

COSTIN

海東青新材料集團有限公司*

COSTIN NEW MATERIALS GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2228



ANNUAL REPORT 2010

* For identification purpose only



CONTENTS

Corporate Information	02
Results Highlights	03
Chairman's Statement	04
Management Discussion and Analysis	06
Report of the Directors	15
Corporate Governance Report	26
Directors and Senior Management Profile	31
Independent Auditor's Report	35
Consolidated Statement of Comprehensive Income	36
Consolidated Statement of Financial Position	37
Statement of Financial Position of the Company	38
Consolidated Statement of Changes in Equity	39
Consolidated Statement of Cash Flows	40
Notes to the Financial Statements	42

Corporate Information

EXECUTIVE DIRECTORS

Mr. Chim Wai Kong (*Chairman*)
Mr. Chim Wai Shing Jackson (*Chief Executive Officer*)
Mr. Chim Fo Che
Mr. Hong Ming Qu

NON-EXECUTIVE DIRECTOR

Ms. Wee Kok Keng

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhu Min Ru
Mr. Feng Xue Ben
Mr. Wong Siu Hong

AUTHORISED REPRESENTATIVES

Mr. Chim Wai Shing Jackson
Mr. Chan Kwok Yuen Elvis

COMPANY SECRETARY

Mr. Chan Kwok Yuen Elvis (ACA, CFA, FCCA, FCPA)

AUDITOR

RSM Nelson Wheeler
Certified Public Accountants

INVESTOR RELATIONS CONSULTANT

Porda Havas International Finance Communications Group

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REGISTERED OFFICE

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George Town
Grand Cayman KY1-1112
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

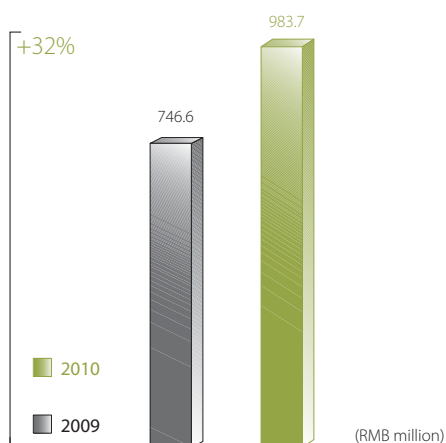
Suites 2703-04
27th Floor, Tower 6
The Gateway
Harbour City
Kowloon

WEBSITE

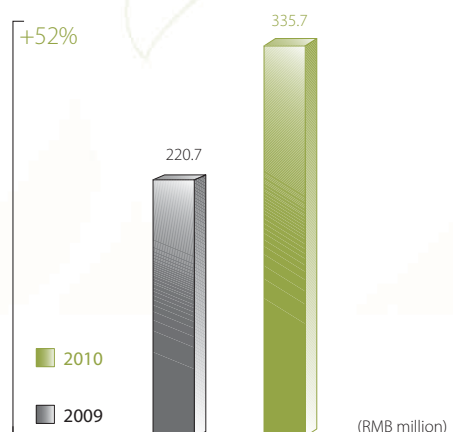
www.costingroup.com

Results Highlights

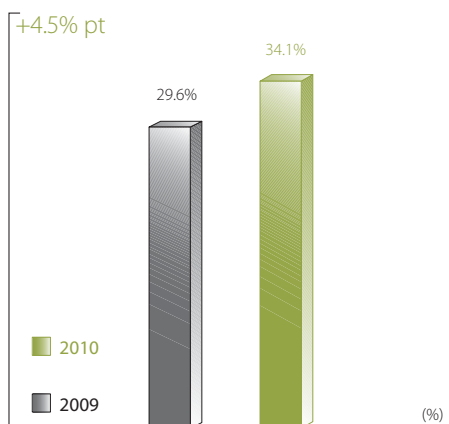
TURNOVER



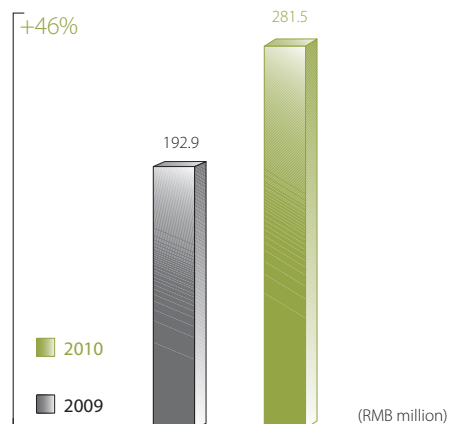
GROSS PROFIT



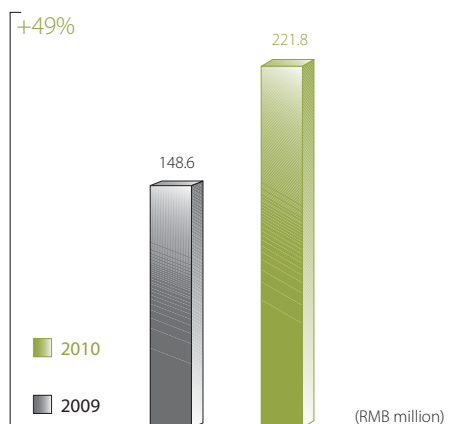
GROSS PROFIT MARGIN



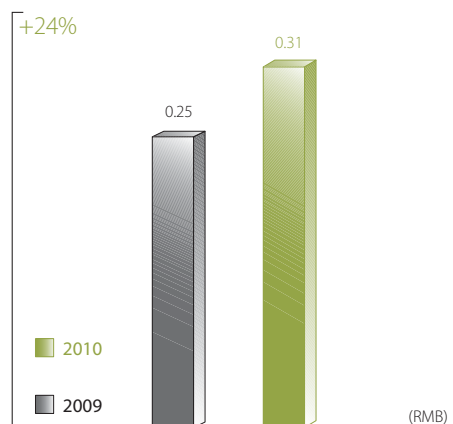
PROFIT FROM OPERATIONS



PROFIT FOR THE YEAR



BASIC EARNINGS PER SHARE



Chairman's Statement

To our esteemed shareholders,

I am pleased to present, on behalf of the board (the "Board") of directors (the "Directors") of COSTIN New Materials Group Limited ("COSTIN" or the "Company"), the first annual report for the Company and its subsidiary companies (collectively referred to as the "Group") for the year ended 31 December 2010.

2010 was a year of challenge and breakthrough for the Group. On 21 June 2010, the Group was successfully listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and became the first non-woven materials manufacturing enterprise in the People's Republic of China (the "PRC") listed on the Stock Exchange. Hence laying an important foundation for the Group's entrance into the global capital market, as well as establishing our leading position in the Chinese non-woven materials and recycled chemical fibres market.

With the advantage brought by the Group's successful entrance into the international capital market, our strength in research and development ("R&D"), comprehensive development plans, and diversified customer and product mix, along with supportive government policies like the National 12th Five-Year Plan that supported the environmentally friendly new materials industry, the Group saw outstanding growth during the year under review, with various operating indices performing well. Benefiting from sales increase and improved gross profit margin, the Group recorded outstanding growth in terms of financial performance. During the year under review, turnover of the Group reached RMB983.7 million, representing an increase of 31.8% from RMB746.6 million in 2009; whereas gross profit rose 52.1% from RMB220.7 million in 2009 to RMB335.7 million this year. Profit attributable to owners of the Company for the year reached RMB221.8 million, representing a growth of 49.4% from RMB148.5 million in 2009. Basic earnings per share for the year was approximately RMB0.31 (2009: RMB0.25).

The non-woven materials industry in the PRC has experienced robust growth. According to China Nonwovens and Industrial Textiles Association, the output of non-woven materials in the PRC increased from 633,000 tons in 2002 to 2,409,000 tons in 2009, representing a compound annual growth rate of 21%. Besides, according to The Association of the Nonwovens Fabrics Industry in the United States, the value of non-woven materials used by China in 2008 amounted to US\$2.32 billion and the amount will be further increased to US\$3.88 billion in 2013. In addition, the PRC government is implementing low-carbon environmental friendly policies that control pollutant emission and focus on waste materials management which is supportive of the recycling industry. Furthermore, the new materials industry, for which the Group is categorized, falls within the "seven strategic emerging industries" outlined in the National 12th Five-Year Plan, and was considered by the State Council as a major force that will be directing the future social and economic development of the country. These advantageous government policies will provide a massive market and countless opportunities to the recycled materials and high-end environmental friendly filtration products produced by the Group.

Chairman's Statement

The Group always emphasizes the importance of technological development and capacity expansion, taking advantage of market opportunities to attain leading market position. On the one hand, our Group focuses on R&D and innovations by collaborating with the renowned Tianjin Polytechnic University and Wuhan Textile University and our Group has obtained the American Scientific Certification Systems Recycled Content Certificate and developed various advanced and patented technologies. During the year under review, our Group has also passed the site review by the China Textiles Development Centre and continued to be recognised as the only "Fabrics China Pioneer Plant – Environment-friendly Filtering Materials" in the PRC. On the other hand, in order to fulfill the rapidly growing market demands, our Group has endeavored to expand its production facilities and machineries after its successful initial public offering of this year. As at 31 December 2010, the annual capacity of the Group's non-woven materials and recycled chemical fibres production lines have reached approximately 120 million yards and 30,000 tons, respectively. The number of production lines for non-woven materials will be increased from 17 to 28 by 2011 which will expand the total production capacity to approximately 150 million yards per annum whereas the production capacity of the recycled chemical fibres production lines will be expanded to 42,000 tons per annum after completion of its technological upgrade in 2011.

In view of the PRC government's policy to curb pollutant emissions by traditional industries, the Group intends to shift our focus from the current consumer product market to industrial consumable market by developing recycled material products and placing particular emphasis on high end filtration materials market. By capitalizing on the visions of "innovation through environment protection" and "boom from technologies", COSTIN will continue to tap into new application aspects and explore cross-sector applications in the market through its energy-saving production process and the R&D and application of its advanced technologies. Based on our mission of "Purifying the Impossible", COSTIN is targeted to become a leading green enterprise in China that will deliver a better living to people in a low carbon economy.

The listing of the Group on the Stock Exchange is a new milestone in its history, which enhanced its reputation and corporate image in the international capital market to a substantial extent. At the same time, the Group also takes up more obligations from the society and towards our shareholders. Looking ahead, the Group will practically implement the "Third Five-Year Plan" and transform the Group into a leading technology-driven new materials enterprise. The Group is confident that we will continue to achieve outstanding results and bring better return to the investors.

We would not have achieved such performance without the support and encouragement of our shareholders and business partners, as well as the loyal dedication and contribution of all our staff from various departments. The Group will strive to take advantage of supportive industrial policies and up-cycle advantages in order to achieve outstanding performance to reward the society.

Chim Wai Kong

Chairman

Hong Kong, 25 March 2011

Management Discussion and Analysis

ECONOMIC DEVELOPMENT

In 2010, global economic recovery continued in a slow pace. In order to drive further progress of economic recovery, major national economies adopted quantitative easing measures in monetary and fiscal policies. At the same time, the Chinese government continued to implement economic stimulus measures, which has effectively assured and facilitated the economic growth in the People's Republic of China (the "PRC"). The economic recovery pace in the PRC was faster than other countries and with a higher than expected growth rate. The gross domestic products ("GDP") for 2010 increased by 10.3%, which was higher than the 9.2% GDP growth rate in 2009. The GDP of China exceeded that of Japan in 2010 and became the second largest economy in the world.

INDUSTRY DEVELOPMENT

The Chinese non-woven materials industry is growing at a high speed. According to China Nonwovens and Industrial Textiles Association ("CNITA"), the output of non-woven materials in the PRC increased from 633,000 tons in 2002 to 2,409,000 tons in 2009, representing a compound annual growth rate of 21%. Besides, according to The Association of the Nonwovens Fabrics Industry in the United States, the value of non-woven materials used by China in 2008 amounted to US\$2.32 billion and the amount will be further increased to US\$3.88 billion in 2013. According to CNITA, the types of non-woven materials produced by the Group accounted for over 19% to the volume of fibres utilised by the textiles industry. There has always been strong demand for non-woven materials, which has gradually evolved into a new and modernized industrial products spanning over the textiles and new materials industries.

INDUSTRY POLICIES

The year of 2011 marks the beginning of a new National Five-Year Plan for the PRC. One of the emphasis in the National 12th Five-Year Plan was to hasten the nurturing and development of seven strategic emerging industries, namely (i) energy saving and environmental protection, (ii) new-generation information technologies, (iii) biotechnology, (iv) high-end equipment manufacturing, (v) new energy, (vi) new materials and (vii) alternative-fuel automobiles. At the same time, the State Council of the PRC expressed its aim to increase the GDP shares of such seven strategic emerging industries to approximately 8% by 2015 and further to 15% by 2020. The new materials industry, for which the Group is categorized, falls within such seven strategic emerging industries. Under the National 12th Five-Year Plan, the supports provided by government to the new materials industry will be the primary driving force for its rapid development.

During recent years, the Chinese government has devoted to environmental protection and focused on the sustainable development of the enterprises. The government has been exercising strict controls over traditional polluting industries, such as iron and steel, cement and coal-fired power plant. It is expected that the demand of filtration materials from such industries will continue to increase. In the meantime, with the improvement in people's awareness in environmental protection and resources recycling, the sustainable development of the enterprises can only be achieved from complete usage and recycling of materials. As the production of non-woven materials can utilise waste and recycled resources, the production of non-woven materials will not bring significant pollution to the environment. Whilst non-woven materials can be applied for reducing pollutants, the favourable market environment will further promote the business development of the Group.

Management Discussion and Analysis

BUSINESS REVIEW

As a recognition of its past development, competitive edges, corporate vision by the investors and the capital market, the Company was listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 21 June 2010. Through the listing, the Group is able to gain access to international capital market, which consolidated its own resources and enhanced its corporate governance. Leveraging on the huge potential in the development of the new materials industry and the strong capabilities of the Group in research and development ("R&D"), production and sales, the Group secured rapid business growth under the leadership of its experienced management team with satisfactory operational performance for the year under review.

Diversified product mix and wide applications

During the year under review, the Group devoted to expand its product varieties, improve its product quality and enhanced the applications for its non-woven materials and recycled chemical fibres. The Group's products can be applied as raw materials for the manufacturing of consumer goods and industrial products.

The scaffold structures of the Group's non-woven materials enable such products to be equipped with different functions such as water absorbent, water repellant, high elasticity, flame resistant, shock absorbent, filtering and anti-bacterial natures. They are widely applied in many industries, including heavy industries such as iron and steel, cement, coal-fired power plant, chemicals, coal and non-ferrous metals. They are also used as raw materials for textiles, shoes, luggage, tannery products, automobile interior decorations and household decorations.

The recycled chemical fibres manufactured by the Group are mainly polyester staple fibres, which can be used as raw materials for production of environmental protection filtration materials, industrial-used dust-filtering materials, thermal resistant and anti-corrosive materials, synthetic leather, shoe materials and other types of non-woven fabrics. Capitalizing on the visions of "innovation through environmental protection" and "boom from technologies", the Group is engaged in the production of recycled polyester staples from recycled PET chips derived from used and disposed PET bottles and other polyester containers. The Group complies with the policy for environmental protection as resources are effectively utilized.

With the gradual improvement in the PRC living standards, demand for non-woven materials and recycled chemical fibres from the market will be increased. Taking non-woven materials for passenger vehicles as an example, with urbanization growing rapidly throughout China, the ownership of automobiles has significantly increased. Nevertheless, the domestic sales of non-woven automobile materials in recent years grew at a slower pace than the sales of automobiles in the PRC. The excess demand for non-woven automobile materials was mainly satisfied by imports and this in fact introduces opportunities to the non-woven materials and recycled chemical fibres industries in the PRC. The Group will closely monitor the market trend to increase the product varieties in order to satisfy the needs of different customers and to expand our customer base.

Production capacity

As at 31 December 2010, the production facilities of the Group occupied an area of approximately 177,522 sq. m. (a total gross floor area of approximately 67,532 sq. m.) and a leasable area of approximately 10,434 sq. m. These facilities are equipped with high technology equipment and machinery imported from Germany, Taiwan and purchased from Mainland China, which were used in the production of non-woven materials and recycled chemical fibres. The Group currently has 17 production lines for non-woven materials, including 11 stitch-bonded production lines and 6 needle-punching production lines, with total annual production capacity of approximately 120 million yards. In addition, the Group currently has 2 production lines of recycled chemical fibres with an annual capacity of 30,000 tons.

Management Discussion and Analysis

BUSINESS REVIEW (CONT'D)

Strong R&D capabilities with strong technological competence

The Group always emphasizes the importance of production technologies improvement. It always devotes in R&D to improve and optimize the existing products and to strengthen their functions in order to boost production efficiency and reduce pollution. Different non-woven materials with various new functions introduced by the Group effectively maintained the price competitiveness of its products and increased its market share.

The R&D center of the Group possesses a team with technological competent engineers with expertise in the R&D of different types of functional fibres, non-woven materials and high-end filtration materials. The R&D centre was accredited as the Provincial-Level Corporate Technology Centre in the Fujian Province and possesses various advanced and patented technologies for its products.

During the year under review, the Group successfully registered 2 patents independently and 2 patents jointly with the Tianjin Polytechnic University. Furthermore, certain research projects conducted by the R&D centre were applied in the production of a number of products. Apart from establishing the Research and Development Centre of Non-woven Technologies jointly with the Tianjin Polytechnic University, the Group has also established the Research and Development Centre for New Materials in Textile Industry jointly with the Wuhan Textile University in order to promote the innovation in the aspect of research and development of technologies. As at 31 December 2010, the Group was applying for registration of 23 patents, including 19 patents being developed by the Group independently and 4 patents jointly developed with the Tianjin Polytechnic University.

Paramount product quality and international brands recognition

Leveraging on the lavish experiences in research and development and strong technical expertise, coupled with the abundance in producing superb products and preserving the environment, the Group's non-woven materials received recognitions from various parties. During the year under review, the Group received a number of awards and occupied a leading position in the industry. The Group has been awarded the 2009 Provincial Famous Products by the People's Government of Fujian Province. It has also renewed the ISO9001: 2008 certificate from SGS United Kingdom Ltd and the Oeko-TexR Standard 100 certificates from the Institute of the International Association for Research and Testing in the Field of Textile Ecology. In addition, the Group was the first PRC non-woven materials enterprise that successfully obtained the American Scientific Certification Systems ("SCS") Recycled Content Certificate, one of the most authoritative certificate of the United States. In order to tackle climatic change in the world and to reduce pollution, the European and United States governments have been assiduous in the promotion of recycled polyester material products to protect the ecology. The SCS certificate will enhance the competitiveness of the Group's non-woven products and such products can command a selling price that is approximately 10% higher than traditional non-woven materials. The Group has successfully obtained this environmental protection certificates for its non-woven fabrics, recycled polyester staples and fibre plates.

During the year under review, the Group has also passed the site review by the China Textiles Development Centre and therefore continued to be recognised as a "Fabrics China Pioneer Plant – Environment-friendly Filtering Materials". The assessment team considered that the Group has been devoted to developing the recycled economy focusing on the development of recycled materials. The Group has a clear positioning of its products and possesses advanced production and laboratory equipment. The assessment team also considered the Group's emphasis in technology innovation and investment in product research and development. The assessment team thus recommended the Group to renew its qualification of being the only "Fabrics China Pioneer Plant – Environment-friendly Filtering Materials" in the PRC.

Management Discussion and Analysis

FINANCIAL REVIEW

For the year ended 31 December 2010, financial performance of the Group has recorded outstanding growth as compared with 2009. Turnover of the Group has increased by approximately 31.8% to approximately RMB983.7 million while profit for the year attributable to owners of the Company has increased by approximately 49.3% to approximately RMB221.8 million.

Turnover

Turnover for the year ended 31 December 2010 was approximately RMB983.7 million, representing an increase of 31.8% or approximately RMB237.2 million from last year. The growth was primarily due to (1) a general increase in the selling price of the Group's products, (2) increased sales of functional non-woven materials with higher selling prices, and (3) increased sales of non-woven materials.

Turnover of non-woven materials for the year ended 31 December 2010 was approximately RMB759.6 million, representing an increase of 34.2% or approximately RMB193.8 million from last year. Turnover of chemical fibres for the year ended 31 December 2010 was approximately RMB224.1 million, representing an increase of 24.0% or approximately RMB43.4 million from last year.

During the year ended 31 December 2010, export sales to Hong Kong and overseas market accounted for approximately 44.2% (2009: 42.9%) of the Group's turnover while domestic sales has accounted for the remaining 55.8% (2009: 57.1%). The increase in the percentage of overseas sales was mainly due to the increasing popularity of the Group's products in Hong Kong and overseas markets and the increased efforts of the marketing department in the sourcing of Hong Kong and overseas customers and distributors.

During the year under review, non-woven materials of approximately 72,500,000 yards were sold by the Group, representing an increase of approximately 11.2% from last year. The increase in the sales of non-woven materials was not only attributable to the ongoing development conducted by the Group in new functions of its products for its customers, but also attributable to the increase in purchase made by new and existing customers in recognition of the paramount quality and remarkable performance of the Group's products.

Total sales in chemical fibres were approximately 28,200 tons, representing a slight decrease of approximately 1.7% from last year.

Gross profit and gross profit margin

Gross profit for the year under review was approximately RMB335.7 million, representing an improvement of 52.1% or approximately RMB115.0 million as compared with 2009. The increase in gross profit was mainly driven by increase in sales value and improvement in gross profit margin of the Group's products.

The gross profit for the non-woven materials segment accounted for approximately 81.0% of the total gross profit during the year under review. The gross profit for the chemical fibre segment accounted for approximately 19.0% of the total gross profit during the year under review. The gross profit margin of the Group for the period under review was 34.1%, representing an increase of 4.5 percentage points as compared to the same period of last year.

The gross profit margin for non-woven materials segment increased from 31.5% for the year ended 31 December 2009 to 35.8% for the year ended 31 December 2010. Such increase was attributable to general increase in product selling price and increased sales of functional nonwoven fabrics with higher gross profit margin. As for the chemical fibres segment, its gross profit margin was 28.5% for the year ended 31 December 2010, representing an increase of 4.9% over the 23.6% of last year. The increase in gross profit margin for chemical fibres was principally due to general increase in product selling price.

Management Discussion and Analysis

FINANCIAL REVIEW (CONT'D)

Distribution expenses

Distribution expenses for the year ended 31 December 2010 has increased by approximately RMB5.5 million as compared to 2009. Distribution expenses as a percentage of turnover was approximately 1.7% for the year ended 31 December 2010 (2009: 1.6%). The rise in distribution expenses as a percentage of turnover was mainly due to a general increase in transportation expenses and freight charges during the year under review.

Administrative expenses

Administrative expenses for the year ended 31 December 2010 has increased by approximately RMB20.3 million as compared to 2009. Administrative expenses as a percentage of turnover was approximately 4.8% for the year ended 31 December 2010 (2009: 3.6%). The increase in administrative expenses was mainly due to expenses incurred in relation to the initial public offering of the Company and additional administrative expenses incurred by the Group subsequent to the listing of the Company on the Stock Exchange on 21 June 2010.

Finance costs

Finance costs for the year ended 31 December 2010 has decreased by approximately RMB5.0 million as compared to 2009. Finance costs as a percentage of turnover was approximately 0.7% for the year ended 31 December 2010 (2009: 1.6%). The reduction in finance costs was mainly due to the repayment of loans from related companies on or about 31 December 2009.

Income tax expense

The Group's effective income tax rate for the year ended 31 December 2010 was approximately 19.1%, as compared to approximately 17.7% for the corresponding period in 2009. The increase in effective income tax rate was mainly due to the non-deductibility of administrative expenses of certain non-revenue generating entities of the Group.

Profit attributable to owners of the Company and net profit margin

Profit attributable to owners of the Company for the year ended 31 December 2010 was approximately RMB221.8 million, representing an increase of approximately 49.3% or approximately RMB73.2 million as compared with 2009. The net profit margin of the Group for the year under review was approximately 22.5%, representing an increase of 2.6% percentage points as compared with last year. The increase in net profit and improvement in net profit margin were mainly due to the increase in gross profit and gross profit margin of the Group during the period.

Earnings per share

The basic earnings per share for the year ended 31 December 2010 was approximately RMB0.31, representing an increase of approximately 24% as compared with 2009. The increase in basic earnings per share was a result of the increase in net profit for the year. No diluted earnings per share are presented as the Company did not have any dilutive potential ordinary shares during the two years ended 31 December 2009 and 2010.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

The shares of the Company are successfully listed on the Stock Exchange on 21 June 2010. 200,000,000 new shares of the Company has been offered at HK\$2.38 per offer share and the net proceeds of the global offering was approximately HK\$439.8 million after deducting related underwriting fees and other expenses. The Company currently intends to apply the net proceeds as to (i) approximately 43.2% for the establishment of the production facilities for the production of nonwoven fabrics for use as the composite synthetic leather; (ii) approximately 37.0% for the establishment of the production facilities for the production of non-woven fabrics for use as filtration materials; (iii) approximately 8.4% for the expansion of the Group's existing technology centre and the establishment of the research centre for new materials; (iv) approximately 2.3% to be used for the construction of ancillary facilities; and (v) approximately 9.1% as general working capital of the Group. As at the date of this annual report, approximately HK\$12.0 million has been applied by the Group for establishment of the filtration materials production facilities and approximately HK\$40.2 million has been used as general working capital. The Group has deposited the remaining unused proceeds with licensed banks in Hong Kong and the PRC.

The Group generally finances its operations with internally generated cash flow and facilities provided by its principal bankers in Hong Kong and in the PRC. The Group had bank and cash balances of approximately RMB627.8 million (2009: RMB124.4 million) and pledged bank deposits of approximately RMB26.3 million (2009: RMB26.5 million) as at 31 December 2010. The Group's cash and bank balances were mostly held in Hong Kong dollar and Renminbi.

As the Group conducts business transactions principally in Renminbi and US dollars, the management considered the exchange rate risk at the Group's operational level is not significant. Accordingly, the Group had not used any financial instruments for hedging purposes during the year under review. Nevertheless, the management will continue to monitor the foreign exchange exposure and is prepared to take prudent measures such as hedging when conditions are required.

The Group's interest-bearing borrowings were made in US dollars and Renminbi, approximately 40.7% (2009: 51.3%) of such borrowings bore interest at fixed lending rate.

As at 31 December 2010, the Group's interest-bearing borrowings amounted to approximately RMB177.8 million (2009: RMB163.7 million), all of which (2009: 100%) was repayable within one year.

The gearing ratio of the Group calculated as a ratio equal to the total of amount due to a related company, amount due to a related party, loan from a related company and interest-bearing borrowings to total assets was approximately 14.3% as at 31 December 2010 (2009: 30.4%). Net current assets and net assets at 31 December was approximately RMB625.9 million (2009: RMB74.1 million) and approximately RMB904.2 million (2009: RMB307.0 million), respectively.

As at 31 December 2010, certain of the Group's prepaid land lease payments, buildings and investment properties with carrying values of approximately RMB29.4 million (2009: RMB83.1 million), RMB13.5 million (2009: RMB29.5 million) and RMB19.9 million (2009: RMB21.2 million), respectively, were pledged to secure general banking facilities granted to the Group. In addition, as at 31 December 2010, trade receivables and bills receivables of approximately RMB44.8 million (2009: Nil) and Nil (2009: RMB23.5 million), respectively, were also pledged to secure general banking facilities granted to the Group.

As at 31 December 2010, the Group did not have any contingent liabilities (2009: Nil).

Management Discussion and Analysis

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the year ended 31 December 2010, the Group acquired property, plant and equipment and incurred costs for construction in progress of approximately RMB28.7 million and RMB43.9 million, respectively (2009: approximately RMB79.1 million and 19.7 million, respectively).

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 31 December 2010, the Group had a total of 647 (2009: 543) employees. The Group always maintains good working relations with its employees and has committed itself to staff training and development. Remuneration packages are maintained at a competitive level and are being reviewed on a periodical basis. Bonus and share options are awarded to employees according to the assessment of individual performance and industry practice. Subsequent to the year end, 13,710,000 share options were granted to the employees by the Company on 14 January 2011 and all of which remained unexercised as at the date of this annual report.

PROSPECTS

There is an ever-growing market demand for different types of consumables as a result of the rapid development of the PRC economy. In addition, the Chinese government will begin the implementation of the National 12th Five-Year Plan in 2011, which will become the driving forces behind the increase in domestic demand and development of green economy. New materials that are environmentally friendly will become one of the industries crucial to the development of the PRC economy. This will provide countless opportunities to the non-woven materials and recycled chemical fibres produced by the Group. The Group will closely monitor the market trend and capture favourable market conditions. The Group is dedicated to escalate the business of the Group to the next level through the execution of different strategies under its "Third Five-Year Plan".

Expansion of production capacity

To fulfill the strong market demand for the Group's non-woven materials and recycled chemical fibres, the Group will continue to expand its production capacity by building new production facilities and undertaking technology improvements for its existing production facilities in order to maintain the Group's competitiveness and market share.

During the year under review, the Group obtained approvals from the Environment Protection Bureau of Jinjiang, Fujian, the PRC for its recycled polyester fibres expansion project which will be completed by the second quarter of 2011. The government approval allows the Group to increase the volume of imported PET chips from 30,000 tons to 53,000 tons per annum, while the annual production capacity of the recycled chemical fibres production lines will be increased from 30,000 tons to 42,000 tons. Subsequent to the year end, on 15 February 2011, the Group has entered into an agreement to acquire a piece of land in Yongan City of the PRC with an area of approximately 600 mu (the "Land") at a land premium of RMB67.2 million. Further details of the transaction were disclosed in the Company's announcement dated 15 February 2011. The Group intends to set up new production facilities on the Land to further expand the production capacity of its recycled chemical fibres business from 42,000 tons per annum to an estimated capacity of approximately 162,000 tons per annum to cope with the increasing market demand for its recycled chemical fibres. This new production facilities is estimated to commence commercial production in early 2013.

Looking ahead in 2011, the Group will expand the number of its non-woven materials production lines from 17 to 28. Such additional capacities include 2 filtration materials production lines, 3 needle-punching non-woven materials production lines and 6 stitch bonded non-woven materials production lines. The total annual production capacity will be increased from approximately 120 million yards to approximately 150 million yards. The Group may also consider any strategic acquisition opportunities in China and overseas, which can expand its production capacity and geographical coverage.

Management Discussion and Analysis

PROSPECTS (CONT'D)

Expansion of production capacity (Cont'd)

Moreover, the Group intends to commence production of high-end filtration materials by the second quarter of 2011. In July 2010, the Group has entered into purchase agreements with Dilo Systems GmbH in Germany in relation to the purchase of equipment for its filtration materials production lines with annual production capacity of 10 million sq.m.. On the other hand, the composite materials production lines with planned annual capacity of 22.5 million sq.m. is expected to commence operation by the second quarter of 2012.

Strengthening of R&D and product quality improvement

Leveraging on its commanding capacity in research and development as well as the enlightened spirit in scientific innovation, the Group will continue to devote its efforts in R&D. More cooperation initiatives will be developed with leading tertiary institutes in the new materials industry to nurture professionals and enhance the technological standards. At present, the Group has been accredited as the Provincial-Level Corporate Technology Centre in the Fujian Province, a High and New Technology Enterprise in the Fujian Province and the only "Fabrics China Pioneer Plant – Environment-friendly Filtering Materials" in the PRC.

During the year under review, the Group successfully obtained the American SCS Recycled Content Certificate by capitalizing on advanced inspection and testing equipment. It was the first PRC non-woven materials enterprise that has obtained such certificate, which denoted zero emission in exhaust gas and sewage. The certification by SCS exhibited significance to the future market expansion and sales increases by the Group. The Group will continue to strictly comply with the environmental protection standards and uses its best endeavours to become a leading green enterprise in the PRC.

The Group will accentuate in improving and optimizing the functions, production technologies and quality of its non-woven materials and recycled chemical fibres. The Group will continue to reinforce the utilization of recycled materials and reduction in pollutants emission to reduce production costs and to achieve sustainable development, which will enhance its competitiveness, expand its customer base and maintain its leading market position.

Create new products and expand sales network

The PRC government promotes low carbon policy for environmental protection purpose. Regulations in sewage emission will be tightened and emphasis will be placed on waste disposals. These initiatives will support the development of the recycling industry. Under the National 12th Five-Year Plan, the new materials industry, for which the Group is categorized, falls within such seven strategic emerging industries which will be addressed by the State Council as an important driving force for the future economic and social development. The recycled materials and high-end environmentally friendly filtration products produced by the Group are just in time to capture the opportunities arising from such huge market and capitalize the favourable treatments offered by the State. Accordingly, the Group intends to gradually shift its market positioning from household consumer goods to industrial consumables. The Group will continue to assiduously explore the high-end filtration materials and recycled materials markets. It is expected that the Chinese government will continue to impose stricter restrictions over traditional polluting industries, such as iron and steel, cement, coal-fired and power plants. Demand from these industries for filtration materials with environmental protection functions will continue to increase and will further drive the growth of the environmentally friendly materials market. Disposable income in China will increase upon further increase in the GDP of China. The Group intends to increase the proportion of its domestic sales from approximately 56% at present to approximately 70% in the coming three years in order to align with the ever-growing opportunities arising from the domestic market.

Management Discussion and Analysis

PROSPECTS (CONT'D)

Create new products and expand sales network (Cont'd)

With respect to the high-end filtration materials targeted for industrial usage, the Group will utilize internationally-advanced production equipment and function-adding production lines. Building on the advanced production facilities, the Group will focus on the R&D of high quality filtration materials that can sustain harsh industrial conditions, including thermal resistance, anti-corrosive, and anti-static. The Group will produce high quality filtration products that can satisfy market which will allow the Group to occupy a leading position in the market of high-end environmentally friendly products in the PRC. The Group will tap into a new era in the environmental protection industry and obtain market share of high-end environmental protection products through its world class equipment, technologies and services.

The Group's marketing team will continue to explore any potential market opportunities and to expand its customer base and sales network. The Group will continue to recruit experienced sales staff and provide regular training to its sales team in order to build up a marketing team that is energetic, assiduous and knowledgeable with expertise in the industry so as to deliver professional and passionate services to our customers.

To formulate the "Third Five-Year Plan" for COSTIN

Moving into 2011, the Group will launch its "Third Five-Year Plan" so as to expand the domestic market under the support of the relevant policies promulgated by the PRC government. The "Third Five-Year Plan" strategies will be built upon the philosophies of promotions, operations, savings, research and development and applications. Implementation of the strategies will be executed in a comprehensive manner to focus on details, address costs and regulate consumption. Through the consistent adoption of diverse technology and ectopic marketing, COSTIN will strive its best to transform itself into an advanced technology-based enterprise.

The Group's "Third Five-Year Plan" pinpoints at: (i) creation of novel and functional products produced from recycled resources by standing on the foothold of the existing recycling industry; (ii) increase the investment in high-end environmental protection products for which the Group's high-end pollutants removing filtration materials will occupy a share in the PRC market; (iii) commence the needle-punching composite materials and special fibres projects to satisfy the domestic demand; and (iv) additional investment in advanced equipment and machinery for the production of environmental protection filtration materials. The Group can only penetrate its environmental protection businesses and technologies to every application aspect and to create unique high-end products market through the integration of R&D in filtration equipment. The Group will utilise technological innovation as an important pillar for the development and expansion of the environmental protection materials and new materials industries. Efforts will be devoted to the development of advanced technologies for the processing of recycled materials. By leveraging on technological innovation, the Group will develop functional high technology high performance products to satisfy market demands.

The foundation of the Group lay on technology and will achieve its development through innovation. The Group will assiduously to evolve with the corporate body as the subject in a market-oriented manner and to integrate itself with innovative technologies. The Group will continue to focus on the R&D of crucial technologies for the production of new textile materials, environmental protection filtration materials, composite materials, construction materials, civil engineering composite materials, automobile interior decoration materials and recycled materials. A service platform integrating high level intellectual properties, technological standards, quality inspection and technological information will be established which will facilitate the transformation and upgrading of the entire industrial structure and create high technology content unique to the Group. Through our strong competence in technology, the Group will direct the upstream and downstream consumption in the market. The Group will continue to engage in the development of two principal businesses, namely recycled chemical fibres and environmentally friendly non-woven new materials. By adhering to the philosophies of the recycling economy, the Group will be transformed as a leading enterprise in the new materials and recycled products industries within the time-span of the "Third Five-Year Plan" period.

Report of the Directors

The directors (the "Directors") of the Company herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group's operations are substantially conducted in the People's Republic of China (the "PRC") through its direct or indirect subsidiaries. Details of the principal activities of the principal subsidiaries are set out in note 18 to the financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover and results by principal activities and geographical area of operations for the year ended 31 December 2010 is set out in note 7 to the financial statements.

RESULTS AND DIVIDENDS

The Group's result for the year ended 31 December 2010 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 36 to 38.

On 25 March 2011, the Directors have resolved to recommend the payment of a final dividend of HK\$0.065 per share to the shareholders of the Company (the "Shareholders") as recorded on the register of members of the Company on Wednesday, 25 May 2011. The final dividend will be paid to the Shareholders on or about Tuesday, 31 May 2011. Coupled with the interim dividend of HK\$0.035 per share that was already paid to the Shareholders during the year, the total amount of dividends declared to the Shareholders for the year ended 31 December 2010 will be amounted to HK\$0.1 per share.

The register of members of the Company will be closed from Friday, 20 May 2011 to Wednesday, 25 May 2011, both days inclusive, during which period no transfer of shares shall be effected. To qualify for the final dividend and attendance and voting at the AGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Thursday, 19 May 2011.

Report of the Directors

SUMMARY FINANCIAL INFORMATION

RESULTS

	Year ended 31 December			
	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000
Turnover	983,738	746,566	619,420	460,090
Profit before tax	274,306	180,626	146,984	105,374
Income tax expense	(52,480)	(32,035)	(40,804)	(38,382)
Profit for the year attributable to owners of the Company	221,826	148,591	106,180	66,992

ASSETS AND LIABILITIES

	Year ended 31 December			
	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000
Total assets	1,245,727	627,997	560,469	495,291
Total liabilities	(341,499)	(320,996)	(381,957)	(352,959)
Net assets	904,228	307,001	178,512	142,332

Notes:

- (1) The consolidated results of the Group for the years ended 31 December 2009 and 2010 are set out on page 36 of this annual report.
- (2) The consolidated financial position of the Group as at 31 December 2009 and 31 December 2010 are as set out on page 37 of the annual report.
- (3) The summary financial information for the two years ended 31 December 2007 and 2008 was extracted from the Company's prospectus dated 8 June 2010 (the "Prospectus").

Report of the Directors

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Details of movements in the property, plant and equipment and investment property of the Group during the year are set out in notes 15 and 17 to the financial statements, respectively. Details of the Group's investment property is set out in note 17 to the financial statement.

BORROWINGS

Details of the borrowings of the Group as at 31 December 2010 are set out in note 26 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in notes 30 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2010, the Company had distributable reserves of approximately HK\$320,167,000. Under the Company's memorandum and articles of association and the Companies Law (Revised) of the Cayman Islands, the share premium of the Company of approximately HK\$316,616,000 at 31 December 2010 are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Report of the Directors

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling approximately HK\$1 million.

RETIREMENT BENEFITS SCHEMES

The Group operates a MPF Scheme for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of the trustees. The employees of the subsidiaries in the PRC participate in the state-managed retirement benefits schemes operated by the relevant local government authority in the PRC. The subsidiaries are required to make contributions to the Schemes at a certain percentage of the basic salaries of their employees. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions.

The total cost charged to the consolidated income statement of approximately HK\$306,000 (2009: HK\$155,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the schemes. At 31 December 2009 and 2010, no contributions due in respect of the reporting years had not been paid over to the schemes.

No employer's contribution was forfeited during the year. No unutilised forfeited contribution (2009: Nil) was available at 31 December 2010 to reduce the Group's future contributions.

The Group does not have any other pension scheme for its employees. In the opinion of the directors of the Company, the Group did not have any significant contingent liabilities as at 31 December 2010 in respect of the retirement of its employees.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 52% of the total sales for the year and sales to the largest customer included therein accounted for approximately 15%. Purchases from the Group's five largest suppliers accounted for approximately 46% of the total purchases for the year and purchases from the largest supplier included therein accounted for approximately 17%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers during the year.

Report of the Directors

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Chim Wai Kong (*Chairman*)

Mr. Chim Wai Shing, Jackson (*Chief Executive Officer*)

Mr. Chim Fo Che

Ms. Hong Ming Qu

Non-executive director:

Ms. Wee Kok Keng

Independent non-executive directors:

Mr. Zhu Min Ru

Mr. Feng Xue Ben

Mr. Wong Siu Hong

In accordance with article 107 of the Company's articles of association, Mr. Hong Ming Qu, Ms. Wee Kok Keng and Mr. Wong Siu Hong, will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The directors of the Company, including non-executive director and independent non-executive directors, are subject to retirement by rotation and re-election in accordance with the provisions of the Company's articles of association.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and of the senior management of the Group are set out on pages 31 to 34 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 21 June 2010 and may be terminated by not less than three months' prior notice in writing served by either party on the other.

Each of the non-executive Director and independent non-executive Directors has signed an appointment letter with the Company for a term of three years commencing from 21 June 2010 and may be terminated by not less than three months' prior notice in writing served by either party on the other.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Capacity	Number of shares	Approximate percentage of issued shares
Chim Wai Kong	Settlor of trust (Note 1)	420,000,000 (L)	52.50%
	Beneficiary of trust (Note 2)	159,600,000 (L)	19.95%
Chim Wai Shing Jackson	Settlor of trust (Note 1)	420,000,000 (L)	52.50%
	Beneficiary of trust (Note 3)	113,400,000 (L)	14.18%
Chim Fo Che	Beneficiary of trust (Note 4)	54,600,000 (L)	6.83%
Hong Ming Qu	Beneficiary of trust (Note 5)	18,900,000 (L)	2.36%

(L): Long Position

Notes:

- 420,000,000 Shares are held by Nian's Brother Holding Limited ("Nian's Holding"). The entire interest of Nian's Holding is wholly owned by Nian's Brother Investment Limited ("Nian's Investment") which in turn is held by JMJ Holdings Limited as a nominee in favour of RBS Coutts Trust (Switzerland) Ltd.. JMJ Holdings Limited is a company incorporated in the British Virgin Islands ("BVI") provided by RBS Coutts Trust (Switzerland) Ltd. for the purpose of establishing the Nian's Brother Trust. RBS Coutts Trust (Switzerland) Ltd. is the trustee of Nian's Brother Trust. Nian's Brother Trust is a discretionary trust set up by Chim Wai Kong and Chim Wai Shing Jackson, both being executive Directors, for the benefit of their family members. For the purpose of Part XV of the SFO, each of Chim Wai Kong and Chim Wai Shing Jackson is deemed to be interested in the Shares held by Nian's Holding as the settlors of Nian's Brother Trust.
- Chim Wai Kong is also one of the beneficiaries of the Nian's Brother Trust, he is deemed to be interested in 159,600,000 shares of the Company indirectly held by Nian's Holding.
- Chim Wai Shing Jackson is also one of the beneficiaries of the Nian's Brother Trust, he is deemed to be interested in 113,400,000 shares of the Company indirectly held by Nian's Holding.
- Chim Fo Che, an executive Director, is one of the beneficiaries of the Nian's Brother Trust. He is therefore deemed to be interested in the 54,600,000 shares of the Company indirectly held by Nian's Holding.
- Hong Ming Qu, an executive Director, is one of the beneficiaries of the Nian's Brother Trust. He is therefore deemed to be interested in the 18,900,000 shares of the Company indirectly held by Nian's Holding.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (CONT'D)

Save as disclosed above, as at 31 December 2010, none of the Directors and the chief executives of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Code contained in the Listing Rules to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme adopted by the Company on 12 May 2010, the details of which were disclosed in the Prospectus, at no time during the year ended 31 December 2010 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") which became effective on 12 May 2010. Pursuant to the Scheme, the directors may, at their discretion, invite any eligible employees (including executive directors), any non-executive directors, shareholders, suppliers and customers of the Group and any other parties having contributed or may contribute to the development of the Group to take up options to subscribe for the Shares. The subscription price shall be a price determined by the directors, but shall not be less than the highest of (i) the closing price of the Shares on the date of the offer; (ii) the average closing price of the Shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Share.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme must not exceed 30% of the total issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the total number of Shares in issue as at 12 May 2010. The Company may seek approval of the Company's shareholders in general meeting for refreshing the 10% limit under the Scheme save that the total number of Shares which may be issued upon exercise of all options to be granted under the Scheme under the limit as refreshed shall not exceed 10% of the total number of Shares in issue as at the date of approval of the limit.

The total number of Shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue. Where any further grant of options to a participant would result in the total number of Shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the total number of Shares in issue, such further grant must be separately approved by the shareholders of the Company in general meeting with such participant and his associates abstaining from voting.

Report of the Directors

SHARE OPTION SCHEME (CONT'D)

The Company did not have any share options outstanding as at 31 December 2010. On 14 January 2011, the Board approved the grant of a total 13,710,000 share options to certain directors and employees of the Group to subscribe for shares of HK\$0.1 each in the Company at an exercise of HK\$7.12 per share.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY

So far as is known to any Director or chief executive of the Company, as at 31 December 2010, the persons or companies (other than a Director or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of Shareholder	Capacity	Number of shares	Approximate percentage of issued shares
Nian's Holding	Beneficial owner	420,000,000 (L)	52.50%
Nian's Investment (Note 1)	Interest of controlled corporation	420,000,000 (L)	52.50%
JMJ Holdings Limited	Interest of controlled corporation (Note 2)	420,000,000 (L)	52.50%
RBS Coutts Trustees (Switzerland) Ltd.	Trustee (Note 2)	420,000,000 (L)	52.50%
Headwell (Note 3)	Beneficial owner	80,000,000 (L)	10.00%
Modern Creative (Note 3)	Interest of controlled corporation	80,000,000 (L)	10.00%
Liu Shu Fa	Interest of controlled corporation and family interest	80,000,000 (L)	10.00%
Wang Juan	Interest of controlled corporation and family interest	80,000,000 (L)	10.00%

(L): Long Position

Notes:

1. Nian's Holding is a wholly-owned subsidiary of Nian's Investment. For the purpose of Part XV of the SFO, Nian's Investment is therefore deemed to be interested in the shares held by Nian's Holding.
2. The entire interest of Nian's Investment is held by MJM Holdings Limited as a nominee in favour of RBS Coutts Trust (Switzerland) Ltd. for the purpose of establishing the Nian's Brother Trust. RBS Coutts Trust (Switzerland) Ltd. is the trustee of Nian's Brother Trust. For the purpose of Part XV of the SFO, MJM Holdings Limited and RBS Coutts Trustees (Switzerland) Ltd. are deemed to be interested in the shares indirectly held by Nian's Investment.
3. Headwell Investments Limited ("Headwell") is a wholly-owned subsidiary of Modern Creative Group Limited ("Modern Creative"). For the purpose of Part XV of the SFO, Modern Creative is therefore deemed to be interested in the Shares held by Headwell. Modern Creative is owned by Liu Shu Fa as to 50% and Wang Juan as to 50%. Liu Shu Fa is the spouse of Wang Juan. Liu Shu Fa and Wang Juan are deemed to be interested in the shares held by each other.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY (CONT'D)

Save as disclosed herein, the Directors are not aware of any person who was, as at 31 December 2010, directly or indirectly, interested or had short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, was directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of the Company or any options in respect of such capital.

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group during the year are set out in note 35 to the financial statements and such related parties transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. Save as disclosed therein, there were no other transactions which would need to be disclosed as connected transactions in compliance with the disclosure requirements in Chapter 14A of the Listing Rules.

The Directors (including the independent non-executive Directors) have confirmed that the above transactions have been and shall be entered into in the ordinary and usual course of the Group's business, on normal commercial terms and the terms are fair, reasonable and in the interest of the shareholders of the Company as a whole.

The Group had the following continuing connected transactions with related parties during the year:

Rental Agreement between Xinhua Co. and Hua Xin Plastic

On 5 January 2009, Xinhua Share Co., Ltd. Fujian (福建鑫華股份有限公司, "Xinhua Co.") as tenant and Jinjiang Hua Xin Plastic & Rubber Products Co., Ltd. (晉江華鑫塑料橡膠製品有限公司, "Hua Xin Plastic") as landlord entered into a rental agreement (the "2009 Rental Agreement (1)") whereby Xinhua Co. agreed to lease from Hua Xin Plastic two premises with total areas of 3,374.16 sq.m. for production and operation purposes. The 2009 Rental Agreement (1) is for a term of 36 months commencing in January 2009 and expiring in December 2011. The monthly rental is RMB46,103.50, exclusive of water and electricity charges, and is fixed throughout the term of the rental agreement.

For the year ended 31 December 2010, Xinhua Co. paid total rentals of RMB553,242 to Hua Xin Plastic.

Rental Agreements between Xinhua Co. and Hua Xin Weaving

On 5 January 2009, Xinhua Co. as tenant and Huaxin Weaving Development Co., Ltd. Jinjiang (晉江市華鑫織造發展有限公司, "Hua Xin Weaving") as landlord entered into a rental agreement (the "2009 Rental Agreement (2)") whereby Xinhua Co. agreed to lease from Hua Xin Weaving three premises with total areas of 7,059.41 sq.m. for production and operation purposes. The 2009 Rental Agreement (2) is for a term of 36 months commencing in January 2009 and expiring in December 2011. The monthly rental is RMB70,594.10, exclusive of water and electricity charges, and is fixed throughout the term of the rental agreement.

For the year ended 31 December 2010, Xinhua Co. paid total rentals of RMB847,129.20 to Hua Xin Weaving under the above rental agreement.

Report of the Directors

CONNECTED AND RELATED PARTY TRANSACTIONS (CONT'D)

Rental Agreements between Xinhua Co. and Hua Xin Weaving (Cont'd)

On 31 December 2009, Hua Xin Weaving as tenant and Xinhua Co. as landlord entered into a tenancy agreement (the "2010 Tenancy Agreement") whereby Hua Xin Weaving agreed to lease from Xinhua Co. five premises with total areas of 20,290.68 sq.m. for production and operations purposes. The 2010 Tenancy Agreement is for a term of one year commencing from 1 January 2010 to 31 December 2010. The monthly rental is approximately RMB223,197.48, exclusive of water and electricity charges, and is fixed throughout the term of the tenancy agreement.

Hua Xin Weaving has been granted a right of first refusal to purchase the premises under the 2010 Tenancy Agreement. The 2010 Tenancy Agreement is also renewable upon the consent of Xinhua Company with Hua Xin Weaving giving three months notice prior to the expiry thereof.

For the year ended 31 December 2010, Xinhua Co. received total rentals of RMB2,678,369.76 from Hua Xin Weaving under the above rental agreement.

Maximum aggregate Annual values

Based on the rents payable per month as set out in the 2009 Rental Agreement (1) and the 2009 Rental Agreement (2), the breakdown of the annual caps payable by Xinhua Co. thereunder are as follows:

	Year ended 31 December 2009 RMB	Year ended 31 December 2010 RMB	Year ending 31 December 2011 RMB
2009 Rental Agreement (1)	553,242.00	553,242.00	553,242.00
2009 Rental Agreement (2)	847,129.20	847,129.20	847,129.20
Total	1,400,371.20	1,400,371.20	1,400,371.20

Based on the rent receivable per month as set out in the 2010 Tenancy Agreement, the annual caps received by Xinhua Co. thereunder are as follows:

	Year ended 31 December 2009 RMB	Year ended 31 December 2010 RMB	Year ending 31 December 2011 RMB
2010 Tenancy Agreement	–	2,678,369.76	–

Xinhua Co. is a wholly-owned subsidiary of the Company. Hua Xin Plastic is wholly-owned by Mr. Chim Wai Kong while Hua Xin Weaving is owned as to approximately 99.75% by Mr. Chim Wai Kong and 0.25% by Mr. Chim Wai Shing, Jackson, both of which are executive Directors and controlling shareholders of the Company. Accordingly, the entering of the above-mentioned rental agreements constituted continuing connected transactions of the Company as defined in chapter 14A of the Listing Rules. Further details of these rental agreements were disclosed in the Company's Prospectus.

Report of the Directors

CONNECTED AND RELATED PARTY TRANSACTIONS (CONT'D)

RSM Nelson Wheeler was engaged to report on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the aforesaid continuing connected transactions in accordance with Rule 14.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

Based on the information and documents made available to them, RSM Nelson Wheeler concluded that:

- the above continuing connected transactions have been approved by the Company's Board of Directors;
- there are written agreements in place governing each of the continuing connected transactions and the transactions have been entered into in accordance with such agreements. No side agreement has been entered into in respect of the above continuing connected transactions; and
- the aggregate annual values of the above continuing connected transactions have not exceeded the maximum aggregate annual values as stated in the above maximum aggregate annual values table.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to date of this report, no directors are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, pursuant to the Listing Rules, other than those businesses of which the directors of the Company were appointed as directors to represent the interest of the Company and/or the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is available to the Company and within the knowledge of the directors, there is sufficient public float of more than 25% of the Company's issued shares as at the date of this report.

CORPORATE GOVERNANCE

Information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 26 to 30.

INDEPENDENT CONFIRMATION

The Company has received, from each independent non-executive director, an annual confirmation of independent pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange. The Company considers all the independent non-executive directors are independent.

AUDITOR

RSM Nelson Wheeler was appointed as auditor of the Company on 20 October 2009. There have been no other change of auditor in the last three years.

RSM Nelson Wheeler will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Chim Wai Kong

Chairman

Hong Kong
25 March 2011

Corporate Governance Report

INTRODUCTION

The Company is committed to ensuring high standards of corporate governance. Throughout the year of 2010, the Company has complied with the provisions on the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

DIRECTORS’ SECURITIES TRANSACTIONS

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) contained in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors have fully complied with the required standard set out in the Model Code since the date of listing of the Company on 21 June 2010 up to and including 31 December 2010.

BOARD OF DIRECTORS

The Board currently comprises four executive directors, one non-executive director and three independent non-executive directors. For a Director to be considered independent, the Board follows the requirements set out in the Listing Rules and must determine that the director does not have any direct or indirect material relationship with the Group. Under the Company’s Articles of Association, every director is subject to retirement by rotation at least once every three years and their re-election is subject to a vote by the shareholders. All independent non-executive directors are appointed for a specific terms.

The Board determines the overall strategies, monitors and controls operating and financial performance and sets appropriate policies to manage risks in pursuit of the Group’s strategic objectives. Day-to-day management of the Group’s business is delegated to the senior management. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate. Matters reserved for the Board are those affecting the Group’s overall strategic and financial policies including dividend policy, material contracts and major investments. All Board members have separate and independent access to the Group’s senior management to fulfill their duties. They also have full and timely access to relevant information about the Group and are kept abreast of the conduct, business activities and development of the Group. Independent professional advice can be sought at the Group’s expense upon their request.

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 21 June 2010 and may be terminated by not less than three months’ prior notice in writing served by either party on the other.

Each of the non-executive Director and independent non-executive Directors has signed an appointment letter with the Company for a term of three years commencing from 21 June 2010 and may be terminated by not less than three months’ prior notice in writing served by either party on the other.

Corporate Governance Report

The Board meets regularly to review the financial and operating performance of the Group, to make important decisions and to approve future strategies. Four Board meetings were held in 2010. Individual attendance of each director at the Board meetings, the Audit Committee meetings, the Nomination Committee meetings and the Remuneration Committee meetings during 2010 is set out below:

Director	Attendance/Number of Meetings			
	Board	Audit Committee	Nomination Committee	Remuneration Committee
Executive Director				
Mr. Chim Wai Kong (<i>Chairman</i>)	4/4	N/A	–	N/A
Mr. Chim Wai Shing, Jackson (<i>Chief Executive Officer</i>)	4/4	N/A	N/A	1/1
Mr. Chim Fo Che	4/4	N/A	N/A	N/A
Mr. Hong Ming Qu	4/4	N/A	N/A	N/A
Non-Executive Director				
Ms. Wee Kok Keng	3/4	1/1	N/A	N/A
Independent Non-Executive Director				
Mr. Zhu Min Ru	3/4	1/1	–	1/1
Mr. Feng Xue Ben	3/4	N/A	–	1/1
Mr. Wong Siu Hong	3/4	1/1	–	1/1

To implement the strategies and plans adopted by the Board effectively, executive directors and senior management meets regularly to review the performance of the businesses of the Group and make financial and operational decisions.

Biographical details of the directors, together with information about the relationship among them, can be found under the Profile of Directors and Senior Management section on pages 31 to 33.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Group has appointed Mr. Chim Wai Kong as the Chairman and Mr. Chim Wai Shing, Jackson as the Chief Executive Officer. The roles of the Chairman and the Chief Executive Officer are segregated. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in discharging its responsibilities. The Chief Executive Officer is responsible for the day-to-day management of the Group's business. The relationship between the Chairman and the Chief Executive Officer can be found in the Profile of Directors and Senior Management section on page 31.

REMUNERATION COMMITTEE

The Remuneration Committee has clear terms of reference and is accountable to the Board. The principle role of the committee is to exercise the powers of the Board to determine and review the remuneration packages of individual executive directors and senior management, considering factors such as salaries paid by comparable companies, time commitment and responsibilities of individuals. The terms of reference of the Remuneration Committee can be obtained from the Company upon request.

During the year, the Remuneration Committee reviewed the remuneration policies and approved the salary of directors and senior management. The remuneration of each director is determined by the committee with reference to his/her duties and responsibilities with the Company. No executive director has taken part in any discussion about his own remuneration. One meeting was held by the Remuneration Committee in 2010. Three out of four of the committee members are independent non-executive directors of the Company. Its current members include:

Mr. Zhu Min Ru – *Chairman*
Mr. Chim Wai Shing, Jackson
Mr. Feng Xue Ben
Mr. Wong Siu Hong

Directors' remunerations for the year are disclosed in note 12 to the financial statements.

NOMINATION COMMITTEE

The Nomination Committee has clear terms of reference and is accountable to the Board. The principle role of the committee is to exercise the powers of the Board to review the structure, size and composition (including the skills, knowledge and experiences) of the Board on a regular basis and make recommendations to the Board regarding any proposed change. The terms of reference of the Nomination Committee can be obtained from the Company upon request.

The terms of reference of the Nomination Committee have been determined with reference to the Code. The Nomination Committee is responsible for identifying potential new directors and recommending to the Board for decision. A Director appointed by the Board is subject to re-election by Shareholders at the first annual general meeting after his/her appointment. Under the Company's articles of association, at each annual general meeting one-third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at an annual general meeting at least once every three years. Basically, the nomination procedure follows the articles of association of the Company. Potential new Directors are selected on the basis of their qualification, skills and experience which the Nomination Committee considers will make a positive contribution to the performance of the Board.

No new Director was nominated for appointment during the year ended 31 December 2010. There has not been any proposed change to the composition of the Board during the year ended 31 December 2010. Therefore, the Nomination Committee has not held any meeting.

Corporate Governance Report

Three out of four of the committee members are independent non-executive directors of the Company. Its current members include:

Mr. Feng Xue Ben – *Chairman*
Mr. Chim Wai Kong
Mr. Zhu Miu Ru
Mr. Wong Siu Hong

AUDIT COMMITTEE

The Audit Committee has clear terms of reference and is accountable to the Board. The committee assists the Board in meeting its responsibilities for ensuring an effective system of internal control and compliance, and in meeting its external financial reporting objectives. The terms of reference of the Audit Committee can be obtained from the Company upon request. One meeting were held by the Audit Committee in 2010. Two out of three of the committee members are independent non-executive directors. Its current members include:

Mr. Wong Siu Hong – *Chairman*
Mr. Zhu Miu Ru
Ms. Wee Kok Keng

The committee members possess diversified industry experience and the Chairman of the Committee has appropriate professional qualifications and experience in accounting matters. During the year, the Committee considered the external auditors' re-appointment and their projected audit fees, reviewed the interim and annual financial statements and reviewed the Group's internal control system.

The Group's audited consolidated results for the year ended 31 December 2010 has been reviewed by the audit committee of the Company.

INTERNAL CONTROLS

The Group's internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorized use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. It provides reasonable, but not absolute, assurance against material misstatement or loss rather than the elimination of risks associated with its business activities.

The Board is responsible for maintaining an adequate system of internal control for the Group and the directors has conducted a review of its effectiveness during the year.

Corporate Governance Report

AUDITORS' REMUNERATION

During the year, the Group has incurred auditors' remuneration in respect of audit and auditing related services of approximately RMB1,315,000, out of which approximately RMB1,305,000 was paid/payable to the Company's auditors, Messrs RSM Nelson Wheeler. In addition, professional fee of approximately RMB65,000 was paid/payable by the Group for the taxation services rendered by RSM Nelson Wheeler.

FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing the Group's financial statements which give a true and fair view and are in accordance with appropriate International Financial Reporting Standards. Appropriate accounting policies are being selected and applied consistently.

The responsibilities of the external auditors with respect to financial reporting are set out in the Independent Auditors' Report on page 35.

Directors and Senior Management Profile

DIRECTORS

Executive Directors

CHIM, Wai Kong (粘為江), aged 55, is the chairman of the Group and an executive Director. Mr. Chim is principally responsible for the strategic development of the Group's operation. Mr. Chim has over 12 years of experience in non-woven materials industry. In 2001 and 2006, Mr. Chim was appointed as member of the 9th Committee in Quanzhou, Fujian Province of the Chinese People's Political Consultative Conference ("CPPCC") (中國人民政治協商會議福建省泉州市第九屆委員會委員) and member of the 10th Committee in Quanzhou, Fujian Province of the CPPCC (中國人民政治協商會議福建省泉州市第十屆委員會委員) respectively. In 2004, Mr. Chim was elected as Vice President of the 7th Executive Committee of General Chamber of Commerce in Jin Jiang (晉江市總商會第七屆理事會副會長), member of the 1st Executive Committee of Good Faith Council in Fujian Province (福建省誠信促進會第一屆理事會理事) and Vice President of the 8th Executive Committee of Jin Jiang Federation of Industry and Commerce (General Chamber of Commerce) (晉江市工商聯(總商會)第八屆理事會副會長). In March 2007, Mr. Chim was appointed as Supervisor of Party Conduct and Honesty in Jin Jiang (晉江市黨風廉政監督員) by Jin Jiang People's Government of Jin Jiang Committee under Communist Party of China (中共晉江市委員會晉江市人民政府) for a period of five years. In 2007, Mr. Chim was appointed as member of the 10th Committee in Fujian Province of the CPPCC (中國人民政治協商會議第十屆福建省委員會委員) and Honourary President of the 2nd Executive Committee of Jin Jiang Charity Federation (晉江市慈善總會第二屆理事會榮譽會長). Mr. Chim was appointed as a Director on 23 September 2009. Mr. Chim is the elder brother of Chim Wai Shing Jackson, Chim Fo Che and Hong Ming Qu.

CHIM, Wai Shing Jackson (粘偉誠), aged 37, is the chief executive officer of the Group and an executive Director. Mr. Chim is principally responsible for the management and formulation of the operation strategy of the Group. Mr. Chim has 12 years of experience in the non-woven materials industry. Mr. Chim was awarded as senior engineer by Fujian Providence Personnel Department (福建省人事廳) in 2006. In April 2001, Mr. Chim was elected as Chairman of the first Executive Committee of the Jin Jiang Overseas Friendship Association (晉江市海外聯誼會第一屆理事). In January 2003, Mr. Chim was appointed as Vice Chairman of the 1st Executive Committee of Quanzhou International Chamber of Commerce (泉州國際商會第一屆理事會副會長). In March 2007, Mr. Chim was appointed as Vice Chairman of the 6th Committee of Science and Technology Association in Long Hu Town (龍湖鎮科學技術協會第六屆委員會副主席). In May 2008, Mr. Chim was appointed as the first Honourary Dean of Strait Brand Economic Development Research Institute in Fujian Province (福建省海峽品牌經濟發展研究院首屆榮譽院長). Moreover, Mr. Chim is awarded as top 10 leading persons in China non-woven materials industry in 2009 (2009 中國非織造布行業管理十大領軍人物) and the special contribution prize to China Management Science (中國管理科學成就特別貢獻獎) in 2009. In 2010, Mr. Chim was also appointed as the Vice President of the Association of Industrial Textiles in China (中國產業用紡織品行業協會) and was selected as an outstanding entrepreneur in environment protection (環境保護優秀企業家). Mr. Chim is the visiting professor of School of Textiles of Tianjin Polytechnic University and vice president of World Eminence Chinese Business Association (世界傑出華商協會), Mr. Chim graduated with a master degree in management from Xiamen University (廈門大學) in 2005. Mr. Chim was appointed as a Director on 26 August 2009. Mr. Chim is the younger brother of Chim Wai Kong and Chim Fo Che, and the elder brother of Hong Ming Qu.

CHIM, Fo Che (粘火車), aged 52, is an executive Director. Mr. Chim is principally responsible for the administration and business development of the Group. Mr. Chim has 12 years of experience in the non-woven materials industry. Mr. Chim graduated with a bachelor degree in engineering from Xiamen University (廈門大學) in 2000. Mr. Chim did not hold any directorship in any listed companies during the Track Record Period. Mr. Chim was appointed as a Director on 23 September 2009. Mr. Chim is the younger brother of Chim Wai Kong and the elder brother of Chim Wai Shing Jackson and Hong Ming Qu.

Directors and Senior Management Profile

DIRECTORS (CONT'D)

Executive Directors (Cont'd)

HONG, Ming Qu (洪明取), aged 32, is an executive Director. Mr. Hong is principally responsible for research and development, marketing, quality control and production management of the Group. Mr. Hong has over 8 years of experience in non-woven materials industry. Mr. Hong graduated with a bachelor degree majoring in civil engineering from Xiamen University (廈門大學) in 2002. In May 2008, Mr. Hong completed the China Nonwovens Training Course 2008 jointly organised by CNITA and Association of the Nonwoven Fabrics Industry of the US. Mr. Hong was appointed as a Director on 23 September 2009. Mr. Hong is the younger brother of Chim Wai Kong, Chim Wai Shing Jackson and Chim Fo Che.

Non-executive Director

WEE, Kok Keng, aged 39, was appointed as a non-executive Director on 5 February 2010. Ms. Wee has over 16 years experience in accounting, finance and business management and held senior positions in various multinational companies. Ms. Wee graduated from the University of Adelaide with a bachelor of commerce in 1994. She was advanced to the status of Certified Practising Accountant of CPA Australia in 2000. Ms. Wee serves as independent investment director in Jin Shu Investment Limited from January 2007 till present. Prior to this appointment, she worked in Tele-Atlas Asia-Pacific Pte. Ltd as vice president, finance, Asia Pacific from July 2006 to December 2006 mainly responsible for finance related matters and some administrative and managerial responsibilities. From December 2003 to June 2006, Ms. Wee worked in Ventures Trust Pte Ltd as managing director fully responsible for the origination, implementation and execution of corporate finance works. From November 2000 to October 2003, she worked in Mitsubishi Securities (Singapore), holding the position of vice president from January 2003 onwards mainly responsible for the promotion and marketing of corporate advisory services and the execution and documentation of corporate advisory transactions. From July 1996 to November 2000, she worked in Maybank Investment Bank Berhad (previously known as Aseambankers Malaysia Berhad) as assistant manager in Corporate Finance Department with a portfolio that included fund raising, initial public listing, restructuring, reverse take-over, backdoor listing, acquisitions and dispositions of businesses and assets, etc.. From January 1994 to January 1996, Ms. Wee was an auditor in Arthur Andersen & Co..

Independent non-executive Directors

ZHU, Min Ru (朱民儒), aged 62, was appointed as an independent non-executive Director on 4 February 2010. Mr. Zhu has over 28 years of experience in textile industry. Mr. Zhu completed the professional course in textile chemical engineering with Tianjin Industrial College of Textile (later renamed as Tianjin Polytechnic University) in January 1982 and was granted a bachelor degree in textile chemical engineering by the same college in December 1982. Mr. Zhu has been the president of CNITA since its establishment in 2001. In December 2003, Mr. Zhu obtained the professional qualification of senior engineer with remuneration of the professor grade (享受教授級待遇的高級工程師) by Stateowned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會). Mr. Zhu was appointed a member of the editorial board of the annual China Textile Industry Development Report (中國紡織工業發展報告) from 2002–2009. Mr. Zhu acted as an independent director of Ningbo YAK Technology Industrial Company Limited (寧波宜科科技實業股份有限公司), a company listed on Shenzhen Stock Exchange (stock code: 002036) from July 2007 till present. Mr. Zhu also acted as an independent director of Zhejiang Longfu Hi Tech New Materials Company Limited (浙江尤夫高新纖維股份有限公司), a company listed on Shenzhen Stock Exchange (stock code: 002427) from June 2010 till present.

Directors and Senior Management Profile

DIRECTORS (CONT'D)

Independent non-executive Directors (Continued)

FENG, Xue Ben (馮學本), aged 59, was appointed as an independent non-executive Director on 4 February 2010. Mr. Feng has over 25 years of experience in textile industry. He is currently the chief engineer in Wuxi Jiayuan Nonwovens Technology Research Institute (無錫嘉元非織造技術研究所). From December 2007 onwards, for a period of four years, Mr. Feng served as deputy director of the first session of Non-woven Fabrics Machinery Professional Committee under China Textile Machinery and Equipment Industrial Association (中國紡織機械器材工業協會非織造布機械專業委員會). Mr. Feng is the chief editor of the professional textbook titled "Pine Non-woven Fabrics Technology and Quality Control" (《針刺非織造布工藝技術與產品控制》) and a wealth of articles in chemical fibres, non-woven materials and non-woven industrial facilities. Mr. Feng acted as an independent director of Fujian Nanfang Co., Ltd (福建南紡股份有限公司), a company listed on Shanghai Stock Exchange (stock code: 600483) from June 2002 to May 2008.

Mr. Feng also acted as an independent non-executive director of China Automotive Interior Decoration Holdings Limited (中國汽車內飾集團有限公司), a company listed on the Growth Enterprise Board of Hong Kong Stock Exchange from 29 September 2010.

WONG, Siu Hong (黃兆康), aged 42, was appointed as an independent non-executive Director on 4 February 2010. Mr. Wong graduated from Deakin University in Australia with a bachelor of commerce double majoring in accounting and commercial law in 1994. Before joining the Group, Mr. Wong worked in an international accounting firm and has 15 years of experience in auditing, accounting and finance. Mr. Wong is now the chief financial officer and company secretary of Heng Tai Consumables Group Limited, a company listed on the Stock Exchange (stock code: 197). Mr. Wong has been appointed as an independent non-executive director of Huafeng Textile International Group Limited, a company listed on the Stock Exchange (stock code: 364) since September 2004. Mr. Wong has been a certified practising accountant of CPA Australia since 1998 and an associate of Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants) since 1999.

SENIOR MANAGEMENT

CHAN, Kwok Yuen Elvis (陳國源), aged 38, is the chief financial officer and company secretary of the Company and is responsible for the accounting, financial, secretarial and investor relation affairs of the Group. Mr. Chan has over 14 years of experience in the field of accounting and finance. Prior to joining the Group, Mr. Chan served as the chief financial officer and company secretary of Kiu Hung Energy Holdings Limited, a company listed on the main board of the Stock Exchange (stock code: 381), for over 9 years. Mr. Chan is a fellow of the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants, an associate of the Institute of Chartered Accountants in England and Wales, a Chartered Financial Analyst of the CFA Institute, a member of the Hong Kong Society of Financial Analysts and an associate member of the Society of Technical Analysts of the United Kingdom. Mr. Chan obtained a bachelor degree in commerce from Queen's University of Canada in 1995. Mr. Chan is also an executive director of The Hong Kong Fujian Charitable Education Fund (香港福建希望工程基金會).

Ji, Li Quan (紀理荃), aged 49, is the executive president of Xinhua Company. Mr. Ji joined the Group in August 2010 and is responsible for the daily operation of Xinhua Company. Mr. Ji graduated from Xiamen Institute of Finance (廈門財經學院) in 1985, and graduated from Economic and Management School of Peking University in 1990 with a major in economics management. Mr. Ji has over 20 years of experiences in enterprise management.

Directors and Senior Management Profile

SENIOR MANAGEMENT (CONT'D)

HONG, Lian Qiao (洪連橋), aged 43, is the deputy chief executive officer of Xinhua Company mainly responsible for merchandising and cost control of all raw materials and other equipment and maintenance of relationship with suppliers. Mr. Hong has over 25 years of experience in sales and marketing. Mr. Hong joined the Group in 2006. Mr. Hong is a brother-in-law of Chim Wai Kong, Chim Wai Shing Jackson, Chim Fo Che and Hong Ming Qu.

CHEN, Min Tsung (陳敏聰), aged 52, is the deputy chief executive officer of Xinhua Company mainly responsible for overseeing the daily operations of the production centre and ensuring the implementation of company policies. Mr. Chen graduated from Lingdong School of Commerce in Taiwan (嶺東商業專科學校) and joined the Group in 2006.

CHEN, Hui (陳暉), aged 42, is the deputy chief executive officer of Xinhua Company. Mr. Chen has 16 years of experience in accounting and finance and is mainly responsible for overseeing the finance and accounting matters and co-coordinating inter-departmental work relations. Mr. Chen joined the Group in April 2005.

ZHAI, Hong Bing (翟紅兵), aged 44, is the administrative director of Xinhua Company mainly responsible for overseeing the administrative matters. Ms. Zhai graduated from Beijing Zhangcheng College with a bachelor degree majoring in business administration in 2001. Ms. Zhai also completed the internal auditor training in environmental management system (ISO14001:2004) in 2007. Ms. Zhai joined the Group in 2007 and is also the president of the labour union of Xinhua Company.

LIU, You Neng (劉友能), aged 45, is the finance director of Xinhua Company. Mr. Liu has 8 years of experience in accounting and finance and is mainly responsible for assisting the finance director in finance and accounting matters. Mr. Liu joined the Group in 2007.

PANG, Jian Zhu (逢建竹), aged 48, is the sales director of Xinhua Company. Ms. Pang has over 14 years of experience in textile industry. Ms. Pang graduated from Party School of the Central Committee of the Communist Part of China (中共中央黨校函授學院) majoring in Economics Management in 1995. Ms. Pang joined the Group in 2008.

TIAN, Yu Sheng (田雨勝), aged 50, is the technology and production director of Xinhua Company. Mr. Tian joined the Group in November 2010, who is mainly responsible for the production and technologies management system. Mr. Tian graduated from CCP Cadre Distance Learning School in 2001 with a degree in law and obtained the title of engineer. Mr. Tian has more than 32 years of experiences in the production and technologies management for textiles and non-woven materials industries.

YANG, Je Lin (楊澤林), aged 39, the general manager of the new materials department of Xinhua Company. Mr. Yang joined the Group in October 2003, who is mainly responsible for the operation of the new materials department. Mr. Yang graduated from the non-woven department of Tianjin Industrial College of Textile in 1995. Mr. Yang has over 16 years of experiences in non-woven materials industry.

Prof. GUO, Bing Chen (郭秉臣), aged 66, is the senior consultant of research and development centre of Xinhua Company. Prof. Guo graduated from Tianjin Industrial College of Textile (later renamed as Tianjin Polytechnic University), majoring in textile engineering in 1980. Prof. Guo was conferred professorship in 1998. Over the decades of academic endeavours, Prof. Guo had attained remarkable achievements in research and development and published a wealth of theses in the textile industry. Amongst them, the book titled "Non-woven Textile" (《非織造布學》) received exceptional recognitions including the Science and Technology Awards (科學技術獎) and the "Tenth Five-year" Outstanding Teaching Material of ministry and commission level ("十五"部委級優秀教材) by China National Textile And Apparel Council (中國紡織工業協會) in 2005 and 2006 respectively. Prof. Guo joined the Group in 2007.

Independent Auditor's Report

RSM Nelson Wheeler

中瑞岳華(香港)會計師事務所

Certified Public Accountants

TO THE SHAREHOLDERS OF COSTIN NEW MATERIALS GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of COSTIN New Materials Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 88, which comprise the consolidated and Company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's results and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

25 March 2011

Consolidated Statement of Comprehensive Income

For The Year Ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Turnover	7	983,738	746,566
Cost of goods sold		(648,050)	(525,872)
Gross profit		335,688	220,694
Other income	8	10,355	10,826
Distribution expenses		(17,157)	(11,632)
Administrative expenses		(47,341)	(27,038)
Profit from operations		281,545	192,850
Finance costs	9	(7,239)	(12,224)
Profit before tax		274,306	180,626
Income tax expense	10	(52,480)	(32,035)
Profit for the year attributable to owners of the Company	11	221,826	148,591
Other comprehensive income for the year, net of tax			
Exchange differences on translating foreign operations		(8,163)	(102)
Total comprehensive income for the year attributable to owners of the Company		213,663	148,489
Earnings per share	14		
Basic		RMB0.31	RMB0.25

Consolidated Statement of Financial Position

At 31 December 2010

		31 December 2010 RMB'000	2009 RMB'000 (Restated)	1 January 2009 RMB'000 (Restated)
	Note			
Non-current assets				
Property, plant and equipment	15	243,647	220,917	149,379
Construction in progress	16	26,480	–	24,628
Investment properties	17	19,908	21,186	27,122
Prepayments for acquisition of property, plant and equipment		7,089	–	46,546
		297,124	242,103	247,675
Current assets				
Inventories	19	61,553	27,017	14,658
Trade and bills receivables	20	225,823	161,502	140,327
Prepayments, deposits and other receivables		7,079	8,538	2,757
Due from a related company	21	–	19,108	–
Due from related parties	21	–	–	20,000
Current tax assets		–	18,748	–
Pledged bank deposits	22	26,306	26,549	68,690
Bank and cash balances	22	627,842	124,432	66,362
		948,603	385,894	312,794
Current liabilities				
Trade and bills payables	23	97,626	93,054	146,352
Accruals and other payables		33,736	11,508	21,739
Due to related companies	24	–	7,294	6,677
Due to a related party	24	–	20,132	–
Loan from a related company	24	–	5,395	–
Interest-bearing bank borrowings	26	177,833	158,334	129,759
Finance lease payables	27	161	–	–
Current tax liabilities		13,320	16,046	8,765
		322,676	311,763	313,292
Net current assets/(liabilities)		625,927	74,131	(498)
Total assets less current liabilities		923,051	316,234	247,177
Non-current liabilities				
Finance lease payables	27	554	–	–
Loan from a related company		–	–	65,000
Deferred tax liabilities	29	18,269	9,233	3,665
		18,823	9,233	68,665
NET ASSETS		904,228	307,001	178,512
Capital and reserves				
Share capital	30	70,400	80,000	80,000
Reserves	31	833,828	227,001	98,512
TOTAL EQUITY		904,228	307,001	178,512

Approved by the Board of Directors on 25 March 2011

Chim Wai Kong
Director

Chim Wai Shing, Jackson
Director

Statement of Financial Position of the Company

At 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Investment in subsidiaries	18	20,221	–
Current assets			
Prepayments		318	8,215
Dividend receivables		28,900	–
Due from a subsidiary	18	335,588	–
Bank and cash balances	22	7,817	–
		372,623	8,215
Current liabilities			
Accruals and other payables		882	–
Due to subsidiaries	18	1,395	8,344
		2,277	8,344
Net current assets/(liabilities)		370,346	(129)
NET ASSETS/(LIABILITIES)		390,567	(129)
Capital and reserves			
Share capital	30	70,400	–
Reserves	31	320,167	(129)
TOTAL EQUITY/(CAPITAL DEFICIENCY)		390,567	(129)

Approved by the Board of Directors on 25 March 2011

Chim Wai Kong
Director

Chim Wai Shing, Jackson
Director

Consolidated Statement of Changes In Equity

For the Year Ended 31 December 2010

	Share capital RMB'000	Share premium RMB'000 (note 31 (c)(i))	Foreign currency translation reserve RMB'000 (note 31 (c)(ii))	Statutory reserve RMB'000 (note 31 (c)(iii))	Capital reserve RMB'000 (note 31 (c)(iv))	Merger reserve RMB'000 (note 31 (c)(v))	Retained profits RMB'000	Total RMB'000
At 1 January 2009	80,000	–	–	31,275	–	–	67,237	178,512
Total comprehensive income for the year	–	–	(102)	–	–	–	148,591	148,489
Transfer to statutory reserve	–	–	–	20,624	–	–	(20,624)	–
Dividends paid (note 13)	–	–	–	–	–	–	(20,000)	(20,000)
Changes in equity for the year	–	–	(102)	20,624	–	–	107,967	128,489
At 31 December 2009 and 1 January 2010	80,000	–	(102)	51,899	–	–	175,204	307,001
Total comprehensive income for the year	–	–	(8,163)	–	–	–	221,826	213,663
Transfer to statutory reserve	–	–	–	24,489	–	–	(24,489)	–
Effect of group reorganisation	(79,974)	–	–	–	–	79,974	–	–
Effect of loan capitalisation	–	–	–	–	20,934	–	–	20,934
Capitalisation	52,774	(52,774)	–	–	–	–	–	–
Issue of shares	17,600	401,280	–	–	–	–	–	418,880
Share issue expenses	–	(31,890)	–	–	–	–	–	(31,890)
Dividends paid (note 13)	–	–	–	–	–	–	(24,360)	(24,360)
Changes in equity for the year	(9,600)	316,616	(8,163)	24,489	20,934	79,974	172,977	597,227
At 31 December 2010	70,400	316,616	(8,265)	76,388	20,934	79,974	348,181	904,228

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		274,306	180,626
Adjustments for:			
Depreciation		24,661	26,959
Gain on disposals of property, plant and equipment		–	(259)
Finance costs		7,239	12,224
Interest income		(2,356)	(1,843)
Operating profit before working capital changes		303,850	217,707
Increase in inventories		(34,536)	(12,359)
Increase in trade and bills receivables		(64,321)	(21,175)
(Increase)/decrease in prepayments, deposits and other receivables		(6,676)	1,512
Increase/(decrease) in trade and bills payables		4,572	(53,298)
Increase/(decrease) in accruals and other payables		13,340	(10,231)
Decrease in amount due to a related company		–	(6,121)
Cash generated from operations		216,229	116,035
Interest paid		(7,213)	(8,999)
Finance lease charges paid		(26)	–
Taxes paid		(27,422)	(37,934)
Net cash generated from operating activities		181,568	69,102
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	32(i) (ii)	(24,332)	(32,518)
Payment for construction in progress	32(i)	(38,474)	(19,667)
Increase in prepayments for acquisition of property, plant and equipment		(7,089)	–
Interest received		2,356	1,843
Decrease in pledged bank deposits		243	42,141
Increase in non-pledged bank deposits with more than three months to maturity	22	(100,000)	–
Net cash used in investing activities		(167,296)	(8,201)

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	30(b)	418,880	–
Share issue expenses paid		(23,755)	–
Drawdown of bank loans		258,995	254,819
Repayment of bank loans		(215,147)	(234,934)
Drawdown of other loan	25	16,884	–
Repayment of other loan	25	(16,884)	–
Repayment of capital element of finance lease payables		(178)	–
Net (repayment)/drawdown of factoring loans		(23,549)	8,690
Increase in amount due to a related party	24	802	20,132
Decrease/(increase) in amount due from a related company		19,108	(19,108)
Decrease in amount due to a related company	32(v)	(7,294)	–
Increase in loans from related companies		–	10,256
Repayment of loan from a related company		(5,395)	(41,600)
Increase in amount due to related companies		–	58,143
Decrease in amount due to related companies		–	(59,127)
Dividends paid	13	(24,360)	–
Net cash generated from/(used in) financing activities		398,107	(2,729)
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Effect of foreign exchange rate changes		(8,969)	(102)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		124,432	66,362
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		527,842	124,432
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances	22	527,842	124,432

Notes to the Financial Statements

For the Year Ended 31 December 2010

1. GENERAL INFORMATION

The Company was incorporated on 26 August 2009 in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Scotia Centre, 4th Floor PO Box 2804, George Town Grand Cayman KY1-1112 Cayman Islands. The address of its principal place of business is Xinhua Industrial Garden Niancuopu Longhu JinJiang Fujian, the People's Republic of China ("PRC").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 18 to the financial statements.

In the opinion of the directors of the Company, as at 31 December 2010, Nian's Brother Holding Limited, a company incorporated in the British Virgin Islands, is the immediate parent; JMJ Holdings Limited, a company incorporated in the British Virgin Islands, is the ultimate parent and Nian's Brother Trust* is the ultimate controlling party of the Company.

* *Beneficiaries of the trust are Chim Wai Kong, Chim Wai Shing Jackson, Hong Ming Qu, Chim Fo Che, Nian Wei Deng and Hong Lian Qiao.*

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 12 May 2010. Further details of the Group Reorganisation are set out in the paragraph headed "The Reorganisation" under the section headed "Statutory and General Information" in Appendix V to the prospectus dated 8 June 2010 (the "Prospectus"). The shares of the Company were listed on the Main Board of the Stock Exchange on 21 June 2010.

As the shareholders of 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) ("Xinhua Co.") which controlled the Group before and after the Group Reorganisation are the same, the financial statements have been prepared as a reorganisation of businesses under common control in a manner similar to pooling of interest. The financial statements present the Group's combined results and financial position as if the current group structure had been in existence throughout the year ended 31 December 2009 and 2010 and as if the business of Xinhua Co. had been transferred to the Group at the beginning of the earliest period presented.

Notes to the Financial Statements

For the Year Ended 31 December 2010

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") that are relevant to its operations and effective for its accounting year beginning on 1 January 2010. IFRSs comprise International Financial Reporting Standards; International Accounting Standards ("IAS"); and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years except as stated below.

Classification of Land Leases

Amendments to IAS 17 "Leases" deleted the guidance in IAS 17 that when the land has an indefinite economic life, the land element is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term.

The Group reclassifies a land lease as a finance lease if the lease transfers substantially all the risks and rewards incidental to ownership to the Group e.g. at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the land.

Amendments to IAS 17 has been applied retrospectively and resulted in changes in the consolidated amounts reported in the financial statements as follows:

	31 December 2010 RMB'000	2009 RMB'000	1 January 2009 RMB'000
Increase in Property, plant and equipment	78,711	83,149	9,331
Decrease in Prepaid land lease payments	78,711	78,701	8,748
Decrease in Prepayments, deposits and other receivables	—	4,448	583

The Group has not applied the new IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new IFRSs but is not yet in a position to state whether these new IFRSs would have a material impact on its results of operations and financial position.

Notes to the Financial Statements

For the Year Ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with IFRSs, the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements are disclosed in note 5 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Notes to the Financial Statements

For the Year Ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Consolidation (Cont'd)

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

In the Company's statement of financial position the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Merger accounting for business combination under common control

The consolidated financial statements incorporate the financial statements of the combining entities as if they had been combined from the date when they first came under the control of the controlling party.

The consolidated statements of comprehensive income and consolidated statements of cash flows include the results and cash flows of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The consolidated statements of financial position have been prepared to present the assets and liabilities of the combining entities as if the Group structure as at 31 December 2010 had been in existence at the end of each reporting period. The net assets of the combining entities are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or gain on bargain purchase at the time of common control combination, to the extent of the continuation of the controlling party's interest.

There was no adjustment made to the net assets nor the net profit or loss of any combining entities in order to achieve consistency of the Group's accounting policies.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB") which is the Company's presentation currency and the functional currency of the principal operating subsidiaries of the Group.

The directors consider that the major operating subsidiaries are located in the PRC, choosing RMB as the presentation currency best suits the needs of the shareholders and investors.

Notes to the Financial Statements

For the Year Ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Foreign currency translation (Cont'd)

(ii) Transactions and balances in financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Notes to the Financial Statements

For the Year Ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) 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 recognised 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 over the estimated useful lives on a straight-line basis. The principal useful lives and annual rates are as follows:

Buildings	5%
Prepaid land lease payments	5%
Machinery and equipment	10%-20%
Office equipment and fixtures	20%
Motor vehicles	20%
Leasehold improvement	Over lease term

The useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of 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 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.

(e) Investment properties

Investment properties are buildings held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at cost less accumulated depreciation and impairment losses. The depreciation is calculated using the straight line method to allocate the cost to the residual value over its estimated useful life of 20 year.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

Notes to the Financial Statements

For the Year Ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Leases

The Group as lessee

(i) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(ii) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets over the shorter of the lease term and their estimated useful lives.

The Group as lessor

(i) Operating leases

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

(g) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

(h) 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.

Notes to the Financial Statements

For the Year Ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(j) 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.

(k) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

Notes to the Financial Statements

For the Year Ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(i) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(ii) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(iii) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(m) 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.

Notes to the Financial Statements

For the Year Ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

Obligation for contributions to the PRC local government defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred.

(o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(p) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Notes to the Financial Statements

For the Year Ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(p) Taxation (Cont'd)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(q) Related parties

A party is related to the Group if:

- (i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;
- (ii) the party is an associate;
- (iii) the party is a joint venture;
- (iv) the party is a member of the key management personnel of the Company or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Notes to the Financial Statements

For the Year Ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(r) Segment reporting

IFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

Operating segments are reported in a manner consistent with the internal management reports provided to the chief operating decision-makers. Segment assets consist primarily of property, plant and equipment, construction in progress, long term prepayments, inventories and exclude items such as investment properties, trade and bills receivables, prepayments, deposits and other receivables, due from related parties, due from a related company, current tax assets, pledged bank deposits and cash and bank balances for corporate purpose and unallocated items. Segment profits or losses do not include corporate expenses.

(s) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets except inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Notes to the Financial Statements

For the Year Ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(t) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(u) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgement that has the most significant effect on the amounts recognised in the financial statements.

(a) Legal titles of certain buildings and investment properties

As stated in note 15 to the financial statements, the Group has not obtained the relevant building ownership certificates of certain buildings. Despite the fact that the Group has not obtained the relevant building ownership certificates, the directors determine to recognise those buildings on the grounds that they expect the application for relevant building ownership certificates in future should have no major difficulties and the Group is in substance controlling those buildings.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Property, plant and equipment and depreciation

The Group determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Notes to the Financial Statements

For the Year Ended 31 December 2010

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (CONT'D)

Key sources of estimation uncertainty (Cont'd)

(b) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

(d) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(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, Hong Kong dollars ("HK\$") and United States dollars ("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.

- (i) At 31 December 2010, if the RMB had weakened 5 per cent against the HK\$ with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB3,405,000 higher (2009: Nil), arising mainly as a result of the foreign exchange difference on pledged bank deposits and bank and cash balances denominated in HK\$.

If the RMB had strengthened 5 per cent against the HK\$ with all other variables held constant, consolidated profit after tax for the year would have been RMB3,405,000 lower (2009: Nil), arising mainly as a result of the foreign exchange difference on pledged bank deposits and bank and cash balances denominated in HK\$.

Notes to the Financial Statements

For the Year Ended 31 December 2010

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Foreign currency risk (Cont'd)

- (ii) At 31 December 2010, if the RMB had weakened 5 per cent against the US\$ with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB2,239,000 higher (2009: RMB1,413,000), arising mainly as a result of the foreign exchange difference on trade and bills receivables/payables and interest-bearing bank borrowings denominated in US\$.

If the RMB had strengthened 5 per cent against the US\$ with all other variables held constant, consolidated profit after tax for the year would have been RMB2,239,000 lower (2009: RMB1,413,000), arising mainly as a result of the foreign exchange difference on trade and bills receivables/payables and interest-bearing bank borrowings denominated in US\$.

(b) Credit risk

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

The Group has certain concentration of credit risk as 69% (2009: 60%) of the total trade receivables was due from the Group's five largest trade receivables of the Group as at 31 December 2010.

The credit risk on pledged bank deposits and bank and cash balances is limited because the counterparties are banks with high credit-ratings.

(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.

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year <i>RMB'000</i>	Between 1 and 2 year <i>RMB'000</i>	Between 2 and 5 year <i>RMB'000</i>
At 31 December 2010			
Trade and bills payables	97,626	—	—
Accruals and other payables	33,736	—	—
Interest-bearing bank borrowings	183,849	—	—
Finance lease payables	203	203	406
At 31 December 2009			
Trade and bills payables	93,054	—	—
Accruals and other payables	11,508	—	—
Due to a related party	20,132	—	—
Due to a related company	7,294	—	—
Interest-bearing bank borrowings	160,374	—	—
Loan from a related company	5,443	—	—

Notes to the Financial Statements

For the Year Ended 31 December 2010

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(d) Interest rate risk

The Group's exposure to interest rate risk arises from its bank deposits and bank borrowings. These deposits and borrowings bear interests at variable rates varied with the then prevailing market condition.

At 31 December 2010, if interest rates at that date had been 10 basis points lower/higher with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB5,460,000 (2009: RMB1,283,000) lower/higher, arising mainly as a result of lower/higher interest income on bank and cash balances.

At 31 December 2010, if interest rates at that date had been 10 basis points lower/higher with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB875,000 (2009: RMB678,000) higher/lower, arising mainly as a result of higher/lower interest expense on interest-bearing bank borrowings.

(e) Categories of financial instruments at 31 December 2010

	2010 RMB'000	2009 RMB'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	886,457	340,129
Financial liabilities:		
Financial liabilities measured at amortised cost	298,910	295,717

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

7. TURNOVER AND SEGMENT INFORMATION

(a) Turnover

The Group's turnover represents sales of goods to customers.

(b) Segment information

The Group has two reportable segments as follows:

- (i) Chemical fibres – manufacture and sale of chemical fibres
- (ii) Non-woven fabrics – manufacture and sale of non-woven fabrics

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Notes to the Financial Statements

For the Year Ended 31 December 2010

7. TURNOVER AND SEGMENT INFORMATION (CONT'D)

(b) Segment information (Cont'd)

The accounting policies of the operating segments are the same as those described in note 4 to the financial statements. Segment profits or losses do not include corporate income and expenses. Segment assets do not include investment properties, trade and bills receivables, prepayments, deposits and other receivables, pledged bank deposits and bank and cash balances.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

(i) Information about reportable segment profit and segment assets:

	Chemical fibres		Non-woven fabrics		Total	
	2010	2009	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December						
Revenue from external customers	224,127	180,731	759,611	565,835	983,738	746,566
Intersegment revenue	5,289	3,727	–	–	5,289	3,727
Segment profit	63,791	42,600	271,897	178,094	335,688	220,694
Depreciation	5,468	3,733	9,298	12,563	14,766	16,296
Additions to segment non-current assets	3,317	120	68,133	8,100	71,450	8,220
As at 31 December						
Segment assets	65,366	45,909	142,488	60,970	207,854	106,879

Notes to the Financial Statements

For the Year Ended 31 December 2010

7. TURNOVER AND SEGMENT INFORMATION (CONT'D)

(b) Segment information (Cont'd)

(ii) Reconciliations of reportable segment revenue, profit or loss and segment assets:

	2010 RMB'000	2009 RMB'000
Segment revenue		
Total revenue of reportable segments	989,027	750,293
Elimination of intersegment revenue	(5,289)	(3,727)
Consolidated revenue	983,738	746,566

	2010 RMB'000	2009 RMB'000
Profit or loss		
Total profit of reportable segments	335,688	220,694
Unallocated amounts:		
Other income	10,355	10,826
Distribution expenses	(17,157)	(11,632)
Administrative expenses	(47,341)	(27,038)
Finance costs	(7,239)	(12,224)
Consolidated profit before tax	274,306	180,626

	2010 RMB'000	2009 RMB'000 (Restated)
Segment Assets		
Total assets of reportable segments	207,854	106,879
Unallocated amounts:		
Property, plant and equipment	126,077	138,498
Investment properties	19,908	21,186
Construction in progress	1,560	–
Prepayments for acquisition of property, plant and equipment	325	–
Inventories	2,953	2,557
Trade and bills receivables	225,823	161,502
Prepayments, deposits and other receivables	7,079	8,538
Due from a related company	–	19,108
Current tax assets	–	18,748
Pledged bank deposits	26,306	26,549
Bank and cash balances	627,842	124,432
Consolidated total assets	1,245,727	627,997

Notes to the Financial Statements

For the Year Ended 31 December 2010

7. TURNOVER AND SEGMENT INFORMATION (CONT'D)

(b) Segment information (Cont'd)

(iii) Geographical information:

	2010 RMB'000	2009 RMB'000
Revenue		
PRC except Hong Kong	548,948	426,399
Hong Kong	254,594	205,996
Indonesia	–	1,478
India	–	7,480
Dubai	180,196	101,788
Others	–	3,425
Consolidated total revenue	983,738	746,566

In presenting the geographical information, revenue is based on the locations of the customers.

The Group's non-current assets are all located in the PRC.

(iv) Revenue from major customers:

	2010 RMB'000	2009 RMB'000
Customer		
Customer a	120,319	101,789
Customer b	154,868	123,151
Customer c	93,467	38,022

Each of the major customer represents a single external customer whose sale transaction amount with a subsidiary of the Group, Xinhua Co., is 10% or more of the revenue of Xinhua Co..

Notes to the Financial Statements

For the Year Ended 31 December 2010

8. OTHER INCOME

	2010 RMB'000	2009 RMB'000
Gain on disposals of property, plant and equipment	–	259
Government grants (<i>note</i>)	3,571	4,887
Interest income	2,356	1,843
Rental income (<i>note 17</i>)	3,618	3,171
Sub-contracting income	788	266
Others	22	400
	10,355	10,826

Note:

Government grants mainly represented rewards and subsidies granted by local authorities.

9. FINANCE COSTS

	2010 RMB'000	2009 RMB'000
Finance leases charges	26	–
Interest expense on:		
Bank loans	6,747	8,404
Factoring loans	–	595
Loan from a related company (<i>note 24</i>)	–	3,225
Other loan (<i>note 25</i>)	466	–
	7,239	12,224

Notes to the Financial Statements

For the Year Ended 31 December 2010

10. INCOME TAX EXPENSE

	2010 RMB'000	2009 RMB'000
Current tax		
PRC enterprise income tax ("PRC EIT")	43,444	26,467
Deferred tax (note 29)	9,036	5,568
	52,480	32,035

The new PRC EIT law (the "New Tax Law") passed by the Tenth National People's Congress on 16 March 2007 introduces various changes which include the unification of the enterprise income tax rate for domestic and foreign enterprises at 25%. The New Tax Law was effective from 1 January 2008.

On 26 October 2009, Xinhua Co. was recognised as an advanced technology enterprise and is entitled to enjoy an income tax concession at a preferential rate of 15% effective from 1 January 2009. Applicable PRC EIT rate of 15% has been applied for the provision of income tax expenses for the year ended 31 December 2009 and since then. Xinhua Co. paid PRC EIT at rate of 25% on quarterly basis during the year ended 31 December 2009, which resulted in excessive payment of PRC EIT of approximately RMB18,748,000. On 9 April 2010, Xinhua Co. received a confirmation from the tax authority that the excess of PRC EIT have been refunded in the form of deduction against PRC EIT payables for current year.

No provision for PRC EIT is required for other subsidiaries of the Company established and registered in the PRC since they have no assessable profits during the two years ended 31 December 2009 and 2010.

No provision for Hong Kong Profits Tax is required for the subsidiaries of the Company incorporated in Hong Kong since they have no assessable profits for the two years ended 31 December 2009 and 2010.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

The reconciliation between the income tax expense and the product of profit before tax multiplied by the PRC EIT rate is as follows:

	2010 RMB'000	2009 RMB'000
Profit before tax	274,306	180,626
Tax at the PRC EIT rate of 15% (2009 : 15%)	41,146	27,094
Tax effect of expenses that are not deductible	2,851	34
Tax effect of income that are not taxable	(553)	–
Over-provision in prior year	–	(661)
PRC dividend withholding tax (note 29)	9,036	5,568
Income tax expense	52,480	32,035

Notes to the Financial Statements

For the Year Ended 31 December 2010

11. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging/(crediting) the following:

	2010 RMB'000	2009 RMB'000 (Restated)
Auditor's remuneration	1,315	50
Cost of inventories sold (<i>note (i)</i>)	648,050	525,872
Depreciation of property, plant and equipment	23,383	25,420
Depreciation of investment properties	1,278	1,539
Directors' emoluments (<i>note 12</i>)		
As directors	276	–
For management	2,963	762
	3,239	762
Gain on disposals of property, plant and equipment	–	(259)
Net exchange loss	2,179	106
Operating leases charges in respect of land and buildings	1,811	1,258
Research and development expenditure (<i>note (ii)</i>)	2,791	4,669
Staff costs (excluding directors' emoluments)		
Salaries, bonus and allowances	24,283	15,910
Retirement benefit scheme contributions	288	155
	24,571	16,065

Notes:

- (i) Cost of inventories sold includes staff costs, depreciation and operating lease charges during the year ended 31 December 2010 of approximately RMB28,879,000 (2009: RMB29,482,000) which are included in the amounts disclosed separately above.
- (ii) Research and development expenditure includes staff costs during the year ended 31 December 2010 of approximately RMB806,000 (2009: RMB559,000) which are included in the amount disclosed separately above.

Notes to the Financial Statements

For the Year Ended 31 December 2010

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) The emoluments of each director were as follows:

For the year ended 31 December 2010

	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonus RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Name of director					
Executive directors					
Chim Wai Kong	–	881	–	6	887
Chim Wai Shing Jackson	–	703	870	6	1,579
Chim Fo Che (<i>note</i>)	–	139	–	6	145
Hong Ming Qu	–	352	–	–	352
	–	2,075	870	18	2,963
Non-executive director					
Wee Kok Keng	69	–	–	–	69
Independent Non-executive directors					
Zhu Min Ru	69	–	–	–	69
Feng Xue Ben	69	–	–	–	69
Wong Siu Hong	69	–	–	–	69
	207	–	–	–	207
	276	2,075	870	18	3,239

Notes to the Financial Statements

For the Year Ended 31 December 2010

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONT'D)

(a) The emoluments of each director were as follows: (Cont'd)

For the year ended 31 December 2009

	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonus RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Name of director					
Executive directors					
Chim Wai Kong	–	350	–	–	350
Chim Wai Shing Jackson	–	277	–	–	277
Chim Fo Che (<i>note</i>)	–	–	–	–	–
Hong Ming Qu	–	135	–	–	135
	–	762	–	–	762
Non-executive director					
Wee Kok Keng	–	–	–	–	–
Independent Non-executive directors					
Zhu Min Ru	–	–	–	–	–
Feng Xue Ben	–	–	–	–	–
Wong Siu Hong	–	–	–	–	–
	–	–	–	–	–
	–	762	–	–	762

Note:

Chim Fo Che agreed to waive his emoluments totalling RMB60,000 for the year ended 31 December 2009.

Save as disclosed above, there was no arrangement under which a director waived or agreed to waive any emoluments during the year.

Notes to the Financial Statements

For the Year Ended 31 December 2010

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONT'D)

- (b) The five highest paid individuals in the Group during the year ended 31 December 2010 included 3 (2009: 2) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 2 (2009: 3) individuals are set out below:

	2010 RMB'000	2009 RMB'000
Salaries and allowances	1,044	471
Discretionary bonus	2,175	–
Retirement benefit scheme contributions	18	–
	3,237	471

The emoluments fell within the following band:

	Number of individuals	
	2010	2009
Nil to HK\$1,000,000 (equivalent to Nil to RMB870,000 (2009: RMB880,000))	1	3
HK\$1,000,001 to HK\$2,000,000 (equivalent to RMB 870,001 to RMB1,740,000 (2009: RMB880,001 to RMB1,760,000))	–	–
HK\$2,000,001 to HK\$3,000,000 (equivalent to RMB1,740,001 to RMB2,610,000 (2009: RMB1,760,001 to RMB2,640,000))	1	–
	2	3

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Financial Statements

For the Year Ended 31 December 2010

13. DIVIDENDS

	2010 RMB'000	2009 RMB'000
Interim dividend of RMB0.030 (HK\$0.035) per ordinary share paid	24,360	–
Final dividend paid (note)	–	20,000
	24,360	20,000

Note:

For the year ended 31 December 2009, Xinhua Co. distributed dividends to its then shareholders thus the rates of dividend and number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of these financial statements.

14. EARNINGS PER SHARE

Basic earnings per share

	2010 RMB'000	2009 RMB'000
Earnings		
Profit attributable to owners of the Company, used in the basic earnings per share calculation	221,826	148,591
Number of shares		
Weighted average number of ordinary shares used in basic earnings per share calculation	706,310,370	600,000,000

The weighted average number of ordinary shares for 2009 is calculated assuming the issuance of the shares immediately after the capitalisation issue as more fully described in the paragraph headed "Written resolutions passed by all the Shareholders" under the section headed "Statutory and General Information" in Appendix V to the Prospectus.

No diluted earnings per share are presented as the Company did not have any dilutive potential ordinary sharing during the two years ended 31 December 2009 and 2010.

Notes to the Financial Statements

For the Year Ended 31 December 2010

15. PROPERTY, PLANT AND EQUIPMENT (RESTATED)

	The Group						
	Buildings	Prepaid land lease payments	Leasehold improvement	Machinery and equipment	Office equipment and fixtures	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost							
At 1 January 2009	45,829	11,664	–	127,125	1,111	2,322	188,051
Additions	–	77,292	–	605	785	382	79,064
Disposals (note 32(iii))	(30,922)	–	–	–	–	–	(30,922)
Transfer from construction in progress (note 16)	35,845	–	–	–	–	–	35,845
Transfer from investment properties (note 17)	9,461	–	–	–	–	–	9,461
At 31 December 2009 and 1 January 2010	60,213	88,956	–	127,730	1,896	2,704	281,499
Additions	–	–	552	22,490	319	5,343	28,704
Transfer from construction in progress (note 16)	16,018	–	–	1,385	–	–	17,403
At 31 December 2010	76,231	88,956	552	151,605	2,215	8,047	327,606
Accumulated depreciation							
At 1 January 2009	4,552	2,333	–	30,397	374	1,016	38,672
Charge for the year	2,803	3,474	–	18,358	293	492	25,420
Disposals (note 32(iii))	(3,510)	–	–	–	–	–	(3,510)
At 31 December 2009 and 1 January 2010	3,845	5,807	–	48,755	667	1,508	60,582
Charge for the year	3,130	4,438	90	14,667	417	641	23,383
Exchange differences	–	–	(2)	–	(1)	(3)	(6)
At 31 December 2010	6,975	10,245	88	63,422	1,083	2,146	83,959
Carrying amount							
At 31 December 2010	69,256	78,711	464	88,183	1,132	5,901	243,647
At 31 December 2009	56,368	83,149	–	78,975	1,229	1,196	220,917

Notes to the Financial Statements

For the Year Ended 31 December 2010

15. PROPERTY, PLANT AND EQUIPMENT (RESTATED) (CONT'D)

The Group's buildings and prepaid land lease payments are located in the PRC under medium term leases.

At 31 December 2010, the Group's buildings amounted to approximately RMB17,281,000 (2009: RMB1,338,000) of which the relevant building ownership certificates are yet to be granted.

At 31 December 2010, the Group's buildings and prepaid land lease payments with an aggregate amounts of approximately RMB42,933,000 (2009: RMB112,605,000) were pledged to secure banking facilities granted to Xinhua Co. (note 26(i)).

At 31 December 2010, the carrying amount of motor vehicle held by the Group under finance leases amounted to approximately RMB1,004,000 (2009: Nil).

16. CONSTRUCTION IN PROGRESS

	The Group	
	2010	2009
	RMB'000	RMB'000
At 1 January	–	24,628
Additions	43,883	19,667
Transfer to property, plant and equipment (note 15)	(17,403)	(35,845)
Transfer to investment properties (note 17)	–	(8,450)
At 31 December	26,480	–

The Group's construction in progress comprises costs incurred on buildings under construction and plant and machinery pending installation.

Notes to the Financial Statements

For the Year Ended 31 December 2010

17. INVESTMENT PROPERTIES

	The Group RMB'000
Cost	
At 1 January 2009	28,688
Disposals (<i>note 32(iii)</i>)	(3,713)
Transfer from construction in progress (<i>note 16</i>)	8,450
Transfer to property, plant and equipment (<i>note 15</i>)	(9,724)
At 31 December 2009, 1 January 2010 and 31 December 2010	23,701
Accumulated depreciation	
At 1 January 2009	1,566
Charge for the year	1,539
Disposals (<i>note 32(iii)</i>)	(327)
Transfer to property, plant and equipment (<i>note 15</i>)	(263)
At 31 December 2009 and 1 January 2010	2,515
Charge for the year	1,278
At 31 December 2010	3,793
Carrying amount	
At 31 December 2010	19,908
At 31 December 2009	21,186

The Group's investment properties are located in the PRC under medium lease term.

The fair values of the Group's investment properties at 31 December 2010 are approximately RMB23,850,000 (2009: RMB23,219,000). The fair values of the Group's investment properties have been determined by Jones Lang LaSalle Sallmanns, an independent firm of professional valuer on depreciated replacement cost basis.

At 31 December 2010, the Group's investment properties with aggregate carrying amounts of approximately RMB19,908,000 (2009: RMB21,186,000) were pledged to secure banking facilities granted to Xinhua Co. (notes 26(i)).

During the year ended 31 December 2010, property leasing revenue includes gross rental income from investment properties of approximately RMB3,618,000 (2009: RMB3,171,000) (note 8) of which approximately RMB2,678,000 (2009: RMB2,545,000) related to properties leased to a related company (note 35(b)).

Notes to the Financial Statements

For the Year Ended 31 December 2010

18. INVESTMENT IN SUBSIDIARIES

The Company

	2010 RMB'000	2009 RMB'000
Unlisted investments, at cost	20,221	—

The amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand.

Particulars of the subsidiaries as at 31 December 2010 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and paid up capital/registered capital	Percentage of ownership interest		Principal activities
			Direct	Indirect	
COSTIN Investment Limited ("COSTIN BVI")	British Virgin Islands	20 ordinary shares of US\$1.00 each	100%	—	Investment holding
Gerfalcon International Limited ("Gerfalcon International")	British Virgin Islands	1 ordinary share of US\$1.00 each	—	100%	Investment holding
Gerfalcon Industrial (Nonwoven) Investment Company Limited ("Gerfalcon Hong Kong")	Hong Kong	23,790,000 ordinary shares of HK\$1.00 each (note (iv))	—	100%	Investment holding
Gerfalcon Investment Company Limited ("Gerfalcon Investment")(note (i))	Hong Kong	1,000 ordinary shares of HK\$1.00 each (note (i))	—	100%	Investment holding
海東青非織工業(福建)有限公司 (Gerfalcon Nonwoven Industrial (Fujian) Co., Ltd.) ("Gerfalcon Fujian") (note (iii))	PRC	Registered capital of US\$13,990,000 (note (ii))	—	100%	Manufacture of filtration materials and non-woven fabrics, provisions of information technology and management supporting services
晉江海東青貿易有限公司 (Gerfalcon Trade Co., Ltd. Jinjiang) ("Gerfalcon Jinjiang")(note (iii))	PRC	Registered capital of HK\$81,000,000 (note (iii))	—	100%	Wholesale of filtration materials and non-woven fabrics
福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) ("Xinhua Co.")	PRC	Registered capital of RMB80,000,000	—	100%	Manufacture and sales of chemical fibres and non- woven fabrics

Notes to the Financial Statements

For the Year Ended 31 December 2010

18. INVESTMENT IN SUBSIDIARIES (CONT'D)

Notes:

- (i) On 5 August 2010, Gerfalcon Investment was established in Hong Kong as a wholly owned subsidiary held by Gerfalcon International with authorised capital of 10,000 ordinary shares of HK\$1 each and issued and paid-up capital of 1,000 ordinary shares of HK\$1 each.
- (ii) On 14 September 2009, Gerfalcon Fujian was established in the PRC as a wholly-owned foreign enterprise held by Gerfalcon Hong Kong with a registered capital of US\$13,990,000.
- (iii) On 17 March 2010, Gerfalcon Jinjiang was established in the PRC as a wholly-owned foreign enterprise held by Gerfalcon Hong Kong with a registered capital of HK\$1,000,000 and it has increased its registered capital by HK\$80,000,000 to HK\$81,000,000 and was paid up on 30 September 2010.
- (iv) On 4 February 2010, Gerfalcon Hong Kong has increased its shares from 80 ordinary shares to 23,790,000 ordinary shares (note 24).

19. INVENTORIES

	The Group	
	2010	2009
	RMB'000	RMB'000
Raw materials	47,846	14,260
Finished goods	13,707	12,757
	61,553	27,017

20. TRADE AND BILLS RECEIVABLES

	The Group	
	2010	2009
	RMB'000	RMB'000
Trade receivables	221,823	134,584
Bills receivables	4,000	26,918
	225,823	161,502

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 30 to 90 days. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

Notes to the Financial Statements

For the Year Ended 31 December 2010

20. TRADE AND BILLS RECEIVABLES (CONT'D)

The aging analysis of the Group's trade receivables, based on the invoice date, and net of allowance, is as follows:

	2010 RMB'000	2009 RMB'000
Up to 30 days	103,125	80,688
31 to 60 days	72,085	33,798
61 to 90 days	36,480	18,567
91 to 120 days	9,486	1,043
121 to 150 days	647	488
	221,823	134,584

As at 31 December 2010, approximately RMB44,821,000 and Nil (2009: Nil and RMB23,549,000) of trade receivables and bills receivables respectively were pledged to banks to secure short-term bank loans and factoring loans granted to Xinhua Co. as set out in notes 26(i) and 26(ii) to the financial statements.

As of 31 December 2010, trade receivables of approximately RMB647,000 (2009: RMB2,774,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2010 RMB'000	2009 RMB'000
Up to 30 days	647	1,243
31 to 60 days	–	1,043
61 to 90 days	–	488
	647	2,774

The carrying amounts of the Group's trade and bills receivables are denominated in the following currencies:

	2010 RMB'000	2009 RMB'000
RMB	141,423	114,107
US\$	84,400	47,395
	225,823	161,502

Notes to the Financial Statements

For the Year Ended 31 December 2010

21. DUE FROM A RELATED COMPANY/RELATED PARTIES

The amounts due from a related company/related parties are unsecured, interest-free and have been fully repaid before 31 March 2010.

	The Group			
	At 31 December		Maximum amount outstanding during the year ended	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
晉江市華鑫織造發展有限公司 (Jinjiang Hua Xin Weaving Development Co., Ltd.)(note 35(a))	—	19,108	19,108	19,108

	The Group			
	At 31 December		Maximum amount outstanding during the year ended	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
The then shareholders of Xinhua Co.:				
Chim Wai Kong	—	—	—	5,833
Chim Wai Shing Jackson	—	—	—	9,167
Nian Wei Deng	—	—	—	5,000
	—	—	—	20,000
				(note 32(iv))

Notes to the Financial Statements

For the Year Ended 31 December 2010

22. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

The carrying amounts of the Group's bank and cash balances are denominated in the following currencies:

At 31 December 2010

	The Group			
	RMB RMB'000	HK\$ RMB'000	US\$ RMB'000	Total RMB'000
Cash at bank and on hand	374,716	8,013	39	382,768
Bank deposits	190,556	80,824	–	271,380
Pledged bank deposits	565,272 (13,556)	88,837 (12,750)	39 –	654,148 (26,306)
Bank and cash balances	551,716	76,087	39	627,842
Non-pledged bank deposits with more than three months to maturity	(100,000)	–	–	(100,000)
Cash and cash equivalents	451,716	76,087	39	527,842

At 31 December 2009

	RMB RMB'000	HK\$ RMB'000	US\$ RMB'000	Total RMB'000
Cash at bank and on hand	123,947	–	485	124,432
Bank deposits	26,549	–	–	26,549
Pledged bank deposits	150,496 (26,549)	– –	485 –	150,981 (26,549)
Cash and cash equivalents	123,947	–	485	124,432

The Group's pledged bank deposits represented deposits pledged to banks to secure banking facilities granted to the Group's subsidiaries as set out in note 26(i) to the financial statements.

Notes to the Financial Statements

For the Year Ended 31 December 2010

22. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES (CONT'D)

The carrying amounts of the Company's bank and cash balances are denominated in the following currencies:

At 31 December 2010

	The Company			Total RMB'000
	RMB RMB'000	HK\$ RMB'000	US\$ RMB'000	
Cash and cash equivalents	108	7,709	–	7,817

The deposits are at fixed interest rate as below and therefore expose the Group to fair value interest rate risk.

	2010	2009
Pledged bank deposits	0.50%-1.98%	1.98%
Non-pledged bank deposits with less than three months to maturity	0.25%-1.41%	N/A
Non-pledged bank deposits with more than three months to maturity	1.70%	N/A

As at 31 December 2010, the bank and cash balances denominated in RMB held by the Group's subsidiaries located in the PRC amounted to approximately RMB388,164,000 (2009: RMB150,496,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

23. TRADE AND BILLS PAYABLES

	The Group	
	2010 RMB'000	2009 RMB'000
Trade payables	86,626	32,050
Bills payables (note 26(i))	11,000	61,004
	97,626	93,054

Notes to the Financial Statements

For the Year Ended 31 December 2010

23. TRADE AND BILLS PAYABLES (CONT'D)

The aging analysis of the Group's trade payables, based on the date of receipt of goods, is as follows:

	2010 RMB'000	2009 RMB'000
Up to 30 days	50,279	18,013
31 to 60 days	32,390	10,075
61 to 90 days	2,576	2,525
91 to 120 days	1,307	1,411
121 to 150 days	23	6
Over 150 days	51	20
	86,626	32,050

The carrying amounts of the Group's trade and bills payables are denominated in the following currencies:

	2010 RMB'000	2009 RMB'000
RMB	69,723	93,054
US\$	27,903	—
	97,626	93,054

24. DUE TO RELATED COMPANIES, DUE TO A RELATED PARTY AND LOAN FROM A RELATED COMPANY

The amount due to a related company (Costin Int'l Trade (H.K.) Company Limited) (note 35(a)) is unsecured, interest-free and has been fully settled before 31 March 2010.

The amount due to a related party, represents balance due to a director and the then shareholder of Gerfalcon Hong Kong (Chim Wai Kong) of approximately RMB20,934,000. The balance due is unsecured, interest-free and has been fully settled before 31 March 2010 by way of cash and capital contribution in Gerfalcon Hong Kong (notes 18(iv) and 31(c)(iv)).

The loan from a related company (Costin Int'l Trade (H.K.) Company Limited) (note 35(a)) is unsecured, interest bearing at a fixed rate of 5.40% per annum and has been fully settled before 31 March 2010.

25. OTHER LOAN

During the year ended 31 December 2010, Gerfalcon Hong Kong borrowed a loan from a third party of approximately RMB16,884,000 (equivalent to HK\$19,863,000), interest-bearing at a fixed rate 11% per annum, unsecured and has been fully settled before 31 December 2010.

Notes to the Financial Statements

For the Year Ended 31 December 2010

26. INTEREST-BEARING BANK BORROWINGS

	The Group	
	2010	2009
	RMB'000	RMB'000
Short-term bank loans (note (i))	177,833	134,785
Factoring loans (note (ii))	–	23,549
	177,833	158,334

The average interest rates per annum are as follows:

	2010	2009
Short-term bank loans (floating rate) (note (i))	3.86%-6.61%	5.31%-8.95%
Short-term bank loans (fixed rate) (note (i))	5.10%-5.84%	4.86%-7.47%
Factoring loans (note (ii))	N/A	1.92%-3.00%

Short-term bank loans of approximately RMB72,390,000 (2009: RMB54,990,000) are arranged at fixed interest rates and expose the Group to fair value interest rate risk. Other borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

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

	2010	2009
	RMB'000	RMB'000
RMB	173,990	149,139
US\$	3,843	9,195
	177,833	158,334

Notes

(i) Short-term bank loans of approximately RMB177,833,000 (2009: RMB134,785,000) and bills payables (note 23) of approximately RMB11,000,000 (2009: RMB61,004,000) are secured by:

- Corporate guarantees provided by the Group's subsidiaries;
- Charges over the buildings, prepaid land lease payments, investment properties, trade receivables and pledged bank deposits (notes 15, 17, 20 and 22); and
- Guarantee from third parties and directors and the then shareholders of Xinhua Co. (note 35(c)).

(ii) Factoring loans are secured by charges over bills receivables for the year ended 2009 (note 20).

Notes to the Financial Statements

For the Year Ended 31 December 2010

27. FINANCE LEASE PAYABLES

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	203	–	161	–
In the second to fifth years, inclusive	609	–	554	–
	812	–	715	–
Less: Future finance charges	(97)	–	N/A	N/A
Present value of lease obligations	715	–	715	–
Less: Amount due for settlement within 12 months (shown under current liabilities)			(161)	–
Amount due for settlement after 12 months			554	–

It is the Group's policy to lease certain of its motor vehicle under finance leases. The average lease term is 4.5 years. At 31 December 2010, the average effective borrowing rate was 6.66% (2009: N/A). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. At the end of each lease term, the Group has the option to purchase the motor vehicle at nominal prices.

All finance lease payables are denominated in Hong Kong dollars.

The Group's finance lease payables are secured by the lessor's title to the leased assets.

28. DEFINED CONTRIBUTION RETIREMENT PLAN

The Group's subsidiaries participate in a defined contribution retirement benefit scheme organised by the local authority whereby they are required to make contributions to the scheme at certain percentages of the eligible employees salaries. The local authority is responsible for making the benefit payments to the retired employees covered under the scheme.

Notes to the Financial Statements

For the Year Ended 31 December 2010

29. DEFERRED TAX LIABILITIES

	The Group	
	2010	2009
	RMB'000	RMB'000
At 1 January	9,233	3,665
Charge to profit or loss for the year (note 10)	9,036	5,568
At 31 December	18,269	9,233

Pursuant to the New Tax Law (note 10), dividends declared by the subsidiaries in the PRC to parent companies incorporated overseas are subject to withholding tax of 5% to 10%. In accordance with Caishui (2008) No. 1 issued by State Tax Authorities, undistributed profits from the subsidiaries up to 31 December 2007 will be exempted from withholding tax when they are distributed in future. As a result, provision for withholding tax has been made since 1 January 2008. The deferred tax liabilities represent the aggregate amount of temporary differences associated with distributable retained profits of the Group's subsidiaries in the PRC.

30. SHARE CAPITAL

The Group

The share capital in the consolidated statement of financial position as at 31 December 2009 and 1 January 2010 represented the combined capital of the Company of RMB1 (representing 10 ordinary shares of HK\$0.1 each), share capital of COSTIN BVI of RMB137 (representing 20 ordinary shares of US\$1 each) and registered capital of Xinhua Co. of RMB80,000,000 now comprising the Group in which the controlling shareholders held direct interests.

The Company

	Number of shares	Amount HK\$	Amount as presented RMB
Authorised:			
Ordinary shares of HK\$0.1 each			
At 1 January 2009	—	—	—
On incorporation	3,800,000	380,000	334,400
At 31 December 2009 and 1 January 2010	3,800,000	380,000	334,400
Increase (note (a)(ii))	1,996,200,000	199,620,000	175,665,600
At 31 December 2010	2,000,000,000	200,000,000	176,000,000
Issued and fully paid:			
Ordinary shares of HK\$0.1 each			
At 1 January 2009	—	—	—
Upon incorporation	10	1	1
At 31 December 2009 and 1 January 2010	10	1	1
Issue of shares – share swap (note (a)(iii))	299,990	29,999	26,399
Capitalisation issue (note (a)(iii))	599,700,000	59,970,000	52,773,600
Issue of shares – by way of public offer (note (b))	200,000,000	20,000,000	17,600,000
At 31 December 2010	800,000,000	80,000,000	70,400,000

Notes to the Financial Statements

For the Year Ended 31 December 2010

30. SHARE CAPITAL (CONT'D)

The Company (Cont'd)

Notes:

- (a) *By resolutions approved in writing by all shareholders on 3 February 2010 and 4 February 2010, the Company resolved, among other things:*
- (i) *that the authorised share capital of the Company was increased from HK\$380,000 to HK\$200,000,000 by creation 1,996,200,000 new shares ranking pari passu in all respects with the then existing issued shares;*
 - (ii) *that the acquisition by the Company of 100% issued share capital of COSTIN BVI was approved and in consideration of the acquisition, the directors of the Company were authorised to allot and issue 269,991 ordinary shares and 29,999 ordinary shares to Nian's Brother Holding Limited ("Nian's Holding") and Gerefalcon Holding Limited ("Gerefalcon Holding") respectively, all credited and fully paid, and the 9 and 1 nil paid ordinary shares then held by Nian's Holding and Gerefalcon Holding credited as fully paid; and*
 - (iii) *that the directors of the Company were authorised to capitalise the amount of HK\$59,970,000 from the amount standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 599,700,000 shares for allotment and issue to the holders of shares whose names appear on the register of members of the Company at the close of business on 12 May 2010 to their then existing shareholdings in the Company.*
- (b) *On 21 June 2010, 200,000,000 ordinary shares of HK\$0.1 each were issued at HK\$2.38 each to the public by way of public offer for a total cash consideration, before related expenses, of RMB418,880,000 (HK\$476,000,000). The excess over the par value of the share issued was credited to the share premium account.*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, if any, return capital to shareholders, issue new shares, or sell assets to reduce debt. No changes were made in the objectives, policies and processes during the year ended 31 December 2009 and 2010.

The Group monitors capital using a gearing ratio, which is the Group's total debts (comprising amount due to a related company, loan from a related company, due to a related party and interest-bearing bank borrowings) over its total assets. The Group's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratio as at 31 December 2010 was 14% (2009: 30%).

Notes to the Financial Statements

For the Year Ended 31 December 2010

31. RESERVES

(a) The Group

The amounts of the Group's reserves and movements therein are presented in the Group's statement of comprehensive income and statement of changes in equity.

(b) The Company

	Share premium <i>RMB'000</i> <i>(note (c)(ii))</i>	Foreign currency translation reserve <i>RMB'000</i> <i>(note (c)(iii))</i>	Contributed surplus <i>RMB'000</i> <i>(note (c)(vi))</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2009	–	–	–	–	–
Total comprehensive income for the year	–	–	–	(129)	(129)
At 31 December 2009 and 1 January 2010	–	–	–	(129)	(129)
Total comprehensive income for the year	–	(13,824)	–	20,955	7,131
Share swap	–	–	20,909	–	20,909
Capitalisation	(52,774)	–	–	–	(52,774)
Issue of shares	401,280	–	–	–	401,280
Share issue expenses	(31,890)	–	–	–	(31,890)
Dividends paid	–	–	–	(24,360)	(24,360)
Changes in equity for the year	316,616	(13,824)	20,909	(3,405)	320,296
At 31 December 2010	316,616	(13,824)	20,909	(3,534)	320,167

Notes to the Financial Statements

For the Year Ended 31 December 2010

31. RESERVES (CONT'D)

(c) Nature and purpose of reserves

(i) Share Premium account

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

Share premium represents premium arising from the issue of shares at a price in excess of their par value per share and is not distributable but may be applied in paying up unissued shares of the Company to be issued to the shareholders of the Company as fully paid bonus shares or in providing for the premiums payable on repurchase of shares.

(ii) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4(c) to the financial statements.

(iii) Statutory reserve

In accordance with the relevant regulations of the PRC, the Group's subsidiaries established and registered in the PRC are required to transfer a certain percentage of the profit after tax, if any, to a statutory reserve.

(iv) Capital reserve

The capital reserve of the Group represents the loan capitalisation arrangement with the then shareholder of Gerfalcon Hong Kong and Gerfalcon Hong Kong on 4 February 2010. Gerfalcon Hong Kong allotted and issued 23,789,920 ordinary shares of HK\$1 each to COSTIN BVI (note 24).

(v) Merger reserve

The merger reserve of the Group arose as a result of the Group reorganisation implemented in preparation for the listing of the Company's shares in 2010 and represented the difference between the nominal value of the aggregate capital of the subsidiaries combined under the Group Reorganisation (note 2), over the nominal value of the share capital of the Company issued in exchange therefore.

(vi) Contributed surplus

The contributed surplus of the Company represents the difference between the nominal amount of the share capital issued by the Company and the cost of investment in subsidiaries combined by the Company at the date of the Group Reorganisation.

Notes to the Financial Statements

For the Year Ended 31 December 2010

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (MAJOR NON-CASH TRANSACTION)

- (i) During the year ended 31 December 2010, additions to property, plant and equipment and construction in progress of approximately RMB3,479,000 and RMB 5,409,000 (2009: Nil and Nil) respectively were not yet paid and included in accruals and other payables.
- (ii) During the year ended 31 December 2010, additions to property, plant and equipment of approximately Nil (2009: RMB46,546,000) were satisfied by way of utilising the deposits paid in previous year.
- (iii) During the year ended 31 December 2009, Xinhua Co. disposed certain buildings and investment properties, with carrying amounts of RMB27,412,000 and RMB3,386,000 to a related company for a consideration of RMB27,672,000 and RMB3,386,000 respectively (notes 15, 17 and 35(b)). The consideration of the buildings and investment properties were agreed based on market value of these assets by reference to a valuation report issued by a PRC appraiser. The proceeds were settled by way of set-off against the loan from a related company.
- (iv) The dividend of RMB20,000,000 paid to the then shareholders of Xinhua Co. during year ended 31 December 2009 was settled by way of set-off against amounts due from related parties (note 21).
- (v) During the year ended 31 December 2009, prepayments of RMB7,294,000 were paid by a related company on behalf of the Group.

33. CAPITAL COMMITMENTS

The Group's capital commitments at end of the reporting period are as follows:

	The Group	
	2010	2009
	RMB'000	RMB'000
Contracted but not provided for		
Construction in progress	14,191	–
Property, plant and equipment (note)	113,461	223
	127,652	223

Note:

Letter of credit of approximately Euro dollars ("EUR") 10,214,000 have been issued by the Group's bankers for the contract of acquisition of certain machineries amounted to approximately RMB89,917,000 (EUR10,214,000).

Notes to the Financial Statements

For the Year Ended 31 December 2010

34. LEASE COMMITMENTS

At end of reporting period, the Group had total future minimum lease receivables and payables under non-cancelable operating leases falling due as follows:

(a) Lease receivables

	The Group	
	2010	2009
	RMB'000	RMB'000
As lessor		
Within one year	392	3,618
In the second to fifth year inclusive	–	392
	<u>392</u>	<u>4,010</u>

Operating lease receivables represent rental receivable from Xinhua Co. for certain of its investment properties. Leases are negotiated for an average term of one to two years.

(b) Lease payables

	The Group	
	2010	2009
	RMB'000	RMB'000
As lessee		
Within one year	3,796	1,400
In the second to fifth year inclusive	3,936	1,400
	<u>7,732</u>	<u>2,800</u>

Operating lease payables represent rental payable by Gerfalcon Hong Kong, Gerfalcon Jinjiang and Xinhua Co. for certain buildings. Leases are negotiated for an average term of one to three years and rentals are fixed over the lease terms and do not include contingent rentals.

Notes to the Financial Statements

For the Year Ended 31 December 2010

35. MATERIAL RELATED PARTY TRANSACTIONS

(a) Names of related companies and their relationships with the Group are as follows:

Name of related company	Shareholders	Directors
(i) 晉江華鑫塑料橡膠製品有限公司 (Jinjiang Hua Xin Plastic & Rubber Products Co., Ltd.)	100% owned by 華鑫貿易公司 (Wah Hing Trading Company) which is wholly owned by Chim Wai Kong	Hong Lian Qiao, Chim Fo Che, Chim Ping Yu
(ii) 晉江市華鑫織造發展有限公司 (Jinjiang Hua Xin Weaving Development Co., Ltd.) ("Hua Xin Weaving")	100% owned by 華鑫國際貿易 (香港) 有限公司 (Costin Int'l Trade (H.K.) Company Limited) of which 0.25% and 99.75% are owned by Chim Wai Shing Jackson and Chim Wai Kong respectively	Hong Lian Qiao, Chim Ping Yu, Chim Ming Heung
(iii) 福建鑫華進出口有限公司 (Fujian Xin Hua Import and Export Co., Ltd.)	65% owned by Chim Wai Shing Jackson and 35% owned by Hong Lian Qiao	Chim Wai Shing Jackson
(iv) 晉江南方織造有限公司 (Jinjiang Nan Fang Weaving Co., Ltd.)	100% owned by Nian Sha Sha, the daughter of Chim Wai Kong	Nian Sha Sha, Hong Zu Han, Hong Kai Xuan
(v) 華鑫國際貿易(香港)有限公司 (Costin Int'l Trade (H.K.) Company Limited)	0.25% owned by Chim Wai Shing Jackson and 99.75% owned by Chim Wai Kong	Chim Wai Shing Jackson, Chim Wai Kong
(vi) 晉江華鑫無紡纖維實業有限公司 (Jinjiang Hua Xin Non-weaving fibres Co., Ltd.)	100% owned by 華鑫貿易公司 (Wah Hing Trading Company) upon establishment. On 31 July 2009, Wah Hing Trading Company transferred its entire equity interests in 晉江華鑫無紡 纖維實業有限公司 (Jinjiang Hua Xin Non-weaving fibres Co., Ltd.) to an independent third party	Chim Wai Kong, Chim Wai Shing Jackson, Chim Fo Che, Nian Wei Deng, Sze Fo Chau

Notes to the Financial Statements

For the Year Ended 31 December 2010

35. MATERIAL RELATED PARTY TRANSACTIONS (CONT'D)

- (b) Save as disclosed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

	Note	2010 RMB'000	2009 RMB'000
Sales of goods through a related company		–	12,381
Purchase of raw materials through a related company		–	51,592
Agency fees charged by a related company		–	505
Rental income charged to a related company	17	2,678	2,545
Rental expenses charged by related companies		1,400	1,400
Loans from related companies	24	–	10,256
Repayment of loans from related companies	24	–	41,600
Advance from a related party	24	–	20,132
Land acquired from a related company		–	1,448
Property, plant and equipment and investment properties disposed to a related company	32(iii)	–	31,058
Advance from related companies	24	–	65,437
Advance to related companies	21, 24	–	78,235

The balances with related parties and companies as at 31 December 2009 have been settled during the year ended 31 December 2010.

- (c) The financial guarantees provided by certain directors and the then shareholders of Xinhua Co. in relation to the banking facilities granted to Xinhua Co. totalling RMB141,655,000 as at 31 December 2009 have been released during the year ended 31 December 2010 (note 26(i)).
- (d) The compensation to the Group's key management personnel is disclosed in note 12 to the financial statements.

Notes to the Financial Statements

For the Year Ended 31 December 2010

36. EVENTS AFTER THE REPORTING PERIOD

- (a) On 14 January 2011, the Board approved the grant of a total 13,710,000 share options (the "Share Option") to certain directors and employees of the Group (the "Grantees") to subscribe for shares (the "Shares") of HK\$0.10 each in the Company, subject to acceptance by the Grantees, under the share option scheme adopted by the Company on 12 May 2010 (the "Share Option Scheme") as rewards for the Grantees' contribution to the development of the Group. Each Share Option shall entitle the holder thereof to subscribe for one ordinary Share upon exercise of such Share option.
- (b) On 10 February 2011, 海東青（北京）科技諮詢有限公司 (COSTIN (Beijing) Technology Consulting Company Limited) was established in the PRC as a wholly-owned foreign enterprise held by Gerfalcon Investment with a registered capital of HK\$10,000,000.
- (c) On 15 February 2011, Gerfalcon Investment entered into an investment agreement with 福建省永安市尼葛高新技術產業開發區管理委員會 (Nige High Technology Industry Development District Management Council) ("Nige High") pursuant to which Nige High agreed to provide the prepaid land lease payments to Gerfalcon Investment for a term of 50 years at a land premium (before tax) of RMB67,200,000.
- (d) On 24 January 2011 and 12 February 2011, Xinhua Co. entered into two purchase agreements with suppliers for machinery with total contract sum amounted to RMB14,890,000. A deposit of RMB4,475,000 has been paid as at 25 March 2011.
- (e) On 16 March 2011, Xinhua Co. entered into a rental agreement with Hua Xin Weaving, pursuant to which Xinhua Co. agreed to lease certain properties with an aggregate floor area of 20,290.68 sq.m. to Hua Xin Weaving at a monthly rental of RMB223,197.48 (exclusive of other outgoings) for a term of three years commencing from 1 January 2011. Hua Xin Weaving is beneficially owned by Chim Wai Kong and Chim Wai Shing Jackson, both of which are executive directors and controlling shareholders of the Company. Details of this continuing connected transaction are disclosed in the announcement of the Company dated 16 March 2011.
- (f) On 25 March 2011, a final dividend of HK\$0.065 per share for the year ended 31 December 2010 have been proposed by the board of directors and are subject to approval by the shareholders in the forthcoming Annual General Meeting.

37. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 25 March 2011.