The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

KPMG

8th Floor
Prince's Building 10
Chater Road
Central
Hong Kong

14 December 2009

The Board of Directors
Hontex International Holdings Company Limited
Mega Capital (Asia) Company Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Hontex International Holdings Company Limited (the "Company") and its subsidiaries (herewith collectively referred to as the "Group"), including the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 (the "Relevant Period"), the combined balance sheets of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009 together with the notes thereto (the "Financial Information") for inclusion in the prospectus of the Company dated 14 December 2009 (the "Prospectus").

The Company was incorporated in the Cayman Islands on 14 July 2009 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation completed on 27 November 2009 (the "Reorganisation") as detailed in the section headed "Corporate reorganisation" in Appendix VII to the Prospectus, the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company, Easy Venture International Limited, First Heritage Limited, Prosper Advance International Limited and Star Guide Investments Limited as they are newly incorporated investment holding companies and have not carried on any business since their respective dates of incorporation.

The statutory financial statements of other companies now comprising the Group, which were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the People's Republic of China (the "PRC"), were audited during the Relevant Period by the respective statutory auditors as indicated below:

Name of company (note)	*Financial period*	*Statutory auditors (note)*
Fuqing Hong Liong Textile Tech Co., Ltd. (福清洪良染織科技有限公司)	Years ended 31 December 2006, 2007 and 2008	Fujian Xinyurong Certified Public Accountants Co., Ltd. (福建鑫玉融會計師事務所有限責任公司)
Fuqing Ecotex Hi-Tech Outdoor Product Co., Ltd. (福清洪宇運動休閒用品有限公司)	Years ended 31 December 2006, 2007 and 2008	Fujian Xinyurong Certified Public Accountants Co., Ltd. (福建鑫玉融會計師事務所有限責任公司)
Fuzhou Aike Garment Co., Ltd. (福州艾克服飾有限公司)	Period from 26 July 2007 to 31 December 2007 and year ended 31 December 2008	Fujian Xinyurong Certified Public Accountants Co., Ltd. (福建鑫玉融會計師事務所有限責任公司)
Shishi Maigen Dress Co., Ltd. (石獅麥根服飾有限公司)	Year ended 31 December 2008	Fujian Jin Rui Certified Public Accountants Co., Ltd. (福建金瑞會計師事務所有限公司)

Note: The English translation of the company names and statutory auditors is for reference only. The official names of these companies and statutory auditors are in Chinese.

BASIS OF PREPARATION

The Financial Information has been prepared by the directors of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the Group, on the basis set out in Section A below, after making such adjustments as are appropriate. Adjustments have been made, for the purpose of this report, to restate these financial statements to conform with the accounting policies referred to in Section C, which are in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") promulgated by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). HKFRSs include Hong Kong Accounting Standards and interpretations.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with HKFRSs, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our audit procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Relevant Period in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform our work to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation and true and fair presentation of the Financial Information 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 Financial Information.

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

We have not audited any financial statements of the companies comprising the Group in respect of any period subsequent to 30 June 2009.

OPINION

In our opinion, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information, on the basis of presentation set out in Section A below and in accordance with the accounting policies set out in Section C below, gives a true and fair view of the Group's combined results and cash flows for the Relevant Period, and the state of affairs of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the combined income statement, the combined statement of comprehensive income, the combined statement of changes in equity and the combined cash flow statement for the six months ended 30 June 2008, together with the notes thereon (the "Corresponding Financial Information"), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A. BASIS OF PRESENTATION

The companies that took part in the Reorganisation were controlled by the same group of equity shareholders ("Controlling Shareholders") before and after the Reorganisation. Since the control is not transitory and there was a continuation of the risks and benefits to the Controlling Shareholders, the Reorganisation is considered to be a business combination of entities under common control and Accounting Guideline 5 "Merger accounting for common control combinations" has been applied. Accordingly, the Financial Information has been prepared using the principles of merger accounting as if the Group had always been in existence except for the acquisition of Shishi Maigen Dress Co., Ltd. The net assets of the combining companies are combined using the existing book values from the Controlling Shareholders' perspective.

The Financial Information relating to the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group as set out in Section B for the Relevant Period includes the results of operations of the companies comprising the Group for the Relevant Period. The combined balance sheets of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009 as set out in Section B have been prepared to present the combined assets and liabilities of the Group as at those dates.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of company	*Place and date of incorporation/ establishment*	*Issued and fully paid-up capital/ registered capital*	*Attributable equity interest Direct*	*Principal activities*
Fuqing Hong Liong Textile Tech Co., Ltd.	The PRC/ 16 April 1993	US$13,300,000	100%	Manufacture and sale of fabrics
Fuqing Ecotex Hi-Tech Outdoor Product Co., Ltd.	The PRC/ 16 July 2002	US$1,600,000	100%	Manufacture and sale of casual and sportswear
Fuzhou Aike Garment Co., Ltd.	The PRC/ 26 July 2007	US$700,000	100%	Trading of children's wear and uniforms
Shishi Maigen Dress Co., Ltd.	The PRC/ 20 June 2002	US$200,000	100%	Trading of branded leisure clothing
Easy Venture International Limited	Hong Kong/ 23 February 2009	HK$1	100%	Investment holding
First Heritage Limited	Hong Kong/ 22 June 2009	HK$1	100%	Investment holding
Prosper Advance International Limited	Hong Kong/ 30 March 2009	HK$1	100%	Investment holding
Star Guide Investments Limited	Hong Kong/ 22 June 2009	HK$1	100%	Investment holding

All entities established in the PRC are wholly foreign owned enterprises.

B. FINANCIAL INFORMATION

1. Combined income statements

		Year ended 31 December			Six months ended 30 June	
	Section C	**2006**	**2007**	**2008**	**2008**	**2009**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Turnover	*2*	653,380	932,476	1,266,050	521,783	817,305
Cost of sales	*16(b)*	(502,275)	(697,969)	(911,631)	(385,687)	(538,602)
Gross profit		151,105	234,507	354,419	136,096	278,703
Other revenue	*3*	2,755	3,443	2,364	1,230	1,326
Other net income	*3*	188	433	2,587	2,593	194
Selling expenses		(20,702)	(20,824)	(24,960)	(9,880)	(17,084)
Administrative expenses		(11,134)	(16,892)	(17,376)	(7,238)	(13,711)
Other operating expenses		(1,454)	(2,351)	(5,906)	(853)	(5,048)
Profit from operations		120,758	198,316	311,128	121,948	244,380
Finance costs	*4(a)*	(4,453)	(2,483)	(1,922)	(1,072)	(754)
Profit before taxation	*4*	116,305	195,833	309,206	120,876	243,626
Income tax	*5(a)*	(13,809)	(25,372)	(66,867)	(26,050)	(60,255)
Profit attributable to equity shareholders		102,496	170,461	242,339	94,826	183,371
Earnings per share	*9*					
Basic and diluted (cents)		6.57	10.93	15.53	6.08	11.75

The accompanying notes form part of the Financial Information. Details of dividends declared to equity shareholders of the Group during the year/period are set out in Section C note 8.

2. Combined statements of comprehensive income

	Year ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Profit for the year/period	102,496	170,461	242,339	94,826	183,371
Total comprehensive income for the year/period	102,496	170,461	242,339	94,826	183,371

3. Combined balance sheets

	Section C Note	As at 31 December 2006 RMB'000	As at 31 December 2007 RMB'000	As at 31 December 2008 RMB'000	As at 30 June 2009 RMB'000
Non-current assets					
Property, plant and equipment	*11*	70,353	78,989	75,684	68,854
Construction in progress	*12*	9,040	—	—	313
Intangible assets	*13*	47	87	69,947	64,882
Goodwill	*14*	—	—	133	133
Lease prepayments	*15*	1,758	1,710	1,662	1,638
Deferred tax assets	*22(b)*	—	274	209	359
Total non-current assets		81,198	81,060	147,635	136,179
Current assets					
Inventories	*16*	92,065	135,650	111,435	123,708
Trade and other receivables	*17*	180,640	308,439	342,107	224,973
Amount due from shareholder	*28(d)*	9,893	9,451	8,659	8,644
Cash and cash equivalents	*18*	35,008	89,175	175,895	237,924
Total current assets		317,606	542,715	638,096	595,249
Current liabilities					
Bank loans	*19*	33,579	36,907	25,119	28,130
Trade and other payables	*20*	119,905	166,245	223,882	232,799
Amount due to shareholder	*28(d)*	—	19	93,576	93,576
Current tax payable	*22(a)*	2,849	7,672	18,322	28,403
Total current liabilities		156,333	210,843	360,899	382,908
Net current assets		161,273	331,872	277,197	212,341
Total assets less current liabilities		242,471	412,932	424,832	348,520
Non-current liabilities					
Deferred tax liabilities	*22(b)*	—	—	30,731	39,150
NET ASSETS		242,471	412,932	394,101	309,370
CAPITAL AND RESERVES					
Paid-in capital	*23*	104,471	122,471	122,471	122,471
Reserves	*24*	138,000	290,461	271,630	186,899
TOTAL EQUITY		242,471	412,932	394,101	309,370

The accompanying notes form part of the Financial Information.

4. Combined statements of changes in equity

		Attributable to equity shareholders of the Company			
	Section C Note	**Paid-in capital** *RMB'000* *(Note 23(b))*	**Statutory reserve** *RMB'000* *(Note 24(a))*	**Retained profits** *RMB'000*	**Total equity** *RMB'000*
At 1 January 2006		99,509	3,934	31,570	135,013
Total comprehensive income for the year		—	—	102,496	102,496
Shareholders' contributions	*23(b)*	4,962	—	—	4,962
Appropriation to statutory reserve		—	9,769	(9,769)	—
At 31 December 2006		104,471	13,703	124,297	242,471
At 1 January 2007		104,471	13,703	124,297	242,471
Total comprehensive income for the year		—	—	170,461	170,461
Shareholders' contributions	*23(b)*	18,000	—	—	18,000
Dividend declared in respect of the previous year	*8*	—	—	(18,000)	(18,000)
Appropriation to statutory reserve		—	17,683	(17,683)	—
At 31 December 2007		122,471	31,386	259,075	412,932
At 1 January 2008		122,471	31,386	259,075	412,932
Total comprehensive income for the year		—	—	242,339	242,339
Dividend declared in respect of the previous year	*8*	—	—	(261,170)	(261,170)
Appropriation to statutory reserve		—	25,450	(25,450)	—
At 31 December 2008		122,471	56,836	214,794	394,101

		Attributable to equity shareholders of the Company			
	Section C Note	**Paid-in capital** *RMB'000* *(Note 23(b))*	**Statutory reserve** *RMB'000* *(Note 24(a))*	**Retained profits** *RMB'000*	**Total equity** *RMB'000*
(Unaudited)					
At 1 January 2008		122,471	31,386	259,075	412,932
Total comprehensive income for the period		—	—	94,826	94,826
Dividend declared in respect of the previous year	*8*	—	—	(223,837)	(223,837)
Appropriation to statutory reserve		—	826	(826)	—
At 30 June 2008		122,471	32,212	129,238	283,921
At 1 January 2009		122,471	56,836	214,794	394,101
Total comprehensive income for the period		—	—	183,371	183,371
Dividend declared in respect of the previous year	*8*	—	—	(268,102)	(268,102)
Appropriation to statutory reserve		—	8,346	(8,346)	—
At 30 June 2009		122,471	65,182	121,717	309,370

The accompanying notes form part of the Financial Information.

5. Combined cash flow statements

		Year ended 31 December			Six months ended 30 June	
	Section C Note	**2006** *RMB'000*	**2007** *RMB'000*	**2008** *RMB'000*	**2008** *RMB'000 (unaudited)*	**2009** *RMB'000*
Operating activities						
Profit before taxation		116,305	195,833	309,206	120,876	243,626
Adjustments for:						
— Depreciation	*4(c)*	8,421	8,339	8,596	4,411	4,290
— Amortisation						
— Intangible assets	*4(c)*	11	11	5,920	852	5,071
— Lease prepayments	*4(c)*	22	48	48	24	24
— Foreign exchange gain		(696)	(681)	—	(1,317)	(5)
— Loss on disposal of property, plant and equipment	*3*	105	26	22	6	2
— Finance costs	*4(a)*	4,453	2,483	1,922	1,072	754
— Interest income	*3*	(352)	(509)	(1,342)	(658)	(538)
— Impairment losses on trade and other receivables	*4(c)*	—	4,848	—	—	3,276
Changes in working capital:						
(Increase)/decrease in inventories		(42,570)	(43,585)	62,038	(6,173)	(12,273)
(Increase)/decrease in trade and other receivables		(43,459)	(132,647)	(25,207)	20,137	113,858
Decrease in amount due from shareholder		1,672	442	792	761	15
Increase/(decrease) in trade and other payables		10,676	46,340	(2,000)	28,339	49,043
(Decrease)/increase in amount due to shareholder		(2,964)	19	(19)	(19)	—
Cash generated from operations		51,624	80,967	359,976	168,311	407,143
Income tax paid		(13,539)	(20,823)	(51,366)	(18,884)	(41,905)
Net cash generated from operating activities		38,085	60,144	308,610	149,427	365,238

	Section C Note	Year ended 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000	Six months ended 30 June 2008 RMB'000 (unaudited)	2009 RMB'000
Investing activities						
Payment for purchase of property, plant and equipment		(16,502)	(7,986)	(2,406)	(1,156)	(2,580)
Payment for construction in progress		(1,229)	—	(2,624)	(2,624)	(313)
Proceeds from disposal of property, plant and equipment		1,572	25	32	12	5,118
Payment for intangible assets		—	(51)	(136)	(72)	(6)
Interest received		352	509	1,342	658	538
Cash acquired upon acquisition of a subsidiary	27	—	—	63,080	63,080	—
Net cash (used in)/ generated from investing activities		(15,807)	(7,503)	59,288	59,898	2,757
Financing activities						
Proceeds from bank loans		56,618	62,156	30,119	5,000	16,516
Repayment of bank loans		(61,097)	(58,147)	(41,907)	(14,500)	(13,500)
Repayment of amount due to shareholder		—	—	(46,424)	—	—
Interest paid		(4,453)	(2,483)	(1,922)	(1,072)	(754)
Dividend paid		—	—	(221,044)	—	(308,228)
Net cash (used in)/ generated from financing activities		(8,932)	1,526	(281,178)	(10,572)	(305,966)
Net increase in cash and cash equivalents		13,346	54,167	86,720	198,753	62,029
Cash and cash equivalents at beginning of year/period		21,662	35,008	89,175	89,175	175,895
Cash and cash equivalents at end of year/period	18	35,008	89,175	175,895	287,928	237,924

Major non-cash transactions

(a) On 31 May 2008, the Group acquired the entire equity interests in Shishi Maigen Dress Co., Ltd. (Section C note 27) for a cash consideration of RMB140,000,000 and such amount was paid by the Group's shareholder.

(b) During the years ended 31 December 2006 and 2007, the equity shareholders of the Group injected capital totalling RMB4,962,000 and RMB18,000,000 respectively to the Group, which was satisfied by the reinvestment of dividends declared in 2005 and 2007.

The accompanying notes form part of the Financial Information.

C. NOTES TO THE FINANCIAL INFORMATION

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes Hong Kong Accounting Standards and related interpretations, promulgated by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Further details of the significant accounting policies adopted by the Group are set out in the remainder of this Section C.

The Group did not prepare combined financial information previously. This is the Group's first HKFRS combined Financial Information and HKFRS 1 "First-time adoption of Hong Kong Financial Reporting Standards" has been applied.

The HKICPA has issued certain new and revised HKFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised HKFRSs applicable to the Relevant Period, except for any new standards or interpretations that are effective for accounting periods beginning on or after 1 July 2009. The revised and new accounting standards and interpretations issued but effective for accounting periods beginning on or after 1 July 2009 are set out in note 30.

This Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) Basis of combination

The Financial Information comprises the Company and its subsidiaries and has been prepared using the merger basis of accounting as if the Group had always been in existence as further explained in Section A.

(c) Basis of measurement

The Financial Information is presented in Renminbi ("RMB"), rounded to the nearest thousand. It is prepared on the historical cost basis.

(d) Use of estimates and judgments

The preparation of Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

Judgements made by management in the application of HKFRSs that have a significant effect on the Financial Information and estimates with a significant risk of material adjustment in future accounting periods are discussed in note 29.

(e) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. Financial statements of a subsidiary are included in the Financial Information from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

(f) Business combinations involving entities under common control

Merger accounting has been adopted for common control combinations in which all of the combining entities or businesses were ultimately controlled by the same party or parties both before and after the business combination, and that control was not transitory.

The combined Financial Information incorporates the financial information of the combining entities or businesses in which the common control combination occurred as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses have been combined using the existing book values from the controlling parties' perspective. No amount has been recognised in respect of goodwill or the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost at the time of the common control combination, to the extent of the continuation of the controlling interest.

The combined income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the combined Financial Information are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

(g) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(m)).

On disposal of a cash generating unit during the period, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(h) Property, plant and equipment

Property, plant and equipment is stated in the combined balance sheets at cost less accumulated depreciation and impairment losses (see note 1(m)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, borrowing costs, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

— Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years after the date of completion.	
— Plant and machinery	10 years
— Motor vehicles	5–10 years
— Office equipment	5 years
— Computer equipment	3–5 years
— Other equipment	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 1(m)). Cost comprises all direct costs of construction and borrowing costs. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are completed. No depreciation is provided in respect of construction in progress until it is substantially ready for its intended use.

(j) Lease prepayments

Lease prepayments represent the cost of acquiring land use rights paid to PRC government authorities. Land use rights are carried at cost less accumulated amortisation and impairment losses (see note 1(m)). Amortisation is charged to profit or loss on a straight-line basis over the respective periods of the rights which are for a term of 50 years.

(k) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated in the combined balance sheets at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(m)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

— patents	5–10 years
— software	5 years
— customer relationships	7 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(l) Operating lease charges

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

(m) Impairment of assets

(i) *Impairment of trade and other receivables*

Trade and other receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, the impairment loss is determined and recognised as follows:

— For trade and other receivables carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material.

— For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Further cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— intangible assets, and

— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

(n) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(m)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(m)).

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(q) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(s) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(t) Income tax

Income tax for the year/period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year/period using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) Provisions and contingent liabilities

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

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

(v) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) *Sale of goods*

Revenue is recognised when the customer has accepted the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

(iii) *Processing income*

Processing income is recognised when the related service is rendered.

(iv) *Government grants*

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attached to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(w) Translation of foreign currencies

Foreign currency transactions during the year/period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations outside the PRC are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation outside the PRC, the cumulative amount of the exchange differences relating to that operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(x) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowings costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

(y) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(z) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2. TURNOVER

The principal activities of the Group are the manufacturing and wholesaling of fabrics, causal and sportswear and branded leisure clothing in the PRC. Turnover represents the sales value of goods sold less returns, discounts, value added taxes ("VAT") and other sales taxes.

	Year ended 31 December			**Six months ended 30 June**	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Fabric sales	548,476	769,841	888,984	431,213	511,537
Casual and sportswear OEM sales	104,904	162,635	154,381	72,912	60,091
Branded leisure clothing sales	—	—	222,685	17,658	245,677
	653,380	932,476	1,266,050	521,783	817,305

3. OTHER REVENUE AND NET INCOME

Other revenue

	Year ended 31 December			**Six months ended 30 June**	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Interest income	352	509	1,342	658	538
Processing income	1,568	1,955	151	95	45
Sales of scraps	277	208	200	144	104
Government grants	78	265	45	40	341
Others	480	506	626	293	298
	2,755	3,443	2,364	1,230	1,326

Other net income

	Year ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Net foreign exchange gain	293	459	2,609	2,599	196
Net loss on disposal of property, plant and equipment	(105)	(26)	(22)	(6)	(2)
	188	433	2,587	2,593	194

4. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Year ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
(a) Finance costs:					
Interest on bank borrowings wholly repayable within five years	2,780	2,483	1,922	1,072	754
Other interest expense	1,673	—	—	—	—
	4,453	2,483	1,922	1,072	754
(b) Staff costs:					
Contributions to defined contribution retirement plans	470	600	3,095	1,133	1,423
Salaries, wages and other benefits	32,506	36,408	40,671	18,075	18,493
	32,976	37,008	43,766	19,208	19,916
(c) Other items:					
Amortisation					
— intangible assets	11	11	5,920	852	5,071
— lease prepayments	22	48	48	24	24
Depreciation	8,421	8,339	8,596	4,411	4,290
Impairment losses on trade and other receivables	—	4,848	—	—	3,276
Auditors' remuneration	43	39	42	20	20
Operating lease charges in respect of rental of office premises	—	—	13	—	363
Research and development *(note(i))*	1,221	1,217	1,508	535	559
Cost of inventories *(notes (ii) and 16(b))*	502,275	697,969	911,631	385,687	538,602

Notes:

(i) During the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, research and development includes RMB648,000, RMB723,000, RMB871,000, RMB401,000 and RMB400,000 respectively relating to staff costs and depreciation, amounts of which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

(ii) During the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, cost of inventories includes RMB15,711,000, RMB15,948,000, RMB16,994,000, RMB7,839,000 and RMB8,041,000 respectively relating to staff costs and depreciation, amounts of which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

5. INCOME TAX IN THE COMBINED INCOME STATEMENTS

(a) Income tax in the combined income statements represents:

	Year ended 31 December			**Six months ended 30 June**	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Current tax					
Provision for PRC corporate income tax for the year/period	13,809	25,646	58,883	21,887	51,986
Deferred tax					
Origination and reversal of temporary differences *(note 22(b))*	—	(274)	7,984	4,163	8,269
	13,809	25,372	66,867	26,050	60,255

Notes:

(i) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

(ii) No provision has been made for Hong Kong Profits Tax as the Group did not earn any income subject to Hong Kong Profits Tax during the Relevant Period.

(iii) Prior to 1 January 2008, PRC entities were, in general, subject to a statutory income tax rate of 33%, consisting of 30% state tax and 3% local tax, on their assessable profits.

Being foreign investment enterprises engaged in manufacturing activities in Fujian economic development zone, Fuqing Hong Liong Textile Tech Co., Ltd. ("Fuqing Hong Liong") and Fuqing Ecotex Hi-Tech Outdoor Product Co., Ltd. ("Fuqing Ecotex") were granted a preferential tax rate of 15%. Fuqing Ecotex was also entitled to a tax holiday of a two-year full exemption followed by a three-year 50% exemption commencing from the first profit-making year after offsetting accumulated tax losses ("2+3 tax holiday"). Fuqing Ecotex commenced its 2+3 tax holiday in 2006. Accordingly, Fuqing Ecotex's applicable tax rate for 2006 and 2007 was 0%.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the *Corporate Income Tax Law of the PRC* ("the new CIT Law"), which unified the income tax rate to 25% for all enterprises. The new CIT law was effective on 1 January 2008. The State Council of the PRC issued the *Implementation Rules of the Corporate Income Tax Law* ("Implementation Rules") on 6 December 2007 and GuoFa [2007] No. 39 *Notice on the Implementation of the Transitional Preferential Corporate Income Tax Law Policies* ("Circular 39") on 26 December 2007. The new CIT Law, its Implementation Rules and Circular 39 provide a five-year transitional period from 1 January 2008 for those enterprises which were established before 16 March 2007 and which were entitled to a preferential lower tax rate under the then effective tax laws and regulations, as well as grandfathering for the 2+3 tax holidays. Consequently, Fuqing Hong Liong is subject to tax rates of 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 onwards, respectively. Further, Fuqing Ecotex is subject to tax rates of 9%, 10%, 11%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 onwards, respectively.

Fuzhou Aike Garment Co., Ltd. ("Fuzhou Aike") and Shishi Maigen Dress Co., Ltd. ("Shishi Maigen") are subject to a tax rate of 25% from 2008 onwards.

(iv) Under the new CIT Law and its Implementation Rules, dividends receivable by non-PRC resident enterprises from PRC resident enterprises are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. Under the *Arrangement between the Mainland of China and Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion*, or Mainland China/ HKSAR DTA, Hong Kong tax residents which hold 25% or more of a PRC enterprise are entitled to a reduced dividend withholding tax rate of 5%. Pursuant to CaiShui [2008] No. 1 *Notice on Certain Preferential Enterprise Income Tax Policies*, undistributed profits generated prior to 1 January 2008 are exempt from such withholding tax. Accordingly, dividends receivable by the Group's Hong Kong investment holding companies from the PRC subsidiaries comprising the Group in respect of profits earned since 1 January 2008 will be subject to 5% withholding tax. Deferred tax liabilities have been recognised for undistributed retained profits of the Group's PRC subsidiaries earned since 1 January 2008 to the extent that the profits are likely to be distributed in the foreseeable future.

(b) Reconciliation between income tax and profit before taxation at applicable tax rates:

	Year ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Profit before taxation	116,305	195,833	309,206	120,876	243,626
Applicable income tax rates	15%	15%	9%/18%/25%	9%/18%/25%	10%/20%/25%
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned	17,446	29,375	59,204	22,248	52,736
Tax effect of non-deductible expenses	—	—	114	44	73
Withholding tax on undistributed profits of PRC subsidiaries	—	—	12,004	5,138	9,905
Effect of tax concessions	(3,637)	(4,003)	(4,455)	(1,380)	(2,459)
Actual income tax	13,809	25,372	66,867	26,050	60,255

6. DIRECTORS' REMUNERATION

Details of directors' remuneration are set out below:

Year ended 31 December 2006

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit scheme	Discretionary bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Tseng Chung-Cheng	—	20	—	—	20
Shao Ten-Po	—	—	—	—	—
Liao Chin-Yi	—	178	—	—	178
Hu Chin-Shu	—	—	—	—	—
Liao Min-Chiang	—	—	—	—	—
Non-executive directors					
Wang Shih-Ting	—	—	—	—	—
Lu Chien-An	—	—	—	—	—
Chang Chuan-Fang	—	—	—	—	—
Chen Fang-Kun	—	—	—	—	—
Total	—	198	—	—	198

Year ended 31 December 2007

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit scheme	Discretionary bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Tseng Chung-Cheng	—	20	—	—	20
Shao Ten-Po	—	—	—	—	—
Liao Chin-Yi	—	178	—	—	178
Hu Chin-Shu	—	—	—	—	—
Liao Min-Chiang	—	—	—	—	—
Non-executive directors					
Wang Shih-Ting	—	—	—	—	—
Lu Chien-An	—	—	—	—	—
Chang Chuan-Fang	—	—	—	—	—
Chen Fang-Kun	—	—	—	—	—
Total	—	198	—	—	198

Year ended 31 December 2008

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit scheme	Discretionary bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Tseng Chung-Cheng	—	20	—	—	20
Shao Ten-Po	—	—	—	—	—
Liao Chin-Yi	—	178	—	—	178
Hu Chin-Shu	—	—	—	—	—
Liao Min-Chiang	—	—	—	—	—
Non-executive directors					
Wang Shih-Ting	—	—	—	—	—
Lu Chien-An	—	—	—	—	—
Chang Chuan-Fang	—	—	—	—	—
Chen Fang-Kun	—	—	—	—	—
Total	—	198	—	—	198

Six months ended 30 June 2008 (unaudited)

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit scheme	Discretionary bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Tseng Chung-Cheng	—	10	—	—	10
Shao Ten-Po	—	—	—	—	—
Liao Chin-Yi	—	89	—	—	89
Hu Chin-Shu	—	—	—	—	—
Liao Min-Chiang	—	—	—	—	—
Non-executive directors					
Wang Shih-Ting	—	—	—	—	—
Lu Chien-An	—	—	—	—	—
Chang Chuan-Fang	—	—	—	—	—
Chen Fang-Kun	—	—	—	—	—
Total	—	99	—	—	99

Six months ended 30 June 2009

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit scheme	Discretionary bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Tseng Chung-Cheng	—	59	—	—	59
Shao Ten-Po	—	—	—	—	—
Liao Chin-Yi	—	89	—	—	89
Hu Chin-Shu	—	—	—	—	—
Liao Min-Chiang	—	—	—	—	—
Non-executive directors					
Wang Shih-Ting	—	—	—	—	—
Lu Chien-An	—	—	—	—	—
Chang Chuan-Fang	—	—	—	—	—
Chen Fang-Kun	—	—	—	—	—
Total	—	148	—	—	148

During the Relevant Period, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 7 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

7. INDIVIDUAL WITH HIGHEST EMOLUMENTS

During the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, one of the five highest paid individuals was also director of the Company.

The remuneration of the remaining four individuals is as follows:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Salaries and other emoluments	683	687	703	348	363
Discretionary bonuses	702	353	392	139	164
Contributions to retirement benefit scheme	1	1	1	1	1
	1,386	1,041	1,096	488	528

The emoluments of these remaining individuals with the highest emoluments are within the band Nil to RMB1,000,000 for the Relevant Period.

8. DIVIDENDS

Dividends declared to equity shareholders of the Group during the Relevant Period:

	Year ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Dividends declared during the year/period	—	18,000	261,170	223,837	268,102

Dividends payable of Nil, Nil and RMB40,126,000 and Nil as at 31 December 2006, 2007 and 2008 and 30 June 2009 are disclosed in note 20.

Dividends presented during the Relevant Period represent dividends declared by Fuqing Hong Liong and Fuqing Ecotex to their then shareholders before they became subsidiaries of the Company. The rate of dividend per share is not presented as it is not indicative of the rate at which future dividends will be declared.

9. EARNINGS PER SHARE

The calculation of basic earnings per share for the Relevant Period is based on the net profit attributable to equity shareholders of the Company for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, and on the assumption that 1,560,000,000 shares of the Company are in issue and issuable, comprising 10,000 shares in issue at the date of the Prospectus and 1,559,990,000 shares to be issued pursuant to the Capitalisation Issue as set out in Appendix VII to the Prospectus as if the shares were outstanding throughout the entire Relevant Period.

There were no dilutive potential ordinary shares during the Relevant Period and, therefore, diluted earnings per share are equivalent to basic earnings per share.

10. SEGMENT REPORTING

The Group manages its businesses by entities, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

— Fabrics manufacturing segment which mainly represents the manufacturing and trading of fabrics to casual and sportswear manufacturers in the PRC.

— Casual and sportswear OEM segment which mainly represents the manufacturing and trading of casual and sportswear to brand owners in the PRC.

— Branded leisure clothing segment which mainly represents the distribution of children's wear, uniforms, jeans and other clothes to franchise distributors and franchise stores in the PRC.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all property, plant and equipment, construction in progress, intangible assets, lease prepayments and current assets with the exception of deferred tax assets and other corporate assets. Segment liabilities include all trade and other payables attributable to the manufacturing and sales activities of the individual segments and bank loans managed directly by the segments and current liabilities with the exception of deferred tax liabilities and other corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation and amortisation of assets attributable to those segments. However, other than reporting inter-segment sales of fabrics and casual and sportswear, assistance provided by one segment to another, including the sharing of assets and technical know-how, is not measured.

The measure used for reporting segment profit is "profit from operations". To arrive at "profit from operations", the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as head office or corporate administration costs.

In addition to receiving segment information concerning profit from operations, management is provided with segment information concerning revenue (including inter-segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

	Fabrics	**Casual and sportswear OEM**	**Branded leisure clothing**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2006				
Revenue from external customers *(note 2)*	548,476	104,904	—	653,380
Inter-segment revenue	43,137	477	—	43,614
Reportable segment revenue	591,613	105,381	—	696,994
Reportable segment profit from operations	98,229	23,879	—	122,108
Interest income from bank deposits	326	26	—	352
Interest expense	4,453	—	—	4,453
Depreciation and amortisation for the year	8,048	406	—	8,454
Reportable segment assets	359,760	50,602	—	410,362
Additions to non-current segment assets during the year	16,791	940	—	17,731
Reportable segment liabilities	148,219	18,016	—	166,235
Year ended 31 December 2007				
Revenue from external customers *(note 2)*	769,841	162,635	—	932,476
Inter-segment revenue	87,452	73	—	87,525
Reportable segment revenue	857,293	162,708	—	1,020,001
Reportable segment profit from operations	175,232	24,474	—	199,706
Interest income from bank deposits	398	111	—	509
Interest expense	2,482	1	—	2,483
Depreciation and amortisation for the year	7,889	509	—	8,398
Impairment losses on trade and other receivables	4,848	—	—	4,848
Reportable segment assets	555,303	76,527	5,306	637,136
Additions to non-current segment assets during the year	7,748	238	51	8,037

	Fabrics *RMB'000*	Casual and sportswear OEM *RMB'000*	Branded leisure clothing *RMB'000*	Total *RMB'000*
Reportable segment liabilities	201,890	19,466	57	221,413
Year ended 31 December 2008				
Revenue from external customers *(note 2)*	888,984	154,381	222,685	1,266,050
Inter-segment revenue	90,073	57,078	—	147,151
Reportable segment revenue	979,057	211,459	222,685	1,413,201
Reportable segment profit from operations	208,274	49,102	52,626	310,002
Interest income from bank deposits	721	272	349	1,342
Interest expense	1,922	—	—	1,922
Depreciation and amortisation for the year	8,032	593	5,939	14,564
Reportable segment assets	521,437	105,574	187,728	814,739
Additions to non-current segment assets during the year	3,923	1,199	76,136	81,258
Reportable segment liabilities	222,807	41,166	30,645	294,618
Six months ended 30 June 2008 (unaudited)				
Revenue from external customers *(note 2)*	431,213	72,912	17,658	521,783
Inter-segment revenue	43,904	6,224	—	50,128
Reportable segment revenue	475,117	79,136	17,658	571,911
Reportable segment profit from operations	109,645	10,397	3,337	123,379
Interest income from bank deposits	414	132	112	658
Interest expense	1,072	—	—	1,072
Depreciation and amortisation for the period	4,150	286	851	5,287
Six months ended 30 June 2009				
Revenue from external customers *(note 2)*	511,537	60,091	245,677	817,305
Inter-segment revenue	27,779	25,448	—	53,227
Reportable segment revenue	539,316	85,539	245,677	870,532
Reportable segment profit from operations	144,188	22,603	78,114	244,905
Interest income from bank deposits	277	82	179	538
Interest expense	754	—	—	754
Depreciation and amortisation for the period	3,954	340	5,091	9,385
Reportable segment assets	511,203	66,906	178,157	756,266
Additions to non-current segment assets during the period	2,349	495	55	2,899
Reportable segment liabilities	248,550	26,835	36,698	312,083

(b) Reconciliations of reportable segment revenues, profits, assets and liabilities

	Year ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Revenue					
Reportable segment revenue	696,994	1,020,001	1,413,201	571,911	870,532
Elimination of inter-segment revenue	(43,614)	(87,525)	(147,151)	(50,128)	(53,227)
Combined turnover	653,380	932,476	1,266,050	521,783	817,305
Profit					
Reportable segment profit from operations	122,108	199,706	310,002	123,379	244,905
Finance costs	(4,453)	(2,483)	(1,922)	(1,072)	(754)
Elimination of inter-segment profits	(1,350)	(1,390)	1,126	(1,431)	(525)
Combined profit before taxation	116,305	195,833	309,206	120,876	243,626

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Reportable segment assets	410,362	637,136	814,739	756,266
Elimination of inter-segment receivables	(9,902)	(10,589)	(27,295)	(22,751)
Elimination of inter-segment inventories	(1,656)	(3,046)	(1,922)	(2,446)
	398,804	623,501	785,522	731,069
Deferred tax assets	—	274	209	359
Combined total assets	398,904	623,775	785,731	731,428
Liabilities				
Reportable segment liabilities	166,235	221,413	294,618	312,083
Elimination of inter-segment payables	(9,902)	(10,589)	(27,295)	(22,751)
	156,333	210,824	267,323	289,332
Deferred tax liabilities	—	—	30,731	39,150
Unallocated head office and corporate liabilities	—	19	93,576	93,576
Combined total liabilities	156,333	210,843	391,630	422,058

(c) Geographic information

As the Group and its external customers operate mainly in the PRC, no geographical segment information is presented.

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Computer equipment *RMB'000*	Other equipment *RMB'000*	Total *RMB'000*
Cost:						
At 1 January 2006	31,214	105,462	3,700	3,101	1,662	145,139
Additions	12,197	3,596	212	273	224	16,502
Transfer from construction in progress *(note 12)*	1,512	66	—	—	—	1,578
Disposals	—	(5,841)	(352)	(26)	(6)	(6,225)
At 31 December 2006	44,923	103,283	3,560	3,348	1,880	156,994
At 1 January 2007	44,923	103,283	3,560	3,348	1,880	156,994
Additions	43	7,447	—	302	194	7,986
Transfer from construction in progress *(note 12)*	363	8,537	—	140	—	9,040
Disposals	—	—	(501)	—	—	(501)
At 31 December 2007	45,329	119,267	3,059	3,790	2,074	173,519
At 1 January 2008	45,329	119,267	3,059	3,790	2,074	173,519
Additions	43	1,984	—	314	65	2,406
Acquisition of subsidiary *(note 27)*	—	128	244	132	—	504
Transfer from construction in progress *(note 12)*	—	2,624	—	—	—	2,624
Disposals	—	(7)	(510)	(29)	—	(546)
At 31 December 2008	45,372	123,996	2,793	4,207	2,139	178,507
At 1 January 2009	45,372	123,996	2,793	4,207	2,139	178,507
Additions	—	2,485	—	93	2	2,580
Disposals	—	(15,975)	(750)	(6)	(5)	(16,736)
At 30 June 2009	45,372	110,506	2,043	4,294	2,136	164,351
Accumulated depreciation:						
At 1 January 2006	(11,312)	(65,779)	(2,327)	(2,037)	(1,312)	(82,767)
Charge for the year	(1,706)	(6,011)	(354)	(277)	(73)	(8,421)
Written back on disposals	—	4,305	214	23	5	4,547
At 31 December 2006	(13,018)	(67,485)	(2,467)	(2,291)	(1,380)	(86,641)
At 1 January 2007	(13,018)	(67,485)	(2,467)	(2,291)	(1,380)	(86,641)
Charge for the year	(2,016)	(5,614)	(319)	(301)	(89)	(8,339)
Written back on disposals	—	—	450	—	—	450
At 31 December 2007	(15,034)	(73,099)	(2,336)	(2,592)	(1,469)	(94,530)
At 1 January 2008	(15,034)	(73,099)	(2,336)	(2,592)	(1,469)	(94,530)
Charge for the year	(2,033)	(5,895)	(230)	(329)	(109)	(8,596)
Acquisition of subsidiary *(note 27)*	—	(86)	(19)	(84)	—	(189)
Written back on disposals	—	7	459	26	—	492
At 31 December 2008	(17,067)	(79,073)	(2,126)	(2,979)	(1,578)	(102,823)

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Computer equipment *RMB'000*	Other equipment *RMB'000*	Total *RMB'000*
At 1 January 2009	(17,067)	(79,073)	(2,126)	(2,979)	(1,578)	(102,823)
Charge for the period	(1,017)	(2,963)	(89)	(166)	(55)	(4,290)
Written back on disposals	—	10,992	616	6	2	11,616
At 30 June 2009	(18,084)	(71,044)	(1,599)	(3,139)	(1,631)	(95,497)
Net book value:						
At 31 December 2006	31,905	35,798	1,093	1,057	500	70,353
At 31 December 2007	30,295	46,168	723	1,198	605	78,989
At 31 December 2008	28,305	44,923	667	1,228	561	75,684
At 30 June 2009	27,288	39,462	444	1,155	505	68,854

Property, plant and equipment with aggregate net book value of RMB28,975,000, RMB45,582,000 and RMB39,942,000 and RMB33,067,000 as at 31 December 2006, 2007 and 2008 and 30 June 2009 respectively was pledged as security for certain bank loans (note 19) granted to the Group.

12. CONSTRUCTION IN PROGRESS

	As at 31 December			As at 30 June
	2006 *RMB'000*	2007 *RMB'000*	2008 *RMB'000*	2009 *RMB'000*
At 1 January	9,389	9,040	—	—
Additions	1,229	—	2,624	313
Transfer to property, plant and equipment *(note 11)*	(1,578)	(9,040)	(2,624)	—
At 31 December/30 June	9,040	—	—	313

Construction in progress comprises costs incurred on buildings and plant and machinery not yet completed at the respective balance sheet dates.

13. INTANGIBLE ASSETS

	Patents *RMB'000*	Software *RMB'000*	Customer relationships *RMB'000*	Trademark *RMB'000*	Total *RMB'000*
Cost:					
At 1 January 2006 and 31 December 2006	112	—	—	—	112
At 1 January 2007	112	—	—	—	112
Additions	—	51	—	—	51
At 31 December 2007	112	51	—	—	163
At 1 January 2008	112	51	—	—	163
Additions	—	136	—	—	136
Acquisition of subsidiary *(note 27)*	—	—	70,666	4,978	75,644
At 31 December 2008	112	187	70,666	4,978	75,943
At 1 January 2009	112	187	70,666	4,978	75,943
Addition	—	6	—	—	6
At 30 June 2009	112	193	70,666	4,978	75,949
Accumulated amortisation:					
At 1 January 2006	54	—	—	—	54
Charge for the year	11	—	—	—	11
At 31 December 2006	65	—	—	—	65
At 1 January 2007	65	—	—	—	65
Charge for the year	11	—	—	—	11
At 31 December 2007	76	—	—	—	76
At 1 January 2008	76	—	—	—	76
Charge for the year	11	20	5,889	—	5,920
At 31 December 2008	87	20	5,889	—	5,996
At 1 January 2009	87	20	5,889	—	5,996
Charge for the period	6	17	5,048	—	5,071
At 30 June 2009	93	37	10,937	—	11,067
Net book value:					
At 31 December 2006	47	—	—	—	47
At 31 December 2007	36	51	—	—	87
At 31 December 2008	25	167	64,777	4,978	69,947
At 30 June 2009	19	156	59,729	4,978	64,882

The amortisation charge for the Relevant Period is included in "Other operating expenses" in the combined income statements.

14. GOODWILL

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	—	—	—	133
Acquisition of a subsidiary *(note 27)*	—	—	133	—
At 31 December/30 June	—	—	133	133

Impairment tests for cash-generating units containing goodwill

Goodwill acquired has been allocated to the cash generating unit ("CGU") of the branded leisure clothing segment.

The recoverable amount of the CGU is determined based on value-in-use calculation. This calculation uses cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 5% (31 December 2008: 5%). The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. The cash flows are discounted using a discount rate of 19% (31 December 2008: 19%). This discount rate is pre-tax and reflects specific risks relating to the branded leisure clothing segment.

The recoverable amount of the CGU is higher than its carrying amount based on value-in-use calculations. Accordingly, no impairment loss on goodwill is recognised.

15. LEASE PREPAYMENTS

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At 1 January and 31 December/30 June	2,382	2,382	2,382	2,382
Accumulated amortisation:				
At 1 January	602	624	672	720
Charge for the year/period	22	48	48	24
At 31 December/30 June	624	672	720	744
Net book value:				
At 31 December/30 June	1,758	1,710	1,662	1,638

Notes:

(a) Lease prepayments represent the Group's land use rights for leasehold land located in the PRC which will expire in 2045.

(b) The above lease prepayments are pledged as security for certain bank loans (note 19) granted to the Group.

16. INVENTORIES

(a) Inventories in the combined balance sheets comprise:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	29,956	49,880	22,842	23,726
Work in progress	30,187	47,751	50,692	58,267
Finished goods	31,922	38,019	37,901	41,715
	92,065	135,650	111,435	123,708

(b) An analysis of the amount of inventories recognised as an expense is as follows:

	Year ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Cost of inventories sold	502,275	697,969	911,631	385,687	538,602

17. TRADE AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	125,460	231,156	258,201	205,080
Less: allowance for doubtful debts *(note 17(b))*	—	(4,848)	(4,848)	(8,124)
	125,460	226,308	253,353	196,956
Prepayments, deposits and other receivables	55,180	82,131	88,754	28,017
	180,640	308,439	342,107	224,973

All of the trade and other receivables are expected to be recovered within one year.

Included in the above trade and other receivables are amounts due from related parties, details of which are set out in note 28(d).

(a) Ageing analysis

An ageing analysis of the trade receivables (net of allowance for doubtful debts) is as follows:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current	95,338	190,904	246,704	188,357
Less than one month past due	7,328	24,199	697	6,919
One to three months past due	7,583	151	1,094	189
More than three months but less than 12 months past due	9,855	4,125	296	1,022
More than 12 months past due	5,356	6,929	4,562	469
Amount past due	30,122	35,404	6,649	8,599
	125,460	226,308	253,353	196,956

Trade receivables are due within 30 to 60 days from the date of billing. Further details on the Group's credit policy are set out in note 25(a).

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 1(m)(i)).

The movement in the allowance for doubtful debts during the Relevant Period, including both specific and collective loss components, is as follows:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	—	—	4,848	4,848
Impairment loss recognised	—	4,848	—	3,276
At 31 December/30 June	—	4,848	4,848	8,124

As at 31 December 2007 and 2008 and 30 June 2009, trade receivables of the Group totalling RMB4,848,000, RMB4,848,000 and RMB8,124,000 respectively were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that the receivables were not recoverable. Consequently, specific allowances for doubtful debts were recognised as at 31 December 2007 and 2008 and 30 June 2009. The Group does not hold any collateral over these balances.

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is set out in note 17(a).

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

18. CASH AND CASH EQUIVALENTS

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank	34,879	89,111	175,448	237,449
Cash on hand	129	64	447	475
Cash and cash equivalents in the combined cash flow statements	35,008	89,175	175,895	237,924

Cash at bank was placed with banks in the PRC and remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

19. BANK LOANS

As at 31 December 2006, 2007 and 2008 and 30 June 2009, the bank loans were repayable as follows:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year or on demand	33,579	36,907	25,119	28,130

The amount of banking facilities and the utilisation at each balance sheet date are set out as follows:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Facility amount	66,388	70,407	44,619	38,130
Utilised facility amount at the balance sheet date in respect of:				
— Bank loans	33,579	36,907	25,119	28,130
— Bills payable *(note 20)*	5,000	13,500	10,000	10,000
	38,579	50,407	35,119	38,130

As at 31 December 2006, 2007 and 2008 and 30 June 2009, the above bank loans and banking facilities were secured by property, plant and equipment (note 11) and lease prepayments (note 15) of the Group.

20. TRADE AND OTHER PAYABLES

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	84,055	107,988	127,471	184,294
Bills payable	5,000	13,500	10,000	10,000
	89,055	121,488	137,471	194,294
Receipts in advance	22,956	29,639	21,210	20,205
Deposits from customers	—	—	2,490	2,950
Accrued staff costs	4,975	4,828	6,306	3,702
Dividend payable	—	—	40,126	—
VAT and other taxes payable	713	5,635	11,546	8,619
Other payables and accruals	2,206	4,655	4,733	3,029
	119,905	166,245	223,882	232,799

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

Included in trade and other payables are trade payables and bills payable with the following ageing analysis as of each balance sheet date. The credit periods granted by various suppliers generally range from 30 days to 60 days:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Due within one month or on demand	45,486	61,026	61,242	95,428
Due after one month but within three months	14,006	33,361	54,204	69,961
Due after three months but within six months	10,991	4,036	678	2,228
Due after six months but within 12 months	4,543	9,048	6,484	7,614
More than 12 months	14,029	14,017	14,863	19,063
	89,055	121,488	137,471	194,294

21. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries now comprising the Group participate in a defined contribution retirement benefit scheme (the "Scheme") organised by the PRC municipal government authority in the Fujian Province whereby the Group is required to make contributions to the Scheme at the rate of 18% of the eligible employees' salaries to the Scheme. The Group has accrued for the required pension fund contributions, which are remitted to the respective social security offices when the contributions become due. The social security offices are responsible for making the benefit payments to the retired employee covered under the Scheme.

The Group has no other material obligation for the payment of pension benefits associated with the Scheme beyond the annual contributions described above.

22. INCOME TAX IN THE COMBINED BALANCE SHEETS

(a) Current tax payable in the combined balance sheets represents:

	As at 31 December 2006 *RMB'000*	As at 31 December 2007 *RMB'000*	As at 31 December 2008 *RMB'000*	As at 30 June 2009 *RMB'000*
At beginning of the year/period	2,579	2,849	7,672	18,322
Provision for PRC corporate income tax for the year/period	13,809	25,646	58,883	51,986
Current tax payable assumed upon acquisition of a subsidiary *(note 27)*	—	—	3,133	—
PRC corporate income tax paid	(13,539)	(20,823)	(51,366)	(41,905)
PRC corporate income tax payable	2,849	7,672	18,322	28,403

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax assets/(liabilities) recognised in the combined balance sheets and the movements during the Relevant Period are as follows:

Deferred tax assets/(liabilities) arising from:	Inventory: unrealised profits *RMB'000*	Withholding tax on undistributed profits of PRC subsidiaries *RMB'000*	Fair value adjustments upon acquisition of a subsidiary *RMB'000*	Total *RMB'000*
At 1 January 2006, 31 December 2006 and 1 January 2007	—	—	—	—
Credited to combined income statements *(note 5(a))*	274	—	—	274
At 31 December 2007	274	—	—	274
At 1 January 2008	274	—	—	274
Acquisition of a subsidiary *(note 27)*	—	(1,064)	(21,748)	(22,812)
(Charged)/credited to combined income statement *(note 5(a))*	(65)	(12,004)	4,085	(7,984)
At 31 December 2008	209	(13,068)	(17,663)	(30,522)
At 1 January 2009	209	(13,068)	(17,663)	(30,522)
Credited/(charged) to combined income statement *(note 5(a))*	150	(9,905)	1,486	(8,269)
At 30 June 2009	359	(22,973)	(16,177)	(38,791)

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Classification in the combined balance sheets:				
Deferred tax assets	—	274	209	359
Deferred tax liabilities	—	—	(30,731)	(39,150)
	—	274	(30,522)	(38,791)

23. PAID-IN CAPITAL

(a) For the purpose of this report, paid-in capital as at 31 December 2006, 2007 and 2008 and 30 June 2009 represents the aggregate amount of paid-in capital of the companies comprising the Group at those dates, except for Shishi Maigen which was eliminated against the cost of investment.

(b) During the years ended 31 December 2006 and 2007, the equity shareholders of the Group injected capital totalling RMB4,962,000 and RMB18,000,000 respectively to the Group, which was satisfied by the reinvestment of dividends declared in 2005 and 2007.

(c) The Company was incorporated on 14 July 2009 with an authorised share capital of HK$380,000 comprising 3,800,000 shares of HK$0.1 each. 1 share was issued and fully paid for in cash at par on the date of incorporation.

24. RESERVES

(a) Statutory reserve

Pursuant to applicable PRC regulations, the Company's subsidiaries established and operating in the PRC are required to appropriate 10% of their after-tax-profit (after offsetting prior year losses) as determined in accordance with the PRC accounting rules and regulations, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity shareholders. The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase the registered capital of the subsidiaries, provided that the balance after such issue is not less than 25% of the registered capital.

(b) Distributable reserves

The Company was incorporated on 14 July 2009. Accordingly, there were no reserves available for distribution to shareholders as at 30 June 2009.

On the basis set out in Section A above, the aggregate amount of distributable reserves as at 31 December 2006, 2007 and 2008 and 30 June 2009 of the companies comprising the Group were RMB124,297,000, RMB259,075,000, RMB214,794,000 and RMB121,717,000 respectively.

(c) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a debt-to-adjusted capital ratio. This ratio is calculated as debt divided by adjusted capital. The Group defines debt as interest-bearing bank loans and bills payable. Adjusted capital comprises all components of equity and includes amount due to shareholder of the Company.

The debt-to-adjusted capital ratio as at 31 December 2006, 2007 and 2008 and 30 June 2009 were as follows:

		As at 31 December			As at 30 June
		2006	2007	2008	2009
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	*19*	33,579	36,907	25,119	28,130
Bills payable	*20*	5,000	13,500	10,000	10,000
Total debt		38,579	50,407	35,119	38,130
Equity		242,471	412,932	394,101	309,370
Add: Amount due to shareholder		—	19	93,576	93,576
Total adjusted equity		242,471	412,951	487,677	402,946
Debt-to-adjusted capital ratio		16%	12%	7%	9%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Exposure to credit, liquidity, interest rate, commodity price and foreign currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to cash and bank deposits, amount due from shareholder and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group's cash and bank deposits are placed with major financial institutions.

Amount due from shareholder is regularly reviewed and settled unless the amount is specifically intended to be long-term in nature.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer pertaining to the economic environment in which the customer operates. These receivables are due within 30 to 60 days from the date of billing. Normally, the Group does not obtain collateral from customers.

At the balance sheet dates, the Group has a certain concentration of credit risk as the trade receivables from the five largest customers as at 31 December 2006, 2007 and 2008 and 30 June 2009 represented 32%, 28%, 18% and 17% of the total trade receivables respectively, while 9%, 8%, 6% and 4% of the total trade receivables were due from the largest single customer respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the combined balance sheets. The Group does not provide any guarantees which would expose the Group to credit risk.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowing exceeds certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the balance sheet dates of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet dates) and the earliest date the Group can be required to pay.

	As at 31 December 2006		
	Contractual undiscounted cash outflow		
	Within one year or on demand	**Total**	**Balance sheet carrying amount**
	RMB'000	*RMB'000*	*RMB'000*
Bank loans	34,810	34,810	33,579
Trade and other payables	119,905	119,905	119,905
	154,715	154,715	153,484

	As at 31 December 2007		
	Contractual undiscounted cash outflow		
	Within one year or on demand	**Total**	**Balance sheet carrying amount**
	RMB'000	*RMB'000*	*RMB'000*
Bank loans	38,068	38,068	36,907
Trade and other payables	166,245	166,245	166,245
Amount due to shareholder	19	19	19
	204,332	204,332	203,171

	As at 31 December 2008		
	Contractual undiscounted cash outflow		
	Within one year or on demand	**Total**	**Balance sheet carrying amount**
	RMB'000	*RMB'000*	*RMB'000*
Bank loans	26,385	26,385	25,119
Trade and other payables	223,882	223,882	223,882
Amount due to shareholder	93,576	93,576	93,576
	343,843	343,843	342,577

	As at 30 June 2009		
	Contractual undiscounted cash outflow		
	Within one year or on demand	**Total**	**Balance sheet carrying amount**
	RMB'000	*RMB'000*	*RMB'000*
Bank loans	28,415	28,415	28,130
Trade and other payables	232,799	232,799	232,799
Amount due to shareholder	93,576	93,576	93,576
	354,790	354,790	354,505

(c) **Interest rate risk**

(i) *Interest rate profile*

The Group's interest rate risk arises primarily from bank loans and cash and cash equivalents.

The following table details the interest rate profile of the Group's interest-generating financial assets and interest-bearing financial liabilities at the balance sheet dates:

	As at 31 December						*As at 30 June*	
	2006		*2007*		*2008*		*2009*	
	Effective interest rate	*RMB'000*	*Effective interest rate*	*RMB'000*	*Effective interest rate*	*RMB'000*	*Effective interest rate*	*RMB'000*
Fixed rate borrowings								
Bank loans	5.83%	16,400	7.24%	20,500	7.47%	13,500	4.37%	16,516
Net variable rate instruments								
Bank loans	6.55%	17,179	6.17%	16,407	6.83%	11,619	6.04%	11,614
Cash and cash equivalents	0.72%	(35,008)	0.72%	(89,175)	0.36%	(175,895)	0.36%	(237,924)
		(17,829)		(72,768)		(164,276)		(226,310)
		(1,429)		(52,268)		(150,776)		(209,794)

(ii) *Sensitivity analysis*

As at 31 December 2006, 2007 and 2008 and 30 June 2009, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit for the year/period and retained profits by approximately RMB152,000, RMB619,000, RMB1,347,000 and RMB1,810,000 respectively. Other components of equity would not have been affected by the changes in interest rates.

The sensitivity analysis above indicates the impact on the Group's profit for the year/period and retained profits that would have arisen assuming that there is an annualised impact on interest income and expense by a change in interest rates. The analysis has been performed on the same basis throughout the Relevant Period.

(d) Commodity risk

The major raw materials used in the production of the Group's products include yarn and dye. The Group is exposed to fluctuations in the prices of these raw materials which are influenced by global as well as regional supply and demand conditions. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

As at 31 December 2006, 2007 and 2008 and 30 June 2009, it is estimated that a general increase/decrease of 1% in prices of raw materials, will all other variables held constant, would have decreased/increased the Group's profit for the year/period by approximately 2%, 2%, 2% and 2% respectively.

The sensitivity analysis above indicates the impact on the Group's profit for the year/period that would have arisen assuming that there is an annualised impact on cost of sales by a change in prices of raw materials. The analysis has been performed on the same basis throughout the Relevant Period.

(e) Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales, purchases and bank borrowings that are denominated in United States dollars.

The Group ensures that the net exposure on recognised assets and liabilities arising from sales, purchases and bank borrowings denominated in United States dollars is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short term imbalances.

(i) *Exposure to foreign currency risk*

The following table details the Group's major exposure at the balance sheet dates to foreign currency risk arising from recognised assets or liabilities denominated in United States dollars. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rates at balance sheet dates.

	As at 31 December			*As at 30 June*
	2006	*2007*	*2008*	*2009*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other receivables	31,357	19,078	12,683	18,528
Amount due from shareholder	9,893	9,451	8,659	8,644
Cash and cash equivalents	2,796	309	2,445	1,919
Bank loans	(17,179)	(16,070)	(11,619)	(11,614)
Trade and other payables	(42,108)	(42,825)	(35,024)	(42,571)
	(15,241)	(30,057)	(22,856)	(25,094)

(ii) *Sensitivity analysis*

The following table indicates the instantaneous change in the Group's profit for the year/period and retained profits that would have arisen if foreign exchange rates to which the Group has significant exposure at the balance sheet dates had changed at those dates, assuming all other risk variables remained constant.

	As at 31 December						*As at 30 June*	
	2006		*2007*		*2008*		*2009*	
	Increase/ (decrease) in foreign exchange rates	*RMB'000*	*Increase/ (decrease) in foreign exchange rates*	*RMB'000*	*Increase/ (decrease) in foreign exchange rates*	*RMB'000*	*Increase/ (decrease) in foreign exchange rates*	*RMB'000*
United States dollars	1%	(129)	5%	(1,277)	5%	(937)	1%	(201)
	(1)%	129	(5)%	1,277	(5)%	937	(1)%	201

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet dates. The analysis has been performed on the same basis for throughout the Relevant Period.

(f) Fair values

All financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2006, 2007 and 2008 and 30 June 2009, except for the amounts due from/to related parties and shareholder which have no fixed repayment terms. Given these terms, it is not meaningful to disclose the fair value of such balances.

(g) Business risk

The Group's primary business is the manufacturing and wholesaling of fabrics, causal and sportswear, and branded leisure clothing. The Group's financial results are influenced by the rapidity with which designs are copied by competitors and reproduced at much lower prices, as well as by the Group's ability to continue to create new products that find favour in the market place, maintain a larger network of distributors and retailers, manufacture sufficient quantities to meet fashionable sales and dispose of excess inventories without excessive losses. Based on these factors, the Group may experience significant fluctuations in its future financial results.

(h) Environmental risk

The Group's operations are regulated by various laws and regulations. Laws and regulations protecting the environment have generally become more stringent in recent years and could become more stringent in the future. Some of these laws and regulations could impose significant costs, expenses, penalties and liabilities on the Group for violations of existing conditions attached to the licences whether or not caused or known by the Group. The financial position of the Group may be adversely affected by any environmental liabilities which may be imposed under such new environmental laws and regulations. The directors are not aware of any environmental liabilities as at 30 June 2009. The directors are also not aware of any violation of the above laws and regulations or any penalties which may be imposed upon the Group in connection with such laws and regulations.

26. COMMITMENTS

Operating lease commitments

At each of the balance sheet dates, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	—	—	350	—

27. ACQUISITION OF A SUBSIDIARY

Pursuant to an agreement dated 26 May 2008, the Group acquired the entire equity interests in Shishi Maigen for a cash consideration of RMB140,000,000 and such amount was paid by the Group's shareholder. The fair value of Shishi Maigen's net assets at the date that the Group obtained control on 31 May 2008 was RMB139,867,000.

Shishi Maigen contributed aggregate turnover of RMB202,343,000 and aggregate profit attributable to equity shareholders of RMB35,717,000 during the period from 31 May 2008 to 31 December 2008. The aggregate turnover and profit attributable to equity shareholders of the Group as if the acquisition for the business combination effected during the year ended 31 December 2008 had been at the beginning of the year are RMB1,337,585,000 and RMB260,466,000 respectively.

The details of assets acquired and liabilities assumed as at the acquisition date are as follows:

	Pre-acquisition carrying amount	**Fair value adjustments**	**Recognised values on acquisition**
	RMB'000	*RMB'000*	*RMB'000*
Fixed assets	315	—	315
Intangible assets	—	75,644	75,644
Inventories	26,476	11,347	37,823
Trade and other receivables	8,461	—	8,461
Cash and cash equivalents	63,080	—	63,080
Trade and other payables	(19,511)	—	(19,511)
Current tax payable	(3,133)	—	(3,133)
Deferred tax liabilities	—	(22,812)	(22,812)
Share of net identifiable assets and liabilities	75,688	64,179	139,867
Consideration paid by the Company's shareholder			140,000
Goodwill			133

Net inflow of cash and cash equivalents in connection with the acquisition of a subsidiary:

Cash and cash equivalents of the subsidiary acquired	63,080

Pre-acquisition carrying amounts were determined based on applicable HKFRSs immediately before the acquisition. The values of assets and liabilities recognised on acquisition are their estimated fair values. In determining the fair value of intangible assets acquired, the Group applied a discount rate of 19% to the estimated future cash flows.

The goodwill recognised on the acquisition is attributable mainly to the skills and technical talent of the acquired business' work force, and the synergies expected to be achieved from integrating the company into the Group's existing business.

The above intangible assets and goodwill are allocated to the segment assets of branded leisure clothing segment as disclosed in note 10.

28. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed in notes 8 and 20 in the Financial Information, the Group entered into the following material related party transactions.

During the Relevant Period, the directors are of the view that the following companies were related parties of the Group:

Name of party	Note	Relationship
ZhongShan Hong Liong Tech Textile Co., Ltd. (中山洪良化纖有限公司)	(a), (b) and (d)(iii)	Effectively owned by one of the shareholders of the Company
Poly Luck Enterprise Limited (寶瑞企業有限公司)	(b), (d)(iii) and (d)(iv)	Effectively owned by one of the directors of the Company
Vicko Enterprises Ltd. (維高企業有限公司)	(b) and (d)(iv)	Effectively owned by one of the directors of the Company
Keytrack Development Inc.	(b) and (d)(iii)	Effectively owned by one of the directors of the Company
Sum Vision Company Corp.	(b), (d)(iii) and (d)(iv)	Effectively owned by one of the directors of the Company
Hong Kong Hong Liong Textile Company Limited (香港洪良染織有限公司)	(c), (d)(i) and (d)(ii)	Shareholder

Note: The English translation of the company names is for reference only. The official names of the companies are in Chinese.

(a) During the six months ended 30 June 2009, the Group sold certain plant and machineries to ZhongShan Hong Liong Tech Textile Co., Ltd. at carrying value for a consideration of RMB5 million.

The directors of the Company have confirmed that the above transactions will not be continued upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

(b) During the Relevant Period, the aggregate amounts of purchases of raw materials and machineries from the above related parties were as follows:

	Year ended 31 December			Six months ended 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials				
ZhongShan Hong Liong Tech Textile Co., Ltd.	—	—	—	1,508
Poly Luck Enterprise Limited	23,686	10,132	978	123
Vicko Enterprises Ltd.	7,530	5,682	2,975	176
Keytrack Development Inc.	4,881	1,696	679	—
Sum Vision Company Corp.	1,074	7,252	5,342	3,204
	37,171	24,762	9,974	5,011
Machineries				
Vicko Enterprises Ltd.	413	946	4,652	1,987
	37,584	25,708	14,626	6,998

The directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms and were priced with reference to prevailing market prices and in the ordinary course of business.

Except for the transactions with ZhongShan Hong Liong Tech Textile Co., Ltd. and purchase of machineries from Vicko Enterprises Ltd., the directors of the Company expect the above transactions will be continued upon listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

(c) During the years ended 31 December 2006, 2007 and 2008, Fuqing Hong Liong borrowed RMB12 million, RMB14 million and RMB7 million respectively from the shareholder. Except for the borrowings in 2006 which were subject to an interest rate of 5% with interest payable of RMB1.7 million, all other borrowings were interest-free. These borrowings were settled before each balance sheet date.

The directors of the Company have confirmed that the above transactions will not be continued upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

(d) Balances with related parties

		As at 31 December			As at 30 June
		2006	**2007**	**2008**	**2009**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Amount due from shareholder	*(i)*	9,893	9,451	8,659	8,644
Amount due to shareholder	*(ii)*	—	19	93,576	93,576
Amounts due from related parties	*(iii)*	43,629	67,360	78,949	15,771
Amounts due to related parties	*(iv)*	28,379	29,865	23,045	28,272

(i) The amount due from shareholder represents prepayments for raw materials. The amount is unsecured, interest free and has no fixed repayment terms. No provision was made against the amount due from shareholder during the Relevant Period.

The directors of the Company have confirmed that the amount due from shareholder would be settled and the relevant transactions will not be continued prior to the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

(ii) The amount due to shareholder as at 31 December 2008 and 30 June 2009 represents the consideration of RMB140 million for the acquisition of Shishi Maigen paid on behalf of the Group by the shareholder, part of which was settled by the distribution of pre-acquisition profit. The outstanding amount is unsecured, interest free and has no fixed repayment terms.

The directors of the Company have confirmed that the amount due to shareholder will be settled by way of shares issued by the Company prior to the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

(iii) Included in trade and other receivables are amounts due from ZhongShan Hong Liong Tech Textile Co., Ltd., Poly Luck Enterprise Limited, Sum Vision Company Corp. and Keytrack Development Inc., representing prepayments for raw materials and other services made by the Company. The amounts are unsecured, interest free and have no fixed repayment terms. No provision was made against the amounts due from related parties during the Relevant Period.

(iv) Included in trade and other payables are amounts due to Poly Luck Enterprise Limited, Vicko Enterprises Ltd. and Sum Vision Company Corp., representing outstanding payables for the purchases of raw materials and machinery. The amounts are unsecured, interest free and repayable on demand.

(e) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 6 and certain of the highest paid employees as disclosed in note 7, is as follows:

	Year ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Short-term employee benefits	703	707	723	358	422
Discretionary bonuses	702	353	392	139	164
Contributions to contribution retirement benefit scheme	1	1	1	1	1
	1,406	1,061	1,116	498	587

Total remuneration is included in "staff costs" (see note 4(b)).

29. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the Financial Information. The principal accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the Financial Information.

(a) Depreciation

Property, plant and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews annually the useful lives of the assets and residual values, if any, in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technology changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(b) Impairment

If circumstances indicate that the carrying amount of property, plant and equipment and intangible assets, except for goodwill, may not be recoverable, these assets may be considered "impaired" and impairment losses may be recognised in profit or loss. The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. For goodwill, the recoverable amount is estimated annually to assess if the carrying amounts may not be recoverable whether or not there is any indication of impairment. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, the expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of sales volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, sales revenue, amount of operating costs and discount rate.

(c) Impairment of bad and doubtful debts

The Group estimates allowance for impairment of doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the ageing of the trade receivable balances, customer credit-worthiness and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

(d) Income taxes

Determining income tax provisions involves judgement of the future tax treatment of certain transactions and the interpretation of tax rules. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

(e) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature.

The net realisable value of inventories could change significantly as a result of changes in customer preferences and competitor actions in response to severe industry cycles. Management reassesses these estimates at each balance sheet date.

(f) Fair value of assets acquired and liabilities assumed upon acquisition of subsidiary

In connection with acquisition of subsidiary, the assets acquired and liabilities assumed are adjusted to their estimated fair values on date of acquisition. The determination of fair values of the assets acquired and liabilities assumed involves management's judgement and assumptions. Any change in such judgement and assumptions would affect the fair value of assets acquired and liabilities assumed and would change the amount of depreciation or amortisation expenses recognised relating to those identifiable property, plant and equipment and intangible assets.

30. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIOD

Up to the date of issue of this Financial Information, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective in respect of the financial periods included in the Relevant Period and which have not been adopted in this Financial Information.

		Effective for accounting periods beginning on or after
HKFRS 3 (Revised)	Business combinations	1 July 2009
Amendments to HKAS 27	Consolidated and separate financial statements	1 July 2009
Amendments to HKAS 39	Financial instruments: Recognition and measurement — Eligible hedged items	1 July 2009
HK(IFRIC) 17	Distributions of non-cash assets to owners	1 July 2009
Improvements to HKFRSs 2009		1 July 2009 or 1 January 2010

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

D. SUBSEQUENT EVENTS

The following significant events took place subsequent to 30 June 2009:

(a) Information of the Company

The Company was incorporated in the Cayman Islands on 14 July 2009 with an authorised capital of HK$380,000 divided into 3,800,000 shares with par value of HK$0.1 each. Upon incorporation, the Company issued 1 share at HK$0.1 to the Group's existing beneficial owner.

On 27 November 2009, authorised share capital of the Company increased to HK$500,000,000 by the creation of 4,996,200,000 shares pursuant to a shareholders resolution passed on that date.

Save for the above, the Company has not carried out any business operations since its incorporation.

(b) Group reorganisation

On 27 November 2009, the Group completed the Reorganisation to rationalise the Group's structure in preparing for the listing of the Company's shares on the Stock Exchange. Further details of the Reorganisation are set out in the Section headed "Group reorganisation" in Appendix VII to the Prospectus. As a result of the Reorganisation, the Company became the holding company of the Group.

(c) Share option scheme

Pursuant to the written resolution of the shareholders of the Company passed on 27 November 2009, the Company has conditionally adopted the share option scheme. The principal terms of the share option scheme are set out in section headed "Share Option Scheme" in Appendix VII to the Prospectus. No option was granted as at the date of this report.

E. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2009.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong