement process of the Group:

Procurement process



BUSINESS

Suppliers

The Group sourced raw materials for its non-woven fabrics mainly from domestic suppliers. In respect of the raw materials for chemical fibres, the Group sourced from both domestic and overseas suppliers. Since waste materials imported into the PRC have to satisfy the PRC custom inspection and requirements, PET chips imported from overseas generally provides a higher guarantee on their viscosity, glossiness, stable melting point, lower level of water, safety, free of hazardous residuals and quality and lower purchase prices than PET chips sourced from the PRC. As a result, the Group has been gradually increasing its purchases of PET chips from its foreign suppliers in the South-east Asian countries, such as the Philippines and Indonesia, for its chemical fibres during the Track Record Period. During the Track Record Period, the amount and percentage of the PET chips sourced from suppliers in the PRC and overseas are as follows:

	Year ended 31 December					
	2007		2008		2009	
	Tons (thousand)	%	Tons (thousand)	%	Tons (thousand)	%
PET chips sourced from the PRC.	2.5	56.8%	4.1	18.7%	12.6	31.6%
PET chips imported from overseas.	1.9	43.2%	17.8	81.3%	27.3	68.4%
Total:	4.4	100%	21.9	100%	39.9	100%

The PET chips imported in 2007 and 2008 were “cleaned” PET chips (淨片) which could be immediately used for production after purchase and the PET chips imported in 2009 were “raw” PET chips (毛片), which have to be cleaned first before applying for production. The unit price of “cleaned” PET chips is higher than that of “raw” PET chips. The Group changed to purchase “raw” PET chips in 2009 mainly due to the control of its production cost, including raw materials cost, as a result of the financial crisis starting from the end of 2008.

The appointment of Costin Int’l Trade (H.K.) Company Limited as the Group’s agent to be responsible for imports was mainly due to the reason that according to the PRC foreign exchange regulations, to allow Xinhua Company to transfer money out of the PRC for making its import payments, unless reasonably justified, Xinhua Company must transfer the money to an account with a name identical to the supplier’s name appearing on the corresponding purchase contract and invoice. Since certain suppliers of Xinhua Company requested Xinhua Company to transfer contract money to an account name that is different from their name appearing on the corresponding purchase contract and invoice, this would cause difficulty for Xinhua Company to make such money transfer. Therefore, Costin Int’l Trade (H.K.) Company Limited was appointed as agent to enter into the purchase contracts with and make corresponding payments to overseas suppliers on behalf of Xinhua Company.

Delivery of the products was however made directly from the overseas suppliers to the Group and such purchases were accounted for as purchases of the Group from end suppliers instead. The agency arrangement with Costin Int’l Trade (H.K.) Company Limited was terminated and would not continue after the Listing and details of which are set out in the paragraph headed “Connected transactions — Connected transactions completed or discontinued before Listing” of this prospectus. The Directors confirmed that since the cessation of the agency agreement with Costin Int’l Trade (H.K.) Company Limited in October 2009, the Group has requested all its suppliers to provide account names that are the

BUSINESS

same as their names as appeared on the corresponding purchase contract for the Group to make purchase payment to such account and there has been no non-compliance with such request by the suppliers since then.

The Group's foreign and PRC suppliers are companies principally engaging in the recycling business.

Under the Waste Imports Environmental Protection Provisional Regulation (《廢物進口環境保護管理暫行規定》), an enterprise operating in the PRC requires licenses to import waste recycled materials into the PRC. Xinhua Company was granted quotas under the Import Licence of the PRC for Restricted Solid Waste that can be used as Raw Materials (中華人民共和國限制進口類可用作原料的固體廢物進口許可證) by the Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部). Xinhua Company obtained its first solid waste import license on 6 November 2006 and it has been granted all the solid waste import licenses that it applied for during the Track Record Period, and the PRC Legal Adviser has confirmed that Xinhua Company has complied with the PRC laws and regulations governing the import of solid wastes. The current solid waste import licences of Xinhua Company were issued on 19 January 2010 and will expire on 31 December 2010 which allow Xinhua Company to import waste PET chips and solid wastes up to a quantity of 30,000 tons. As at the Latest Practicable Date, Xinhua Company had utilised approximately 16,300 tons of the quota granted under the solid waste import licences and the Director considered that the quota granted under the solid waste import licences is sufficient for the Group's use. During the Track Record Period, solid waste materials sourced from overseas used for the Group's production were imported under the quotas granted to Xinhua Company. The solid waste import licences are to be renewed on an annual basis. If Xinhua Company is unable to renew the licences upon their expiry, the Group has to source all its waste materials within the PRC.

The Group has implemented strict procedures in selecting its PRC and overseas suppliers. The Group has maintained a list of qualified suppliers, which is subject to review from time to time depending on the performance of the suppliers. When selecting suppliers, the Company's procurement department requires potential suppliers to complete a questionnaire prepared by the Group to provide replies as to the background of the suppliers and the quality and technical standard of the raw materials they supply. The Group compares the quality of raw materials, the prices and delivery time of the suppliers. The Group requires existing qualified suppliers to provide written documents in relation to the following aspects of the suppliers:

- quality control system
- quality inspection results
- quality, price and delivery time of raw materials
- financial position
- after-sales support

For suppliers with whom the Group first deals with, in addition to providing the above written documents, the Group will carry out sample inspection and testing before making any purchase orders.

BUSINESS

Since it is the obligations of the suppliers to comply with the relevant regulatory requirements, the Group in the past has been placing emphasis on the quality of the raw materials supplied. To enhance its internal control mechanism, the Group has also included compliance with regulatory requirements in its selection of suppliers and require its suppliers to provide documents in supporting of their compliance.

Waste materials will also undergo sample inspections and tests to determine if they contain any significant amount of dangerous or hazardous chemical residues or other environmental pollutants to ensure that they meet the Group's quality standard and comply with the relevant environmental protection regulations. For imported waste materials, the Group would also check if the relevant waste materials are complying with the specifications, including the types and quantity of waste materials, as stated in the solid waste import licences. The Group's procurement manual provides that if a quality problem occurs twice on a particular supplier and the quality defect is not substantially resolved, such supplier will be removed from the Group's list of qualified suppliers. The Group also internally appraises its suppliers annually. Should any supplier fail the appraisals consecutively for two years, it will be removed from the Group's list of qualified suppliers.

Most of the major suppliers have built up a business relationship with the Group for not less than 3 years. The Directors believe that the Group has established stable cooperative relationships with its key suppliers, which enable the Group to obtain a reliable supply of quality raw materials. The Directors further believe that many alternative suppliers exist for the raw materials the Group purchases and, therefore, the Directors do not foresee any difficulty in obtaining an adequate supply.

The Group's PRC and foreign suppliers generally granted the Group credit terms ranging from 30 days to 60 days. During the Track Record Period, the Group settled its payments with its PRC suppliers in Renminbi by direct bank transfers. The Group settled its payments with its foreign suppliers in US dollars by telegraphic transfers or letters of credit or bills of exchange.

During the Track Record Period, purchases from the Group's five largest suppliers amounted to RMB137.6 million, RMB139.8 million and RMB157.7 million, respectively, representing 51.7%, 38.7% and 33.1% of the Group's total purchases for the relevant years. During the same period, purchases from the single largest supplier amounted to RMB46.5 million, RMB52.9 million and RMB37.1 million, respectively, representing 17.5%, 14.6% and 7.8% of the Group's total purchases for the relevant years.

During the Track Record Period, other than Hua Xin Weaving, none of the Directors or their associates or the Shareholders who, to the knowledge of the Directors, owns more than 5% of the issued share capital of the Company had any interest in any of the five largest suppliers. Details of the relationship and amount of transactions of Hua Xin Weaving with the Group are set out in the section headed "Connected transactions" of this prospectus.

The Group has not experienced any disruption or dispute in supply during the Track Record Period.

The Group has not adopted any arrangement to hedge any fluctuation in the price of its major raw materials.

BUSINESS

Customers

The Group sells its products to enterprises from various industries including trading companies and manufacturers of textiles, apparels, footwear, luggage and leather-ware, which are mainly located in Fujian, the PRC. The Group also sells its products to customers in Zhejiang, Jiangxi, Guangdong, Shandong and Shanghai in the PRC. The Group also exports its products to overseas customers including Hong Kong, India, Indonesia, Brazil, Egypt and Dubai.

In recent years, exports of the Group has increased gradually from approximately 10.2% of the Group's total sales in 2007 to approximately 42.9% of the Group's total sales for the year ended 31 December 2009.

During the Track Record Period, the Group had appointed Costin Int'l Trade (H.K.) Company Limited and Wah Hing Trading Co as its agents responsible for the overseas sales mainly due to the reasons that (1) they are located in Hong Kong which conveniently facilitate communications and negotiations with overseas customers; and (2) they can facilitate the process of Xinhua Company to claim the export sales value-added tax refund. When claiming export sales value-added tax refund, relevant governmental authorities would verify the authenticity and legality of the documents such as the invoices. The PRC Legal Adviser advised that if the name of the entity making the payment to Xinhua Company is different from that on the corresponding sales contract and invoice, additional documents may be required to submit to relevant government authorities to demonstrate the reasons for such differences and this may slow down the process of claiming the tax refund if such additional documents are not submitted in a timely manner. Since certain customers of Xinhua Company used different names to make the corresponding payment, Xinhua Company appointed Costin Int'l Trade (H.K.) Company Limited and Wah Hing Trading Co as agents to enter into the sales contract and to collect the contract money from various overseas customers on behalf of Xinhua Company, and thereby facilitating Xinhua Company to claim the export sales value-added tax refund. Costin Int'l Trade (H.K.) Company Limited and Wah Hing Trading Co, as agents, were authorised to enter into sale contracts and collect the contract money for the Group. Delivery of the products were however made directly by the Group to the end customers in overseas and such sales were reported as sales of the Group to these end customers instead. These agency arrangements were terminated and would not continue after the Listing and details of which are set out in the paragraph headed "Connected transactions — Connected transactions completed or discontinued before Listing" of this prospectus.

The Directors confirmed that since the cessation of the agency agreement with Costin Int'l Trade (H.K.) Company Limited in October 2009, the Group has requested all its customers to use the same name as appeared on the relevant sales contract to make corresponding payments to the Group and there has been no non-compliance with such request by the customers since then.

The Group has entered into annual master sales contracts with some of its major customers in the PRC where specific terms and volume of sales are to be determined by the parties in separate agreements or sales orders. Some of the master agreements provide that if the customer's actual purchase amount is less than 90% of the total amount stated in the master agreement, the customer shall pay to the Group a fee calculated with reference to the outstanding purchase amount. The prices of the Group's products are determined by the Group's finance department with references to the production cost, market prices, prior dealings with the customer and volume of sales. For new or customers with shorter

BUSINESS

business relationship, the Group requires full payment prior to delivery. The Group generally gives its customers credit periods of 30 to 60 days from the invoice date and may grant up to 90 days to major customers in practice.

The payments of the products by domestic customers is mainly settled in Renminbi by way of direct bank transfers. The Group's foreign customers generally settle payments in US dollars by telegraphic transfer. The Group has not experienced any material defaults in payment from its customers during the Track Record Period.

During the Track Record Period, sales to the Group's five largest customers amounted to RMB245.1 million, RMB239.3 million and RMB371.5 million, respectively, representing 53.3%, 38.6% and 49.8% of its total turnover for the relevant year. During the same period, sales to the Group's single largest customer amounted to RMB173.7 million, RMB54.9 million and RMB123.2 million, respectively, representing 37.8%, 8.9% and 16.5% of its total turnover for the relevant years.

During the Track Record Period, other than Xin Hua Import, none of the Directors or their associates or the Shareholders who, to the knowledge of the Directors, owns more than 5% of the issued share capital of the Company had any interest in any of the five largest customers. Details of the relationship and amount of transactions of Xin Hua Import with the Group are set out in the section headed "Connected transactions" of this prospectus.

The Group has not adopted any arrangement to hedge any fluctuation in the price of its finished products.

Sales and marketing

As at the Latest Practicable Date, the Group's sales and marketing department had 35 sales staff. The Group sells its products directly to its customers through its sales and marketing department.

The Group promotes and markets its products primarily through direct contacts with potential customers and participation in conferences and exhibitions. During the Track Record Period, the Group had participated in International Trade Fair for Technical Textiles and Non-wovens (中國國際產業用紡織品及非織造布展覽會), Shoes and Leather Guangzhou 2009 (廣州國際鞋類皮革及工業設備展覽會) and International Shoes Materials and Leather Exposition (韓國釜山國際皮革鞋類鞋材展覽會). To expand its customer base and reach customers from overseas, the Group also promotes and markets its products through internet trading platform.

The Group will continue to further enhance its sales and marketing efforts to take full advantage of its well-established sales team, network of customer relationships and industry knowledge and experience.

Quality control

The Group has placed great emphasis on the quality of its products. To the best knowledge of the Directors, there are no national standards in the PRC for the products the Group produced. The Group produces the products in accordance with the requirements and specifications requested by its customers, or where the customers have no specific requirements on the product standards, the Group produces the products in accordance with its own product standards. The Group has implemented certain control

BUSINESS

measures on its quality control. Before production of a product, the Group's technical staff will compile internal guidelines and standards of that product. Such guidelines and standards set out the technical standard and quality of the relevant product. They also include standards and requirements of the raw materials and types of tests to be carried against the raw materials and finished products.

The Group's production and quality control staff will carry out quality control procedures in accordance with the Group's internal guidelines and standards of the products. Before raw materials are accepted for production, the raw materials are physically inspected. The raw materials will also undergo sample inspections and tests to determine if they contain any significant amount of dangerous or hazardous chemical residues or other environmental pollutants to ensure that they meet the Group's quality standard and comply with the relevant environmental protection regulations. Sub-standard raw materials will be forthwith returned and will not be used for production. Tests on finished products as set out in the guidelines will be carried out before delivery.

In January 2001, the Group first obtained the ISO9001 series certification, an international standard used to measure product quality which requires the implementation of a quality control system throughout the various stages of production, including production process, inspection and service of finished products.

AWARDS AND CERTIFICATIONS

In recognition of the Group's quality products and management, it has been granted a number of awards and certifications by various government authorities and other organisations. The more significant awards and certifications received by the Group are summarised as follows:

<u>Date of Grant</u>	<u>Award/Certificates</u>	<u>Issuing Authorities/Organisations</u>
20 December 2004.	Quanzhou Famous Brand for "CO.ST.IN" branded cloth	Quanzhou Famous Brand Recognition Committee
December 2005.	Well-governed and Fiduciary Operating Unit (2004-2005)	Municipal Committee of Quanzhou, Chinese Communist Party
July 2006.	Top 300 Industrial Enterprises in Fujian Province Top 300 Most Competitive Industrial Enterprises in Fujian Province Top 300 Domestic Enterprises in Fujian Province	Enterprise Appraisal Centre of Fujian Province Enterprise Evaluation Association of Fujian Province
November 2006.	Fujian Famous Product for "CO.ST.IN" branded non-woven fabrics	People's Government of Fujian Province

BUSINESS

<u>Date of Grant</u>	<u>Award/Certificates</u>	<u>Issuing Authorities/Organisations</u>
July 2007	Top 300 Industrial Enterprises in Fujian Province Top 300 Domestic Enterprises in Fujian Province	Enterprise Appraisal Centre of Fujian Province Enterprise Evaluation Association of Fujian Province
16 September 2007	Top 300 Enterprises for Share of Mainland Market	Evaluation Committee for Market Share by Enterprises in Fujian Province Enterprise Information Centre of Fujian Province
16 September 2007	Top 50 Enterprises for Share of Mainland Market	Evaluation Committee for Market Share by Enterprises in Fujian Province Enterprise Information Centre of Fujian Province
7 April 2008	ISO 14001:2004	Joint Accreditation System of Australia and New Zealand (JAS-ANZ)
September 2008	Fujian Province Famous Brand for “CO.ST.IN”	Industrial and Commercial Administration Bureau of Fujian Province
August 2009	Ten Most Outstanding Small to Medium Enterprise in China Contributing Public in 2009	Research Institute of Management Science of China
December 2009	Fujian Province Famous Brand Enterprise	Strait Brand Economic Development Research Institute in Fujian Province
December 2009	Product Development and Contribution Award of China Textiles Industry Association in 2009	China National Textiles and Apparel Council
January 2010	Top 10 Cases of the Most Innovative Enterprise Culture in Jinjiang City in 2009	CPC Jinjiang Municipal Propaganda Department and Jinjiang Economic Press

BUSINESS

<u>Date of Grant</u>	<u>Award/Certificates</u>	<u>Issuing Authorities/Organisations</u>
January 2010	Provincial Famous Product 2009	People's Government of Fujian Province
January 2010	Advanced Employee Caring Unit in 2009	Longhu Town General Union
January 2010	ISO9001:2008	SGS United Kingdom Ltd.

INVENTORY MANAGEMENT

The Group monitors the inventory levels of its raw materials closely to meet its production needs. The Group's inventory department and the production department work closely to formulate monthly projections on inventory needs.

With the use of the ERP system, the Group's inventory control department is able to closely monitor and keep track record on a real-time basis the inventory level and respond to inventory needs in a timely manner.

As of 31 December 2007, 2008 and 2009, the Group's inventory was approximately RMB36.2 million, RMB14.7 million and RMB27.0 million, respectively, and the turnover days were 37, 21 and 14, respectively. The significant decrease in the inventory level as at 31 December 2008 was primarily due to the decrease in the price of raw materials in 2008 as a result of the global financial crisis and the Group's reduction in its inventory level accordingly. The Group has not experienced any write-off of inventory or made any provisions for inventory obsolescence during the Track Record Period.

RESEARCH AND DEVELOPMENT

The Group has established a research and development centre and platform mainly responsible for developing new products and upgrading the application functions of its existing products with an aim to enhance the quality and widen the application scope of the products. It co-operated with Tianjin Polytechnic University from 2006 onwards and is recognised by CTDC as Textiles Development Enterprise — Filtration Materials (國家紡織產品開發基地企業 — 國家環保過濾材料開發基地) and by Fujian Economic and Trading Bureau (福建省經濟貿易委員會) and others as Provincial-Level Corporate Technology Centre (福建省級企業技術中心) in the Fujian Province. In 2008, it entered into a co-operation agreement with Wuhan University of Science and Engineering to further enhance its research and development capacity. In late 2009, Xinhua Company was recognised as a high and new technology enterprise (高新技術企業) by Fujian Provincial Department of Science and Technology, Fujian Provincial Department of Finance, Fujian Provincial office of State Administration of Taxation and Fujian Local Taxation Bureau.

The Group's research team, including the senior management who are principally responsible for research and development, currently comprises 17 full-time staff which is led by Prof. Guo Bing Chen who graduated, taught and conducted researches in textile engineering in Tianjin Polytechnic University for over 37 years. The team works closely with the two universities who are respectively led by Prof.

BUSINESS

Zhang Jian Fei (張健飛), Prof. Jiao Xiao Ning (焦曉寧) and Prof. Qian Xiao Ming (錢曉明) of Tianjin Polytechnic University and Prof. Xiang Xin Zhu (向新柱), Prof. Zhang Shang Yong (張尚勇) and Prof. Yi Zhang Hai (易長海) of Wuhan University of Science and Engineering.

From 2006 to 2009, the Group's research centre has completed a number of research projects. Upon completion of the research projects, unless there are unforeseeable market conditions such as the financial crisis in 2008, the products derived from the results of such research projects would normally be launched within three months from completion of the research projects.

The table below shows the products launched which were derived from the results of the research projects:

Year	Products
2006	1. functional powder modified reinforcement fabric for spun-bond non-wovens
2007	2. Kanbra elastic non-wovens base 3. geotextile elastic non-wovens base 4. needle-punch non-wovens imitate inner fur roller
2008	5. nano-silver anti-bacteria shoe pad 6. composite anti-bacteria melt adhesive for durable use 7. flame resistant stripe non-woven fabric 8. needle-punch non-wovens artificial leather base 9. needle-punch PK non-woven fabric 10. self-cleaning composite non-woven fabric 11. high-performance insole fibre board 12. high-performance insole fabric 13. non-wovens filtration media and filter bag 14. needle-punch elastic non-woven fabric 15. stitch-bond non-woven fabric
2009	16. static electric conducting inner and bottom board 17. static electric conducting inner and bottom fabric 18. brushed stitchbond fabric 19. needle-punch anti slippery synthetic leather

As at the Latest Practicable Date, the Group has registered one patent jointly with Tianjin Polytechnic University and is applying for registration of 15 patents which consist of one patent being jointly owned by the Group and Tianjin Polytechnic University and the remaining 14 patents owned by the Group. For details of the Group's patents, please refer to the paragraph headed "Intellectual Property Rights — Patent" in Appendix V of this prospectus.

The Group's research and development capability is further enhanced by co-operating with tertiary institutions. Since 2006, the Group has been co-operating with tertiary institutions, such as Tianjin Polytechnic University. The Group's research centre is also an on-site non-woven technology training centre for students of Tianjin Polytechnic University. According to the framework agreement dated 18

BUSINESS

January 2006 between the Group and Tianjin Polytechnic University, their co-operation period commenced from 1 February 2006 and will expire on 30 January 2016. For each joint research project, the Group enters into a separate project co-operation agreement with Tianjin Polytechnic University. These project co-operation agreements normally provide that the Group appoints Tianjin Polytechnic University to conduct research on the projects and assist the Group in applying the technology for production. The Group is responsible for the research fees which vary upon the nature and scale of different projects. For the project co-operation agreements entered into by the Group and Tianjin Polytechnic University from August 2006 to January 2009, the research fees range from RMB0.2 million to RMB1.8 million per project. The intellectual property rights of the research results will be jointly owned by the Group and Tianjin Polytechnic University. Neither of the parties are allowed to transfer or publish such intellectual property rights on its own unless with consent from the other party.

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 jointly conducted and completed 11 research projects. 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 projects and either of them is entitled to use these patents and projects as the registered and beneficial owner on its own. In addition, neither the Group nor Tianjin Polytechnic University is entitled to assign or licence its share of the patents and projects to any third party without the other joint owner's consent.

Pursuant to the supplemental agreement dated 17 March 2010 entered into between Xinhua Company and Tianjin Polytechnic University, the parties agreed that the party who uses any of the jointly-owned patents and research projects will be entitled to all of the profits arising therefrom. In the supplemental agreement, Tianjin Polytechnic University also agreed not to use the jointly-owned patents and research projects in a manner which will compete with the business of Xinhua Company, including Tianjin Polytechnic University will not use the jointly-owned research projects on products identical or similar to those produced by the Group. As at the Latest Practicable Date, one patent in relation to a manufacturing method jointly developed by the Group and Tianjin Polytechnic University had been registered and another patent in relation to the manufacturing method 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. Since the party who uses the jointly-owned patent has to incur the relevant production expenses, the aforesaid supplemental agreement between the Group and Tianjin Polytechnic University provides that the profit arising therefrom should belong to the party who uses the jointly-owned patents. Please also refer to the paragraph headed "Intellectual Property Rights — Patent" of Appendix V to this prospectus.

BUSINESS

The table below shows the research projects jointly conducted with Tianjin Polytechnic University:

Year	Research Projects
2006	<ol style="list-style-type: none"> 1. modified micro granule for melting and spraying of non-woven fabrics 2. elastic non-woven fabric material 3. electrostatic conduction insole material development 4. plush drawing stitch-bond non-woven fabric development 5. anti-slip imitate inner fur development 6. plush burning needle-punch non-woven fabric development
2007	<ol style="list-style-type: none"> 7. flame retardant process for needle-punch non-woven filtration media 8. water-base PU leather development 9. high-performance fibre board development 10. flame resistant home textile use non-wovens development
2008	<ol style="list-style-type: none"> 11. self-cleaning non-woven fabric development
2009	<ol style="list-style-type: none"> 12. PPS non-woven filtration media (<i>note</i>)

Note: This research project has not been completed yet as at the Latest Practicable Date and other projects listed have been completed.

In November 2008, the Group entered into a framework agreement with Wuhan University of Science and Engineering to jointly set up a research and development centre to undergo various research projects. Details and specific terms and conditions of the research projects are to be further agreed by the Group and Wuhan University of Science and Engineering.

The table below shows the research projects jointly conducted with Wuhan University of Science and Engineering:

Year	Research Projects
2009	<ol style="list-style-type: none"> 1. RPET environmental protection bag material development 2. multi-functional and decorative non-woven material for wall

Note: These two research projects have not been completed yet as at the Latest Practicable Date.

Staff of the Group have published a number of research theses in respect of non-woven production technologies and development either in their own names or in association with other entities including but not limited to Tianjin Polytechnic University and Wuhan University of Science and Engineering.

BUSINESS

The table below shows some of published theses:

Research theses	Authors
1 Study on application and manufacturing of PTEE mixed fiber needle-punch filtration materials (聚四氟乙烯(PTFE)混合纖維針刺濾料應用與製作技術探討)	Huang Qing Bao of Xinhua Company
2 Application of water and oil repellent finishes EX910E on polyester non-woven fabrics (拒水拒油整理劑EX910E在滌綸非織造布上的應用)	Du Yi Wei, Li Ke and Zhang Jian Fei of Tianjin Polytechnic University and Yang Dao Guang of Xinhua Company
3 Research on medical protective clothing SFS composite materials (醫用防護服SFS複合材料的研製)	School of Nonwoven Materials Science and Engineering of Tianjin Polytechnic University and Guo Bing Chen and Liu Jian Zheng of Xinhua Company
4 Discussion about standardised processing management of needle-punch (淺談針刺標準化工藝管理)	Liu Jian Zheng of Xinhua Company
5 Technological parameters diversifying and influence on mechanical properties of high-tenacity needle-punched waterproofing membrane base (針刺高強防水胎基工藝參數及其對力學性能的影響)	Zeng Peng Cheng, Guo Bing Chen, Hong Ming Qu and Yang Dao Guang of Xinhua Company and Pei Pei and Xiang Xin Zhu of Wuhan University of Science and Engineering
6 Development of textile products with ultraviolet protection (防紫外線紡織產品開發)	Zeng Peng Cheng of Wuhan University of Science and Engineering (currently employed with Xinhua Company)
7 Research on Refined Cotton Electrocatalytic Oxidation Technology and Process (精製棉電催化氧化技術及工藝研究)	Zhang Yue, Zeng Peng Cheng (currently employed with Xinhua Company), Yu Jie, Wu Min, Liu Ming Xiang, Liu Li and Xiang Xin Zhu of Wuhan University of Science and Engineering
8 Recycle bag made from stitch-bonded non-woven fabrics (縫編法非織造布環保購物袋)	Hong Ming Qu of Xinhua Company and Zhang Zhi Juan of Tianjin Polytechnic University
9 Present situation and Prospect of Needle-Punched Nonwovens (針刺法非織造布的發展現狀及前景)	Leng Chun Ting of Jilin Textile Technology Development Centre (吉林紡織技術開發中心) and Chim Wai Shing Jackson of Xinhua Company
10 Research on new type of needle-punched nonwovens for nanometer antibacterial shoe materials (新型針刺非織造布納米抗菌鞋材的研究)	Zhang Zhi Juan, Qian Xiao Ming and Zhuang Xu Pin of Tianjin Polytechnic University and Chim Wai Shing Jackson of Xinhua Company
11 A Study and Application of Nano Antibacterial Technology on Nonwoven Field	Qian Xiao Ming, Zhang Zhi Juan and Zhuang Xu Pin of Tianjin Polytechnic University and Chim Wai Shing Jackson of Xinhua Company

BUSINESS

Research theses	Authors
12 Analysis of application of autoleveller on non-woven carding machine (非織造梳理機上自調勻整裝置分析)	Guo Bing Chen, Chim Wan Shing Jackson and Hong Ming Qu of Xinhua Company
13 Study and development on needle-punched non-woven fabrics with high performance and abrasion resistance (高性能、耐磨針刺非織造布的研究與開發)	Huang Jin He, Hong Ming Qu, Deng Long Yun and Zhang Zhi Juan of Xinhua Company and Tianjin Polytechnic University
14 Study and Application of Nano Antibacterial Technology on Nonwoven Field (納米抗菌整理技術在非織造領域的研究及應用)	Zhang Zhi Juan, Zhuang Xu Pin, Qian Xiao Ming and Liu Ya of Tianjin Polytechnic University and Chim Wai Shing Jackson, Hong Ming Qu and Deng Long Yun of Xinhua Company
15 The Study and Development on Elastic Needle-punch Nonwoven Fabrics (彈性針刺法非織造布的研究與開發)	Qian Xiao Ming, Zhuang Xu Pin, Zhang Zhi Juan and Liu Ya of Tianjin Polytechnic University and Chim Wai Shing Jackson, Hong Ming Qu and Deng Long Yun of Xinhua Company

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

The Directors believe that the Group's strong research and development capability enables the Group to compete with other PRC enterprises in the industry, particularly, those located in Fujian Province. With its strong research and development capability, the Group is positioned to expand the scope of the application of its products to fit customers from various industries. The versatile and increasing application of its products will in turn further broaden the Group's customer base and variety. Leveraging on its well-positioned research and development platform, the Directors are of the view that the Group is able to capture this advantage to continue upgrading and developing its products targeting at producing high quality products with lower prices.

During the Track Record Period, the research and development expenditures incurred by the Group was approximately RMB4.5 million, RMB4.6 million and RMB4.7 million, respectively.

BUSINESS

THE ERP SYSTEM

The Group has adopted an ERP system for its various business cycles including inventory management, accounts receivables and accounts payables.

The ERP system enables the Group to closely monitor the key steps in making decisions based on real-time data and identify potential problems and make necessary adjustments in a timely manner. It also enhances the Group's management and administration effectiveness and communication among the Company's departments, facilitates order checking, inventory control and financial conduct and enables the Group to respond instantly to any potential problems identified.

SAFETY

The Group has compiled an internal safety manual to provide guidance to its staff in maintaining a safe working environment in accordance with the requirements under ISO9000. The Group has established a safety management team consisting of representatives from the management and staff. This safety management team will carry out regular safety inspection of the Group's production facilities to ensure that the safety measures are complied with and the production procedures are followed. Production equipment and machinery have to pass safety tests before commencement of production. Protective devices are installed and warning signage are posted on the production equipment and machinery. Production staff are provided with regular trainings on the operations of the equipment and occupational safety gear.

During the Track Record Period, the Group has not experienced any material fire, collapse in its production equipment and machinery or industrial accidents in relation to its operation.

ENVIRONMENTAL PROTECTION

The Group is subject to the following environmental protection laws and regulations in the PRC:

- the Environmental Protection Law of the PRC (中華人民共和國環境保護法)
- the PRC Law of the Prevention and Control of the Air Pollution (中華人民共和國大氣污染防治法)
- the Law of the Prevention of Water Pollution in the PRC (中華人民共和國水污染防治法)
- the Administration Regulation on the Levy and Use Discharge Fees (排污費徵收使用管理條例)

For further details of the above laws and regulations, please refer to the section headed "Relevant Regulations and Rules in the PRC" of this prospectus.

The PRC Legal Adviser has confirmed that the Group has complied with all the above regulations and has obtained all relevant and necessary permits and licences for its business and operations.

The Group has established an environmental protection control system in accordance with the requirements of ISO14000:2004. In April 2008, the Group obtained the ISO14001:2004 certification, an international standard used to measure the impact of an operation on the environment, taking into

BUSINESS

account compliance with applicable laws, regulations and other environmental oriented requirements from time to time. During the production process, waste water and air pollutants may be discharged and the Group has taken measures in relation to the discharge of waste water and air pollutant which includes regular checks of the pH value of the waste water cleaning of the chimney, inspection of the operation of the facilities and applying for inspections by the relevant environmental authorities. The Group has constructed polluted water pool (污水池) and biochemical pool (生化池) with equipment including air floatation processor (氣浮處理器) and mud explosion machine (炸泥機) to process the waste water discharged through its production process and the waste water after processed will be reused by the Group. The air pollutants discharged during the Group's production process are to undergo sulfur elimination and dust removal (脫硫及除塵) first before its emission. The Group has equipped with sulfur elimination machine and duster (脫硫及除塵) and grinding duster (水磨除塵) for this purpose. The principal impact to the environment during transportation of waste materials is the dropping of the waste materials. To prevent this happens, the waste materials suppliers are required to pack the waste materials in sealed packages and use concealed vehicles for transportation. Since the Group does not have the relevant licence for waste disposal, it has appointed third parties to be responsible for the waste disposal and related environmental protection works to independent third parties. To ensure that these sub-contractors are complying with the relevant environmental protection laws and regulations, the contracts required the third parties to, among others:

- (a) comply with the environmental protection laws and regulations;
- (b) park their vehicles in the prescribed area and have to turn off the engines before starting work;
- (c) prevent any dropping of wastes during transportation, immediately clear up any dropping and report the case to the responsible department to take necessary measures in respect of droppings of wastes;
- (d) dispose the wastes within the designated site; and
- (e) possess the necessary qualification under the relevant regulations to deal with any hazardous wastes.

If the third party fails or refuses to comply with the environmental protection requirements stated in the contract, the Group has the right to terminate the contracts.

Also, to prevent the dropping of waste materials during transportation, the waste materials suppliers are required to pack the waste materials in sealed packages and use concealed vehicles for transportation.

The PRC Legal Adviser is of the view that it is the obligations of the third parties to dispose the waste materials in accordance with the regulatory requirements and the Group will not be liable for the acts of the third parties.

Before commencing production, the Group is required to carry out an environmental impact assessment. The Group's production facilities may be subject to environmental protection assessment and inspections by the authorities from time to time.

BUSINESS

During the Track Record Period, the Group's annual cost of compliance with the applicable environmental protection laws and regulations was approximately RMB400,000, RMB600,000 and RMB10,000, respectively, which are mainly incurred for the introduction of new chemical fibres production facilities or related equipment. With the commencement of operation of the Expanded Production Facilities and the New Production Facilities, comprised of only non-woven fabrics production facilities, which are environmentally friendly in nature and shall incur no additional cost, the Group expects that the cost of compliance with the applicable environmental protection laws and regulations will be approximately RMB10,000 and RMB10,000, respectively for the two years ending 31 December 2011.

The Directors believe that the Group has adopted effective measures to prevent and control pollution to the environment. During the Track Record Period, the Group has not encountered any penalty for failure to comply with the applicable environmental laws and regulations.

INSURANCE

The Group has taken out insurances on its production plants, equipment, machinery and vehicles. The Group also provides social insurance for its employees, covering retirement, medical, unemployment, injury and maternity. The PRC laws do not require the Group to maintain any insurance in relation to its business operation, the Group has not taken out any insurances on product liability or disruption of operation. The Group has not taken out any insurance on wars or acts of terrorism. The Directors believe that the types of insurance coverage the Group currently has are adequate to cover its operation and consistent with the usual industry practice.

During the Track Record Period, the Group has not made or been the subject of any insurance claims which are material to the Group.

The Group will continue to review and assess the risks and make necessary adjustments to its insurance practice in line with the operation needs and industry practice.

INTELLECTUAL PROPERTY

The Group's products are sold under various brands including "CO.ST.IN". In January 2010, the Group's "CO.ST.IN" branded non-woven fabrics was again awarded as the Provincial Famous Product in 2009 (2009福建名牌產品) by the People's Government of Fujian Province after 2006. In December 2009, Xinhua Company was awarded Fujian Province Famous Brand Enterprise (福建著名品牌企業) by Strait Brand Economic Development Research Institute in Fujian Province (福建省海峽品牌經濟發展研究院). In September 2008, the Group's brand "CO.ST.IN" was recognised by Fujian Province Industry and Commerce Administration Bureau as the Fujian Province Famous Brand (福建著名商標) for non-woven products at the provincial level.

As at the Latest Practicable Date, the Group had registered and was in the process of applying for registration of certain trademarks. Details of the Group's trademarks are set out in the paragraph headed "Intellectual property rights — Trademark" to Appendix V of this prospectus.

In recognition of its research efforts and advantages, as at the Latest Practicable Date, the Group had registered one patent which is jointly owned by the Group and Tianjin Polytechnic University, and was applying for the registration of 15 patents which consist of one patent being jointly applied for

BUSINESS

registration by the Group and Tianjin Polytechnic University and the remaining 14 patents being applied for registration by the Group only. Details of the Group's patents are set out in the paragraph headed "Intellectual property rights — Patent" to Appendix V of this prospectus.

During the Track Record Period, the Group had not encountered any proceedings concerning any material claims of infringement of any intellectual property rights that may be threatened or pending, in which the Group is the claimant or respondent.

PROPERTIES

As of the Latest Practicable Date, the Group had land use rights for eight parcel of lands occupying a total site area of approximately 177,522.48 sq.m. (with a total gross floor area of approximately 54,783.56 sq.m.). Upon these land use rights, 19 buildings were built with a total gross floor area of 54,783.56 sq.m..

Six buildings owned by the Group with a total lettable area of approximately 20,290.68 sq.m. are rented to Hua Xin Weaving for a term of one year from 1 January 2010 and expiring on 31 December 2010 at a total monthly rent of RMB223,197.48, exclusive of management fees, water and electricity charges. One building owned by the Group with a land area of approximately 13,334 sq.m. are rented to an Independent Third Party for a term expiring on 31 May 2011 at a total annual rent of RMB939,640, exclusive of management fees, water and electricity charges.

The Group also rented properties from Hua Xin Plastic and Hua Xin Weaving, both are connected persons. Details of which are set out in Group II of the Property Valuation Report as set out in Appendix III of this prospectus.

The Group also acquired land use rights of a site area of approximately 6,666 sq.m. for the Expanded Production Facilities and approximately 74,204 sq.m. is planning for use for its New Production Facilities.

Jones Lang LaSalle Sallmanns Limited, an independent property valuation firm, has assessed the property interests of the Group as of 31 March 2010. The text of Jones Lang LaSalle Sallmanns Limited's letter, the summary of values and the valuation certificate are set out in Appendix III to this prospectus. The Group has obtained all land use right certificates and building ownership certificates in respect of properties owned by it as referred to in Group I of the Property valuation report as set out in Appendix III to this prospectus.

COMPETITION

The non-woven fabrics industry in the PRC is highly fragmented. Despite that there are numerous domestic enterprises engaging in the production of different kinds of non-woven fabrics, the majority of these enterprises are operated on a small scale with few production lines and low research capacity and technology level. Leveraging on its strong research and development support, the Directors believe that the Group is in an advantageous position to further develop and expand its market and products than these small-scale domestic enterprises.

BUSINESS

The Directors are of the view that new entrants have no significant legal barrier in entering into the business. Nonetheless, the Directors believe that it may be difficult for new entrants to operate the business on a large scale with strong research and development and expertise support because these new entrants may have to face other operational barriers, including (i) ability to recruit and maintain well-trained and experienced technical personnel; (ii) industry operational and management experience; (iii) financial capability, in particular, for investing in advanced production equipment and research projects; and (iv) ability to import recycled raw materials.

The Directors believe that the Group is primarily competing with large and well-established foreign enterprises who produce high quality products with advanced equipment as well as a number of local enterprises. Since the non-woven fabrics industry is a relatively new industry in the PRC and therefore has a shorter history of development than in the overseas countries, these foreign enterprises will possess advantages over the Group in aspects including technology, production efficiency and varieties and quality of products. In addition, some of these competitors may have greater financial and other resources than those of the Group.

While the Directors believe that the size of its operations, the use of advanced equipment, the emphasis on research and development and the expertise allows the Group to compete effectively, the Group cannot assure that it will be able to compete successfully in the existing markets and new markets.

REGULATORY COMPLIANCE

The Directors and the PRC Legal Adviser confirmed that, save as disclosed in the paragraph headed “Risk factors — Risks relating to the Group — the Group’s past loan advancing activities with related parties may be subject to penalties” during the Track Record Period and as at the Latest Practicable Date, the Group has complied with all PRC laws and regulations related to the Group’s operation and business in all relevant material respects and the Group has obtained all of the approvals, licences, permits and qualification certificates required under PRC laws and regulations in order to conduct its businesses, and as at the Latest Practicable Date, such approvals, licences, permits and qualification certificates have not been revoked.

LEGAL PROCEEDINGS

During the Track Record Period and as at the Latest Practicable Date, none of the members of the Group is currently involved in or has been involved in any legal or arbitration proceedings of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.