The following discussion of the Group's financial condition and results of operations should be read in conjunction with the combined financial information as at and for the years ended 31 December 2007, 2008 and 2009, and the related notes set out in the Accountants' Report of the Group included as Appendix I to this prospectus ("Combined Financial Information"). The Combined Financial Information are presented as if the current group structure had been in existence and remained unchanged throughout the Track Record Period. See the section headed "History and development" of this prospectus. All significant intra-group transactions and balances have been eliminated on combination.

This discussion contains forward-looking statements that involve risks and uncertainties. The Group's actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to, those described under "Risk factors" and elsewhere in this prospectus.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF THE GROUP'S OPERATIONS DURING THE TRACK RECORD PERIOD

Overview

At present, the Group is one of the fast growing enterprises in Jinjiang, Fujian Province, the PRC engaging in the research and development, production and sales of non-woven fabrics and chemical fibres using recycling wastes and materials 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 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.

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

Weaving, Hua Xin Weaving ceased the manufacture of non-woven fabrics business and transferred to the Group all the machinery and equipment in relation to the manufacture of non-woven fabrics and related inventories to the Group at the consideration of approximately RMB17.1 million and RMB19.8 million, respectively, being the net book value of the machinery and equipment and inventories transferred.

In addition, in the end of 2007, Hua Xin Plastic, a connected person and the principal business of which is recollection of waste tyres, also disposed of the boilers equipment to the Group at a consideration of approximately RMB1.3 million, being the net book value of the boilers equipment transferred.

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)	% of total turnover	RMB (million)	% of total turnover	RMB (million)	% of total turnover
Existing business						
Non-woven fabrics . . .	305.3	66.4%	457.4	73.8%	565.8	75.8%
Chemical fibres	34.3	7.4%	162.0	26.2%	180.8	24.2%
Sub-total:	339.6	73.8%	619.4	100.0%	746.6	100.0%
Ceased business						
Fashion garment	120.5	26.2%	— *(note)*	—	— *(note)*	—
Total:	460.1	100.0%	619.4	100.0%	746.6	100.0%

Gross profit

	Year ended 31 December					
	2007		2008		2009	
	RMB (million)	% of total gross profit	RMB (million)	% of total gross profit	RMB (million)	% of total gross profit
Existing business						
Non-woven fabrics . . .	102.3	76.4%	145.3	78.8%	178.1	80.7%
Chemical fibres	10.8	8.1%	39.0	21.2%	42.6	19.3%
Sub-total:	113.1	84.5%	184.3	100.0%	220.7	100.0%
Ceased business						
Fashion garment	20.8	15.5%	— *(note)*	—	— *(note)*	—
Total:	133.9	100.0%	184.3	100.0%	220.7	100.0%

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 are of the view that as cash and treasure 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.

The cessation of the fashion garment business is not presented as discontinued operation in the Combined Financial Information principally for the reason that cash and treasure function of fashion garment business could not be clearly distinguished from other business segments.

For details of the business of the Group, please refer to the section headed "Business" of this prospectus.

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

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

Reorganisation and Basis of Preparation

The companies now comprising the Group are under common control of the Controlling Shareholders. Pursuant to the Reorganisation, the Company became the holding company of the Group as the entire interests of the Group's subsidiaries were transferred to the Company on 12 May 2010.

On 26 August 2009, the Company was incorporated in the Cayman Islands with an authorised share capital of HK$380,000 divided into 3,800,000 Shares. Upon incorporation, 1 share was allotted and issued to Offshore Incorporations (Cayman) Limited at par and such share was transferred to Chim Wai Shing Jackson on the same date at par. On 23 September 2009, the 1 share held by Chim Wai Shing Jackson was transferred to Gerfalcon Holding and 9 shares were issued and allotted to Nian's Holding.

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

On 17 March 2010, the shareholders of Xinhua Company, Gerfalcon PRC and Gerfalcon Trading entered into a share transfer agreement (supplemented by a supplemental agreement dated 20 April 2010). Pursuant to the share transfer agreement and the supplementary agreement, the shareholders of Xinhua Company agreed to transfer 99% and 1% shareholding in Xinhua Company to Gerfalcon PRC and Gerfalcon Trading respectively at an aggregate cash consideration of RMB80 million. The consideration was determined with reference to the fully-paid registered capital of Xinhua Company as at the date of the transfer. The shareholders agreed to return the proceeds to Gerfalcon PRC and Gerfalcon Trading of RMB80.0 million at nil consideration. The filing in respect of the above transfers was made with the relevant administration of industry and commerce on 22 March 2010 and the payment of the consideration in relation to the acquisition were completed on 12 May 2010.

The Reorganisation is more fully explained in the paragraph headed "The Reorganisation" under the section headed "Statutory and General Information" in Appendix V to this prospectus.

As the Controlling Shareholders which controlled the Group before and after Reorganisation are substantially the same, the financial information has been prepared as a reorganisation of businesses under common control in a manner similar to pooling of interest.

The financial information presents the Group's combined results and financial position as if the current group structure had been in existence throughout the Track Record Period and as if the businesses of Xinhua Company had been transferred to the Group at the beginning of the earliest period presented. All material intra-group transactions and balances have been eliminated on combination.

Major factors affecting the Group's results of operations and financial condition

Production capacity and operating efficiency

The Group's sales volume is primarily a function of its production capacity and utilisation rate. The Group has expanded, and are continuing to expand, the scale of the Group's operations through the addition of new production facilities and the purchase of additional equipment. The Group's capital expenditures paid for property, plant and equipment, land use rights and construction in progress, including deposits for property, plant and equipment, land use rights and construction in progress, as at 31 December 2007, 2008 and 2009 were approximately RMB106.9 million, RMB17.8 million and RMB98.7 million, respectively. The Group's capital expenditures for property, plant and equipment were primarily used for (i) purchasing machinery and equipment, (ii) acquisition of land use rights and (iii) construction of buildings to expand its production capacity.

The Directors believe that increases in the Group's production capacity result in increased economies of scale and more efficient use of resources, which enhance the Group's ability to meet customer demands. The Group intends to continue to expand the Group's production capacity and invest in the establishment of new production facilities. Please refer to the information under the headings "Business — Production Facilities" of this prospectus for descriptions of the Group's production capacity and expansion plans.

Product mix

The Group produces a wide range of non-woven fabrics and chemical fibres for various applications to meet the demands and requirements of customers. The Group's product mix, which is the combination of non-woven fabrics and chemical fibres with different functions and specifications, may affect the Group's gross profit margins, since different products within the non-woven fabrics category and chemical fibres category have different levels of demand and corresponding selling prices in different markets. The Group varies the product mix in favour of non-woven fabrics which have higher gross profit margins than chemical fibres. The turnover from the sales of non-woven fabrics increased throughout the Track Record Period, accounting for 66.4%, 73.8% and 75.8% of the Group's total turnover. The Group will continue to manage and optimise the product mix in response to market conditions in order to maintain and increase the gross profit margins.

Sales volume and pricing of the Group's products

The Group's turnover is determined by the sales volume and the selling price of the products sold. The sales volume has increased across the products segments in 2007, 2008 and 2009 as a result of increased demand for the Group's non-woven fabrics. For the quantities and the average selling price of the Group's products sold during the Track Record Period, please refer to the paragraph headed "Description of Selected Combined Statement of Comprehensive Income Line Items" under this section for details. The Group will continue to invest in the production capacity of the non-woven fabrics to cope with the increasing demand.

The Group's selling prices are determined with reference to the underlying cost of goods sold. The average selling price per ton of chemical fibres decreased from 2007 to 2009 due to the impact of financial crisis and keen competition of the chemical fibres market in the PRC that the sales of lower price products was increased.

Ability to launch new products

The Group's research and development capacity enhances the production technique and quality of its products, widens the spectrum of the application and functions of its products, which in turn will result in the launch of new products to fit the changing demand of customers and expand the Group's customer base. The enhanced production technique will lower the production cost, while better quality products will attract higher selling price.

Cost of raw materials

Price fluctuations of raw materials that use in the production process affect the Group's cost of goods sold and could adversely impact the Group's results of operations. The Group sources its raw materials from suppliers in the PRC and from foreign markets. The principal raw materials for the production of non-woven fabrics include polyester staple fibres and other functional fibres. The principal raw material for the production of chemical fibres includes recycled PET chips which source from used and waste PET bottles and other polyester scraps. The Group procures the raw materials from domestic suppliers and overseas suppliers. During the Track Record Period, direct materials accounted for approximately 85.6%, 89.0% and 90.2% of the total cost of goods sold.

The price of the raw materials may fluctuate significantly depending on market supply and demand. During the Track Record Period, the Group has not experienced any material changes in the price of raw materials for non-woven fabrics. However, the Group experienced a decrease in raw materials prices for chemical fibres in the end of 2008 and the beginning of 2009 due to the global financial crisis. The prices, however, started to increase steadily in the second half of 2009. The prices of the Group's raw materials may be subject to fluctuations due to various factors beyond the Group's control, including global economic and market conditions and PRC government policy on the use and imports of recycled wastes. From time to time, the Group reviews its inventory policy to control the Group's exposure to drastic change in the prices of raw materials. Any significant increases in the prices of raw materials will affect the Group's cost of goods sold and profits. Please refer to the paragraph headed "Risk factors — Risks relating to the industry — The Group's business may be affected by fluctuations in the price of raw materials" of this prospectus for the sensitivity analysis regarding the impact on the Group's profits arising from change in raw material price.

Competition

The Directors believe that customers of the Group can purchase from a number of sources for products in substitution of the Group's products. Industry players compete on quality, prices and functions and applications of products. Should the Group's fail to maintain its ability to produce high quality products at competing prices, the Group's customers may purchase from other sources and this will adversely affect the Group's sales and profits.

Global economic and finance conditions

The recent global financial crisis during the second half of the financial year ended 31 December 2008 which can be reflected by the credit tightening, the increased unemployment rate and the liquidity problems of financial institutions, has adversely affected the U.S. and the world economy.

The availability of credit and capital to companies is significantly influenced by levels of investor confidence and so any factors affecting the market and economic conditions could affect the cost or availability of funding for the Group. Any prolonged disruptions in the global economic, financial and credit conditions and lack of confidence in the markets may affect the prices of the Group's raw materials, interrupt the Group's operation, reduce the demand for the Group's products and affect the Group's plan in expanding the customer base, implementation of expansion plans and strategies and capability in enhancing its technical and research co-operation. In addition, the credit tightening environment may aggravate the interest expenses on the Group's borrowings and banks may reduce the amount or discontinue the banking credits currently granted to the Group.

Ability to expand and establish new production and function-adding and ancillary lines

Large scale production facilities equipped with advanced machinery and equipment enable the Group to produce products of higher quality and standard with specific functions, such as high thermal-resistance and liquid repellency, to meet the needs of a wide spectrum of customers, including enterprises in the heavy industry segment such as the steel and cement industries. The ability to continue to expand its production facilities, maintain its research and development capability and investment in advanced machinery and equipment is a factor which affects the Group's future growth.

Government grants

The Group received grants of RMB0.8 million, RMB1.8 million and RMB4.9 million from various local government organisations, including Jinjiang Finance Bureau (晉江市財政局), for the years ended 31 December 2007, 2008 and 2009, respectively. The government grants were given to Xinhua Company mainly as an encouragement in relation to exports sales, research and development works and tax payments, etc..

The government grants are not in a recurring nature and there is no assurance that the Group will continue to receive such grants in the future.

Cessation of fashion garment business

The Group's results of operations during the Track Record Period were also affected by the cessation of fashion garment business in the end of 2007. In order to better prepare for the continuing development and expansion of the Group in the future, the management of the Group decided to focus on developing and expanding the business of manufacture and distribution of non-woven fabrics and other new materials using recycled solid wastes as its principal and core business. In the end of 2007, the Group ceased the operation of fashion garment business and disposed the related production machinery and equipment to Hua Xin Weaving, at an aggregate consideration of approximately RMB0.9 million. The fashion garment business contributed turnover of RMB120.5 million and gross profit of RMB20.8 million for the year ended 31 December 2007. The net profit attributable to the fashion garment business for the year ended 31 December 2007 cannot be reasonably estimated. As a result of cessation, the Group has no longer generated turnover from the fashion garment business since 1 January 2008. Please refer to the paragraph headed "History and development — Streamlining of business" and the paragraph headed "Overview" under this section for more details.

Interest rates

During the Track Record Period, the Group was exposed to interest rate risk arising from bank deposits and bank borrowings. During the Track Record Period, the interest rates of the Group's short term loans ranged from 4.86% to 9.34%, and the interest rates of the factoring loans ranged from 1.92% to 5.20%. It is expected that the Group will partially finance the construction of the New Production Facilities by interest-bearing borrowings. In addition, the Group is expected to continue to draw down certain interest-bearing borrowings to fund its operations and development. The PBOC and other institutions may increase the lending rate. A significant increase in interest rates will increase the Group's finance costs. Please refer to note 6(d) — interest rate risk to the Accountants' Report of the Group set out in Appendix I to this prospectus for the impact on the Group's profit arising from change in interest rate.

Critical accounting policies and estimates

The Group has identified certain accounting policies that are significant to the preparation of the financial statements. The significant accounting policies, which are important for an understanding of the Group's results of operations and financial condition, are set forth in details in note 4 to the Accountants' Report of the Group set out in Appendix I to this prospectus. Critical accounting policies are those that are both most important to the portrayal of the Group's results of operations and financial condition and require management's most difficult, subjective, or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Certain accounting estimates are particularly sensitive because of their significance to financial statements and because of the possibility that future events affecting the estimate may differ significantly from management's current judgments. The Directors believe the following critical accounting policies involve the most significant estimates and judgments used in the preparation of the financial statements.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives and annual rates are as follows:

Leasehold buildings	Over lease term/5%
Machinery and equipment	10%–20%
Office equipment and fixtures	20%
Motor vehicles	20%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each reporting period.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets, other than investment properties are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

(i) *Sales of goods*

Revenues from the sales of manufactured goods are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

(ii) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method.

(iii) *Rental income*

Rental income is recognised on a straight-line basis over the lease term.

(iv) *Subcontracting fee income*

Subcontracting fee income is recognised when the subcontracting services are rendered.

(v) *Government grants*

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received. Government grants relating to income are deferred and recognised in the profit or loss over the period necessary to match them with the costs they are intended to compensate.

Results of operations

The following table sets out the combined statement of comprehensive income for the three years ended 31 December 2009 derived from the Combined Financial Information included in Appendix I to this prospectus:

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

DESCRIPTION OF SELECTED COMBINED STATEMENT OF COMPREHENSIVE INCOME LINE ITEMS

Turnover

The Group's turnover represents the net amounts received and receivable from sales of goods.

The table below sets forth the Group's turnover by business segment during the Track Record Period:

	Year ended 31 December					
	2007		2008		2009	
	RMB (million)	% of total turnover	RMB (million)	% of total turnover	RMB (million)	% of total turnover
Turnover						
Existing business						
Non-woven fabrics	305.3	66.4%	457.4	73.8%	565.8	75.8%
Chemical fibres	34.3	7.4%	162.0	26.2%	180.8	24.2%
Sub-total	339.6	73.8%	619.4	100.0%	746.6	100.0%
Ceased business						
Fashion garment	120.5	26.2%	—	—	—	—
Total	460.1	100.0%	619.4	100.0%	746.6	100.0%

The following table sets forth the quantities of products sold by business segment during the Track Record Period:

	Year ended 31 December		
	2007	2008	2009
Total units sold			
Existing business			
Non-woven fabrics (number of yards) (in million) . .	52.7	60.2	65.2
Chemical fibres (number of tons) (in thousand)	4.1	20.4	28.7
Ceased business			
Fashion garment (number of pieces) (in million) . . .	6.7	—	—

The Group's non-woven products carry multi-functions and can be widely applied as raw materials in various areas. The following table sets out the turnover of the Group's non-woven products:

	Year ended 31 December					
	2007		2008		2009	
	RMB (million)	% of total turnover	RMB (million)	% of total turnover	RMB (million)	% of total turnover
Reinforcement cloth	43.6	9.5%	26.0	4.2%	0.4	0.1%
Stitch-bonded non-woven cloth	92.5	20.1%	77.4	12.5%	147.0	19.7%
Synthetic leather	67.6	14.7%	81.7	13.2%	64.4	8.6%
Others	101.6	22.1%	272.3	43.9%	354.0	47.4%
Total	305.3	66.4%	457.4	73.8%	565.8	75.8%

Notes:

1. Reinforcement cloth is principally used as raw materials for footwear. As a result of the financial crisis in late 2008, footwear manufacturers changed to use other substitute raw materials having a lower cost than reinforcement cloth for the footwear products and this led to the decrease in its percentage attributable to the Group's turnover in 2008 and 2009.

2. Stitch-bonded non-woven cloth can be widely applied as automobile materials, filtration materials and footwear. The increase in percentage attributable to the Group's turnover in 2009 for stitchbonded non-woven cloth was principally due to increase in sales to both domestic and overseas customers.

3. The decrease in the percentage attributable to the Group's turnover in 2009 for synthetic leather was due to the decrease in total sales amount for synthetic leather because of the increase in demand for low-end synthetic leather (having a lower selling price) while there was a decrease in the demand for high-end synthetic leather (having a higher selling price) in 2009.

During the Track Record Period, the Group produced only one type of chemical fibres, namely polyester staple fibres, which can be used as a raw material for non-woven fabrics.

The following table sets forth the average selling price of the Group's products sold by business segment during the Track Record Period:

	Year ended 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Average unit selling prices[(1)]			
Existing business			
Non-woven fabrics (per yard)	5.8	7.6	8.7
Chemical fibres (per ton) (in thousand)	8.4	7.9	6.3
Ceased business			
Fashion garment (per piece)	18.0	—	—

Note 1: Average unit selling prices represent the turnover for the year divided by the total units sold for the year. While this is the average unit selling price, the price per unit may vary depending on the type of non-woven fabrics, chemical fibres and fashion garment.

The following table sets forth the Group's turnover by major geographic segment during the Track Record Period:

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

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

Cost of goods sold

The following table sets forth the Group's cost of goods sold by business segments during the Track Record Period:

	Year ended 31 December					
	2007		2008		2009	
	RMB (million)	% of total cost of goods sold	RMB (million)	% of total cost of goods sold	RMB (million)	% of total cost of goods sold
Existing business						
Non-woven fabrics	203.0	62.2%	312.1	71.7%	387.7	73.7%
Chemical fibres	23.5	7.2%	123.0	28.3%	138.2	26.3%
Sub-total	226.5	69.4%	435.1	100.0%	525.9	100.0%
Ceased business						
Fashion garment	99.7	30.6%	—	—	—	—
Total	326.2	100.0%	435.1	100.0%	525.9	100.0%

The following table sets forth the components of the Group's cost of goods sold during the Track Record Period:

	Year ended 31 December					
	2007		2008		2009	
	RMB (million)	% of total cost of goods sold	RMB (million)	% of total cost of goods sold	RMB (million)	% of total cost of goods sold
Direct materials.	279.1	85.6%	387.5	89.0%	474.2	90.2%
Direct costs	28.1	8.6%	40.4	9.3%	49.1	9.3%
Manufacturing overhead .	2.4	0.7%	6.0	1.4%	5.2	1.0%
Others	2.7	0.8%	3.9	0.9%	4.4	0.8%
Total production cost . .	312.3	95.7%	437.8	100.6%	532.9	101.3%
Inventory movement *(note)*	13.9	4.3%	(2.7)	(0.6%)	(7.0)	(1.3%)
Total cost of goods sold	326.2	100.0%	435.1	100.0%	525.9	100%

Note: Inventory movement during the Track Record Period means work-in-progress and finished goods as of the beginning of the year less work-in-progress and finished goods at the end of the year plus the difference of the internal allocation of the finished goods of non-woven fabrics and chemical fibres during the year.

Direct materials mainly consist of raw materials consumed for production and the sub-contracting charge incurred for fashion garment in connection with sub-contracting arrangements with Independent Third Parties. The principal raw materials for the production of non-woven fabrics include polyester staple fibres, and other functional fibres. The principal raw material for the production of chemical fibres includes recycled PET chips which source from used and waste PET bottles and other polyester scraps.

Direct costs mainly consist of direct labour cost, depreciation charge of production and value-adding lines, electricity, steam and fuel, rental expenses paid to related companies for consumable tools and repair and maintenance costs.

Manufacturing overheads mainly consist of consumable tools, depreciation expenses, repair and maintenance expenses.

The cost of goods sold as a percentage of turnover were approximately 70.9%, 70.2% and 70.4% for the years ended 31 December 2007, 2008 and 2009.

Gross profit

The following table sets forth the segment gross profit and gross profit margin and such segment gross profit as a percentage of total gross profit during Track Record Period:

	Year ended 31 December								
	2007			2008			2009		
	Gross profit	Gross profit margin	% of total gross profit	Gross profit	Gross profit margin	% of total gross profit	Gross profit	Gross profit margin	% of total gross profit
	RMB (million)	%	%	RMB (million)	%	%	RMB (million)	%	%
Existing business									
Non-woven fabrics	102.3	33.5%	76.4%	145.3	31.8%	78.8%	178.1	31.5%	80.7%
Chemical fibres	10.8	31.5%	8.1%	39.0	24.1%	21.2%	42.6	23.6%	19.3%
Sub-total	113.1	33.3%	84.5%	184.3	29.8%	100.0%	220.7	29.6%	100.0%
Ceased business									
Fashion garment	20.8	17.3%	15.5%	—	—	—	—	—	—
Total	133.9	29.1%	100.0%	184.3	29.8%	100.0%	220.7	29.6%	100.0%

As illustrated above, the gross profit for the non-woven fabrics segment accounted for approximately 76.4%, 78.8% and 80.7% of the total gross profit during the Track Record Period. The gross profit for the chemical fibres segment accounted for approximately 8.1%, 21.2% and 19.3% of the total gross profit during the Track Record Period. The Group offers different types of non-woven fabrics and chemical fibres to customers with different specifications which affect the overall gross profit margins of the Group.

The gross profit margin for non-woven fabrics segment decreased from approximately 33.5% in 2007 to approximately 31.8% in 2008 was principally due to higher utilisation amount of raw materials for products with new functions and standards. The gross profit margin for non-woven fabrics remained stable in 2008 and 2009.

The gross profit margin for chemical fibres segment decreased from approximately 31.5% in 2007 to approximately 24.1% in 2008 due to the decrease of the average unit selling price of the chemical fibres from 2007 to 2008. The gross profit margin for chemical fibres remained stable in 2008 and 2009.

Other income

Other income primarily includes government grants, interest income, rental income and sub-contracting income. Government grants represent government grants, subsidies and exports incentives obtained from various local government organisations.

Other income as a percentage of turnover was 0.4%, 1.0% and 1.4% for the years ended 31 December 2007, 2008 and 2009.

Distribution expenses

The Group's distribution expenses primarily consist of transportation expenses to customers in Quanzhou, the PRC, freight charges for shipment of the Group's products to overseas customers, advertising and marketing expenses, staff costs for marketing and sales staff, and agency fees paid to related companies, Wah Hing Trading Co and Costin Int'l Trade (H.K.) Company Limited for the services rendered under the agency agreements. The agency fees were charged based on 1% of the contractual amount in connection with the agency services provided by these related companies. No agency fee has been incurred since 1 July 2009 as the Group exports its product and imports its raw materials by itself.

The following table sets forth the breakdown of distribution expenses during the Track Record Period:

	Year ended 31 December		
	2007	2008	2009
	RMB (million)	RMB (million)	RMB (million)
Transportation expenses	1.2	1.1	1.5
Freight charges	1.1	3.0	4.9
Advertising and marketing expenses	1.3	1.6	1.1
Staff costs	0.9	1.2	2.1
Agency fees	0.3	1.7	0.5
Others	0.6	1.1	1.5
	5.4	9.7	11.6

The distribution expenses as a percentage of turnover were 1.1%, 1.6% and 1.6% for the years ended 31 December 2007, 2008 and 2009.

Administrative expenses

The Group's administrative expenses primarily consist of research and development expenses, staff and welfare expenses, depreciation and amortisation expenses, bank charges and exchange loss, taxes, travelling expenses, entertainment expenses, office expenses, donation and other miscellaneous expenses.

The following table sets forth the breakdown of administrative expenses during the Track Record Period:

	Year ended 31 December		
	2007	2008	2009
	RMB (million)	RMB (million)	RMB (million)
Research and development expenses	4.5	4.6	4.7
Staff and welfare expenses	3.6	4.4	6.0
Depreciation and amortisation expenses	2.5	4.0	7.3
Bank charges and exchange loss	0.3	1.1	1.1
Taxes	0.5	1.3	2.1
Travelling expenses	0.2	0.4	0.6
Entertainment expenses	0.3	0.6	0.9
Office expenses	0.2	0.5	1.2
Donation	5.3	0.2	0.2
Others	0.4	2.7	3.0
	17.8	19.8	27.1

The Group's administrative expenses as a percentage of turnover were 3.9%, 3.2% and 3.6% for the years ended 31 December 2007, 2008 and 2009.

Other operating expenses

Other operating expenses mainly include write-off of the cost of a property. The significant increase in other operating expenses from 2007 to 2008 was primarily due to the write-off of the cost of a property, with net book value of approximately RMB4.3 million leased to an independent third party as a result of fire damage in 2008. The Group's other operating expenses as a percentage of turnover were nil, 0.7% and nil for the years ended 31 December 2007, 2008 and 2009.

Finance costs

Finance costs primarily consist of interest expense on bank loans, factoring loans and loan from a related company. The Group's finance costs as a percentage of turnover were 1.6%, 1.6% and 1.6% for the years ended 31 December 2007, 2008 and 2009.

Income tax expense

Income tax expense consists of provision of current and deferred PRC income tax expenses in relation to the Group's subsidiary in the PRC. The Group was not subject to Hong Kong profit tax or any income tax in the Cayman Islands and the BVI during the Track Record Period. The provision of PRC enterprise income tax was based on a statutory rate of 33% of the assessable profits of subsidiary which carried on business in the PRC. On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC (the "new tax law") which took effect on 1 January 2008. As a result of the new tax law, the income tax rate applicable to the Group's subsidiaries in the PRC was 25% since 1 January 2008. Xinhua Company was recognised as a high and new technology enterprise in late 2009. According to Article 4 of the State Administration of

Taxation Notice on the Implementation of High and New Technology Enterprises Income Tax Benefit (Guo Shui Han [2009] No.203)(《國家稅務總局關於實施高新技術企業所得稅優惠有關問題的通知》(國稅函[2009]203號)), qualified high and new technology enterprises will enjoy income tax benefit from the year of its recognition. Accordingly, Xinhua Company is entitled to enjoy an income tax concession at a preferential rate of 15% effective from 1 January 2009, and the applicable income tax rate for Xinhua Company is 15% since 1 January 2009.

In addition, under the new tax law effective from 1 January 2008, the Group's subsidiaries in the PRC are required to withhold 5% PRC enterprise income tax when it distributes dividends to its non-PRC resident enterprise shareholders in relation to the distributable profit earned since 1 January 2008. Deferred tax is provided for the aggregate amount of temporary differences associated with distributable retained profits of the Group's subsidiary in the PRC.

The effective tax rates were 36.4%, 27.8% and 17.7% for the years ended 31 December 2007, 2008 and 2009 respectively. The decrease in the effective tax rate from 2007 to 2008 and further decrease in the period of 2009 was due to the change of the PRC tax rate from 33% in 2007 to 25% in 2008 due to the implementation of the new tax law since 1 January 2008 and the entitlement to an income tax concession at a preferential rate of 15% effective from 1 January 2009.

YEAR ON YEAR COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 December 2009 compared to year ended 31 December 2008

Turnover

The Group's turnover increased by approximately 20.5% from approximately RMB619.4 million for the year ended 31 December 2008 to approximately RMB746.6 million for the year ended 31 December 2009, primarily due to (1) the increase in overseas sales volume of non-woven fabrics as a result of marketing and promoting activities; (2) the introduction of the non-woven fabrics with new functions which resulted in the increase in average selling price due to better performance and qualities of products and (3) the gradual economic recovery in the second half of 2009. In 2009, an existing customer in Hong Kong, which has been the Group's customer since 2008 and is principally engaged in the trading business, increased its purchases from the Group to an amount of approximately RMB123.2 million, representing approximately 16.5% of the Group's total sales. Also, a new customer in Dubai principally engaging in the trading business made purchases from the Group in an amount of approximately RMB101.8 million representing approximately 13.6% of the Group's total sales. The beneficial owner of one of the Group's customer in 2008 and 2009 is a partner of this new customer.

Cost of goods sold

The Group's cost of goods sold increased by approximately 20.9% from approximately RMB435.1 million for the year ended 31 December 2008 to approximately RMB525.9 million for the year ended 31 December 2009 primarily due to corresponding increase in sales.

Gross profit and gross profit margin

The Group's gross profit increased by approximately 19.8% from approximately RMB184.3 million for the year ended 31 December 2008 to approximately RMB220.7 million for the year ended 31 December 2009 as a result of the increase in turnover. The gross profit margin remained stable for the year ended 31 December 2008 and 2009, being approximately 29.8% and 29.6%, respectively.

Other income

Other income significantly increased by approximately 80.0% from approximately RMB6.0 million for the year ended 31 December 2008 to approximately RMB10.8 million for the year ended 31 December 2009 primarily as a result of increase in government grants, subsidies and export incentives and increase in interest income due to the increase in bank and cash balances and the increase in rental income.

Distribution expenses

Distribution expenses increased by approximately 19.6% from approximately RMB9.7 million for the year ended 31 December 2008 to approximately RMB11.6 million for the year ended 31 December 2009 as a result of the increase in sales which drove up the relevant expenses such as freight charges.

Administrative expenses

Administrative expenses for the year ended 31 December 2009 increased by approximately 36.9% from RMB19.8 million for the year ended 31 December 2008 to RMB27.1 million for the year ended 31 December 2009 primarily due to increase in staff salary, amortisation cost for land and office expenses.

Other operating expenses

Other operating expenses significantly decreased from approximately RMB4.3 million for the year ended 31 December 2008 to nil for the year ended 31 December 2009 primarily due to the write-off of an investment property leased to an independent third party as a result of fire damage in 2008 which amounted to approximately RMB4.3 million. Since then, the Group has strengthened its control system to obtain insurances against fire damage to its properties.

Finance costs

Finance costs increased by approximately 28.4% from RMB9.5 million for the year ended 31 December 2008 to approximately to RMB12.2 million for the year ended 31 December 2009. The increase in finance cost was mainly due to the payment of interest expenses of RMB3.2 million on the loans from a related company, Hua Xin Weaving, bearing an interest rate of 5.4% per annum.

Income tax expense

Income tax expense decreased by approximately 21.6% from RMB40.8 million for the year ended 31 December 2008 to approximately RMB32.0 million for the year ended 31 December 2009, the effective tax rate decreased from 27.8% for the year ended 31 December 2008 to 17.7% for the year ended 31 December 2009. The decrease in the effective tax rate was mainly due to the Xinhua Company, as a high and new technology enterprise, was granted a tax concession at a preferential rate of 15% with effect from 1 January 2009.

Profit and total comprehensive income

Due to the factors described above, the Group's profit increased by approximately 39.9% for the year ended 31 December 2008 from approximately RMB106.2 million to approximately RMB148.6 million for the year ended 31 December 2009.

Owing to the exchange differences on translating foreign operations arose in 2009, the total comprehensive income in 2008 increased from approximately RMB106.2 million to approximately RMB148.5 million in 2009.

Year ended 31 December 2008 compared to year ended 31 December 2007

Turnover

The Group's turnover increased by approximately 34.6% from approximately RMB460.1 million for the year ended 31 December 2007 to approximately RMB619.4 million for the year ended 31 December 2008 as a result of the Group's effect to explore more export business in 2008.

Cost of goods sold

The Group's cost of goods sold increased by approximately 33.4% from approximately RMB326.2 million for the year ended 31 December 2007 to approximately RMB435.1 million for the year ended 31 December 2008.

Gross profit and gross profit margin

The Group's gross profit increased by approximately 37.6% from approximately RMB133.9 million for the year ended 31 December 2007 to approximately RMB184.3 million for the year ended 31 December 2008 as a result of the increase in sales volume.

The Group's gross profit margin slightly increased from approximately 29.1% for the year ended 31 December 2007 to approximately 29.8% for the year ended 31 December 2008 primarily owing to the cessation of the lower gross profit margin fashion garment business at the end of 2007.

Other income

The Group's other income increased significantly by approximately 200.0% from approximately RMB2.0 million for the year ended 31 December 2007 to approximately RMB6.0 million for the year ended 31 December 2008 as a result of the increase in government grants recognised, an increase in rental income due to the lease of a property to an independent third party and a related company, Hua Xin Weaving, and an increase in interest income.

Distribution expenses

Distribution expenses significantly increased by 79.6% from RMB5.4 million for the year ended 31 December 2007 to approximately RMB9.7 million for the year ended 31 December 2008 primarily due to increase in freight charges for shipments as a result of increase in exports sales and increase in salaries for sales staff and increase in agency fees paid to related companies, Costin Int'l Trade (H.K.) Company Limited as a result of the increase in export sales through Costin Int'l Trade (H.K.) Company Limited.

Administrative expenses

Administrative expenses increased by approximately 11.2% from RMB17.8 million for the year ended 31 December 2007 to approximately RMB19.8 million for the year ended 31 December 2008 primarily due to increase in depreciation charges for properties and business tax paid for rental income.

Other operating expenses

Other operating expenses increased significantly from approximately nil for the year ended 31 December 2007 to approximately RMB4.3 million for the year ended 31 December 2008 as a result of a write-off of a property leased to an independent third party which was damaged by fire in 2008.

Finance costs

Finance costs increased by approximately 30.1% from RMB7.3 million for the year ended 31 December 2007 to approximately RMB9.5 million for the year ended 31 December 2008 as a result of an increase in interest expenses on bank loans and factoring loans due to the increase in loans amount.

Income tax expense

Income tax expense increased by approximately 6.3% from RMB38.4 million for the year ended 31 December 2007 to approximately RMB40.8 million for the year ended 31 December 2008. The increase was attributable to the deferred tax liabilities representing the aggregate amount of temporary differences associated with distributable retained profits of the Group's PRC subsidiary pursuant to the PRC Enterprise Income Tax law where the Group's PRC subsidiary is required to withhold 5% to 10% PRC enterprise income tax when it distributes dividends to its non-PRC resident enterprise shareholders in relation to the distributable profit earned since 1 January 2008. The effective tax rate was 36.4% and 27.8% in 2007 and 2008. The decrease in the effective tax rate was mainly due to the implementation of the new tax law on 1 January 2008 and the income tax rate changed from 33% to 25%.

Profit and total comprehensive income

Due to the factors described above, the Group's profit and total comprehensive income significantly increased by approximately 58.5% from approximately RMB67.0 million for the year ended 31 December 2007 to approximately RMB106.2 million for the year ended 31 December 2008.

LIQUIDITY AND CAPITAL RESOURCES

The Group historically financed its operations primarily from cash flow from the Group's cash or cash equivalent, cash from its operating activities, borrowings from banks and related parties and the use of bills payable. Going forward, the Group believes its sources of liquidity will be satisfied by using a combination of cash provided by its operating activities, short-term or long-term indebtedness, bills payable and proceeds from the Global Offering.

The following table sets out a summary of the Group's cash flow for the Track Record Period:

	Year ended 31 December		
	2007	2008	2009
	RMB (million)	RMB (million)	RMB (million)
Net cash generated from operating activities	26.6	206.4	69.1
Net cash used in investing activities	(112.1)	(59.6)	(8.2)
Net cash generated from/(used in) financing activities	113.4	(152.4)	(2.8)
Net increase/(decrease) in cash and cash equivalents	27.9	(5.6)	58.1
Effect of foreign exchange rate changes	—	—	(0.1)
Cash and cash equivalents at beginning of year	44.1	72.0	66.4
Cash and cash equivalents at end of year	72.0	66.4	124.4

Cash flow from operating activities

The Group derived its cash inflow from operating activities principally from the receipt of payments for the sale of its products. Its cash outflow from operating activities is principally from purchases of raw materials.

For the year ended 31 December 2009, the Group had net cash generated from operating activities of RMB69.1 million, which was primarily contributed by operating profit before working capital changes of RMB217.7 million. These cash inflows were largely offset by the cash outflows of an increase in trade and bills receivables of RMB21.2 million, an increase in inventories of RMB12.4 million, a decrease in trade and bills payables of RMB53.3 million, a decrease in accruals and other payables of RMB10.2 million and a decrease in amount due to related companies of RMB6.1 million. The increase in trade and bills receivables was primarily due to the Group's sales growth. The decrease in trade and bills payables was mainly due to the increase in direct bank transfer to settle the purchase from suppliers to enjoy more discount offered by the suppliers. The increase in inventories was primarily due to increased purchases of raw materials in order to meet the growth in product demand for the Group's products.

For the year ended 31 December 2008, the Group had net cash generated from operating activities of RMB206.4 million, which was primarily contributed by operating profit before working capital changes of RMB182.7 million, decrease in inventories of RMB21.5 million, increase in trade and bills payables of RMB89.3 million and increase in accruals and other payables of RMB9.8 million. These cash inflows were partially offset by an increase in trade and bills receivables of RMB35.5 million, increase in prepayments, deposits and other receivables of RMB1.1 million and a decrease in amount due to related companies of RMB4.5 million. The decrease in inventories was primarily due to the Group's change of inventory policy to shorten the inventory turnover days in the light of decrease in raw materials prices in the global financial crisis in 2008. The increase in trade and bills payables was primarily due to increase in consumption to meet year-end orders. The increase in prepayments, deposits and other receivables was primarily due to prepayment for land use right.

For the year ended 31 December 2007, the Group had net cash generated from operating activities of RMB26.6 million, which was primarily contributed by operating profit before working capital changes of RMB121.2 million, an increase in trade and bills payables of RMB11.6 million, an increase in accruals and other payables of RMB3.6 million. These cash inflows were partially offset by an increase in trade and bills receivables of RMB62.1 million and increase in inventories of RMB5.8 million and a decrease in amount due to related companies of RMB8.8 million. The increase in trade and other payables was primarily due to increased purchases of raw materials. The increase in trade and bills receivables was primarily due to the Group's sales growth and the increase in inventories was primarily due to increased purchases of raw materials in order to meet the growth in product demand for the Group's products.

Cash flow from investing activities

The Group's cash outflow for investing activities is principally for purchases of property, plant and equipment, construction in progress, pledged bank deposits for securing bills payable, payment for prepaid land lease and prepayments for land use rights.

For the year ended 31 December 2009, the Group had net cash used in investing activities of RMB8.2 million, which was primarily due to its payment for prepaid land lease of RMB30.7 million, purchases of property, plant and equipment of RMB1.8 million, payment for construction in progress of RMB19.7 million, for the Group's Expanded Production Facilities and New Production Facilities. These cash outflows were partially offset by interest received of RMB1.8 million and a decrease in pledged deposits with banks of RMB42.1 million because of the decrease in bills payable.

For the year ended 31 December 2008, the Group had net cash used in investing activities of RMB59.6 million, which was primarily due to purchases of property, plant and equipment of RMB3.5 million, payment for construction in progress in the amount of RMB6.5 million, both relating to the Group's existing production facilities, and an increase in pledged deposits with banks of RMB51.5 million primarily due to increase in bills payables. These cash outflows were partially offset by proceeds from disposals of property, plant and equipment of RMB0.6 million and interest received of RMB1.4 million.

For the year ended 31 December 2007, the Group had net cash used in investing activities of RMB112.1 million, which was primarily due to purchases of property, plant and equipment of RMB35.4 million, payment for construction in progress in the amount of RMB35.1 million, both relating to the Group's existing production facilities, increase in long term prepayments of RMB40.1 million relating to the land use rights for the new production facilities and increase in pledged bank deposits of RMB3.4 million. These cash outflows were partially offset by proceeds from disposals of property, plant and equipment of RMB0.9 million and interest received of RMB0.9 million.

Cash flow from financing activities

The Group derived its cash inflow from financing activities principally from bank borrowings, factoring loans and advances from shareholders and related companies. The Group's cash outflow from financing activities relates primarily to its repayment of loans, factoring loans, advances due to shareholders and related companies and dividend payments.

For the year ended 31 December 2009, the Group had net cash used in financing activities of RMB2.8 million, which was primarily contributed by the cash outflows from the repayment of bank loans during the year in the amount of RMB234.9 million and decrease in amount due to related companies of RMB59.1 million, increase in amount due from a related company of RMB19.1 million and repayment of loans from related companies of RMB41.6 million. These cash outflows were partially offset by the cash inflows from drawdown of bank loans of RMB254.8 million, net drawdown of factoring loans of RMB8.7 million, increase in amount due to a related party of RMB20.1 million, increase in loans from related companies of RMB10.3 million and increase in amount due to related companies of RMB58.1 million.

For the year ended 31 December 2008, the Group had net cash used in financing activities of RMB152.4 million, which was primarily due to repayment of bank loans of RMB109.3 million, increase in amount due from related parties of RMB90.0 million and decrease in amount due to related companies of RMB175.0 million. These cash outflows were partially offset by drawdown of bank loans of RMB129.3 million, net drawdown of factoring loans of RMB9.8 million, increase in loans from related companies of RMB65.0 million and increase in amount due to related companies of RMB17.7 million.

For the year ended 31 December 2007, the Group had net cash generated from financing activities of RMB113.4 million, which was primarily contributed by drawdown of bank loans of RMB131.4 million, net drawdown of factoring loans of RMB4.5 million and increase in amount due to related companies of RMB191.3 million. These cash inflows were partially offset by the repayment of bank loans during the year in the amount of RMB108.4 million, decrease in amount due to related companies of RMB75.4 million and dividend paid of RMB30.0 million.

NET CURRENT ASSET/LIABILITIES

The following table sets out the Group's current assets and current liabilities as at the dates indicated:

	As at 31 December			As at 30 April
	2007	2008	2009	2010
	RMB (million)	RMB (million)	RMB (million)	RMB (million) (unaudited)
Current assets				
Inventories	36.2	14.7	27.0	83.2
Trade and bills receivables	104.8	140.3	161.5	140.4
Prepayments, deposits and other receivables	2.3	3.3	13.0	28.3
Due from a related company	—	—	19.1	—
Due from related parties	—	20.0	—	—
Current tax assets	—	—	18.8	18.8
Pledged bank deposits	17.1	68.7	26.5	0.9
Bank and cash balances	72.0	66.4	124.5	142.2
	232.4	313.4	390.4	413.8
Current liabilities				
Trade and bills payables	57.1	146.4	93.1	55.1
Accruals and other payables	11.9	21.7	11.5	18.2
Due to related companies	166.0	6.7	7.3	—
Due to a related party	—	—	20.1	—
Loan from related companies	—	—	5.4	—
Interest-bearing bank borrowings	100.0	129.7	158.3	154.0
Current tax liabilities	18.0	8.8	16.1	12.4
	353.0	313.3	311.8	239.7
Net current (liabilities)/assets	(120.6)	0.1	78.6	174.1

The Group had net current liabilities of approximately RMB120.6 million as at 31 December 2007, and net current assets of approximately RMB0.1 million and RMB78.6 million as at 31 December 2008 and 31 December 2009, respectively.

The net current liabilities of the Group were RMB120.6 million as at 31 December 2007. The net current liabilities improved and the Group had a net current assets of approximately RMB0.1 million as at 31 December 2008, which was mainly attributable to the decrease in due to related companies and increase in trade and bills receivables, and pledged bank deposits. The Group's net current assets continued to improve and it had a net current assets of approximately RMB78.6 million as at 31 December 2009.

As at 30 April 2010, the Group had net current assets of approximately RMB174.1 million. The increase in net current assets by approximately RMB95.5 million from approximately RMB78.6 million as at 31 December 2009 to approximately RMB174.1 million as at 30 April 2010 was primarily due to the increase in inventories and decrease in trade and bills payable.

Pursuant to the new enterprise income tax law passed by the Tenth National People's Congress promulgated on 16 March 2007 (the ''New Tax Law''), the income tax rate of domestic and foreign enterprises was unified at a rate of 25%. The New Tax Law became effective on 1 January 2008. In late 2009, Xinhua Company was recognised as a high and new technology enterprise. According to Article 4 of the Notice on the State Administration of Taxation Notice on the Implementation of High and New Technology Enterprises Income Tax Benefit (Guo Shui Han [2009] No.203) (《國家稅務總局關於實施高新技術企業所得稅優惠有關問題的通知》(國稅函[2009]203號)), qualified high and new technology enterprises will enjoy income tax benefit from the year of its recognition. Accordingly, Xinhua Company is entitled to enjoy an income tax concession at a preferential rate of 15% effective from 1 January 2009, and the applicable income tax rate for Xinhua Company is 15% since 1 January 2009.

The tax receivable of RMB18.8 million as at 31 December 2009 is in the form of deduction against tax payables for future periods.

TRADE AND OTHER RECEIVABLES

Trade and bills receivables

The Group's trade and bills receivables represent receivables from customers for sales of products. The Group had trade and bills receivables of approximately RMB104.8 million, RMB140.3 million and RMB161.5 million as of 31 December 2007, 2008 and 2009, respectively. The continue increase in trade and bills receivables as at 31 December 2007, 2008 and 2009 was primarily due to the increase in sales near the year end.

The table below set out the aging analysis of trade receivables, based on the invoice date, and net of allowance, as at the dates indicated:

	As at 31 December		
	2007	2008	2009
	RMB (million)	RMB (million)	RMB (million)
Up to 30 days	68.0	67.7	80.7
31 to 60 days	26.7	45.1	33.8
61 to 90 days	1.1	9.8	18.6
91 to 120 days	—	—	1.0
121 to 150 days	1.3	—	0.5
Over 150 days	2.6	—	—
	99.7	122.6	134.6

The trade receivables included amounts due from related companies in a total sum of RMB24.5 million, RMB2.0 million and nil as at 31 December 2007, 2008 and 2009 respectively. The trade receivables due from related companies were repayable on similar credit terms to those offered to independent major customers of the Group.

As at 31 December 2009, approximately RMB23.5 million of the bills receivables were pledged to banks to secure factoring loans granted to Xinhua Company.

As at 31 December 2009, trade receivables of RMB2.8 million from a number of independent customers who has no recent history of default were past due but not impaired.

As at 31 March 2010, all of the trade and bills receivables as at 31 December 2009 were subsequently settled.

During the Track Record Period, no provisions were made for the bad and doubtful debts.

To minimise the credit risk, the Group has adopted a strict internal control system over the outstanding receivables and overdue balance are reviewed by the Directors regularly.

The Group's trading terms with its customers were mainly on credit terms. Subject to factors such as past history of dealing, the Group generally granted to its customers credit terms ranging from 30 to 90 days. For new customers, the Group would normally request for payment in advance.

The table below sets out the Group's trade and bills receivables turnover days for the Track Record Period:

	Year ended 31 December		
	2007	2008	2009
Trade and bills receivables turnover days *(note)*. . . .	59	72	74

Note: Trade and bills receivables turnover days is equal to the average trade and bills receivables divided by turnover and multiplied by 365 days. Average trade and bills receivables are equal to trade and bills receivables at the beginning of the year plus trade and bills receivables at the end of the year and divided by two.

The trade and bills receivables turnover days increased from 59 days for the year ended 31 December 2007 to 72 days for the year ended 31 December 2008, the increase was primarily due to longer credit period of up to 90 days was granted to customers with good repayment history. The trade and bills receivable turnover days for the year ended 31 December 2009 was 74 days, which remained stable as compared to that of 72 days for the year ended 31 December 2008.

Prepayments, deposits and other receivables

Prepayments and deposits primarily consist of trade deposits, the current portion of the land use rights and prepaid listing expenses.

Pledged deposits

Pledged deposits represented the bank and cash balances pledged as security for bills payable granted to the Group. The increase in the balances over the Track Record Period was due to increase in bills payable.

Trade and other payables

Trade and bills payables

The Group's trade and bills payables primarily represented the amount the Group payable to its suppliers for purchases of raw materials.

The Group had trade and bills payables of approximately RMB57.1 million, RMB146.4 million and RMB93.1 million as of 31 December 2007, 2008 and 2009, respectively. The Directors confirm that bills payables guaranteed by the shareholders, directors and/or related parties included in the banking facilities granted by the banks had been released. The significant increase in the trade and bills payables by approximately 156.4% from approximately RMB57.1 million as at 31 December 2007 to approximately RMB146.4 million as at 31 December 2008 was primarily due to increase in the purchase of raw materials to satisfy the increasing sales orders over the period. The decrease in trade and bills payables as at 31 December 2009 was primarily due to decrease in bills payables, as the Group used more trade payables and direct bank transfer than bills when purchase from the suppliers to enjoy more discount offered by the suppliers.

The table below set out the aging analysis of trade payables, based on the date of receipt of goods, as at the dates indicated:

	As at 31 December		
	2007	2008	2009
	RMB (million)	RMB (million)	RMB (million)
Up to 30 days	5.1	10.0	18.0
31 to 60 days	12.0	6.6	10.1
61 to 90 days	—	11.8	2.5
91 to 120 days	—	0.6	1.4
121 to 150 days	—	—	—
Over 150 days	1.7	—	—
	18.8	29.0	32.0

The Group generally settled its purchases with the suppliers by direct bank transfer, bills and telegraphic transfer. The Group was granted credit terms ranging from 30 to 60 days by its suppliers.

As at 31 March 2010, approximately RMB31.9 million of the trade and bills payables as at 31 December 2009 were subsequently settled.

The table below set out the trade and bills payables turnover days for the Track Record Period:

	Year ended 31 December		
	2007	2008	2009
Trade and bills payables turnover days *(note)*	57	85	83

Note: Trade and bills payables turnover days is equal to the average trade and bills payables divided by cost of goods sold and multiplied by 365 days. Average trade and bills payables are equal to trade and bills payables at the beginning of the year plus trade and bills payables at the end of the year and divided by two.

The trade and bills payables turnover days increased from 57 days for the year ended 31 December 2007 to 85 days for the year ended 31 December 2008. The increase was mainly due to the increase in the use of bills to settle the purchase from suppliers and bills payable had longer credit period of up to 180 days. The trade and bills payable turnover days remained stable for the year ended 31 December 2008 and 2009.

Accruals and other payables

Accruals and other payables mainly consist of recognised government grants, refundable employment guarantee deposit, trade deposit for new customers, education funds, value-added taxes and accrued expenses which mainly consist of housing benefits and utilities expenses.

Amount due from related parties

The balance of amount due from shareholders of RMB20.0 million as at 31 December 2008 represented an unsecured, interest-free advance made by related companies to the Group for and was repayable within one year. This advance was settled in June 2009.

Amount due to related companies

The balances of amount due to related companies including Hua Xin Plastic, Xin Hua Import, Hua Xin Weaving, Costin Int'l Trade (H.K.) Company Limited and Wah Hing Trading Co as at 31 December 2007, 2008 and 2009 of approximately RMB166.0 million, RMB6.7 million and RMB7.3 million which were unsecured, interest-free loans and had no fixed terms of repayments and were for the Group's general working purposes. All balances of amount due to related companies were settled prior to the Listing by cash from the Group's internal resources.

Amount due from a related company

The amount due from a related company, Hua Xin Weaving, of approximately RMB19.1 million was unsecured, interest-free and had been fully received before 31 March 2010.

Amount due to a related party

The amount due to a related party of approximately RMB20.1 million, represented the amount due to Chim Wai Kong and was unsecured, interest-free, had been fully settled before 31 March 2010 by way of cash and capital contribution in Gerfalcon Hong Kong.

Loans from related companies

The balances of loans from related companies, Hua Xin Weaving and Costin Int'l Trade (H.K.) Company Limited, as at 31 December 2008 and 2009 of RMB65.0 million and RMB5.4 million were unsecured with an interest at 5.4% per annum, which was determined with reference to the prevailing market rate, and repayable within one year. Part of the loans from Hua Xin Weaving of approximately RMB31.1 million have been settled by setting off the purchase price in respect of the transfer of properties by Xinhua Company to Hua Xin Weaving on 28 September 2009 as referred to in the paragraph headed "Connected Transactions — C. Connected transactions completed or discontinued before Listing — 1(d) Property rights transfer agreement" of this prospectus. The remaining balance of the loans from related parties has been settled by cash from the Group's internal resources before the Listing.

Property, plant and equipment

Property, plant and equipment, mainly comprising buildings, machinery and equipment, office equipment and fixtures and motor vehicles, amounted to approximately RMB183.5 million, RMB140.0 million and RMB137.7 million as at 31 December 2007, 2008 and 2009, respectively. The decrease in property, plant and equipment from 2007 to 2009 was mainly due to the transfer of certain property, plant and equipment to investment properties and the transfer of Xinhua Company's rights in respect of certain buildings located in Xinhua Industrial Garden to Hua Xin Weaving at a consideration of approximately RMB31.1 million.

Inventories

During the Track Record Period, the value of the Group's inventory amounted to approximately RMB36.2 million, RMB14.7 million and RMB27.0 million, respectively.

The following table sets out the summary of the balance of the Group's inventories as of the dates indicated:

	As at 31 December		
	2007	2008	2009
	RMB (million)	RMB (million)	RMB (million)
Raw materials	25.5	5.2	14.3
Finished goods	10.7	9.5	12.7
	36.2	14.7	27.0

As at 31 March 2010, approximately RMB12.1 million of the raw materials inventory balance as at 31 December 2009, and approximately RMB12.7 million of the finished goods inventory balance as at 31 December 2009, were subsequently used or sold.

The following table sets out the inventory turnover days for the Track Record Period:

	Year ended 31 December		
	2007	2008	2009
Inventory turnover days	37	21	14

Note: The calculation of inventory turnover days is based on the average inventory balances divided by cost of goods sold and multiplied by 365 days for the year. Average inventory balances are equal to inventory balance at the beginning of the year plus inventory balances at the end of the year and divided by two.

The inventories decreased by approximately 59.4% from RMB36.2 million as at 31 December 2007 to RMB14.7 million as at 31 December 2008 was mainly due to (a) consumption of raw materials to meet increase sales orders; and (b) in 2008, the prices of the Group's raw materials decreased as a result of the global financial crisis which led to the Group to change its inventory policy to reduce the inventory level. The increase in inventories by approximately 83.7% from RMB14.7 million as at 31 December 2008 to RMB27.0 million as at 31 December 2009 was mainly for meeting the increasing demand on the Group's products.

The inventory turnover days decreased from 37 days for the year ended 31 December 2007 to 21 days for the year ended 31 December 2008 and further decreased to 14 days for the year ended 31 December 2009. The decrease was mainly due to the Group's effort to maintain lower inventory level to better manage its working capital.

The Group has no general policy for making provisions for inventories but will make assessments on provisions on a case-by-case basis. During the Track Record Period, no provisions were made for obsolete inventories given the fact that the Group's raw materials are not generally susceptible to obsolescence by passage of time.

CONTRACTUAL AND CAPITAL COMMITMENTS

Lease commitments

As at 31 December 2007, 2008 and 2009, the Group had commitments for future minimum lease payables under non-cancelable operating leases falling due as follows:

	As at 31 December		
	2007	2008	2009
	RMB (million)	RMB (million)	RMB (million)
Within one year	—	—	1.4
In the second to fifth years inclusive	—	—	1.4
	—	—	2.8

The lease commitments as at 31 December 2009 represented operating lease commitment payable to Hua Xin Weaving and Hua Xin Plastic for buildings. Leases are negotiated for an average term of one to two years and rentals are fixed over the lease terms and do not include contingent rentals.

Capital commitments

As at 31 December 2007, 2008 and 2009, the Group had the following capital commitments which are not provided for in the Group's combined financial statements:

	As at 31 December		
	2007	2008	2009
	RMB (million)	RMB (million)	RMB (million)
Contracted			
Construction in progress	12.6	25.3	—
Property, plant and equipment	2.8	0.3	0.2
Prepaid land lease payments	23.8	23.8	—
	39.2	49.4	0.2

CAPITAL EXPENDITURE

The following table sets out the historical capital expenditure during the Track Record Period:

	Year ended 31 December		
	2007	2008	2009
	RMB (million)	RMB (million)	RMB (million)
Land use rights prepayments	—	—	77.3
Equipment and machinery	71.8	11.3	1.8
Construction in progress	35.1	6.5	19.6
	106.9	17.8	98.7

The following table sets out the projected capital expenditure of the Group for the two years ending 31 December 2011:

	Year ending	
	31 December 2010	31 December 2011
	RMB (million)	RMB (million)
Projected capital expenditure		
Land and buildings	197.4	—
Property, plant and equipment	174.8	370.5
	372.2	370.5

The Group expects that the capital expenditure for the two years ending 31 December 2011 will be primarily used for land and buildings, property, plant and equipment for the Expanded Production Facilities, New Production Facilities and expansion of the Group's research centre.

The Group expects to finance its projected capital expenditure mainly by the net proceeds from the Global Offering, cash generated from operating activities and loans from financial institutions.

INDEBTEDNESS

Interest-bearing Borrowings

The Group's interest bearing borrowings outstanding as at 31 December 2007, 2008, 2009 and 30 April 2010 are as follows:

	As at 31 December			As at 30 April
	2007	2008	2009	2010
	RMB (million)	RMB (million)	RMB (million)	RMB (million)
Included in current liabilities:				
Interest-bearing bank borrowings				
— Short-term bank loans	94.9	114.9	134.8	154.0
— Factoring loans	5.1	14.8	23.5	—
Loan from related companies	—	—	5.4	—
	100.0	129.7	163.7	154.0
Included in non-current liabilities:				
Loan from related companies	—	65.0	—	—
Loan from a third party	—	—	—	10.0
Total borrowings	100.0	194.7	163.7	164.0

The average interest rates per annum as at 31 December 2007, 2008 and 2009 and 30 April 2010 are as follows:

	As at 31 December			As at 30 April
	2007	2008	2009	2010
Short-term bank loans (floating rate)	5.61%–9.11%	5.58%–9.34%	5.31%–8.95%	5.31%–6.37%
Short-term bank loans (fixed rate)	5.85%–7.23%	5.31%–8.59%	4.86%–7.47%	5.31%–5.84%
Factoring loans	5.04%–5.10%	2.30%–5.20%	1.92%–3.00%	N/A
Loan from a third party	N/A	N/A	N/A	11.0%
Loan from related companies	N/A	5.4%	5.4%	N/A

The carrying amounts of the Group's interest bearing borrowings are denominated in the following currencies:

	At 31 December			As at 30 April
	2007	2008	2009	2010
	RMB (million)	RMB (million)	RMB (million)	RMB (million)
RMB	100.0	194.7	149.1	125.6
US$	—	—	14.6	28.4
HK$	—	—	—	10.0
	100.0	194.7	163.7	164.0

As at 31 December 2007, 2008 and 2009, the Group's short-term bank loans were secured by (i) charges over buildings, machinery and equipment, investment properties and prepaid land lease payments of Xinhua Company and (ii) guarantees from third parties, related companies and directors and shareholders of Xinhua Company. The guarantees from related companies and directors and shareholders of Xinhua Company had been released as at 31 March 2010.

As at 31 December 2007, 2008 and 2009, certain of the buildings of Xinhua Company with carrying amount of approximately RMB3.8 million, nil and nil, prepaid land lease payments of approximately RMB7.3 million, RMB6.9 million and nil, and investment properties of approximately nil, RMB3.7 million and nil respectively had been pledged to secure the banking facilities granted to a related company.

As at 31 December 2007, 2008 and 2009, the factoring loans were secured by charges over bills receivables.

As at 31 December 2008 and 2009, the loan from related companies was unsecured, interest bearing at a fixed rate of 5.4% per annum and repayable within two years.

As at 30 April 2010, the Group's short-term bank loans were secured by the charges over the buildings, machinery and equipment, investment properties and prepaid land lease payments of Xinhua Company. The loan to a Hong Kong subsidiary of the Group from an independent third party, which is a company incorporated in Hong Kong, was unsecured, interest bearing at a fixed rate of 11.0% per annum and repayable within three years. Such fixed interest rate was determined by making reference to the then prevailing bank interest rates in Hong Kong on unsecured bank loans. The loan from the independent third party was denominated in HK dollars and used as general working capital.

As at 30 April 2010, being the latest practicable date for the purpose of this indebtedness statement prior to this printing to this prospectus. The Group's banking facilities and other facilities from third parties amounted to approximately RMB242.2 million and RMB17.6 million respectively (of which RMB158.9 million and RMB10.0 million had been utilised).

Save as disclosed above and the loans to be raised to finance the New Production Facilities, the Company currently does not intend to raise any material external debt financing for the year ending 31 December 2010 and there are no material covenants related to the existing outstanding debts of the Group.

Save as disclosed in the paragraph headed "Indebtedness" above, and apart from intra-group liabilities, the Group did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding at 31 December 2009.

The Directors confirmed that, as at 30 April 2010, being the latest practicable date for the purpose of the indebtedness statement in this prospectus, there have been no material changes in the Group's indebtedness since 31 December 2009.

GEARING RATIO

As at 31 December 2007, 2008 and 2009, the gearing ratios equal to the total of due to related companies, due to a related party, loan from related companies and interest-bearing borrowings divided by total assets were 53.7%, 35.9% and 30.4% respectively.

WORKING CAPITAL

The Directors are of the opinion that, taking into consideration the financial resources presently available to the Group, including bank loans, banking facilities and other internal resources, and the estimated net proceeds of the Global Offering, the Group has sufficient working capital for its present requirements at least in the next 12 months commencing from the date of this prospectus.

PROPERTY INTERESTS AND PROPERTY VALUATION

Jones Lang Lasalle Sallmanns Limited, an independent property valuer, has valued the Group's property interests as of 31 March 2010 and is of the opinion that the value of the Group's property interests as of such date was an aggregate amount of RMB159.8 million. The full text of the letter, summary of valuation and valuation certificates with regard to such property interests are set out in Appendix III to this prospectus.

The statement below shows the reconciliation of aggregate amounts of certain properties and lease prepayments as reflected on the audited combined financial statements as of 31 December 2009 with the valuation of these properties and lease prepayments (land use rights) as of 31 March 2010 as set out in Appendix III to this prospectus.

	RMB (million)
Net book value of property interests of the Group as at 31 December 2009	
Buildings and structures	77.6
Lease prepayment	83.1
	160.7
Movement for the period from 1 January 2010 to 31 March 2010	
Add: addition during the period (unaudited)	—
Less: depreciation during the period (unaudited)	(1.0)
Less: amortisation during the period (unaudited)	(1.1)
Net book value as at 31 March 2010 (unaudited)	158.6
Valuation surplus (unaudited)	1.2
Valuation of properties as at 31 March 2010	159.8

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in RMB and US$. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2009, if the RMB had weakened 5 per cent against the US$ with all other variables held constant, profit after tax for the year would have been RMB1,412,584 higher (2008: RMB194,697 lower and 2007: RMB111,975 higher), arising mainly as a result of the foreign exchange difference on trade and bills receivables/payables and interest-bearing borrowings denominated in US$. If the RMB had strengthened 5 per cent against the US$ with all other variables held constant, profit after tax for the year would have been RMB1,412,584 lower (2008: RMB194,697 higher and 2007: RMB111,975 lower), arising mainly as a result of the foreign exchange difference on trade and bills receivables/payables and interest-bearing borrowings denominated in US$.

(b) Credit risk

The carrying amounts of trade and bills receivables and bank and cash balances including pledged bank deposits included in the statement of financial position represent the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group's credit risk is primarily attributable to its trade receivable. The Group has policies in place to ensure that sales are made to customers with an appropriate credit history. In addition, the directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts.

As at 31 December 2009, the five largest trade receivables represent approximately 60% (2008: 64% and 2007: 64%) of the total trade receivables.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit rating agencies.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. Please refer to note 6(d) — interest rate risk of the Accountant's Report of Group set out in Appendix I to this prospectus for the impact on the Group's profit arising from change in interest rates.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2009. The Group is not involved in any current material legal proceedings, nor is the Group aware of any pending or potential material legal proceedings involving the Group. If the Group was involved in such material legal proceedings, it would record any loss contingencies when, based on information then available, it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, the Group has not entered into any off-balance sheet transactions.

DIVIDEND POLICY

For each of the three years ended 31 December 2007, 2008 and 2009, the Group paid dividends of RMB30.0 million, RMB70.0 million and RMB20.0 million, respectively. The payment and the amount of any future dividends will depend on the results of the Group's operations, cash flow, financial condition, statutory and regulatory restrictions on the payment of dividends, future prospects and other factors that the Directors may consider relevant. Holders of the Shares will be entitled to receive such dividends on a pro rata basis according to the amounts paid up or credited as paid up on the Shares. The declaration, payment and amount of any future dividends will be subject to the Directors' discretion.

Dividends may be paid out of the Company's distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such profits will not be available to be reinvested in the Company operations. There can be no assurance that the Company will be able to declare or distribute any dividend in the amount set out in any of its plans or at all. The Group's dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Company in the future.

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

RELATED PARTY TRANSACTIONS

With respect to the related parties transactions set out in this prospectus, the Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms were no less favourable to the Group than terms available to independent third parties and were fair and reasonable and in the interest of the Shareholders as a whole.

For details of these related party transactions, please refer to the Accountants' Report to the Group as contained in Appendix I to this prospectus in addition to the other transactions detailed elsewhere in this prospectus.

DISTRIBUTABLE RESERVES

The Company was incorporated in the Cayman Islands on 26 August 2009. The Company had no reserves distributable to Shareholders as at 31 December 2009 (the date of the Group's latest audited financial statements).

UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted combined net tangible assets has been prepared in accordance with Rule 4.29 of the Listing Rules and is for illustration purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as of 31 December 2009. It is prepared based on the combined net assets as of 31 December 2009 as set out in the Accountants' Report of the Group as set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma adjusted combined net tangible assets does not form part of the Accountants' Report of the Group as set out in Appendix I to this prospectus.

	Audited combined net tangible assets attributable to equity holders of the Company as of 31 December 2009 *(Note 1)*	**Estimated net proceeds from the Global Offering** *(Note 2)*	**Unaudited pro forma adjusted combined net tangible assets**	**Unaudited pro forma adjusted combined net tangible assets per Share** *(Note 3)*	**Unaudited pro forma adjusted combined net tangible assets per Share** *(Note 4)*
	(RMB million)	**(RMB million)**	**(RMB million)**	**(RMB)**	**(HK$)**
Based on an Offer Price of HK$2.36 per Share	307.0	390.7	697.7	0.87	0.98
Based on an Offer Price of HK$3.26 per Share	307.0	542.4	849.4	1.06	1.20

Notes:

(1) The audited combined net tangible assets attributable to equity holders of the Company as at 31 December 2009 is arrived at based on the audited combined net assets of RMB307,000,870 as at 31 December 2009, as shown in the Accountants' Report to the Group, the text of which is set out in Appendix I to this prospectus.

(2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK$2.36 per Share and HK$3.26 per Share after deduction of underwriting fees and other related expenses payable by the Company and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme. If the Over-allotment Option is exercised in full, the estimated net proceeds from the Global Offering and the unaudited pro forma adjusted net tangible assets per Share will increase correspondingly.

(3) The unaudited pro forma adjusted combined net tangible assets per Share as at 31 December 2009 is arrived at after adjustments as described in note 2 above and on the basis that a total of 800,000,000 Shares expected to be in issue assuming that the Global Offering had been completed as at 31 December 2009 but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme. The Group's property interests as at 31 December 2009 have been valued by Jones Lang Lasalle Sallmanns Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix III "Property Valuation" to this prospectus. The above adjustment does not take into account the surplus arising from the revaluation of the Group's property interests amounting to approximately RMB1.2 million. The revaluation surplus was not incorporated in the Group's financial statements for the year ended 31 December 2009. If the revaluation surplus was recorded in the Group's financial statements, the annual depreciation expense would be increased by approximately RMB60,000.

(4) The unaudited pro forma adjusted combined net tangible assets per Share are translated at the exchange rate of RMB1 to HK$1.13.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

The Directors have confirmed that as of the Latest Practicable Date, there are no circumstances which, had the Group been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

DIRECTORS CONFIRMATION ON NO MATERIAL ADVERSE CHANGE

The Directors have confirmed that, up to the Latest Practicable Date, there has been no material adverse change in the financial or trading position or prospects of the Group since 31 December 2009, and there is no event since 31 December 2009 which would materially affect the information shown in the Accountants' Report of the Group set out in Appendix I to this prospectus, in each case except as otherwise disclosed herein.