

CHINA WEAVING MATERIALS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 3778

ANNUAL REPORT 2011



CONTENTS

2	Corporate Information
4	Chairman's Statement
6	Management Discussion and Analysis
13	Report of the Directors
22	Corporate Governance Report
25	Directors and Senior Management
28	Independent Auditor's Report
30	Consolidated Statement of Comprehensive Income
31	Consolidated Statement of Financial Position
33	Consolidated Statement of Changes in Equity
34	Consolidated Statement of Cash Flows
36	Notes to the Consolidated Financial Statements
76	Financial Summary



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zheng Hong (Chairman)
Mr. Zheng Yongxiang

Non-executive Director

Mr. Sze Irons, JP

Independent non-executive Directors

Ms. Chan Mei Bo, Mabel
Mr. Nie Jianxin
Mr. Ng Wing Ka

BOARD COMMITTEES

Audit committee

Ms. Chan Mei Bo, Mabel (Chairman)
Mr. Nie Jianxin
Mr. Ng Wing Ka

Remuneration committee

Ms. Chan Mei Bo, Mabel (Chairman)
Mr. Nie Jianxin
Mr. Ng Wing Ka
Mr. Zheng Hong

Nomination committee

Ms. Chan Mei Bo, Mabel (Chairman)
Mr. Nie Jianxin
Mr. Ng Wing Ka
Mr. Zheng Hong

COMPANY SECRETARY

Mr. Cheung Chi Fai Frank

AUTHORISED REPRESENTATIVES

Mr. Zheng Hong
Mr. Cheung Chi Fai Frank

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEADQUARTERS IN THE PRC

Fengtian Development Zone
Fengxin County
Jiangxi Province, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1321, Leighton Centre
77 Leighton Road
Causeway Bay
Hong Kong

LEGAL ADVISERS

As to Hong Kong law:

Orrick, Herrington & Sutcliffe

As to PRC law:

Commerce & Finance Law Offices

AUDITOR

Deloitte Touche Tohmatsu

COMPLIANCE ADVISER

Guotai Junan Capital Limited

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716,
17/F, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

China Construction Bank Corporation
(Fengxin Sub-branch)
Industrial and Commercial Bank of China Limited
(Fengxin Sub-branch)
Industrial Bank Co., Ltd
(Hongcheng Sub-branch)
China Merchants Bank Company Limited
(Changbei Sub-branch)

COMPANY WEBSITE

www.chinaweavingmaterials.com

STOCK CODE

3778



CHAIRMAN'S STATEMENT



I am confident about the future as the Group will benefit from the enlarged product portfolio and increased economy of scale as a result of the planned expansion of the production capacity.

China Weaving Materials Holdings Limited (the “**Company**”) was successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing**”) on 22 December 2011 (the “**Listing Date**”). The listing of the Company was an important milestone in the history of the Group, which serves as a testimony to the Group’s past achievement, competitive edges, corporate vision by the investors and the capital market, and through which the Group has gained access to the international capital market.

Despite the stagnate US economy, the Euro zone sovereign debt crisis and tightening of liquidity in the PRC in 2011, the Group has achieved a 16.7% growth in revenue to approximately RMB1,085.9 million with a gross profit of approximately RMB138.7 million. The profit attributable to the owners of the Company for the year ended 31 December 2011 was approximately RMB60.6 million, which slightly exceeded RMB59.0 million as forecasted in the prospectus.

The Group has commenced its expansion plan in December 2011 with the purchase of 2 parcels of land in the Fengtian Economic Development Zone, Fengxin County, Jiangxi province with a total area of approximately 103,776 square metres for the construction of two workshops with an aggregate production capacity of approximately 60,000 spindles for the production of coloured polyester-cotton blended yarns and 20,000 spindles for the production of open-end spun yarns. Construction of the foundation work and other infra-structure has commenced in January 2012 and the Group is also sourcing equipment from local as well as overseas suppliers. Upon the completion of the expansion in early 2013, the total production capacity will increase from existing 321,000 spindles to 401,000 spindles. The expansion will further consolidate the Company’s position as the leading yarn manufacturer in Jiangxi province.

The Group also strive to be well positioned to take advantage of any upturn in the textile industry given its scale of production, strong brand recognition and professional management.

I am confident about the future as the Group will benefit from the enlarged product portfolio and increased economy of scale as a result of the planned expansion of the production capacity.

On behalf of the Board, I would like to express my sincere gratitude to the Group’s management and staff members for their dedication and hard work, our customers for their confidence and support for our products, our shareholders for their trust and support and various government bodies for their support.

Zheng Hong
Chairman
Hong Kong, 22 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

MARKET OVERVIEW

In 2011, the US economy remained stagnate and the sovereign debt crisis in Euro zone has dragged the recovery of the global economy and affected the export of the PRC. On the domestic side, the PRC government has been combating inflation and rising property prices by adopting a proactive fiscal policy and a prudent monetary policy. The People's Bank of China ("PBOC") has raised benchmark interest rates of deposits and loans three times; while benchmark loan interest rate for six months to one year term has reached 6.56% per annum. PBOC also tightened liquidity by increasing the mandatory reserve ratio seven times, pushing the mandatory reserve ratio upwards for larger financial institution to 21.5% in December 2011.

Despite the complicated and volatile international environment and emerging domestic development challenges, economic growth in the PRC was still robust during 2011. In 2011, the Gross Domestic Product ("GDP") in the PRC grew by approximately 9.2% and the Consumer Price Index increased by approximately 5.4%.

2011 has been a challenging year for the textile industry. The complicated international environment and the tightening of liquidity in the PRC have affected many industries, including the textile industry. Raw material prices, in particular, cotton prices while below their peak reached in the fourth quarter in 2010, remained high in 2011. The prices of polyester staple fibres, another major raw material used in the production of the Group, also remained high in 2011 as they are downstream products of oil such that the international oil prices were pushed up due to the political unrest in the Middle East and North Africa.

BUSINESS REVIEW

The Company was successfully listed on the main board of the Stock Exchange on 22 December 2011. The listing of the Company (the "**Listing**") was an important milestone in the history of the Group, which serves as a testimony to the Group's past achievement, competitive edges, corporate vision by the investors and the capital market, and through which the Group has gained access to the international capital market.



Despite the challenge in 2011, the Group has achieved a 16.7% growth in revenue to approximately RMB1,085.9 million with a gross profit of approximately RMB138.7 million. The profit attributable to the owners of the Company for the year ended 31 December 2011 was approximately RMB60.6 million, which slightly exceeded RMB59.0 million as forecasted in the prospectus issued by the Company dated 12 December 2011.

FINANCIAL REVIEW

Turnover

Turnover for the year ended 31 December 2011 was approximately RMB1,085.9 million, representing an increase of approximately 16.7% or approximately RMB155.2 million from last year. Sales of polyester yarn, polyester-cotton yarn and cotton yarn accounted for approximately 48.4% (2010: 56.7%), 44.9% (2010: 37.7%) and 6.7% (2010: 5.6%) of total sales of the Group for the year ended 31 December 2011, respectively. The increase in turnover for 2011 was mainly attributable to the increase in average unit selling prices of the Company's yarn products. Despite a 5.7%

drop in the sales volume from approximately 61,773 tonnes in 2010 to approximately 58,223 tonnes in 2011, the overall average selling price of yarn products of the Group increased 23.8% from approximately RMB15,066 per tonne in 2010 to approximately RMB18,651 per tonne in 2011.

The selling prices of yarn products have a positive correlation with that of raw materials namely, polyester staple fibre and raw cotton. The Company sets the sales prices of our yarn products based on a variety of factors, including raw material prices, production costs and market conditions, our inventory level and the quality of the yarn products required by our customers. As polyester staple fibres are crude oil-based commodities, the prices of polyester yarns and polyester-cotton blended yarns are indirectly affected by the fluctuations in crude oil prices. The Company adjusts the selling prices of its yarn products from time to time considering the fluctuation in its raw material costs. In addition, we also monitor the movement of international and domestic raw cotton prices and members from the management, sales department and procurement department meet on a frequent basis to review the selling prices of its yarn products in



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)



order to respond to the changes of the various factors affecting its selling price. The average unit purchase price of polyester staple fibre and raw cotton were higher in 2011 than in 2010 and the prices of various yarn products of the Group have been pushed up accordingly.

Gross profit and gross profit margin

Gross profit for the year ended 31 December 2011 was approximately RMB138.7 million, representing a decrease of 7.2% or approximately RMB10.7 million as compared to the year ended 31 December 2010. The total gross profit margin decreased from 16.1% for the year ended 31 December 2010 to 12.8% for the year ending 31 December 2011. The decrease in gross profit margin was mainly due to the percentage of increase in the average unit selling prices of yarns products increased at a slower rate than the increase in the average unit cost of raw materials, especially raw cotton.

As cost of raw materials accounted for approximately 82.8% of our cost of goods sold for the year ended 31 December 2011, the high cost of raw materials has put pressure on our gross margin as we retrained from

passing on all the increase in raw materials cost to our customers in an attempt to maintain market share and customers goodwill.

Distribution and selling expenses

Distribution and selling expenses for the year ended 31 December 2011 was approximately RMB12.9 million, remained stable as compared to the year ended 31 December 2010. Distribution and selling expenses as a percentage of turnover was approximately 1.2% for the year ended 31 December 2011 (2010: 1.4%).

Administrative and other expenses

Administrative expenses for the year ended 31 December 2011 was approximately RMB20.1 million representing an increase of 103.0% or approximately RMB10.2 million as compared to the year ended 31 December 2010. The increase in administrative expenses was mainly due to increase in other taxation, including mandatory tax levies for foreign-invested enterprises in the PRC for city maintenance and construction as well as educational purposes and additional professional and other fees subsequent to the listing of the Group.



Other expenses for the year ended 31 December 2011 was approximately RMB20.6 million and it primarily represents expense incurred in connection with the Listing.

Finance cost

Finance cost for the year ended 31 December 2011 was approximately RMB20.2 million representing an increase of 25.9% or approximately RMB4.2 million as compared with the corresponding period in 2010. The increase in finance cost was mainly due to increase in interest expenses in relation to bank loan as the PBOC has increased the benchmark interest rate by 1.25% since the four quarter of 2010 and increase in interest expense in finance leases as the company repaid a finance lease and accelerated the related interest expenses.

Income tax expense

The Group's effective income tax rate for the year ended 31 December 2011 was approximately 12.7%, as compared to nil for the corresponding period in 2010. The increase in effective income tax rate was mainly due to expiration of the PRC tax concessions and exhaustion of tax credits carried forward in 2011.

Profit attributable to owners of the Company and net profit margin

Profit attributable to owners of the Company for the year ended 31 December 2011 was approximately RMB60.6 million, representing a decrease of approximately 48.5% or approximately RMB57.0 million as compared to the year ended 31 December 2010. The net profit margin of the Group for the year ended 31 December 2011 was approximately 5.6%, representing a decrease of 7.0 percentage points as compared to approximately 12.6% for the year ended 31 December 2010. The decrease in net profit and net profit margin were mainly due to the increase in administrative expenses, finance cost and income tax expenses for the year ended 31 December 2011 as compared to the year ended 31 December 2010 and the one-off Listing related expenses of approximately RMB 20.6 million incurred in 2011. Profit attributable to owners of the Company for the year ended 31 December 2011 was approximately RMB81.2 million, excluding the one-off Listing related expenses.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Earnings per share

The basic earnings per share for the year ended 31 December 2011 was approximately RMB8.01 cents, representing a decrease of approximately 48.9% as compared to approximately RMB15.67 cents for the year ended 31 December 2010. The decrease in basic earnings per share was a result of the decrease in net profit for the year ended 31 December 2011.

Liquidity and Financial Resources

The ordinary share(s) with a nominal value of HK\$0.10 each in the capital of the Company ("Shares") have been successfully listed on the Stock Exchange on 22 December 2011. 250,000,000 new Shares have been offered at HK\$0.70 per Share and the net proceeds from the global offering of the Company (the "**Global Offering**") was approximately HK\$143.5 million (not including any proceeds from the exercise of the over-allotment option) after deducting related underwriting fees and other expenses. The Company currently intends to apply the net proceeds as to (i) approximately 40.9% towards equipment and machinery for the production of coloured polyester-cotton blended yarns with a production capacity of approximately 60,000 spindles; (ii) approximately 28.7% towards equipment and machinery for the production of open-end spun yarns with a

production capacity of approximately 20,000 spindles; (iii) approximately 19.4% towards payment for construction of new production facility, not including the cost of land use rights; (iv) approximately 1.0% towards further enhance the marketing network, brand awareness and reputation; and (v) approximately 10.0% towards working capital and general corporate purposes of the Group. As at the date of this report, approximately HK\$14.4 million has been used as general working capital. The balance of the net proceeds remained unutilized and has been deposited into the Group's bank accounts 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 bankers in the PRC. During the year ended 31 December 2011, net cash inflow from operating activities of the Group amounted to approximately RMB168.1 million (2010: RMB88.0 million). The Group had time deposits of approximately RMB 128.4 million (2010: nil), cash and bank balances of approximately RMB86.0 million (2010: RMB113.5 million) and pledged bank deposits of approximately RMB24.4 million (2010: RMB29.6 million) as at 31 December 2011. The Group's cash and bank balances were held in Hong Kong dollar and Renminbi.



Capital Structure and Pledge on Assets

The Group's interest-bearing borrowings were made in Renminbi. As at 31 December 2011, the Group's interest-bearing borrowings amounted to approximately RMB222.0 million (2010: RMB267.0 million), all of which (2010: 100%) was repayable within one year. These bank borrowings were secured by the Group's land use rights, buildings, plant and machinery, inventories and bank deposits with a carrying value of approximately RMB379.6 million in aggregate (2010: RMB 260.6 million).

Gearing Ratio

The gearing ratio of the Group, which is equal to the total of bank borrowings and notes payable to total assets, was approximately 33.6% as at 31 December 2011 (2010: 45.7%). Net current liabilities and net assets at 31 December 2011 was approximately RMB7.5 million (2010: RMB181.1 million) and approximately RMB408.4 million (2010: RMB213.4 million), respectively.

Foreign Exchange Exposure

As the Group conducts business transactions principally in Renminbi, 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 ended 31 December 2011. The Group has foreign currency time deposits, cash and bank balances and other receivables, which expose the Group to risk in Hong Kong Dollars ("**HK\$**"). The carrying amounts of the Group's foreign currency denominated monetary assets as at 31 December 2011 are approximately RMB114.7 million (2010: nil).

Contingent Liabilities

As at 31 December 2010, the Group has given guarantees to a related company for its bank borrowings with maximum amount of RMB50 million, which have been utilised in full by this related company. Fair value of the financial guarantee

contracts is considered as insignificant at initial recognition. No provision for financial guarantee contracts has been made as the default risk is low. The guarantees have been released during 2011. As at 31 December 2011, the Group did not have any contingent liabilities.

Employees, Remuneration and Share Option Scheme

As at 31 December 2011, the Group has a total of 1,765 (2010: 1,859) employees. Remuneration for employees including the Directors is determined in accordance with performance, professional experiences and the prevailing market practices. Management reviews the Group's employee remuneration policy and arrangement on a regular basis. Apart from pension, discretionary bonus will also be granted to certain employees as awards in accordance with individual performance. The Company has adopted a share option scheme on 3 December 2011, under which the Company may grant options to eligible persons including directors and employees. No share option was granted pursuant to the scheme since its adoption.

PROSPECT

The textile industry is recognized as one of the "pillar industries" in the PRC. According to the China Textile Industry Development Report 2010/2011, the aggregate revenue generated by 55,391 enterprises each with an annual revenue of more than RMB5.0 million ("**Enterprises with Scale**") in the PRC textile industry as at 30 November 2010 amounted to RMB4.2 trillion from January 2010 to November 2010, representing 10.6% of the GDP in the PRC for the same year.

Blended yarn industry was listed as one of the encouraged sub-sectors within the textile industry in the Consolidation and Development Plans for Textile Industry published by the PRC government in early 2009. The future emphasis will be placed on

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

developing blended yarns composed of advanced materials and various types of yarns, and hence improving the functionality of the clothes woven from these blended yarns.

The Group is a manufacturer of polyester yarns, polyester-cotton blended yarns and cotton yarns in Jiangxi Province. As at 31 December, 2011, its production capacity was approximately 321,000 spindles, which could be allocated to the produce any of the yarn products according to its production plan from time to time. The yarn production volume was approximately 57,773 tonnes for the year ended 31 December 2011.

The Group's goal is to maintain its leading position in the textile industry in Jiangxi Province in terms of revenues and to continue to increase the presence in China. The Group will continue to seek opportunities for further business growth.

The Group plan to further diversify our product portfolio to include coloured polyester-cotton blended yarns and open-end spun yarns, which are environmental friendly. The Group also plans to construct two workshops with an aggregate production capacity of approximately 60,000 spindles for the production of coloured polyester-cotton blended

yarns and 20,000 spindles for the production of open-end spun yarns. The Group has purchased two parcels of land in the Fengtian Economic Development Zone, Fengxin County, Jiangxi Province with area of 65,004 square metres and 38,772 square metres at considerations of approximately RMB3.9 million and RMB2.3 million respectively in December 2011 for the construction of the workshops. The construction of the foundation work and other infrastructure has commenced in January 2012. The Group is also sourcing equipment for the workshops from overseas as well as local suppliers.

The Group also plans to carefully evaluate and identify selective expansion and acquisition opportunities. The Group will also further enhance the marketing network and strengthen the relationship with suppliers and customers to enhance the brand awareness and reputation.

The Group is confident about its future as the benefit from the enlarged product portfolio and increased economy of scale as a result of the planned expansion of the production capacity. The Group also strive to be well positioned to take advantage of any positive outlook in the textile industry given its scale of production, strong brand recognition and professional management.



REPORT OF THE DIRECTORS

The directors of the Company (the “Directors”) are pleased to present their report and the audited financial statements for the year ended 31 December 2011.

CHANGE OF COMPANY NAME

Pursuant to a special resolution dated 8 August 2011, the name of the Company was changed from China Weaving Materials Holdings Ltd. to China Weaving Materials Holdings Limited 中國織材控股有限公司.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of principal activities of the principal subsidiaries are set out in note 37 to the consolidated financial statements. There were no significant changes in the nature of the Group’s principal activities during the year.

RESULTS

The Group’s profit for the year ended 31 December 2011 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 30 to 32 and note 35 to the consolidated financial statements.

DIVIDEND

The board of Directors of the Company (the “Board”) has recommended the payment of a dividend of HK2.0 cents per share of the Company in respect of the year ended 31 December 2011.

FINANCIAL SUMMARY

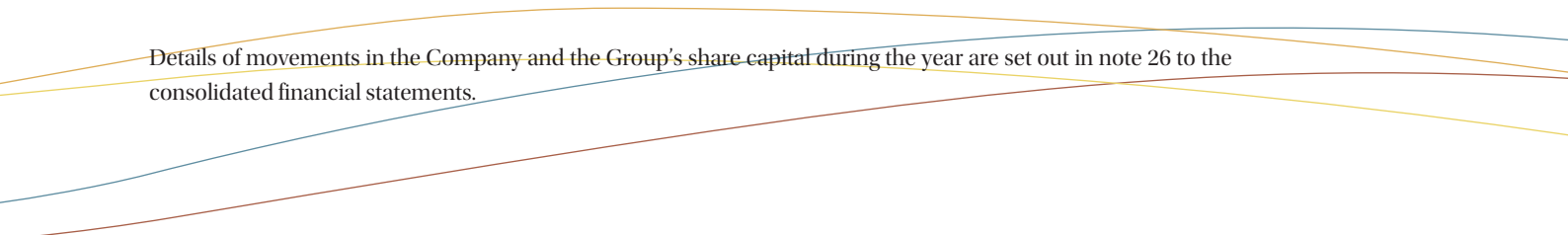
A summary of the financial information of the Group for the last four financial years is set out on page 76 of this annual report. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company and the Group’s share capital during the year are set out in note 26 to the consolidated financial statements.



REPORT OF THE DIRECTORS (CONTINUED)

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association adopted on 3 December 2011 and as amended from time to time (the "Articles") or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed shares of the Company's during the year ended 31 December 2011.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statements of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2011, the Group's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB121.5 million.

CHARITABLE CONTRIBUTIONS

During 2011, the Group did not make any charitable contributions.

MAJOR CUSTOMERS AND SUPPLIERS

During 2011, sales to the Group's five largest customers accounted for 7.6% of the total sales for 2011 and the sales to the largest customer included therein amounted to 2.1%.

Purchases from the Group's five largest suppliers accounted for 75.8% of the total purchases for the 2011 and the purchase from the Group's largest supplier included therein amounted to 29.2% of the total purchases for 2011.

None of the Directors or any of their associates or any substantial 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 and suppliers.

DIRECTORS

The directors of the Company as at 31 December 2011 were:

Executive Directors:

Mr. Zheng Hong (Chairman)
Mr. Zheng Yongxiang

Non-Executive Director:

Mr. Sze Irons, JP

Independent Non-Executive Directors:

Ms. Chan Mei Bo, Mabel
Mr. Nie Jianxin
Mr. Ng Wing Ka

Pursuant to Article 84 of the Company's Article, at each annual general meeting one-third of the Directors for the time being shall retire from office by rotation.

By virtue of Article 84 of the Company's Articles, all the directors who retire at the forthcoming annual general meeting, being eligible, will offer themselves for re-election at annual general meeting.

As such, Nie Jianxin and Ng Wing Ka will retire from office as directors at the forthcoming annual general meeting and will offer themselves for re-election.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

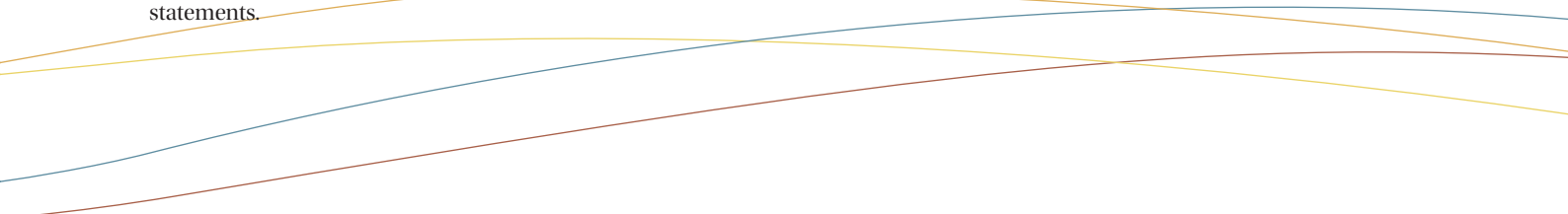
Biographical details of the directors of the Company and the senior management of the Group are set out on pages 25 to 27 of the annual report.

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 22 December 2011 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 3 December 2011 and may be terminated by not less than one month's prior notice in writing served by the Company.

The details of the remuneration of each of the directors are revealed on note 11 to the consolidated financial statements.



REPORT OF THE DIRECTORS (CONTINUED)

No director has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors are subject to retirement by rotation at least once every three years as required by the Articles.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence from the Group. Based on such confirmations, the Company consider that each of such directors to be independent from the Group for the purpose of Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the 2011.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31 December, 2011, the interest or short position in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were notified to the Company and the Stock Exchange under the provisions of Divisions 7 and 8 of Part XV 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 "Model Code"), are set out below:

Long positions in ordinary Shares of the Company

Name of Director	Capacity/ Nature of Interest	Number of shares	Approximate percentage of interest in the Company
Mr. Zheng Hong	Interest of a controlled corporation	467,550,000 ⁽¹⁾ (long position)	46.76%
Mr. Sze Irons, JP	Interest of a controlled corporation	122,850,000 ⁽²⁾ (long position)	12.29%

Notes:

- (1) These Shares are held by Popular Trend Holdings Limited ("Popular Trend"), the entire issued share capital of which is owned by Mr. Zheng Hong.
- (2) These Shares are held by Flourish Talent Group Limited ("Flourish Talent"), the entire issued share capital of which is owned by Mr. Sze Irons, JP.

Save as disclosed above, as at the date of this report, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The Company has a share option scheme (the “Scheme”) which has adopted pursuant to a resolution of all shareholders passed on 3 December 2011 and adopted by a resolution of the board of directors on 3 December 2011. The purpose of the Scheme is established to recognise and acknowledge the contributions the eligible participants had or may have made to the Group. The Scheme became effective on 22 December 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from the adoption of the scheme. The terms of the Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

Eligible participants of the Scheme include any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; any directors (including non-executive director and independent non-executive directors) of the Company or any of its subsidiaries; and any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries.

As at the date of this report, the total number of Shares of the Company available for issue under the Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong (the “Hong Kong Public Offer”) and the conditional placing by the international underwriters of the international placing shares (the “International Placing”) (the “Global Offering”), being 100,000,000 Shares. Subject to the issue of a circular by the Company and the approval of the shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the board of directors may:

- (i) renew this limit at any time to 10% of the Shares in issue as at the date of the approval by the shareholders in general meeting; and/or
- (ii) grant options beyond the 10% limit to eligible participants specifically identified by the Board.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the Shares in issue from time to time.

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to: (i) the issue of a circular by our Company; and (ii) the approval of the shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time.

REPORT OF THE DIRECTORS (CONTINUED)

SHARE OPTION SCHEME (Continued)

Share options granted to a director, chief executive or substantial shareholder of the Company (as defined under the Listing Rules), or to any of their respective associates (as defined under the Listing Rules), is required to be approved by the independent non-executive directors (excluding any independent non-executive director who is the grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director or any of their respective associates of the Company, (i) representing in aggregate over 0.1%, or such other percentage as may from time to time provided under the Listing Rules, of the Shares in issued on the date of grant; and having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets at the date of each grant, are subject to issue of a circular and shareholder's approval in general meeting by way of a poll.

The offer of a grant of share options may be accepted by a participant not later than 30 days after the date of offer, together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot of dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting the acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

The subscription price for Shares under the Scheme shall be a price determined by the board of directors in its absolute discretion shall determine, save such price will not be less than the highest of:

- i. the official closing price of the Shares as stated in the daily quotation sheets on the date of the offer of the grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- ii. the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and
- iii. the nominal value of a Share.

The exercise period for the share options granted is determined by the board of directors in its absolute discretion, which period may commence from the date of acceptance of the offer for the grant of share options but shall end in any event shall not exceed 10 years from the date on which the shares commence listing on the Main Board of the Stock Exchange.

Subject to the earlier termination of the Scheme in accordance with the Scheme rules, the Scheme will remain effective until 22 December 2021.

No option has been granted under the Scheme as at the date of this report.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURE

Save as disclosed in “Share Option Schemes” above, at no time during the year were rights to acquire benefits by means of the acquisition of share in or debentures of the Company granted to any director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS INTERESTS IN SHARES

As at 31 December, 2011, so far as is known to any director or chief executive of the Company, the persons or corporations (other than director or chief executive of the Company) who had interest or short positions in the shares and underlying shares of the Company which were required 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 to be kept under section 336 of the SFO are as follows:

Name of Shareholder	Capacity/ Nature of Interest	Number of Shares	Approximate percentage of shareholding in
Popular Trend ⁽¹⁾	Beneficial owner	467,550,000 Shares (long position)	46.76%
Flourish Talent ⁽²⁾	Beneficial owner	122,850,000 Shares (long position)	12.29%
Da Yu Investments ⁽³⁾	Beneficial owner	61,425,000 Shares (long position)	6.14%
Mr. Lin Sing Yun ⁽³⁾	Interest of a controlled corporation	61,425,000 Shares (long position)	6.14%
Orient Dynasty ⁽⁴⁾	Beneficial owner	67,500,000 Shares (long position)	6.75%
Modern Creative ⁽⁴⁾	Interest of a controlled corporation	67,500,000 Shares (long position)	6.75%
Mr. Liu Shu Fa ⁽⁴⁾	Interest of a controlled corporation	67,500,000 Shares (long position)	6.75%
Ms. Wang Juan ⁽⁴⁾	Interest of a controlled corporation	67,500,000 Shares (long position)	6.75%

Notes:

- Popular Trend is wholly-owned by Mr. Zheng Hong.
- Flourish Talent is wholly-owned by Mr. Sze Irons, JP.
- Da Yu Investments Limited (“Da Yu Investments”) is wholly-owned by Mr. Lin Sing Yun (“Mr. Lin”). For the purpose of Part XV of the SFO, Mr. Lin is deemed to be interested in the Shares held by Da Yu Investments.
- Orient Dynasty Holdings Limited (“Orient Dynasty”) is wholly-owned by Modern Creative Group Limited (“Modern Creative”). Modern Creative is owned as to 50% by Liu Shu Fa and 50% by Wang Juan. For the purpose of Part XV of the SFO, Modern Creative, Liu Shu Fa and Wang Juan are deemed to be interested in the Shares held by Orient Dynasty.

REPORT OF THE DIRECTORS (CONTINUED)

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contracts of significance have been entered into between the Company or any of its subsidiaries and the controlling shareholders during the year ended 31 December 2011.

NON-COMPETE UNDERTAKINGS

Each of the controlling shareholders, being Popular Trend Holdings Limited and Mr. Zheng Hong has confirmed to the Company of his/its compliance with the non-compete undertakings that he/it provided to the Company on 3 December 2011. The independent non-executive directors have reviewed the status of the compliance and confirmed that all of these non-compete undertakings have been complied with the controlling shareholders.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2011 and up to and including the date of this annual report.

PENSION SCHEME

The Group has established various welfare plans including the provision of basic pension funds, basic medical insurance, unemployment insurance and other relevant insurance for employees who are employed by the Group pursuant to the rules and regulations and the existing policy requirements of the PRC and Hong Kong government.

CONNECTED TRANSACTIONS

No connected transaction was entered into or in existence since the Listing Date and up to 31 December 2011. The related party transactions disclosed in note 33 to the financial statements do not fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public since the Listing Date to the date of this report.

DIRECTOR'S INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group which the Company or any of its subsidiaries was a party, subsisted at the end of or at any time during the year 31 December 2011.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 36 to the consolidated financial statements.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 7 May 2012 to Wednesday, 9 May 2012, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the forthcoming annual general meeting of the Company to be held on Wednesday, 9 May 2012, all transfer documents 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, Hong Kong for registration no later than 4:30 p.m. on Friday, 4 May 2012.

The register of members of its Company will be closed from Tuesday, 15 May 2012 to Thursday, 17 May 2012, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to the proposed final dividend, all transfer documents 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, Hong Kong for registration no later than 4:30 p.m. on Monday, 14 May 2012.

AUDITOR

The consolidated financial statements for the year ended 31 December 2011 have been audited by Deloitte Touche Tohmatsu who shall retire at the forthcoming annual general meeting of the Company. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Company is committed to principles of good corporate governance consistent with prudent management and enhancement of shareholder value. These principles emphasize transparency, accountability and independence. The Company adopted the code provisions set out in “The Code on Corporate Governance Practices” as set out in Appendix 14 of the Listing Rules (the “CG Code”), on the Listing Date. Since the date of adoption of the CG Code up to 31 December 2011, the Company considered that it had complied with the mandatory code provisions of the CG Code save for the following:

BOARD MEETINGS AND ATTENDANCE

Under code provision A.1.1 of the Code, the Board shall meet regularly and at least four times a year at approximately quarterly intervals. As the Company was listed on 22 December 2011, no Board meetings was held since the listing of the Company up to 31 December 2011.

DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted 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 22 December 2011 up to and including 31 December 2011.

BOARD OF DIRECTORS

The Board currently comprises two executive directors, one non-executive director and three independent non-executive directors. The Board has received from each independent non-executive director a written annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules and is satisfied with the independence of the independent non-executive directors. 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 22 December 2011 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 3 December 2011 and may be terminated by not less than one month's prior notice in writing served by the Company.

The Board Comprises the following Directors:

Executive Directors

Mr. Zheng Hong (Chairman)
Mr. Zheng Yongxiang

Non-executive Director

Mr. Sze Irons, JP

Independent non-executive Directors

Ms. Chan Mei Bo, Mabel
Mr. Nie Jianxin
Mr. Ng Wing Ka

No meeting of the Board was held during the period from the Listing Date to 31 December 2011. Up to the date of this annual report, one meeting of the Board was held on 22 March 2012.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Group has appointed Mr. Zheng Hong as the Chairman and Mr. Zheng Yong Xiang has assumed the role of 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. Mr. Zheng Hong is the younger brother of Mr. Zheng Yong Xiang.

REMUNERATION COMMITTEE

A remuneration committee was established by the Company on 3 December 2011 with written terms of reference in compliance with the CG Code. The primary duties of the remuneration committee include reviewing and determining the terms of remuneration packages, bonuses and other compensation payable to our Directors and members of senior management of our Group. The remuneration committee is chaired by Chan Mei Bo, Mabel, an independent non-executive Director, and other members are Nie Jianxin, Ng Wing Ka, who are also the independent non-executive Directors and Mr. Zheng Hong, an executive Director.

No meeting of the remuneration committee was held during the period from the Listing Date to 31 December 2011.

NOMINATION COMMITTEE

A nomination committee was established by the Company on 3 December 2011 with written terms of reference in compliance with the CG Code. The primary duties of the nomination committee are to make recommendations to the Board on the appointment and succession planning of Directors and assessing the independence of the Independent non-executive Directors based on the criteria such as reputation for integrity, accomplishment and experience in the relevant sector, professional and education background and potential time commitments. The members of the nomination committee comprises three independent non-executive Directors, namely, Chan Mei Bo, Mabel, Nie Jianxin, Ng Wing Ka and one executive Director, Mr. Zheng Hong. Chan Mei Bo, Mabel is the chairman of the nomination committee.

CORPORATE GOVERNANCE REPORT (CONTINUED)

No meeting of the nomination committee was held during the period from the Listing Date to 31 December 2011.

AUDIT COMMITTEE

An audit committee was established by our Company on 3 December 2011 with written terms of reference in compliance with the CG Code. The primary duties of the audit committee are to review and approve our Group's financial reporting process and internal control system. The audit committee comprises all independent non-executive Directors, namely, Chan Mei Bo, Mabel, Nie Jianxin and Ng Wing Ka. Chan Mei Bo, Mabel is the chairman of the audit committee.

The Group's audited consolidated results for the year ended 31 December 2011 has been reviewed by the audit committee of the Company.

No meeting of the audit committee was held during the period from the Listing Date to 31 December 2011. Up to the date of this annual report, one meeting of the audit committee was held on 21 March 2012.

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 consolidated 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 ended 31 December 2011.

AUDITOR'S REMUNERATION

During the year, the Group has incurred auditor's remuneration in respect of audit services of approximately RMB1,074,000, which was payable to the Company's auditor, Messrs Deloitte Touche Tohmatsu.

FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing the Group's consolidated 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 auditor with respect to financial reporting are set out in the Independent Auditor's Report on page 28.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Zheng Hong (鄭洪), aged 36, was appointed as the chairman of our Company and an executive Director on 4 May 2011. Mr. Zheng Hong has over 11 years of experience in textile industry. He is one of the founders of our Group and has been a director of Jiangxi Jinyuan since 2005. Prior to joining Jiangxi Jinyuan, Mr. Zheng Hong was a manager of Guangdong Dalang textile sales department (廣東大朗棉紗經營部) of Fujian Changle Jin Lin Sheng Textile Company Limited (福建省長樂市金林生織造有限公司) from 1997 to 1999. From 1999 to 2005, he served as the chairman and general manager of Jingwei Textile Company Limited of the Investment Office in Xiangyang City of Hubei Province (湖北省襄陽市投資辦襄陽經緯紡織有限公司). Mr. Zheng Hong was awarded as the China textile outstanding labour (全國紡織工業勞動模範) and standing committee member (常務理事) of the China cotton and textile industry association (中國棉紡織行業協會) in 2010. In 2001, he was awarded the Outstanding Entrepreneur (2001年度優秀民營企業家) by the CPC Xiangfan Municipal Committee (中共襄樊市委) and the Peoples' Government of Xiangfan City (襄樊市人民政府). In 2004, he was also awarded as the Outstanding Individual (先進個人) by the Xiangyang District Committee of CPC Xiangfan City (中共襄樊市襄陽區委). In 2003, he was appointed as the committee member of the 2nd Committee of the Chinese People's Political Consultative Conference of Xiangyang District of Xiangfan City (襄樊市襄陽區第二屆政協委員). Mr. Zheng Hong graduated in Fujian Commercial College (福建商業高等專科學校) in 1997 with a diploma of business secretary. He further completed Commercial Enterprises Information Strategy and Knowledge Management CEO Advanced Programme (工商企業信息戰略與知識管理總裁高級研修班) in Tsinghua University (清華大學) in 2005. Mr. Zheng Hong is the younger brother of Zheng Yongxiang.

Zheng Yongxiang (鄭永祥), aged 43, was appointed as an executive Director on 4 May 2011. Zheng Yongxiang has over 10 years of experience in textile industry. He joined Jiangxi Jinyuan in 2005 as a general manager and is primarily responsible for formulating the policy and monitoring the operation of the Group. Prior to joining Jiangxi Jinyuan, Zheng Yongxiang served as the general manager of Shaoxing Gangtai Weaving Company Limited (紹興港泰針紡有限公司) from 2001 to 2005. In 2006, Zheng Yongxiang was appointed as the representative of the second Jiangxi Yichun Municipal Chinese People's Congress (江西宜春市第二屆人民代表大會). He received the award of Outstanding Entrepreneur in 2007 (2007年度優秀企業家) from the Yichun Municipal Peoples' Government in 2008. He was awarded the Outstanding Architects of Yichun in the Reforming and Open Up for 30 years (改革開放30年宜春市優秀建設者) in 2008 and the Best Ten Yichun Citizen (十佳宜春人) in 2009. Zheng Yongxiang graduated from the Open University of China (中央廣播電視大學) with a diploma of accounting (finance and accounting) in 2010. Zheng Yongxiang is the elder brother of Mr. Zheng Hong.

NON-EXECUTIVE DIRECTOR

Sze Irons, JP (施榮懷), aged 50, was appointed as a non-executive Director on 4 May 2011. He is one of the founders of our Group and has been a director of Jiangxi Jinyuan since 2005. Mr. Sze Irons, JP has over 20 years of experience in investment and corporate management. He is an independent non-executive director of Continental Holdings Limited (stock code: 513), a company listed on the Main Board. Mr. Sze Irons, JP was appointed as an executive member of the Beijing Committee of the Chinese People's Political Consultative Conference in 2008. He was also appointed as the vice-chairman of Hunan Province Youth Federation in 2007 and the vice president of the Chinese Manufacturers' Association of Hong Kong. He has been a member of the Council and Court of Lingnan University since 2008. He is elected as a member of the Election Committee of the Chief Executive of Hong Kong from 2007 to 2012. Mr. Sze Irons, JP was appointed the Justice of Peace by the Government of Hong Kong in 2011 and the president of the Chinese Manufacturers' Association of Hong Kong in 2012. Mr. Sze Irons, JP graduated with a bachelor's degree in science from the University of Wisconsin-La Crosse, United States in 1985.

DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Mei Bo, Mabel (陳美寶), aged 40, was appointed as an independent non-executive Director on 3 December 2011. Ms. Chan is the sole proprietor of Mabel Chan & Co, Certified Public Accountants. Ms. Chan has over 17 years of experience in professional accounting field in Hong Kong. Ms. Chan is a Certified Public Accountant (Practising) in Hong Kong, a fellow member of The Association of Chartered Certified Accountants (formerly known as The Chartered Association of Certified Accountants), an associate member and council member of The Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants), and an associate member of The Institute of Chartered Accountants in England and Wales. Ms. Chan is a certified tax adviser of The Taxation Institute of Hong Kong since 2010. She was the president in 2010 and is a council member of The Society of Chinese Accountants and Auditors. She is also the past president and a council member of the Association of Women Accountants (Hong Kong) Ltd.. Ms. Chan was appointed as a member of the Financial Reporting Review Panel of The Financial Reporting Council, a member of the Create Smart Initiative Vetting Committee, a member of the Barristers Disciplinary Tribunal Panel and a member of the Public Affairs Forum of Hong Kong Secretariat Home Affairs Bureau. Ms. Chan has been serving as an independent non-executive director of companies listed on the Main Board of the Stock Exchange, namely Modern Education Group Limited (stock code: 1082) and Kingmaker Footwear Holdings Limited (stock code: 1170), since June 2011 and August 2011, respectively. She has been an independent non-executive director of Code Agriculture (Holdings) Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8153) since October 2009. She was also an independent non-executive director of China Properties Investment Holdings Ltd, a company listed on the Main Board of the Stock Exchange (stock code: 0736) from June 2007 to April 2009. Ms. Chan graduated with a master degree of business administration from the Hong Kong University of Science and Technology in 2000 and a degree of bachelor of arts in accountancy from City Polytechnic of Hong Kong (now known as City University of Hong Kong) in 1993.

Nie Jianxin (聶鑒新), aged 50, was appointed as an independent non-executive Director on 3 December 2011. Mr. Nie has over 8 years of experience in the industry of chemical fabrics. He is a party committee secretary (院黨委書記) and a chief engineer of the institute of Jiangxi Province Textile Industry Research and Design Institute (江西省紡織工業科研設計院). Mr. Nie has served various positions in Jiujiang Chemicals Fabrics Factory (九江化學纖維廠) including deputy head of factory. Mr. Nie graduated from the South China Institute of Technology (華南工學院) (now known as the South China University of Technology (華南理工大學)) with a bachelor's degree in chemical fabrics in 1982. He received the qualifications of professor grade senior engineer (教授級高級工程師) in 2001. Mr. Nie was awarded 3rd honour for science & technology development (江西省科學技術進步獎) in the project named 300D/60F Delustering Viscose Rayon (300D/60F 消光粘膠人造絲) by the Peoples' Government of Jiangxi Province in 2002.

Ng Wing Ka (吳永嘉), aged 42, was appointed as an independent non-executive Director on 3 December 2011. He is a practising solicitor in Hong Kong and is the partner of Tung Ng Tse & Heung Solicitors since 1997. Mr. Ng has served as the committee member of Electronics and Telecommunications Training Board since 2007. He is also the committee member of Hong Kong Ethics Development Centre of Independent Commission Against Corruption and Fire Prevention Committee of Hong Kong East. Since 2005, Mr. Ng has been the independent non-executive director of Sino Union Petroleum & Chemical International Limited, a company listed on the Main Board (stock code: 346). Mr. Ng graduated with a bachelor in laws and a postgraduate certificate in laws from the University of Hong Kong in 1991 and 1992, respectively.

SENIOR MANAGEMENT

Liu Weimin (劉偉民), aged 42, is a deputy general manager of Jiangxi Jinyuan. Mr. Liu joined our Group in 2005 and is responsible for production technology management. He has over 21 years of experience in textile industry. Prior to joining Jiangxi Jinyuan, Mr. Liu served as the head of production department in Fujian Mawei Development Zone Chuanlong Textile Company Limited (福建省馬尾開發區川隆紡織有限公司) from 1990 to 1993. From 1993 to 1995, he served as the head of production department of Fujian Jingwei Group Company Limited (福建經緯集團有限公司). From 1995 to 2004, he served as the factory manager and chief engineer of Jinjiang Fuxin Textile Company Limited (晉江福鑫紡織有限公司). Mr. Liu completed the internal auditor training in 2011 provided by Nan Chang Sino Enterprise Management Consulting Centre according to the ISO 9001: 2008 and GB/T24001-2004 (ISO14001: 2004) Standard.

Chen Yu Han (陳宇含), aged 29, is a manager of sales department of Jiangxi Jinyuan. Mr. Chen joined Jiangxi Jinyuan in 2005 and is responsible for sales and management. He has over 6 years of experience in textile industry. Mr. Chen graduated from the Jimei University (集美大學) in 2005 with a bachelor's degree in business management.

Cheung Chi Fai Frank (張志輝), aged 49, was appointed as our Company's secretary and chief financial officer of our Company in May 2011. He is also an independent non-executive director of Continental Holdings Limited, a company listed on the Main Board (stock code: 513). He has over 20 years experience in accounting, finance and business management and held senior positions in various multinational companies. He obtained an MBA from the University of Technology, Sydney in 1995 and a professional diploma in accountancy from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) in 1985. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Cheung was a part-time tutor at the Open University of Hong Kong from March 2009 to July 2011. He was an executive director of Sun Innovation Holdings Limited, a company listed on the Main Board (stock code: 547) from 2004 to 2007. He also acted as the chief financial officer of Sun Innovation Holdings Limited from 2007 to 2008. He was an independent director of LJ International Inc. (NASDAQ: JADE) from June to October 2007, a director of e-Lux (Hong Kong) Company Limited, a subsidiary of e-Lux Corporation (JASDAQ: 6811) from 2001 to 2003, in charge of the telecommunications value added services in Hong Kong, Taiwan and the PRC. He was the group financial controller and a director of New Media Corporation, a subsidiary of e-New Media Company Limited, a company listed on the Stock Exchange (stock code: 128) from 1995 to 1999 and 1999 to 2000, respectively.

INDEPENDENT AUDITOR'S REPORT



**TO THE SHAREHOLDERS OF
CHINA WEAVING MATERIALS HOLDINGS LIMITED**
中國織材控股有限公司
(incorporated in the Cayman Island with limited liability)

We have audited the consolidated financial statements of China Weaving Materials Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 75, which comprise the consolidated statement of financial position as at 31 December 2011, 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, in accordance with our agreed terms of agreement, 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 judgment, 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 Group as at 31 December 2011, and of its profit 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

22 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Revenue	6	1,085,889	930,666
Cost of sales		(947,142)	(781,294)
Gross profit		138,747	149,372
Investment and other income	8	4,481	7,027
Distribution and selling expenses		(12,938)	(12,902)
Administrative expenses		(20,061)	(9,932)
Other expenses		(20,583)	-
Finance costs	9	(20,156)	(16,009)
Profit before tax		69,490	117,556
Income tax expense	12	(8,852)	-
Profit and total comprehensive income for the year attributable to owners of the Company	10	60,638	117,556
Earnings per share	14		
– Basic (RMB cents)		8.01	15.67
– Diluted (RMB cents)		8.01	15.67

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	15	400,332	381,436
Prepaid lease payments	16	19,394	13,361
Deposits on acquisition of property, plant and equipment or land use rights		2,600	15,450
Secured deposits for obligations under finance leases	25	3,022	15,521
		425,348	425,768
Current assets			
Inventories	17	44,611	115,705
Trade and other receivables	18	8,839	27,976
Note receivables	19	9,539	12,329
Prepaid lease payments	16	430	299
Pledged bank deposits	20	24,443	29,609
Time deposits	20	128,361	–
Cash and bank balances	20	86,047	113,514
		302,270	299,432
Current liabilities			
Trade and other payables	21	49,278	39,116
Note payables	22	18,650	41,650
Dividend payable		–	85,800
Tax payable		8,852	–
Bank borrowings	24	225,817	289,837
Obligations under finance leases	25	7,219	24,151
		309,816	480,554
Net current liabilities		(7,546)	(181,122)
Total assets less current liabilities		417,802	244,646
Non-current liabilities			
Deferred income	23	6,564	6,714
Obligations under finance leases	25	2,833	24,573
		9,397	31,287
Net assets		408,405	213,359

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2011

	NOTE	2011 RMB'000	2010 RMB'000
Capital and reserves			
Share capital/paid-in capital	26	81,885	148,820
Share premium and reserves		326,520	64,539
<hr/>			
Total equity attributable to the owners of the Company		408,405	213,359

The consolidated financial statements on pages 30 to 75 were approved and authorised for issue by the Board of Directors on 22 March 2012 and are signed on its behalf by:

Zheng Hong
DIRECTOR

Zheng Yongxiang
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Share capital/ paid-in capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000 (note 1)	Special reserve RMB'000	Accumulated profits RMB'000	Total RMB'000
As at 1 January 2010	148,820	-	14,953	-	17,830	181,603
Profit and total comprehensive income for the year	-	-	-	-	117,556	117,556
Dividends recognised as distribution (see note 13)	-	-	-	-	(85,800)	(85,800)
Transfer of statutory surplus reserve	-	-	23,622	-	(23,622)	-
As at 31 December 2010 and 1 January 2011	148,820	-	38,575	-	25,964	213,359
Issued of shares of Jolly Success	1	-	-	-	-	1
Exchange of shares upon Group Reorganisation (note 2)	(148,739)	-	-	148,739	-	-
Issued of shares through public floatation	20,492	122,950	-	-	-	143,442
Cost of issuing new shares	-	(9,035)	-	-	-	(9,035)
Capitalisation issue (note 3)	61,311	(61,311)	-	-	-	-
Profit and total comprehensive income for the year	-	-	-	-	60,638	60,638
Transfer of statutory surplus reserve	-	-	17,700	-	(17,700)	-
As at 31 December 2011	81,885	52,604	56,275	148,739	68,902	408,405

Notes:

- (1) Statutory surplus reserve representing appropriations from the profits after taxation of a wholly-owned subsidiary, Jinyuan Textile Co., Ltd. Jiangxi ("Jiangxi Jinyuan") established in the People's Republic of China ("PRC") forms part of shareholders' equity of Jiangxi Jinyuan. In accordance with the PRC Company Law and the Articles of Association of Jiangxi Jinyuan, Jiangxi Jinyuan is required to appropriate an amount at a minimum of 10% of its profits after taxation each year to a statutory surplus reserve until the statutory surplus reserve reaches 50% of its registered capital. The statutory surplus can be used for converting into additional capital of Jiangxi Jinyuan.
- (2) On 13 June 2011, the Company allotted and issued 900,000 nil paid shares, together with the existing 100,000 nil paid shares in exchange for the entire share capital of a wholly-owned subsidiary, Jolly Success International Limited ("Jolly Success"). On 14 October 2011, a wholly-owned subsidiary, Treasure Resources Corporation Limited issued 1,000 shares to the shareholders of Jiangxi Jinyuan, in exchange for the entire paid-in capital of Jiangxi Jinyuan, amounting to RMB148,820,000.
- (3) On 22 December 2011, the Company capitalised an amount of HK\$74,900,000 (approximately RMB61,393,000) from the amount standing to the credit of the share premium account to pay up in full at par 749,000,000 shares. Those 749,000,000 shares allotted and issued to persons whose names appear on the register of shareholders of the Company at the same date in proportion to their then respective shareholding in the Company.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	NOTE	2011 RMB'000	2010 RMB'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit for the year		60,638	117,556
Adjustments for:			
Income tax expenses		8,852	-
Interest income		(1,658)	(1,006)
Interest expenses		18,989	14,452
Amortisation of deferred income		(150)	(150)
Amortisation of prepaid lease payments		316	286
Amortisation of upfront fee related to obligation under finance lease		1,167	583
Depreciation of property, plant and equipment		18,185	17,329
Discounting charges on note receivables		-	974
Loss on disposal of property, plant and equipment		44	2
Operating cash flows before movements in working capital		106,383	150,026
Decrease (increase) in inventories		71,094	(19,048)
Decrease (increase) in trade and other receivables		19,137	(15,138)
Decrease (increase) in note receivables		690	(8,289)
Increase (decrease) in trade payables and other payables		10,162	(607)
Decrease in note payables		(23,000)	(6,325)
Cash generated from operations		184,466	100,619
Interest paid		(16,321)	(12,658)
NET CASH GENERATED FROM OPERATING ACTIVITIES		168,145	87,961
CASH FLOW FROM INVESTING ACTIVITIES			
Placement of pledged bank deposits		(40,616)	(52,809)
Increase of time deposits with original maturity more than three months		(30,000)	-
Purchase of property, plant and equipment		(19,658)	(28,310)
Addition to prepaid lease payments		(6,480)	(1,225)
Deposits on property, plant and equipment or land use rights		(2,600)	(15,450)
Withdrawn of pledged bank deposits		45,782	66,001
Interest received		878	1,006
Advance to related companies	33	-	(36,485)
Advance to third parties		-	(1,700)
Repayment from related companies	33	-	60,935
Repayment from third parties		-	2,480
NET CASH USED IN INVESTING ACTIVITIES		(52,694)	(5,557)

	NOTE	2011 RMB'000	2010 RMB'000
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of bank borrowings		(391,150)	(220,000)
Dividends paid		(85,800)	(42,900)
Repayment of obligations under finance leases		(31,245)	(26,702)
Repayment to related companies	33	(25,176)	(10,000)
Repayment to a director	33	(7,000)	(5,000)
Proceeds from bank borrowings		329,230	289,837
Proceeds from issue of new shares		143,442	-
Payment for share issue costs		(9,035)	-
Advance from related companies	33	25,176	10,000
Advance from a director	33	7,000	-
Proceed from issue of shares of Jolly Success to its former shareholder		1	-
Advances from third parties		-	28,000
Repayment of note financing		-	(26,025)
Discounting charges paid on note receivables		-	(974)
Proceeds from sale and leaseback arrangements		-	16,710
Repayment of loans from third parties		-	(28,000)
NET CASH USED IN FINANCING ACTIVITIES		(44,557)	(15,054)
NET INCREASE IN CASH AND CASH EQUIVALENTS		70,894	67,350
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR		113,514	46,164
CASH AND CASH EQUIVALENTS AT THE END OF YEAR		184,408	113,514
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		86,047	113,514
Time deposits with original maturity less than three months		98,361	-
		184,408	113,514

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. GENERAL

The Company was incorporated in the Cayman Islands on 4 May 2011 and its shares are listed on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business of the Company is at Fengtian Economic Development Zone of Fengxin County, Yichun City, Jiangxi Province, The People’s Republic of China (“PRC”).

Pursuant to a group reorganisation (the “Group Reorganisation”) to rationalise the structure of the Group in preparation for the listing of the Company’s shares on the Stock Exchange, the Company became the holding company of the Group on 14 October 2011, as set out in “History and Corporate Structure” in the prospectus issued by the Company dated 12 December 2011. The Group resulting from the Group Reorganisation is regarded as a restructure by interspersing the Company between Jolly Success International Limited (“Jolly Success”), Treasure Resources Corporation Limited (“Treasure Resources”), Jinyuan Textile Co., Ltd. Jiangxi (“Jiangxi Jinyuan”) and Mr. Zheng Hong, the controlling shareholder of Jiangxi Jinyuan as well as Mr. Sze Irons, J.P., Mr. Lin Sing Yun and Ms. Chow Ping (collectively referred to the “Ultimate Controlling Shareholders”). Accordingly, the financial statements of the Group have been prepared on the basis as if the Company had always been the holding company of the Group using the principles of merger accounting.

The Company is an investment holding company. Its operating subsidiary, Jiangxi Jinyuan, is engaged in the business of manufacturing and trading of polyester yarns, polyester-cotton blended yarns and cotton yarns.

The consolidated financial statements are presented in Renminbi (“RMB”), which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

As of 31 December 2011, the Group had net current liabilities of approximately RMB7,546,000 (2010: RMB181,122,000). Up to the date these consolidated financial statements were authorised for issuance, the Group has already obtained roll over of bank loans amounting to RMB202,000,000 and existing banking facilities of RMB180,000,000. The management of the Group is satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future, after taking into consideration the banking facilities already in place and internal financial resources and accordingly, the consolidated financial statements have been prepared on a going concern basis.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

The International Accounting Standards Board (“IASB”) issued a number of new International Accounting Standard (“IAS”), IFRSs, amendments and interpretations (hereinafter collectively referred to as “new IFRS”) which are effective for the Group’s financial period beginning on 1 January 2011. The Group has adopted all these new IFRS and other existing IFRS consistently throughout the year.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

The Group has not early applied the following new and revised standards, amendments and interpretation that have been issued but are not yet effective during the year.

IFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets ¹
IFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities ²
Amendments to IFRS 9 and IFRS 7	Disclosures – Mandatory Effective Date of IFRS 9 and Transition Disclosures ⁵
IFRS 9	Financial Instruments ⁵
IFRS 10	Consolidated Financial Statements ²
IFRS 11	Joint Arrangements ²
IFRS 12	Disclosure of Interests in Other Entities ²
IFRS 13	Fair Value Measurement ²
IFRIC Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine ²
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income ⁴
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ³
IAS 19 (Revised 2011)	Employee Benefits ²
IAS 27 (Revised 2011)	Separate Financial Statements ²
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures ²
IAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities ⁶

¹ Effective for annual periods beginning on or after 1 July 2011.

² Effective for annual periods beginning on or after 1 January 2013.

³ Effective for annual periods beginning on or after 1 January 2012.

⁴ Effective for annual periods beginning on or after 1 July 2012.

⁵ Effective for annual periods beginning on or after 1 January 2015.

⁶ Effective for annual periods beginning on or after 1 January 2014.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

The directors of the Company anticipate that the applications of the new and revised standards, amendments and interpretation will have no material impact on the consolidated financial statements of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The consolidated financial statements have been prepared in accordance with the following accounting policies which conform with IFRS issued by IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discount and sales related tax.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Deposits received from customers prior to meeting the revenue recognition criteria are included in the consolidated statement of financial position under current liabilities.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administration purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than construction in progress, less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Buildings	3%
Plant and machinery	5% – 10%
Office equipment	5% – 10%
Motor vehicles	10%

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction in progress for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the assets and is included in the profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

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

Investment in a subsidiary

Investment in a subsidiary is included in the Company's statement of financial position at cost less any identified impairment losses.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's accounting policy on borrowing costs (see accounting policy on borrowing costs above).

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Sale and leaseback

A sale and leaseback transaction involves the sales of machineries and the leasing back of the same assets. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount shall not be immediately recognised as income by the Group as lessee. Instead, it shall be deferred and amortised over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the consolidated financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefits costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income 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 temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences 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 CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with 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. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Impairment of tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss, if any.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and cost necessary to make the sales.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

The Group's financial assets are mainly loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of financial assets and of allocating interest income over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, note receivables, time deposits, pledged bank deposits, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the due date, observable changes in national or local economic conditions that correlate with default on receivables and the financial performance of the customers.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the loans and receivables at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceed received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, note payables and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition (Continued)

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when and only when, the Group's obligations are discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the management of the Group is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Inventory valuation method and write down of inventories

Inventory is valued at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Where the estimated net realisable value for slow-moving inventories are lower (higher) than expected, a write-down (reversal of write-down) would be recognised in the profit or loss in the period that such a write-down (reversal of write-down) takes place. The Group's carrying amount of inventory as at 31 December 2011 was approximately RMB44,611,000 (2010: RMB115,705,000).

Depreciation

The Group depreciates the property, plant and equipment over their estimated useful lives, using straight-line method, at the rates ranging from 3% to 10% per annum. The estimated useful lives that the Group depreciates the property, plant and equipment reflect the management's estimate of the periods that the Group intends to derive future economic benefits from the use of the assets by taking into account of industry normal practice. The Group's carrying amount of property, plant and equipment as at 31 December 2011 was approximately RMB400,332,000 (2010: RMB381,436,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

6. REVENUE

The followings is an analysis of the Group's revenue from its major products during the years:

	2011 RMB'000	2010 RMB'000
Sales of polyester yarns	525,711	527,978
Sales of polyester-cotton blended yarns	487,441	350,849
Sales of cotton yarns	72,737	51,839
	1,085,889	930,666

7. SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports prepared in accordance with accounting policies which conform with the generally accepted accounting principles in the PRC ("PRC GAAP"), that are regularly reviewed by the chief operating decision-maker ("CODM") to allocate resources to the segments and to assess their performance.

The CODM which is responsible for allocating resources and assessing performance of the operating segments has been defined as the executive directors of the Company.

The executive directors review the overall result of Jiangxi Jinyuan as a whole prepared under PRC GAAP for the purposes of resources allocation and performance assessment for the years ended 31 December 2011 and 2010, respectively. Other than revenue analysis as set out in note 6, no operating results and other discrete financial information relating to the yarn products is prepared regularly for internal reporting to the CODM for resources allocation and performance assessment. The operations of Jiangxi Jinyuan represent single operating and reportable segment of the Company under IFRS 8 "Operating Segments".

Reconciliation of segment result, segment assets and segment liabilities reviewed by the CODM which are different from the Group's result, total assets and total liabilities are as follows.

	2011 RMB'000	2010 RMB'000
Segment profit reviewed by CODM	82,122	113,106
Adjusted for income in relation to government grants	550	4,450
Unallocated income	628	-
Listing expenses	(20,583)	-
Other unallocated expenses	(2,079)	-
	60,638	117,556

7. SEGMENT INFORMATION (Continued)

	2011 RMB'000	2010 RMB'000
Segment assets reviewed by CODM	612,965	725,200
Time deposits with original maturity less than three months	98,361	–
Cash and bank balances	16,222	–
Other unallocated assets	70	–
Group's total assets	727,618	725,200
	2011 RMB'000	2010 RMB'000
Segment liabilities reviewed by CODM	311,024	505,127
Adjusted for deferred income	6,564	6,714
Accrued listing and administrative expenses	1,625	–
Group's total liabilities	319,213	511,841

All of the Group's non-current assets, production facilities and capital expenditure are located or utilised in the PRC.

Geographical information

All the Group's revenue were derived from sales of polyester yarns, polyester-cotton blended yarns and cotton yarns in the PRC based on where goods are delivered to, which are also same as the location of customers.

Information about major customers

No revenue from single customer contributing over 10% of the total sales of the Group in the years ended 31 December 2011 and 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

8. INVESTMENT AND OTHER INCOME

	2011 RMB'000	2010 RMB'000
Interest income on time deposits, pledged bank deposits and bank balances	878	1,006
Interest income on secured deposits for obligations under finance leases	780	–
Government grants based on value-added tax paid (note)	–	4,300
Government grants on purchase of land use right (note)	150	150
Other government grant	400	–
Income from scrap sales	1,486	1,486
Net foreign exchange gains	618	–
Others	169	85
	4,481	7,027

Note:

Government grants include refund of purchase cost of land use right and grants based on value-added tax paid from the PRC government. Both subsidies were generally provided in relation to the establishment of Jiangxi Jinyuan in 2005. Government grants based on value-added tax paid were recognised in the consolidated statement of comprehensive income when received and no specific conditions have been required to be met. Those government grants related to the refund of the purchase cost of land use right are recognised as deferred income (see note 23), which is non-recurring in nature.

9. FINANCE COSTS

	2011 RMB'000	2010 RMB'000
Interest on:		
– Bank borrowings wholly repayable within five years	16,321	12,658
– Finance leases	4,685	1,794
	21,006	14,452
Discounting charges on note receivables	–	974
Amortisation of upfront fee related to obligations under finance leases	1,167	583
	22,173	16,009
Less: amounts capitalised	(2,017)	–
	20,156	16,009

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.01% (2010: Nil) per annum to expenditure on qualifying assets.

10. PROFIT FOR THE YEAR

	2011 RMB'000	2010 RMB'000
Profit for the year has been arrived at after charging:		
Auditor's remuneration	1,074	30
Cost of inventories recognised as an expense	947,142	781,294
Depreciation of property, plant and equipment	18,185	17,329
Amortisation of prepaid lease payments	316	286
Total depreciation and amortisation	18,501	17,615
Loss on disposal of property, plant and equipment	44	2
Listing expenses (included in other expenses)	20,583	-
Other staff costs (excluding directors)	59,444	47,101
Retirement benefit scheme contributions (excluding directors)	4,708	36
Total other staff costs	64,152	47,137

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

11. DIRECTOR'S REMUNERATION AND HIGHEST PAID EMPLOYEES

Detail of emoluments paid by the Group to each of the directors of the Company are as follows:

For the year ended 31 December 2011

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	Total emoluments RMB'000
Executive directors:				
Mr. Zheng, Hong	-	203	-	203
Mr. Zheng, Yongxiang	-	201	2	203
Non-executive director:				
Mr. Sze, Irons, J.P.	10	-	-	10
Independent non-executive directors:				
Ms. Chan Mei Bo, Mabel	10	-	-	10
Mr. Ng Wing Ka	10	-	-	10
Mr. Nie Jianxin	10	-	-	10
	40	404	2	446

For the year ended 31 December 2010

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	Total emoluments RMB'000
Executive directors:				
Mr. Zheng, Hong	-	-	-	-
Mr. Zheng, Yongxiang	-	147	2	149
Non-executive director:				
Mr. Sze, Irons, J.P.	-	-	-	-
	-	147	2	149

No incentive paid during the year or receivable by directors as an inducement to join or upon joining the Company and no directors waived any emoluments for the years ended 31 December 2011 and 2010.

11. DIRECTOR'S REMUNERATION AND HIGHEST PAID EMPLOYEES (Continued)

Of the 5 highest paid employees in the Group, 2 (2010: 1) were directors of the Group for the year ended 31 December 2011 whose emoluments are included in disclosures above. The emoluments of the remaining 3 (2010: 4) individuals for the year ended 31 December 2011, were as follows:

	2011 RMB'000	2010 RMB'000
Salaries and other benefits	445	197
Retirement benefit scheme contributions	5	-
	450	197

	2011 Number of employees	2010 Number of employees
Emoluments of these remaining highest paid individuals were within the following band:		
Nil – HK\$1,000,000	3	4

12. INCOME TAX EXPENSE

	2011 RMB'000	2010 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	8,852	-

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changed the tax rate from 33% to 25% for all PRC enterprise from 1 January 2008 onwards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

12. INCOME TAX EXPENSE (Continued)

Jiangxi Jinyuan is a wholly foreign-owned enterprise of manufacturing nature. In accordance with Foreign Enterprise Income Tax Laws in PRC, Jiangxi Jinyuan was approved to be exempted from EIT for two years starting from its first profit making year since its establishment and followed by a 50% tax relief for the next three years. Jiangxi Jinyuan's first profit making year was 2006. Jiangxi Jinyuan was therefore subject to a reduced tax rate of 12.5% from 1 January 2008 to 31 December 2010. Jiangxi Jinyuan is subject to a tax rate of 25% from 1 January 2011 onwards.

Jiangxi Jinyuan purchased certain domestic manufactured equipment in 2006 and 2007. In accordance with Cai Shui Zi [2000] No.49 on Notice concerning the Reduction in Enterprise Income Tax for Purchase of Domestic Manufactured Equipment by Enterprises with Foreign Investment and Foreign Enterprises issued by the Ministry of Finance and the State Administration of Taxation, part of the purchase costs of the domestic manufactured equipment could be utilised to reduce its EIT.

The application of EIT reduction related to the purchase of domestic manufactured equipment in 2006 and 2007 was approved by the Jiangxi Administration of State Taxation of Fengxi District. Jiangxi Jinyuan was entitled to a total tax reduction of RMB38.4 million for the years ended 31 December 2006 and 2007 and among them, 8.8 million have been utilised in 2008 and 2009. The remaining RMB29.6 million tax credit have been utilised to offset the income tax liability of Jiangxi Jinyuan for the year ended 31 December 2011 and 2010 amounting to RMB14.8 million and RMB14.8 million respectively. All the tax reduction has been utilised as at 31 December 2011.

No provision for EIT has been made as after applying the tax concession, if applicable, the remaining tax expense was fully reduced by the utilisation of tax credit obtained from domestic manufactured equipment for the year ended 31 December 2010.

In accordance with Circular Guo Shui Fa [2008] No. 52 on Ceasing Granting Tax Credit and Exemption relating to Enterprise Income Tax on the Purchase of Domestic Manufactured Equipment issued by State Administration of Taxation, the granting of tax credit on purchase of domestic manufactured equipment on or after 1 January 2008 was ceased.

Under the relevant tax law and implementation regulations in the PRC, withholding income tax is applicable to dividend earned and payable to investors that are "non-tax resident enterprises" in respect of profits earned by PRC subsidiaries since 1 January 2008, which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such interest or dividends have their sources within the PRC. Under such circumstances, dividends paid by the PRC subsidiaries to offshore group entities shall be subject to the withholding tax at 10% or a lower treaty rate. Withholding tax will be provided for based on the dividends to be paid by the PRC entities. As the Group has decided not to declare any dividends from its PRC subsidiary to offshore group entities in the foreseeable future, no provision for withholding tax has been made for the year.

12. INCOME TAX EXPENSE (Continued)

The tax charge for the year can be reconciled to the profit before tax per the consolidated statement of comprehensive income as follows:

	2011 RMB'000	2010 RMB'000
Profit before tax	69,490	117,556
Tax at PRC EIT rate of 25%	17,372	29,389
Tax effect of income not taxable for tax purpose	(157)	-
Tax effect of expenses not deductible for tax purpose	6,892	116
Tax effect of tax concession granted	-	(14,821)
Additional tax credit for purchase of domestic manufactured equipment	(14,790)	(14,821)
Others	(465)	137
Tax charge for the year	8,852	-

13. DIVIDENDS

During the year ended 31 December 2010, Jiangxi Jinyuan had declared dividend to its shareholders prior to the Group Reorganisation amounting to RMB85,800,000. No dividend was declared during the year ended 31 December 2011.

A final dividend for the year ended 31 December 2011 of HK\$2.0 cents per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

The rates of dividend and the number of shares ranking for dividend declared in 2010 are not presented as such information is not meaningful having regard to the purpose of these consolidated financial statements.

14. EARNINGS PER SHARE

The number of ordinary shares for the purpose of basic earnings per share for the years ended 31 December 2011 and 2010 had been adjusted retrospectively assuming that the Group Reorganisation and the share capitalisation have been effective from 1 January 2010 and accordingly, the 750,000,000 ordinary shares of the Company which were in issue and outstanding immediately after the Group Reorganisation were assumed to have issued and outstanding as at 1 January 2010. No diluted earnings per share was presented for the year ended 31 December 2010 as there were no potential ordinary shares in issue.

The number of ordinary shares for the purposes of calculation of basic and diluted earnings per share for the year ended 31 December 2011 has been adjusted for the new shares issued on public floatation on 22 December 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

14. EARNINGS PER SHARE (Continued)

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2011 RMB'000	2010 RMB'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share		
Profit for the year attributable to owners of the Company	60,638	117,556
	2011 '000	2010 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	756,849	750,000
Effect of dilutive potential ordinary shares – over-allotment options	101	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	756,950	750,000

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Construction in progress RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
COST						
At 1 January 2010	136,393	-	273,316	1,138	2,838	413,685
Additions	328	1,441	17,369	469	1,081	20,688
Disposals	-	-	-	(10)	(2)	(12)
Transfer from construction in progress	-	(325)	325	-	-	-
At 31 December 2010 and 1 January 2011	136,721	1,116	291,010	1,597	3,917	434,361
Additions	-	34,432	2,161	532	-	37,125
Disposals	-	-	(50)	(110)	-	(160)
Transfer from construction in progress	35,548	(35,548)	-	-	-	-
At 31 December 2011	172,269	-	293,121	2,019	3,917	471,326
ACCUMULATED DEPRECIATION						
At 1 January 2010	7,475	-	27,118	356	657	35,606
Charge for the year	4,098	-	12,741	176	314	17,329
Eliminated on disposals	-	-	-	(8)	(2)	(10)
At 31 December 2010 and 1 January 2011	11,573	-	39,859	524	969	52,925
Charge for the year	4,188	-	13,339	335	323	18,185
Elimination disposals	-	-	(17)	(99)	-	(116)
At 31 December 2011	15,761	-	53,181	760	1,292	70,994
CARRYING AMOUNTS						
At 31 December 2011	156,508	-	239,940	1,259	2,625	400,332
At 31 December 2010	125,148	1,116	251,151	1,073	2,948	381,436

All the Group's buildings are located in the PRC under medium-term lease.

Buildings and plant and machinery with an aggregate carrying amount of approximately RMB297.2 million (2010: RMB198.6 million) have been pledged to secure general banking facilities granted to the Group as at 31 December 2011 (see note 31).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

16. PREPAID LEASE PAYMENTS

All the Group's prepaid lease payments are located in the PRC under medium-term lease.

	2011 RMB'000	2010 RMB'000
Analysed for reporting purposes as:		
Current assets	430	299
Non-current assets	19,394	13,361
	19,824	13,660

Prepaid lease payments with a carrying amount of approximately RMB13.3 million (2010: RMB12.4 million) have been pledged to secure general banking facilities granted to the Group as at 31 December 2011 (see note 31).

17. INVENTORIES

	2011 RMB'000	2010 RMB'000
Raw materials	20,101	77,124
Work in progress	8,436	10,418
Finished goods	16,074	28,163
	44,611	115,705

Inventories with a carrying amount of approximately RMB44.6 million (2010: RMB20 million) have been pledged to secure general banking facilities granted to the Group as at 31 December 2011 (see note 31).

18. TRADE AND OTHER RECEIVABLES

	2011 RMB'000	2010 RMB'000
Trade receivables	900	531
Advance payment to suppliers	7,837	27,425
Prepayments and other receivables	102	20
	8,839	27,976

18. TRADE AND OTHER RECEIVABLES (Continued)

In general, the Group will receive advance or notes from the customers before the products are delivered. The Group allows some of the long-term and loyal customers to have credit terms of 15–90 days depending on creditability of the customers.

No interest is charged on overdue trade receivables. The Group's policy is to recognise allowance for doubtful debts aged over 1 year as these receivables that are past due beyond 1 year are generally not recoverable based on historical experience. No allowance for doubtful debts are recognised for the years ended 31 December 2011 and 2010 as no receivables are aged over 1 year as at the end of each reporting period.

The following is an analysis of trade receivables by age, presented based on the invoice date at the end of each reporting period.

	2011 RMB'000	2010 RMB'000
1–30 days	–	454
31–90 days	900	77
	900	531

Before accepting any new customer, the Group has assessed the potential customer's credit quality. The Group reviews the repayment history of receivables by each customer with reference to the payment terms stated in contracts to determine the recoverability of a trade receivable. For the accounts receivables which are neither past due nor impaired, the management assessed the balances are with good credit quality with reference to their past repayment history.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB900,000 (2010: RMB77,000) as at 31 December 2011 which are past due as at the reporting date for which the Group has not provided for impairment loss. Based on historical experience, the receivables are generally recoverable as supported by on-going settlements from customers. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

	2011 RMB'000	2010 RMB'000
31–90 days	900	77

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

19. NOTE RECEIVABLES

The following is an analysis of note receivables, presented based on the date of receipt of notes:

	2011 RMB'000	2010 RMB'000
1-30 days	1,050	4,323
31-60 days	550	4,927
61-90 days	6,889	2,400
91-120 days	100	679
121-150 days	450	-
Over 150 days	500	-
	9,539	12,329

Included above are note receivables amounting to RMB8,888,800 (2010: RMB4,624,000) as at 31 December 2011, which have been endorsed to the Group's creditors for settlement of the payables at the same amount. These notes have not yet been matured at end of the reporting periods.

Included above are note receivables amounting to RMB2,100,000 (2011: Nil) which have been endorsed to a related company for financing purposes as at 31 December 2010.

20. PLEDGED BANK DEPOSITS/TIME DEPOSITS/CASH AND BANK BALANCES

Pledged bank deposits, time deposits and bank balances of the Group carry interest at market rates per annum which are as follows:

	2011	2010
Pledged bank deposits	3.3%	2.25%
Time deposits with original maturity less than three months	1.6% - 2.1%	N/A
Time deposits with original maturity more than three months but less than six months	3.3%	N/A
Bank balances	0.01% - 0.5%	0.36%

20. PLEDGED BANK DEPOSITS/TIME DEPOSITS/CASH AND BANK BALANCES

(Continued)

Included in pledged bank deposit, time deposits and bank balances and cash that are not denominated in the functional currencies are as follows:

	2011 RMB'000	2010 RMB'000
Hong Kong dollars	114,572	-

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group (see note 31), of which RMB10,000,000 (2010: RMB5,000,000) as at 31 December 2011 will be released upon the settlement of the relevant short term bank borrowings, and the balance of approximately RMB14,443,000 (2010: RMB24,609,000) as at 31 December 2011 were used for settlement of the note payables and trust receipt loans upon maturity.

21. TRADE AND OTHER PAYABLES

	2011 RMB'000	2010 RMB'000
Trade payables	12,714	6,921
Value-added tax payable	6,016	4,821
Other payables	1,116	70
Other tax payable	551	1,597
Accrual for salary and wages	4,800	4,098
Accrued charges	10,394	3,161
Payable for acquisition of property, plant and equipment	-	2
Deposits from customers	13,687	18,446
	49,278	39,116

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

21. TRADE AND OTHER PAYABLES (Continued)

The following is an analysis of trade payables by age, presented based on the invoice date at the end of each reporting period:

	2011 RMB'000	2010 RMB'000
1-30 days	4,825	6,281
31-90 days	2,383	633
Over 90 days	5,506	7
	12,714	6,921

In general, the Group will made advance payment or issue notes to suppliers before the materials are received. The creditors may, in some cases, allow a credit period and the average credit period on purchases of goods is 30 days. The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

22. NOTE PAYABLES

The following is an analysis of note payables, presented based on remaining contractual maturity date at the end of each reporting period:

	2011 RMB'000	2010 RMB'000
1-30 days	1,000	5,650
31-90 days	6,250	16,000
91-180 days	11,400	20,000
	18,650	41,650

23. DEFERRED INCOME

The deferred income arose as a result of the refund of the purchase cost of land use right. Such subsidies were generally provided in relation to the establishment of Jiangxi Jinyuan in 2005. Government grants are recognised as deferred income in the consolidated statement of financial position when received. It is transferred to profit or loss over the lease terms of the land use right, which is 50 years.

24. BANK BORROWINGS

	2011 RMB'000	2010 RMB'000
Secured bank borrowings (Note 2)	225,817	237,737
Unsecured bank borrowings (Note 3)	-	52,100
	225,817	289,837

Notes:

- (1) All the bank borrowings are repayable within one year based on the scheduled repayment dates set out in the respective loan agreements and therefore shown under current liabilities.
- (2) These bank borrowings were secured by the Group's land use rights, buildings, plant and machinery, inventories and bank deposits (see note 31). The Group has obtained banking facilities relating to trust receipt loans of approximately RMB3.8 million (2010: RMB20.7 million) as at 31 December 2011. They bore bank charges of 0.05% (2010: from 0.05% to 0.15%) of the issued trust receipt loans. As at 31 December 2011, the Group had trust receipt loans of approximately RMB3.8 million (2010: RMB20.7 million).

Except for the trust receipt loan as mentioned above, they bore fixed interest rates of 6.31% (2010: 5.31% to 5.56%) per annum or floating interest rates ranging from 100% to 120% (2010: 100% to 110%) of the benchmark borrowing rate in the PRC as at 31 December 2011.
- (3) Unsecured bank borrowings bore floating interest rate at 110% of the benchmark borrowings rate in the PRC as at 31 December 2010 except for an amount of RMB2,100,000 relating to note receivable endorsed to a related company (see note 19), which were non-interest bearing.
- (4) The weighted average effective interest rate on bank borrowings is 6.8% (2010: 5.28%) per annum as at 31 December 2011. All borrowings are denominated in RMB.
- (5) At 31 December 2011, the Group has RMB180,000,000 (2010: Nil) undrawn borrowing facilities of which RMB40,000,000 were secured by the Group's plant and machinery (see note 31).
- (6) As at 31 December 2011, all the guarantee or securities given by related companies over the bank borrowings have been released and details are set out in note 33(d).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

25. OBLIGATIONS UNDER FINANCE LEASES

The Group entered into sale and leaseback arrangements with certain independent third parties in relation to certain of Group's machineries during the years ended 31 December 2011 and 2010. The Group considered that these lease arrangements are finance lease as substantially all the risks and rewards incidental to ownership of these machineries retained with the Group. In addition, the Group has options to purchase the machineries with a nominal amount at the end of the lease terms. The lease terms ranged from 3 to 4 years. Interest rates underlying all obligations under finance leases are fixed at the date of inception at 5.8% to 8.0% (2010: 3.0% to 8.0%) per annum. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	As at 31 December		As at 31 December	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts payable under finance leases:				
Within one year	7,684	27,315	7,219	24,151
In more than one year but not more than two years	2,944	25,191	2,833	22,743
In more than two years but not more than five years	-	1,884	-	1,830
	10,628	54,390	10,052	48,724
Less: future finance charges	(576)	(4,499)	N/A	N/A
Less: amortisation of upfront fee	-	(1,167)	N/A	N/A
Present value of lease obligations	10,052	48,724	10,052	48,724
Less: Amount due for settlement within 12 months (shown under current liabilities)			(7,219)	(24,151)
Amount due for settlement after 12 months			2,833	24,573

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets and denominated in RMB. The obligations with carrying amount of approximately RMB3,212,000 (2010: RMB37,873,000) as at 31 December 2011, are also secured by deposits amounting to approximately RMB3,022,000 (2010: RMB15,521,000) (see note 31).

25. OBLIGATIONS UNDER FINANCE LEASES (Continued)

In December 2011, the Group early settled finance lease of approximately RMB20,800,000 and the related deposit amounting to RMB12,500,000 in respect of the finance lease has been net off against the final settlement amount. The remaining deposit will be used to settle the purchase cost of the relevant assets at the end of the lease term and is therefore classified under non-current assets in the consolidated statement of financial position. This deposit bears fixed rate interest at 2% per annum and interest income is receivable upon the expiry of lease term.

As at 31 December 2010, a related party of the Group had given guarantees to the obligation under finance lease which has been released during 2011. Details are set out in note 33(d)(ii).

26. SHARE CAPITAL/PAID-IN CAPITAL

	Number of shares '000	HK\$'000	RMB'000
Authorised:			
At 4 May 2011, date of incorporation (note i) (at HK\$0.1 each)	3,800	380	311
Increase in authorised share capital (note iii)	9,996,200	999,620	819,361
At 31 December 2011	10,000,000	1,000,000	819,672
Issued and fully paid:			
At 4 May 2011, date of incorporation (note i) (at HK\$0.1 each)	100	10	8
Shares allotment for acquisition of Jolly Success (note ii)	900	90	74
	1,000	100	82
Issued pursuant to Group Reorganisation (note iii)	749,000	74,900	61,311
Issue on public floatation (note iv)	250,000	25,000	20,492
At 31 December 2011	1,000,000	100,000	81,885

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

26. SHARE CAPITAL/PAID-IN CAPITAL (Continued)

Notes:

- (i) The Company was incorporated on 4 May 2011 with an authorised share capital of HK\$380,000 divided into 3,800,000 ordinary shares with a nominal value of HK\$0.1 each and 1 nil paid share with nominal value of HK\$0.1 allotted and issued to the sole subscriber. On the same day, the Company further allotted and issued 99,999 nil paid shares to the subscribers.
- (ii) On 13 June 2011, the Company further allotted and issued 900,000 nil paid shares, together with the existing 100,000 nil paid shares in issue, in exchange of the entire share capital of Jolly Success.
- (iii) Pursuant to a resolution passed by directors of the Company on 3 December 2011, the authorised share capital of the Company was increased from HK\$380,000 to HK\$1,000,000,000 by the creation of an additional 9,996,200,000 ordinary shares with a nominal value of HK\$0.1 each. On 22 December 2011, the Company allotted and issued fully paid up share capital of HK\$74,900,000, divided into 749,000,000 ordinary shares with a nominal value of HK\$0.1 to the existing shareholders by capitalising the amount of HK\$74,900,000 from the amount standing to the credit of the share premium.
- (iv) On 22 December 2011, the Company issued 250,000,000 shares pursuant to the Company's initial public offering at a price of HK\$0.7 per share equivalent to approximately RMB143,442,000 in total upon the listing of the shares of the Company on the Stock Exchange. The new shares allotted and issued rank pari passu in all respects with other shares in issue to the existing shareholders.
- (v) On 22 December 2011, the Company granted 37,500,000 over-allotment options to underwriters, which will be exercisable no later than 30 days after the date of listing of the Company. At 31 December 2011, the underwriters had not yet exercised the over-allotment options.

The paid-in capital as at 31 December 2010 represented the registered capital of Jiangxi Jinyuan.

27. CAPITAL MANAGEMENT

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the years.

The capital structure of the Group consists of net debts (which includes bank borrowings and obligations under finance leases, net of cash and cash equivalents) and equity attributable to owners of the Company, comprising share capital, share premium and reserves.

The management of the Group reviews the capital structure on an annual basis. As part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the payment of dividends, new capital injection as well as the issue of new debt.

28. FINANCIAL INSTRUMENTS

28a. Categories of financial instruments

	2011 RMB'000	2010 RMB'000
The Group		
Financial assets		
Loans and receivables (including cash and cash equivalents)	249,372	171,504
Financial liabilities		
Amortised cost	258,297	338,480

28b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, note receivables, time deposits, pledged bank deposits, cash and bank balances, trade and other payables, note payables and bank borrowings.

Details of these financial instruments of the Group are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see note 24) and obligations under finance leases (see note 25).

The Group is also exposed to cash flow interest rate risk in relation to the variable-rate pledged bank deposits, bank balances and bank borrowings (see notes 20 and 24).

The Group's exposure to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of benchmark borrowings rate in the PRC arising from the bank borrowings and fluctuation of bank deposit rates in the PRC and Hong Kong arising from bank balances and pledged bank deposits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

28. FINANCIAL INSTRUMENTS (Continued)

28b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank borrowings at the end of the reporting period. No sensitivity is presented for variable-rate pledged bank deposits and bank balances as the directors considered that the interest rate fluctuation is minimal. For bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of reporting period was outstanding for the whole year. A 50 basis points increase or decrease is used and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2010: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2011 (net of interest capitalised to construction in progress) would decrease/increase by approximately RMB613,000 (2010: RMB862,000).

In the opinion of the management, the sensitivity analysis is unrepresentative of the interest rate risk inherent in the financial liabilities as the year end exposure does not reflect the exposure during the year.

(ii) Currency risk

The Group has foreign currency time deposits, cash and bank balances, other receivables and other payable, which expose the Group to risk in Hong Kong Dollars ("HK\$"). The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities are as follows:

	Assets		Liabilities	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
HK\$	114,653	-	1,049	-

Sensitivity analysis

The sensitivity analysis below includes foreign currency denominated monetary items at the end of the reporting periods and has been determined based on the exposure to exchange rates of HK\$ against RMB. For a 5% (2010: 5%) weakening of HK\$ against RMB and all other variables being held constant, the Group's post-tax profit for the year ended 31 December 2011 would decrease by approximately RMB4,057,000 (2010: RMB nil).

There would be an equal and opposite impact on the post-tax profit for the year where the HK\$ strengthens against RMB by 5%.

In the opinion of the management, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

28. FINANCIAL INSTRUMENTS (Continued)

28b. Financial risk management objectives and policies (Continued)

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation as at 31 December 2011 and 2010 by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk of trade receivables, the management of the Group has delegated a team responsible for determination of credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The Group also requests deposits from customers prior to sales transactions. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting periods to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

The credit risk for note receivables, time deposits, pledged bank deposits and bank balances is considered as minimal as such amounts are to be settled by or placed with banks with good reputation in PRC and Hong Kong.

The Group has concentration of credit risk on the Group's trade receivables as all of the customers are involved in clothing or textile industry and located in the PRC.

Other than concentration of credit risk on liquid funds which are deposited with several banks with good reputation in PRC and Hong Kong and save as disclosed elsewhere in the consolidated financial statements, the Group does not have any other significant concentration of credit risk.

Liquidity risk

In preparing the consolidated financial statements, the management of the Group has given careful consideration to the future liquidity and going concern of the Group in light of the fact that the Group's current liabilities exceeded its current assets by approximately RMB7,546,000 (2010: RMB181,122,000) as at 31 December 2011. As of 31 December 2011, the Group has already obtained roll over of bank loans amounting to RMB202,000,000 and existing banking facilities of RMB180,000,000. The Group relies on bank borrowings as a significant source of liquidity. The management of the Group is satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future, after taking into consideration the banking facilities already in place and internal financial resources and accordingly, the consolidated financial statements have been prepared on a going concern basis.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting periods. The amounts included below for variable rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

28. FINANCIAL INSTRUMENTS (Continued)

28b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity and interest risk tables

	Weighted average interest rate	On demand or less than 1 month RMB'000	1-3 months RMB'000	3 months to 1 year RMB'000	1 to 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2011							
Non-derivative financial liabilities							
Trade and other payables	-	5,942	2,382	5,506	-	13,830	13,830
Note payables	-	1,000	6,250	11,400	-	18,650	18,650
Obligations under finance leases	7.38%	-	4,383	3,301	2,944	10,628	10,052
Bank borrowings							
- interest free	-	3,817	-	-	-	3,817	3,817
- fixed	6.31%	-	-	30,573	-	30,573	30,000
- variable	7.01%	-	15,267	184,330	-	199,597	192,000
		10,759	28,282	235,110	2,944	277,095	268,349
As at 31 December 2010							
Non-derivative financial liabilities							
Trade and other payables	-	6,353	633	7	-	6,993	6,993
Note payables	-	5,650	16,000	20,000	-	41,650	41,650
Obligations under finance leases	4.21%	1,712	6,233	19,370	27,075	54,390	48,724
Bank borrowings							
- interest free	-	11,422	11,315	100	-	22,837	22,837
- fixed	5.36%	-	5,029	66,669	-	71,698	70,000
- variable	5.86%	10,029	-	192,768	-	202,797	197,000
Financial guarantee contracts	-	50,000	-	-	-	50,000	-
		85,166	39,210	298,914	27,075	450,365	387,204

28. FINANCIAL INSTRUMENTS (Continued)

28b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity and interest risk tables (Continued)

The amount included above for financial guarantee contracts is the maximum amount the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at 31 December 2010, the Group considered that it was more likely than not that no amount would be payable under the arrangement. The guarantees have been released during 2011.

28c. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

29. CAPITAL COMMITMENTS

	2011 RMB'000	2010 RMB'000
Contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	34,552	12,550

30. RETIREMENT BENEFIT SCHEME

Prior to 1 July 2011, the employees of Jiangxi Jinyuan are mainly workers with rural residence which Jiangxi Jinyuan did not have mandatory obligation to pay social insurance payments for these workers pursuant to the regulations regarding rural social security systems. Certain of the remaining employees contributed to retirement benefit scheme in accordance with the relevant regulations of local authority. After 1 July 2011, all employees are required to contribute to retirement benefit scheme promulgated at the national level. It is required to contribute certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

In addition, the Group operates a Mandatory Provident Fund Scheme for all qualifying employees in the Group. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs with the maximum monthly amount of HK\$1,000 to the Scheme, which contribution is matched by employees.

The total cost charged to consolidated statement of comprehensive income of approximately RMB4,710,000 (2010: RMB38,000) for the year ended 31 December 2011, represent contribution to the schemes during the year. As at 31 December 2011, contributions of approximately RMB4,344,000 (2010: nil) due in respect of the year had not been paid over to the schemes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

31. PLEDGED OF ASSETS

Assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group or borrowings of the Group (see notes 24 and 25):

	2011 RMB'000	2010 RMB'000
Property, plant and equipment	297,229	198,591
Prepaid lease payments	13,330	12,438
Inventories	44,611	20,000
Pledged bank deposits	24,443	29,609
Secured deposits for obligations under finance leases	3,022	15,521
	382,635	276,159

In addition, the Group's obligations under finance leases (see note 25) are secured by the lessors' title to the leased assets, which have a carrying amount of RMB23.9 million (2010: RMB56.4 million) as at 31 December 2011.

32. CONTINGENT LIABILITIES

As at 31 December 2010, the Group issued financial guarantees to banks in respect of banking facilities granted to a related company. These guarantees have been released during 2011. Details are set out in note 33(d)(iv).

33. RELATED PARTY TRANSACTIONS

- (a) Names of related companies which have transactions with the Group during the years and their relationships with the Group are as follows:

Name of related company	Relationship with the Group
(i) 福建省金綸高纖股份有限公司 (Fujian Jinlun Fiber Joint Stock Co., Ltd.*) ("Fujian Jinlun")	Mr. Zheng Baoyou, father of Mr. Zheng Hong, one of the Ultimate Controlling Shareholders of the Group, is the chairman and legal representative of this related company.
(ii) 江西寶源彩紡有限公司 (Jiangxi Baoyuan Colourful Textile Co., Ltd.*)	Ms. Lin Xiaochun, mother of Mr. Zheng Hong and Mr. Zheng Wu, brother of Mr. Zheng Hong held 47.5% and 30% equity interests in this related company respectively on trust for a third party as security for repayment of loans advanced by them to this third party (note).
(iii) 奉新寶誠房地產有限公司 (Fengxin Baocheng Real Estate Limited*)	A director of Jiangxi Jinyuan, Mr. Zheng Yongxiang, is a controlling shareholder of this related company.
(iv) 高新織材(香港)有限公司 (High-Tech Woven Material (Hong Kong) Limited)	Mr. Zheng Hong, is a controlling shareholder of this related company

Note: On 8 March 2011, Ms. Lin Xiaochun and Mr. Zheng Wu, the brother of Mr. Zheng Hong transferred their entire shareholdings in item (ii) to a third party upon agreement to early repay the loan from this third party.

* English translated name is for identification purposes only.

- (b) Name of related party who is an individual and has transactions with the Group during the years and his relationship with the Group is as follows:

Name of related party	Relationship with the Group
Mr. Zheng, Hong	Executive director and one of the Ultimate Controlling Shareholders of the Group

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

33. RELATED PARTY TRANSACTIONS (Continued)

(c) The Group had the following material transactions with its related parties during the years:

	2011 RMB'000	2010 RMB'000
Purchase of raw materials from a related company	3,385	38,464
Non-trading advance to related companies	-	36,485
Repayment from related companies	-	(60,935)
Repayment to related companies	(25,176)	(10,000)
Non-trading advance from related companies	25,176	10,000
Advance from a director	7,000	-
Repayment to a director	(7,000)	(5,000)

(d) The Group had the following material transactions with related parties at end of each reporting period:

(i) Secured bank borrowings of RMB20 million as at 31 December 2010 were secured by the buildings and/or land use rights owned by a related company. These securities have been released and replaced by the inventories and pledged bank deposits which are owned by the Group at 31 December 2011.

Also, secured bank borrowings of RMB100 million as at 31 December 2010 were guaranteed by certain related companies, certain directors of the Group and/or father of certain directors of the Group. The guarantees have been released during 2011.

Unsecured bank borrowings of RMB50 million as at 31 December 2010 were guaranteed by certain related companies and certain directors of the Group and/or director of a related company. The guarantees have been released during 2011.

(ii) As at 31 December 2010, Fujian Jinlun has given guarantees to the Group for its obligation under finance lease with carrying amount of RMB33.33 million. The guarantees have been released during 2011 by early repayment of finance lease.

(iii) As at 31 December 2010, certain directors of the Group have provided unlimited personal guarantee to banks in respect of general facilities granted to the Group. The guarantee has been released during 2011.

(iv) As at 31 December 2010, Jiangxi Jinyuan has given guarantees to Fujian Jinlun for its bank borrowings with maximum amount of RMB50 million which have been utilised in full by this related company. Fair value of the financial guarantee contracts is considered as insignificant at initial recognition. No provision for financial guarantee contracts has been made as the default risk is low. The guarantees have been released during 2011.

(v) As at 31 December 2010, note receivables amounting to RMB2,100,000 have been endorsed to a related company for financing purposes.

33. RELATED PARTY TRANSACTIONS (Continued)

(e) Compensation of key management personnel

The remuneration of executive directors and other members of key management of the Company during the years was as follows:

	2011 RMB'000	2010 RMB'000
Short-term benefits	849	263
Post-employment benefits	8	2
	857	265

The remuneration is determined by the directors of the Company having regard to the performance of individuals and market trends.

34. SHARE OPTION SCHEME

Pursuant to a resolution passed on 3 December 2011, the Company adopted a share option scheme (the "Option Scheme"), which will expire 10 years after the date on which the shares of the Company ("Shares") commence listing on the Stock Exchange, for the purpose of motivating the eligible participants to optimise their performance efficiency for the benefit of the Group and attracting and retaining or maintaining on-going business relationship with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group. Under the Option Scheme, the directors of the Company may grant options to any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; any directors (including non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries; and any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries. Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant.

The exercise price is determined by the board of the Company, and will not be less than the highest of (i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities, (ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share.

The maximum number of shares in respect of which options may be granted under the Option Scheme must not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the public floatation, being 100,000,000 Shares, excluding for this purposed Shares which would have been issuable pursuant to the over-allotment option and options which have lapsed in accordance with the terms of the Option Scheme (or any other share option schemes of the Company).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

34. SHARE OPTION SCHEME (Continued)

Besides, the total maximum number of shares which may be issued upon exercise of all outstanding share options must not exceed 30% of the issued share capital from time to time. The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant.

During the year, no share options were granted by the Company nor exercised by any employees.

35. FINANCIAL SUMMARY OF THE COMPANY

	2011 RMB'000
Non-current asset	
Investment in a subsidiary	1
Current assets	
Other receivables	81
Amount due from a subsidiary	9,787
Time deposits	98,361
Cash and bank balances	6,424
	114,653
Current liability	
Other payables	1,625
Net current assets	113,028
Total assets less current liabilities	113,029
Capital and reserves	
Share capital	81,885
Share premium	52,604
Special reserve	(81)
Accumulated loss	(21,379)
Total equity attributable to owners of the Company	113,029

36. EVENTS AFTER REPORTING PERIOD

On 18 January 2012, the over-allotment shares of 12,500,000 were allotted and issued by the Company at HK\$0.7 per share. The Company received net proceeds of approximately HK\$8.5 million (equivalent to approximately RMB7.0 million) from these over-allotment shares, after deduction of share issue cost payable by the Company. The estimated financial impact is approximately RMB1,844,000.

37. PRINCIPAL SUBSIDIARIES

The Company had direct and indirect interests in the following subsidiaries:

Name of subsidiary	Place of incorporation/ establishment and legal form	Issued and fully paid/ registered capital	Equity interest attributable to the Group		Principal activities
			As at 31 December 2011	2010	
Direct					
Jolly Success	British Virgin Islands Incorporated	HK\$1,000	100%	100%	Investment holding
Indirect					
Treasure Resources	Hong Kong Incorporated	HK\$2,000	100%	100%	Investment holding
Jiangxi Jinyuan	PRC wholly foreign-owned enterprise	RMB148,820,000	100%	100%	Manufacturing and trading of polyester yarns, polyester-cotton blended yarns and cotton yarns

FINANCIAL SUMMARY

	Year ended 31 December			
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	545,292	663,438	930,666	1,085,889
Cost of sales	(515,119)	(576,205)	(781,294)	(947,142)
Gross profit	30,173	87,233	149,372	138,747
Investment and other income	6,018	10,927	7,027	4,481
Fair value change on held-for-trading investment	(3,451)	-	-	-
Distribution and selling expenses	(10,129)	(12,041)	(12,902)	(12,938)
Administrative expenses	(7,076)	(9,020)	(9,932)	(20,061)
Other expenses	-	-	-	(20,583)
Finance costs	(14,417)	(10,907)	(16,009)	(20,156)
Profit before tax	1,118	66,192	117,556	69,490
Income tax expense	-	-	-	(8,852)
Profit for the year attributable to owners of the Company	1,118	66,192	117,556	60,638
Earnings per share				
Basic (RMB cents)	0.15	8.83	15.67	8.01
Diluted (RMB cents)	0.15	8.83	15.67	8.01
	As at 31 December			
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES				
Total assets	631,226	635,700	725,200	727,618
Total liabilities	(472,915)	(454,097)	(511,841)	(319,213)
	158,311	181,603	213,359	408,405
Total equity attributable to owners of the Company	158,311	181,603	213,359	408,405