

The following is the text of a report, prepared for the sole purpose of inclusion in this prospectus, from the independent reporting accountants, RSM Nelson Wheeler, Certified Public Accountants, Hong Kong.

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8 June 2010

The Board of Directors
COSTIN New Materials Group Limited
Guotai Junan Capital Limited

Dear Sirs,

We set out below our report on the financial information (the “**Financial Information**”) of COSTIN New Materials Group Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) for each of the three years ended 31 December 2009 (the “**Relevant Period**”) for inclusion in the prospectus dated 8 June 2010 issued by the Company (the “**Prospectus**”).

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 26 August 2009. Pursuant to a group reorganisation as more fully explained in the paragraph headed “The Reorganisation” under the section headed “Statutory and General Information” in Appendix V to the Prospectus (the “**Reorganisation**”), the Company has become the holding company of the Group since 12 May 2010.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in note 20 to the Financial Information.

The statutory financial statements of the Group’s subsidiary 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) for each of the three years ended 31 December 2009 have been prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the People’s Republic of China (the “**PRC**”) and were audited by 泉州名城有限責任會計師事務所 (Quanzhou Ming Cheng Certified Public Accountants Co., Ltd.) registered in the PRC.

No audited financial statements have been prepared for the Company and the companies comprising the Group, except for 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian), as they are newly incorporated and have not been involved in any business transactions since their respective dates of establishment/incorporation other than the Reorganisation, or are not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation. We have, however, reviewed all significant transactions of these companies from their respective dates of establishment/incorporation to 31 December 2009 for the purpose of this report.

The directors of the Company have prepared the combined financial statements of the Group for the Relevant Period in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IFRS Financial Statements”).

We have performed our independent audit on the IFRS Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and have examined the IFRS Financial Statements in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

The Financial Information has been prepared from the IFRS Financial Statements in accordance with IFRSs and on the basis of preparation set out in note 2 to the Financial Information. No adjustments were considered necessary for the purpose of preparing our report for inclusion in the Prospectus.

The directors of the Company are responsible for the preparation of the IFRS Financial Statements and the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the IFRS Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, for the purpose of this report and on the basis of preparation set out in note 2 to the Financial Information, the Financial Information gives a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007, 2008 and 2009 and of the Group’s results and cash flows for the Relevant Period.

FINANCIAL INFORMATION

A. Combined Statement of Comprehensive Income

	Note	Year ended 31 December		
		2007	2008	2009
		RMB	RMB	RMB
Turnover	7	460,090,449	619,419,588	746,566,148
Cost of goods sold		<u>(326,197,244)</u>	<u>(435,147,736)</u>	<u>(525,871,848)</u>
Gross profit		133,893,205	184,271,852	220,694,300
Other income	8	2,053,942	5,984,843	10,826,089
Distribution expenses		(5,415,564)	(9,738,953)	(11,631,790)
Administrative expenses		(17,826,051)	(19,781,165)	(27,038,279)
Other operating expenses		<u>—</u>	<u>(4,261,448)</u>	<u>—</u>
Profit from operations		112,705,532	156,475,129	192,850,320
Finance costs	9	<u>(7,331,376)</u>	<u>(9,491,313)</u>	<u>(12,223,953)</u>
Profit before tax		105,374,156	146,983,816	180,626,367
Income tax expense	10	<u>(38,381,983)</u>	<u>(40,803,833)</u>	<u>(32,035,668)</u>
Profit for the year	11	<u>66,992,173</u>	<u>106,179,983</u>	<u>148,590,699</u>
Other comprehensive income for the year, net of tax				
Exchange differences on translating foreign operations		<u>—</u>	<u>—</u>	<u>(102,090)</u>
Total comprehensive income for the year		<u>66,992,173</u>	<u>106,179,983</u>	<u>148,488,609</u>
Earnings per share	14			
Basic		<u>0.11</u>	<u>0.18</u>	<u>0.25</u>

B. Combined Statement of Financial Position

	Note	At 31 December		
		2007	2008	2009
		RMB	RMB	RMB
Non-current assets				
Property, plant and equipment	15	183,483,793	140,047,186	137,768,500
Construction in progress	16	18,148,078	24,628,078	—
Investment properties	17	—	27,122,779	21,185,990
Prepaid land lease payments	18	9,331,200	8,748,000	78,701,181
Long term prepayments	19	51,900,938	46,546,138	—
		<u>262,864,009</u>	<u>247,092,181</u>	<u>237,655,671</u>
Current assets				
Inventories	21	36,173,510	14,657,249	27,016,654
Trade and bills receivables	22	104,801,185	140,327,204	161,501,862
Prepayments, deposits and other receivables		2,280,160	3,340,342	12,986,131
Due from a related company	23	—	—	19,108,000
Due from related parties	23	—	20,000,000	—
Current tax assets		—	—	18,747,928
Pledged bank deposits	24, 27	17,140,627	68,690,377	26,548,749
Bank and cash balances	24	72,031,588	66,361,868	124,432,347
		<u>232,427,070</u>	<u>313,377,040</u>	<u>390,341,671</u>
Current liabilities				
Trade and bills payables	25	57,096,634	146,352,322	93,053,707
Accruals and other payables		11,911,338	21,739,170	11,508,292
Due to related companies	26	165,966,945	6,676,938	7,293,546
Due to a related party	26	—	—	20,132,266
Loans from related companies	26	—	—	5,395,375
Interest-bearing bank borrowings	27	99,983,000	129,759,000	158,333,848
Current tax liabilities		18,001,022	8,764,899	16,046,094
		<u>352,958,939</u>	<u>313,292,329</u>	<u>311,763,128</u>
Net current (liabilities)/assets		<u>(120,531,869)</u>	<u>84,711</u>	<u>78,578,543</u>
Total assets less current liabilities		<u>142,332,140</u>	<u>247,176,892</u>	<u>316,234,214</u>
Non-current liabilities				
Loans from related companies	26	—	65,000,000	—
Deferred tax liabilities	29	—	3,664,769	9,233,344
		<u>—</u>	<u>68,664,769</u>	<u>9,233,344</u>
NET ASSETS		<u><u>142,332,140</u></u>	<u><u>178,512,123</u></u>	<u><u>307,000,870</u></u>
Capital and reserves				
Share capital	30	80,000,000	80,000,000	80,000,138
Reserves		62,332,140	98,512,123	227,000,732
TOTAL EQUITY		<u><u>142,332,140</u></u>	<u><u>178,512,123</u></u>	<u><u>307,000,870</u></u>

C. Statement of Financial Position of the Company

	Note	<u>At 31 December</u> <u>2009</u> RMB
Current assets		
Prepayments		8,215,438
Cash balance	24	<u>1</u>
		8,215,439
Current liabilities		
Due to subsidiaries	20	<u>8,344,455</u>
NET LIABILITIES		<u><u>(129,016)</u></u>
Capital and reserves		
Share capital	30	1
Accumulated loss		<u>(129,017)</u>
CAPITAL DEFICIENCY		<u><u>(129,016)</u></u>

D. Combined Statement of Changes in Equity

	Share capital	Foreign currency translation reserve	Retained profits	Statutory reserve	Total
	RMB	RMB	RMB	RMB <i>(note)</i>	RMB
At 1 January 2007	80,000,000	—	20,783,086	4,556,881	105,339,967
Total comprehensive income for the year . . .	—	—	66,992,173	—	66,992,173
Transfer to statutory reserve	—	—	(9,853,332)	9,853,332	—
Dividends paid	—	—	(30,000,000)	—	(30,000,000)
Changes in equity for the year.	—	—	27,138,841	9,853,332	36,992,173
At 31 December 2007 and 1 January 2008 . .	80,000,000	—	47,921,927	14,410,213	142,332,140
Total comprehensive income for the year . . .	—	—	106,179,983	—	106,179,983
Transfer to statutory reserve	—	—	(16,864,448)	16,864,448	—
Dividends paid	—	—	(70,000,000)	—	(70,000,000)
Changes in equity for the year.	—	—	19,315,535	16,864,448	36,179,983
At 31 December 2008 and 1 January 2009 . .	80,000,000	—	67,237,462	31,274,661	178,512,123
Total comprehensive income for the year . . .	—	(102,090)	148,590,699	—	148,488,609
Transfer to statutory reserve	—	—	(20,623,912)	20,623,912	—
Dividends paid	—	—	(20,000,000)	—	(20,000,000)
Issue of capital	138	—	—	—	138
Changes in equity for the year.	138	(102,090)	107,966,787	20,623,912	128,488,747
At 31 December 2009	<u>80,000,138</u>	<u>(102,090)</u>	<u>175,204,249</u>	<u>51,898,573</u>	<u>307,000,870</u>

Note:

Statutory reserve

In accordance with the relevant regulations of the PRC, the Group's subsidiaries registered in the PRC are required to transfer a certain percentage of the profit after tax, if any, to a statutory reserve. Subject to certain restrictions as set out in the relevant regulations and the articles of association of these PRC subsidiaries, the statutory reserve may be used to offset the accumulated losses, or for capitalisation as paid-up capital of the subsidiaries.

E. Statement of Changes in Equity of the Company

	<u>Accumulated losses</u>	<u>Total</u>
	RMB	RMB
At 1 January 2009	—	—
Loss for the year	<u>(129,017)</u>	<u>(129,017)</u>
At 31 December 2009	<u><u>(129,017)</u></u>	<u><u>(129,017)</u></u>

F. Combined Statement of Cash Flows

	Year ended 31 December		
	2007	2008	2009
	RMB	RMB	RMB
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	105,374,156	146,983,816	180,626,367
Adjustments for:			
Depreciation	8,806,713	22,692,052	23,484,296
Amortisation of prepaid land lease payments	583,200	583,200	3,474,463
Write off of investment properties	—	4,261,448	—
Loss/(gain) on disposals of property, plant and equipment	—	64,419	(259,403)
Interest expenses	7,331,376	9,491,313	12,223,953
Interest income	(932,847)	(1,376,715)	(1,842,884)
Operating profit before working capital changes	121,162,598	182,699,533	217,706,792
(Increase)/decrease in inventories	(5,758,539)	21,516,261	(12,359,405)
Increase in trade and bills receivables	(62,051,112)	(35,526,019)	(21,174,658)
Decrease/(increase) in prepayments, deposits and other receivables	47,113	(1,060,182)	1,512,370
Increase/(decrease) in trade and bills payables	11,644,188	89,255,688	(53,298,615)
Increase/(decrease) in accruals and other payables	3,594,781	9,827,832	(10,230,878)
Decrease in amount due to related companies	(8,801,974)	(4,455,589)	(6,120,885)
Cash generated from operations	59,837,055	262,257,524	116,034,721
Interest paid	(7,331,376)	(9,491,313)	(8,998,873)
Taxes paid	(25,789,933)	(46,375,187)	(37,933,826)
Net cash generated from operating activities	26,715,746	206,391,024	69,102,022
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(35,365,779)	(3,543,622)	(1,771,742)
Payment for construction in progress	(35,115,403)	(6,480,000)	(19,667,167)
Payment for prepaid land lease	—	—	(30,746,119)
Proceeds from disposals of property, plant and equipment	941,694	610,283	—
Increase in long term prepayments	(40,140,000)	—	—
Interest received	932,847	1,376,715	1,842,884
(Increase)/decrease in pledged bank deposits	(3,429,840)	(51,549,750)	42,141,628
Net cash used in investing activities	(112,176,481)	(59,586,374)	(8,200,516)

	Year ended 31 December		
	2007	2008	2009
	RMB	RMB	RMB
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	—	—	138
Drawdown of bank loans	131,400,000	129,300,000	254,818,903
Repayment of bank loans	(108,400,000)	(109,300,000)	(234,933,940)
Net drawdown of factoring loans	4,533,000	9,776,000	8,689,885
Increase in amount due from related parties	—	(90,000,000)	—
Increase in amount due to a related party	—	—	20,132,266
Increase in amount due from a related company	—	—	(19,108,000)
Increase in loans from related companies	—	65,000,000	10,256,091
Repayment of loans from related companies	—	—	(41,600,374)
Increase in amount due to related companies	191,306,287	17,710,000	58,143,290
Decrease in amount due to related companies	(75,416,000)	(174,960,370)	(59,127,196)
Dividends paid	(30,000,000)	—	—
Net cash generated from/(used in) financing activities	<u>113,423,287</u>	<u>(152,474,370)</u>	<u>(2,728,937)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	27,962,552	(5,669,720)	58,172,569
Effect of foreign exchange rate changes	—	—	(102,090)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>44,069,036</u>	<u>72,031,588</u>	<u>66,361,868</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>72,031,588</u></u>	<u><u>66,361,868</u></u>	<u><u>124,432,347</u></u>
ANALYSIS OF THE CASH AND CASH EQUIVALENTS			
Bank and cash balances	<u>72,031,588</u>	<u>66,361,868</u>	<u>124,432,347</u>

G. Notes to Financial Information

1. GENERAL INFORMATION

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

The Company is an investment holding company. The principal activities of its subsidiaries at the date of this report are manufacture and sale of chemical fibres and non-woven fabrics.

2. BASIS OF PREPARATION OF FINANCIAL INFORMATION

The companies now comprising the Group are under common control of the same shareholders of 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) (the “**Controlling Shareholders**”). Pursuant to the Reorganisation, the Company became the holding company of the Group as the entire interests of the Group’s subsidiaries were transferred to the Company on 12 May 2010.

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

On 4 February 2010, Nian’s Holding, Gerfalcon Holding (being the immediate holding companies of the Company) and the Company entered into a sale and purchase agreement pursuant to which Nian’s Holding transferred 18 shares of US\$1.00 each in COSTIN Investment Limited (“**COSTIN BVI**”) to the Company and Gerfalcon Holding transferred 2 shares of US\$1.00 each in COSTIN BVI to the Company in consideration of the Company (i) allotted and issued 269,991 and 29,999 shares to Nian’s Holding and Gerfalcon Holding respectively, all credited as fully paid, and (ii) credited as fully paid at par the then existing 9 nil paid shares held by Nian’s Holding and the then existing 1 nil paid share held by Gerfalcon Holding. Upon completion of the above share transfers, COSTIN BVI became a wholly-owned subsidiary of the Company.

On 17 March 2010, the shareholders of 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian), Gerfalcon Nonwoven Industrial (Fujian) Co., Ltd. (“**Gerfalcon PRC**”) and Gerfalcon Trade Co., Ltd. Jinjiang (“**Gerfalcon Trading**”) entered into a share transfer agreement (supplemented by a supplemental agreement dated 20 April 2010). Pursuant to the share transfer agreement and the supplementary agreement, the shareholders of 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) agreed to transfer 99% and 1% shareholding in the company to Gerfalcon PRC and Gerfalcon Trading respectively at an aggregate cash consideration of RMB80 million. The consideration was determined by reference to the fully-paid registered capital of 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) as at the date of the transfer. The shareholders agreed to return the proceeds to Gerfalcon PRC and Gerfalcon Trading of RMB80 million at nil consideration. The filing in respect of the above transfers was made with the relevant administration of industry and commerce on 22 March 2010 and the payment of the consideration in relation to the acquisition was completed on 12 May 2010.

The Reorganisation is more fully explained in the paragraph headed “The Reorganisation” under the section headed “Statutory and General Information” in Appendix V to the Prospectus.

As the Controlling Shareholders which controlled the Group before and after Reorganisation are the same, the Financial Information has been prepared as a reorganisation of businesses under common control in a manner similar to pooling of interest. The Financial Information presents the Group’s combined results and financial position as if the current group structure had been in existence throughout the Relevant Period and as if the business of 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) had been transferred to the Group at the beginning of the earliest period presented. All material intra-group transactions and balances have been eliminated on combination.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

During the Relevant Period, the Group has adopted all the new and revised IFRSs that are relevant to its operations and effective for accounting year beginning on 1 January 2009.

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

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information set out in this report has been prepared in accordance with IFRSs and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance. IFRSs comprise International Financial Reporting Standards ("IFRS"), International Accounting Standards; and interpretations.

The Financial Information has been prepared under the historical cost convention.

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

The significant accounting policies applied in the preparation of the Financial Information are set out below.

(a) Merger accounting for business combination under common control

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

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

The combined statement of financial position have been prepared to present the assets and liabilities of the combining entities as if the Group structure as at 31 December 2009 had been in existence at the end of each reporting period. The net assets of the combining entities are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

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

(b) Foreign currency translation*(i) Functional and presentation currency*

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

(ii) Transactions and balances in financial statements

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

(iii) Translation on consolidation

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

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

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

(c) Property, plant and equipment

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

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

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

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

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

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

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

(d) Investment properties

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

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

If an investment property become owner-occupied or a property held for sale, it is reclassified as property, plant and equipment or properties held for sale as appropriate, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment.

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

(e) Leases

Operating leases

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

(f) Research and development expenditure

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

(g) Inventories

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

(h) Recognition and derecognition of financial instruments

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

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

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

(i) Trade and other receivables

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

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

(j) Cash and cash equivalents

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

(k) Financial liabilities and equity instruments

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

(i) Borrowings

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

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

(ii) Trade and other payables

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

(iii) Equity instruments

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

(l) Revenue recognition

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

(i) Sales of goods

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

(ii) Interest income

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

(iii) Rental income

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

(iv) Subcontracting fee income

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

(v) Government grants

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

(m) Employee benefits**(i) Employee leave entitlements**

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

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

(ii) Pension obligations

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

(n) Borrowing costs

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

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

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

(o) Taxation

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

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

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

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

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

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

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

(p) Related parties

A party is related to the Group if:

- (i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;
- (ii) the party is an associate;
- (iii) the party is a joint venture;
- (iv) the party is a member of the key management personnel of the Company or its parent;

- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(q) Segment reporting

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

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

(r) Impairment of assets

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

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

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

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

(s) Provisions and contingent liabilities

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

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

(t) Events after the reporting period

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

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

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

Legal titles of certain buildings and investment properties

As stated in notes 15 and 17 to the Financial Information, the Group has not obtained the relevant building ownership certificates of certain buildings and investment properties. Despite the fact that the Group has not obtained the relevant building ownership certificates, the directors determine to recognise those buildings and investment properties on the grounds that they expect the application for relevant building ownership certificates in future should have no major difficulties and the Group is in substance controlling those buildings and investment properties.

Key sources of estimation uncertainty

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

(a) Fair values of investment properties

The Group appointed an independent professional valuer to assess the fair values of the investment properties. In determining the fair values, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

(b) Property, plant and equipment and depreciation

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

(c) Impairment loss for bad and doubtful debts

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

(d) Allowance for slow-moving inventories

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

(e) Income taxes

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

(f) Sales and purchases via agency companies

Certain overseas sales and purchases of 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) during the Relevant Period were transacted via two agency companies incorporated in Hong Kong ("Agency Companies"). Agency Companies were authorised to enter into sale/purchase contracts and collect/settle the contract money for 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian). Delivery of products were however made directly between 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) and the end overseas customers/suppliers. The directors of the Group consider the substance of the whole of the sales/purchases transactions and consider that it is appropriate to reflect the amount of "sales to/purchases from ultimate overseas customers/suppliers via Agency Companies" as sales to overseas customers/purchases from overseas suppliers.

6. FINANCIAL RISK MANAGEMENT

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

(a) Foreign currency risk

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

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

(b) Credit risk

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

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

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

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

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

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

	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>Over 5 years</u>
	RMB	RMB	RMB	RMB
At 31 December 2009				
Trade and bills payables	93,053,707	—	—	—
Accruals and other payables	11,508,292	—	—	—
Due to a related party	20,132,266	—	—	—
Due to related companies	7,293,546	—	—	—
Interest-bearing bank borrowings	160,374,031	—	—	—
Loans from related companies	5,442,680	—	—	—
At 31 December 2008				
Trade and bills payables	146,352,322	—	—	—
Accruals and other payables	21,739,170	—	—	—
Interest-bearing bank borrowings	134,750,451	—	—	—
Due to related companies	6,676,938	—	—	—
Loans from related companies	—	72,020,000	—	—
At 31 December 2007				
Trade and bills payables	57,096,634	—	—	—
Accruals and other payables	11,911,338	—	—	—
Interest-bearing bank borrowings	103,649,121	—	—	—
Due to related companies	165,966,945	—	—	—

(d) Interest rate risk

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

At 31 December 2009, if interest rates at that date had been 10 basis points lower/higher with all other variables held constant, profit after tax for the year would have been RMB1,283,199 lower/higher (2008: RMB1,012,686 and 2007: RMB597,321), arising mainly as a result of lower/higher interest income on cash at bank.

At 31 December 2009, if interest rates at that date had been 10 basis points lower/higher with all other variables held constant, profit after tax for the year would have been RMB678,257 higher/lower (2008: RMB441,750 and 2007: RMB361,130), arising mainly as a result of lower/higher interest expense on interest-bearing bank borrowings.

(e) Categories of financial instruments at 31 December 2007, 2008 and 2009

	<u>2007</u>	<u>2008</u>	<u>2009</u>
	RMB	RMB	RMB
Financial assets			
Loans and receivables (including cash and cash equivalents)	<u>195,670,360</u>	<u>298,136,591</u>	<u>340,129,276</u>
Financial liabilities			
Financial liabilities measured at amortised cost.	<u>334,957,917</u>	<u>369,274,430</u>	<u>295,717,034</u>

(f) Fair values

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

7. TURNOVER AND SEGMENT INFORMATION**(a) Turnover**

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

(b) Segment information

The Group has three reportable segments as follows:

Chemical fibres	—	manufacture and sale of chemical fibres
Non-woven fabrics	—	manufacture and sale of non-woven fabrics
Fashion garment	—	manufacture and sale of fashion garment

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

The accounting policies of the operating segments are the same as those described in note 4(q) to the Financial Information.

The Group accounts for intersegment sales and transfers as if the sales or transfers were at cost.

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

	Chemical fibres			Non-woven fabrics			Fashion garment			Total		
	2007	2008	2009	2007	2008	2009	2007	2008	2009	2007	2008	2009
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Year ended 31 December												
Revenue from external customers	34,338,163	162,067,174	180,731,474	305,298,540	457,352,414	565,834,674	120,453,746	—	—	460,090,449	619,419,588	746,566,148
Intersegment revenue	4,136,562	8,102,455	3,726,562	—	—	—	—	—	—	4,136,562	8,102,455	3,726,562
Segment profit	10,876,003	38,987,671	42,600,572	102,279,889	145,284,181	178,093,728	20,737,313	—	—	133,893,205	184,271,852	220,694,300
Depreciation and amortisation	2,127,451	5,413,359	3,732,902	4,074,879	13,054,921	12,562,772	660,406	—	—	6,862,736	18,468,280	16,295,674
Additions to segment non-current assets .	41,755,082	917,998	119,658	43,337,501	8,048,990	8,100,303	9,588,904	—	—	94,681,487	8,966,988	8,219,961
At 31 December												
Segment assets	65,005,244	56,693,131	45,909,593	96,355,791	70,313,104	60,969,608	—	—	—	161,361,035	127,006,235	106,879,201

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

	Year ended 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Segment Revenue			
Total revenue of reportable segments	464,227,011	627,522,043	750,292,710
Elimination of intersegment revenue.	(4,136,562)	(8,102,455)	(3,726,562)
Combined revenue	<u>460,090,449</u>	<u>619,419,588</u>	<u>746,566,148</u>
	Year ended 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Segment Profit			
Total profit of reportable segments.	133,893,205	184,271,852	220,694,300
Unallocated amounts:			
Other income	2,053,942	5,984,843	10,826,089
Distribution expenses	(5,415,564)	(9,738,953)	(11,631,790)
Administrative expenses	(17,826,051)	(19,781,165)	(27,038,279)
Other operating expenses	—	(4,261,448)	—
Finance costs	(7,331,376)	(9,491,313)	(12,223,953)
Combined profit before tax	<u>105,374,156</u>	<u>146,983,816</u>	<u>180,626,367</u>
	At 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Segment Assets			
Total assets of reportable segments	161,361,035	127,006,235	106,879,201
Unallocated amounts:			
Property, plant and equipment	58,296,268	27,698,200	55,348,941
Construction in progress	18,148,078	24,628,078	—
Investment properties	—	27,122,779	21,185,990
Prepaid land lease payments	9,331,200	8,748,000	78,701,181
Long term prepayments	51,900,938	46,546,138	—
Inventories	—	—	2,557,012
Trade and bills receivables	104,801,185	140,327,204	161,501,862
Prepayments, deposits and other receivables	2,280,160	3,340,342	12,986,131
Due from a related company	—	—	19,108,000
Due from related parties	—	20,000,000	—
Current tax assets	—	—	18,747,928
Pledged bank deposits	17,140,627	68,690,377	26,548,749
Bank and cash balances	<u>72,031,588</u>	<u>66,361,868</u>	<u>124,432,347</u>
Combined total assets	<u>495,291,079</u>	<u>560,469,221</u>	<u>627,997,342</u>

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

(iii) *Geographical information:*

	Year ended 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Revenue			
PRC except Hong Kong	412,939,737	440,863,343	426,398,880
Hong Kong	24,815,016	77,180,924	205,995,619
Indonesia	6,949,561	27,959,188	1,478,470
India	2,474,808	37,378,942	7,479,994
Dubai	—	—	101,788,584
Others	12,911,327	36,037,191	3,424,601
Combined total revenue	<u>460,090,449</u>	<u>619,419,588</u>	<u>746,566,148</u>

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

(iv) *Revenue from major customers:*

	Year ended 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Customer			
Customer a	173,763,872	38,722,547	17,670,610
Customer b	—	—	101,788,584
Customer c	—	3,665,549	123,150,986

Each of the major customer represents a single external customer whose sale transaction amount with 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) is 10% or more of the revenue of 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian).

8. OTHER INCOME

	Year ended 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Gain on disposals of property, plant and equipment (note 32(ii))	—	—	259,403
Government grants	822,909	1,771,840	4,887,000
Interest income	932,847	1,376,715	1,842,884
Rental income	78,690	2,218,541	3,171,175
Sub-contracting income	119,671	146,164	265,680
Others	99,825	471,583	399,947
	<u>2,053,942</u>	<u>5,984,843</u>	<u>10,826,089</u>

9. FINANCE COSTS

	Year ended 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Interest expense on:			
Bank loans	7,150,872	8,887,023	8,404,348
Factoring loans	180,504	604,290	594,525
Loans from related companies (<i>note 35(b)</i>)	—	—	3,225,080
	<u>7,331,376</u>	<u>9,491,313</u>	<u>12,223,953</u>

10. INCOME TAX EXPENSE

(a) Income tax expense in the statement of comprehensive income represents:

	Year ended 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Current tax			
PRC enterprise income tax (the "PRC EIT") . . .	38,381,983	37,139,064	26,467,093
Deferred tax (<i>note 29</i>).	—	3,664,769	5,568,575
	<u>38,381,983</u>	<u>40,803,833</u>	<u>32,035,668</u>

Pursuant to relevant laws and regulations in the PRC, the Group is required to pay PRC EIT at a rate of 33% of their taxable income during the period from date of incorporation to 31 December 2007. The new PRC EIT law (the "New Tax Law") passed by the Tenth National People's Congress promulgated the EIT law of the PRC on 16 March 2007 introduced various changes which include the unification of the EIT rate for domestic and foreign enterprises at 25%. The New Tax Law was effective from 1 January 2008.

On 26 October 2009, 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) was recognised as an advanced technology enterprise and is entitled to enjoy an income tax concession at a preferential rate of 15% effective from 1 January 2009. Applicable PRC EIT rate of 15% has been applied for the provision of income tax expenses for the year ended 31 December 2009. 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) has paid PRC EIT at rate of 25% on quarterly basis during the year ended 31 December 2009, which resulted in excessive payment of PRC EIT of RMB18,747,928. On 9 April 2010, 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) received a confirmation from the tax authority that the excess of EIT are to be refunded in the form of deduction against PRC EIT payables for future periods.

No provision for Hong Kong Profits Tax has been made for the subsidiary located in Hong Kong as it did not have assessable profits during the year.

The Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

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

	Year ended 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Profit before tax	105,374,156	146,983,816	180,626,367
Domestic tax rate	33%	25%	15%
Tax at domestic tax rate	34,773,471	36,745,954	27,093,955
Tax effect of non-deductible expenses	3,608,512	393,110	34,394
Over-provision in prior years	—	—	(661,256)
Deferred tax on dividend income	—	3,664,769	5,568,575
Income tax expense	<u>38,381,983</u>	<u>40,803,833</u>	<u>32,035,668</u>

11. PROFIT FOR THE YEAR

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

	Year ended 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Auditor's remuneration	70,000	70,000	50,000
Cost of inventories sold (<i>note (i)</i>)	326,197,244	435,147,736	525,871,848
Depreciation of property, plant and equipment	8,806,713	21,126,302	21,944,709
Depreciation of investment properties	—	1,565,750	1,539,587
Write off of investment properties (<i>note (iii)</i>)	—	4,261,448	—
Loss/(gain) on disposal of property, plant and equipment	—	64,419	(259,403)
Net exchange loss	217,634	712,666	105,709
Operating leases charges in respect of land and buildings and machinery	4,166,067	1,293,726	4,732,605
Research and development expenditure (<i>note (ii)</i>)	4,506,779	4,630,854	4,669,225
Staff costs (excluding directors' remuneration)			
Salaries, bonus and allowances	11,165,907	12,799,827	15,910,358
Contribution to retirement benefit schemes	103,680	109,242	155,294
	<u>11,269,587</u>	<u>12,909,069</u>	<u>16,065,652</u>

Notes:

- (i) Cost of inventories sold includes staff costs, depreciation and operating lease charges during the year ended 31 December 2009 of RMB29,482,397 (2008: RMB27,655,076 and 2007: RMB17,575,663) which are included in the amounts disclosed separately above.
- (ii) Research and development expenditure includes staff costs during the year ended 31 December 2009 of RMB559,106 (2008: RMB742,954 and 2007: RMB265,070) which are included in the amount disclosed separately above.
- (iii) Included in other operating expenses.

12. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The emoluments of each of the director were as follows:

Name of director	Fees	Salaries, allowances and benefits in kind	Contribution to retirement benefit scheme	Total
	RMB	RMB	RMB	RMB
Year ended 31 December 2009				
<i>Executive Directors</i>				
Chim Wai Kong (note (i))	—	350,378	—	350,378
Chim Wai Shing Jackson	—	277,002	—	277,002
Chim Fo Che (note (ii))	—	—	—	—
Hong Ming Qu	—	134,528	—	134,528
	—	761,908	—	761,908
<i>Non-executive Director</i>				
Wee Kok Keng	—	—	—	—
<i>Independent Non-executive Directors</i>				
Zhu Min Ru	—	—	—	—
Feng Xue Ben	—	—	—	—
Wong Siu Hong	—	—	—	—
	—	—	—	—
Year ended 31 December 2008				
<i>Executive Directors</i>				
Chim Wai Kong (note (i))	—	—	—	—
Chim Wai Shing Jackson	—	193,384	—	193,384
Chim Fo Che (note (ii))	—	—	—	—
Hong Ming Qu	—	134,824	—	134,824
	—	328,208	—	328,208
<i>Non-executive Director</i>				
Wee Kok Keng	—	—	—	—
<i>Independent Non-executive Directors</i>				
Zhu Min Ru	—	—	—	—
Feng Xue Ben	—	—	—	—
Wong Siu Hong	—	—	—	—
	—	—	—	—

Name of director	Fees	Salaries, allowances and benefits in kind	Contribution to retirement benefit scheme	Total
	RMB	RMB	RMB	RMB
Year ended 31 December 2007				
<i>Executive Directors</i>				
Chim Wai Kong (note (i))	—	209,424	—	209,424
Chim Wai Shing Jackson	—	157,665	—	157,665
Chim Fo Che (note (ii))	—	—	—	—
Hong Ming Qu	—	11,199	—	11,199
	—	378,288	—	378,288
<i>Non-executive Director</i>				
Wee Kok Keng	—	—	—	—
<i>Independent Non-executive Directors</i>				
Zhu Min Ru	—	—	—	—
Feng Xue Ben	—	—	—	—
Wong Siu Hong	—	—	—	—
	—	—	—	—

Notes:

- (i) During the year ended 31 December 2009, Mr. Chim Wai Kong, executive director of the Company, has agreed to waive his emoluments of Nil (2008: 300,000 and 2007: Nil).
- (ii) During the year ended 31 December 2009, Mr. Chim Fo Che, executive director of the Company, has agreed to waive his emoluments of RMB60,000 (2008: RMB60,000 and 2007: RMB60,000).

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

(b) Five highest paid individuals' emoluments

The five highest paid individuals in the Group during the year ended 31 December 2009 included 2 (2008: 2 and 2007: 2) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining highest paid individuals during the Relevant Period are set out below:

	Year ended 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Salaries, bonus and allowances	451,613	392,057	471,095
Contribution to retirement benefit scheme	—	—	—
	451,613	392,057	471,095

The number of highest paid individuals whose remuneration fell within the following band is as follows:

	Year ended 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Nil to HK\$1,000,000	<u>3</u>	<u>3</u>	<u>3</u>

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

13. DIVIDENDS

During the Relevant Period, 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) had distributed dividends to its then shareholders as follows:

	Year ended 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Final dividends paid	<u>30,000,000</u>	<u>70,000,000</u> <i>(note 32(iv))</i>	<u>20,000,000</u> <i>(note 32(iv))</i>

The rates of dividend and number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

14. EARNINGS PER SHARE

The calculation of the basic earnings per share for the Relevant Period is based on the combined profit for the year for each of the Relevant Period and the weighted average number of 600,000,000 shares for the years ended 31 December 2007, 2008 and 2009 respectively assuming the issuance of the shares to be issued pursuant to the capitalisation issue as more fully described in the paragraph headed "Written resolutions passed by all the Shareholders" under the section headed "Statutory and General Information" in Appendix V to the Prospectus.

No diluted earnings per share are presented as the Group did not have any dilutive potential ordinary shares during the Relevant Period.

15. PROPERTY, PLANT AND EQUIPMENT

	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Office equipment and fixtures</u>	<u>Motor vehicles</u>	<u>Total</u>
	RMB	RMB	RMB	RMB	RMB
Cost					
At 1 January 2007	25,581,083	47,812,527	263,452	1,440,061	75,097,123
Additions	—	70,888,114	626,682	271,907	71,786,703
Disposals	—	(1,249,725)	—	—	(1,249,725)
Transfer from construction in progress	<u>55,575,403</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>55,575,403</u>
At 31 December 2007 and 1 January					
2008	81,156,486	117,450,916	890,134	1,711,968	201,209,504
Additions	—	10,393,558	220,816	700,000	11,314,374
Disposals	—	(719,318)	—	(89,725)	(809,043)
Transfer to investment properties	<u>(35,327,913)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(35,327,913)</u>
At 31 December 2008 and 1 January					
2009	45,828,573	127,125,156	1,110,950	2,322,243	176,386,922
Additions	—	604,807	785,460	381,475	1,771,742
Disposals	(30,922,648)	—	—	—	(30,922,648)
Transfer from construction in progress	35,845,245	—	—	—	35,845,245
Transfer from investment properties . .	<u>9,461,388</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>9,461,388</u>
At 31 December 2009	<u>60,212,558</u>	<u>127,729,963</u>	<u>1,896,410</u>	<u>2,703,718</u>	<u>192,542,649</u>
Accumulated depreciation					
At 1 January 2007	2,558,108	6,236,786	44,765	387,370	9,227,029
Charge for the year	2,061,972	6,322,831	113,302	308,608	8,806,713
Disposals	—	(308,031)	—	—	(308,031)
At 31 December 2007 and 1 January					
2008	4,620,080	12,251,586	158,067	695,978	17,725,711
Charge for the year	2,309,760	18,257,427	216,036	343,079	21,126,302
Disposals	—	(111,753)	—	(22,588)	(134,341)
Transfer to investment properties	<u>(2,377,936)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,377,936)</u>
At 31 December 2008 and 1 January					
2009	4,551,904	30,397,260	374,103	1,016,469	36,339,736
Charge for the year	2,802,922	18,357,470	292,626	491,691	21,944,709
Disposals	<u>(3,510,296)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(3,510,296)</u>
At 31 December 2009	<u>3,844,530</u>	<u>48,754,730</u>	<u>666,729</u>	<u>1,508,160</u>	<u>54,774,149</u>
Carrying amount					
At 31 December 2009	<u>56,368,028</u>	<u>78,975,233</u>	<u>1,229,681</u>	<u>1,195,558</u>	<u>137,768,500</u>
At 31 December 2008	<u>41,276,669</u>	<u>96,727,896</u>	<u>736,847</u>	<u>1,305,774</u>	<u>140,047,186</u>
At 31 December 2007	<u>76,536,406</u>	<u>105,199,330</u>	<u>732,067</u>	<u>1,015,990</u>	<u>183,483,793</u>

The Group's buildings are located in the PRC under medium term leases.

At 31 December 2009, the Group's buildings amounted to RMB1,337,541 (2008: RMB33,331,875 and 2007: RMB46,666,551) of which the relevant building ownership certificates are yet to be granted.

At 31 December 2009, the Group's buildings, machinery and equipment with an aggregate amounts of RMB29,456,196 (2008: RMB40,030,393 and 2007: RMB56,390,734) were pledged to secure banking facilities granted to 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) and a related company (notes 27(i) and 35(c)(iii)).

16. CONSTRUCTION IN PROGRESS

	<u>2007</u>	<u>2008</u>	<u>2009</u>
	RMB	RMB	RMB
At 1 January	38,608,078	18,148,078	24,628,078
Additions	35,115,403	6,480,000	19,667,167
Transfer to property, plant and equipment	(55,575,403)	—	(35,845,245)
Transfer to investment properties	—	—	(8,450,000)
	<u>18,148,078</u>	<u>24,628,078</u>	<u>—</u>
At 31 December	<u>18,148,078</u>	<u>24,628,078</u>	<u>—</u>

The Group's construction in progress comprises costs incurred on buildings under construction.

17. INVESTMENT PROPERTIES

	<u>RMB</u>
Cost	
At 1 January 2007, 31 December 2007 and 1 January 2008	—
Transfer from property, plant and equipment	32,949,977
Write-off	<u>(4,261,448)</u>
At 31 December 2008 and 1 January 2009	28,688,529
Disposals (note 32(ii))	(3,713,330)
Transfer from construction in progress	8,450,000
Transfer to property, plant and equipment	<u>(9,724,683)</u>
At 31 December 2009	<u>23,700,516</u>
Accumulated depreciation	
At 1 January 2007, 31 December 2007 and 1 January 2008	—
Charge for the year	<u>1,565,750</u>
At 31 December 2008 and 1 January 2009	1,565,750
Charge for the year	1,539,587
Disposals (note 32(ii))	(327,516)
Transfer to property, plant and equipment	<u>(263,295)</u>
At 31 December 2009	<u>2,514,526</u>
Carrying amount	
At 31 December 2009	<u>21,185,990</u>
At 31 December 2008	<u>27,122,779</u>
At 31 December 2007	<u>—</u>

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

The fair values of the Group's investment properties at 31 December 2009 are RMB23,219,499 (2008: RMB24,720,000; 2007: Nil) of which the fair value of the investment properties without relevant building ownership certificates are not included. The fair values of the Group's investment properties have been determined by Jones Lang LaSalle Sallmanns, an independent firm of professional valuer on depreciated replacement cost basis.

At 31 December 2009, the Group's investment properties amounted to Nil (2008: RMB7,075,688 and 2007: Nil) of which the relevant building ownership certificates are yet to be granted.

At 31 December 2009, the Group's investment properties with aggregate carrying amounts of RMB21,185,991 (2008: RMB20,829,966 and 2007: Nil) were pledged to secure banking facilities granted to 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) and a related company (*notes 27(i) and 35(c)(iii)*).

During the year ended 31 December 2009, property leasing revenue includes gross rental income from investment properties of RMB3,171,175 (2008: RMB2,218,541 and 2007: RMB78,690).

During the year ended 31 December 2008, a property with carrying amount of RMB4,261,448 was damaged in a fire accident and was fully written off.

18. PREPAID LAND LEASE PAYMENTS

	<u>RMB</u>		
Cost			
At 1 January 2007, 31 December 2007 and 2008 and 1 January 2009	11,664,000		
Additions	<u>77,292,257</u>		
At 31 December 2009	<u>88,956,257</u>		
Accumulated amortisation			
At 1 January 2007	1,166,400		
Charge for the year	<u>583,200</u>		
At 31 December 2007 and 1 January 2008	1,749,600		
Charge for the year	<u>583,200</u>		
At 31 December 2008 and 1 January 2009	2,332,800		
Charge for the year	<u>3,474,463</u>		
At 31 December 2009	<u>5,807,263</u>		
Carrying amount			
At 31 December 2009	<u>83,148,994</u>		
At 31 December 2008	<u>9,331,200</u>		
At 31 December 2007	<u>9,914,400</u>		
	At 31 December		
	<u>2007</u> <u>2008</u> <u>2009</u>		
	RMB RMB RMB		
At 31 December	9,914,400	9,331,200	83,148,994
Current portion (included in prepayments, deposits and other receivables)	<u>(583,200)</u>	<u>(583,200)</u>	<u>(4,447,813)</u>
Non-current portion	<u>9,331,200</u>	<u>8,748,000</u>	<u>78,701,181</u>

The Group's prepaid land lease payments represent payments for land use rights in the PRC under medium lease term.

At 31 December 2009, the Group's prepaid land lease payments with aggregate carrying amounts of RMB83,148,994 (2008: RMB9,331,200 and 2007: RMB9,914,400) were pledged to secure banking facilities granted to 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) and a related company (notes 27(i) and 35(c)(iii)).

19. LONG TERM PREPAYMENTS

	At 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Prepayment for acquisition of land use rights	46,546,138	46,546,138	—
Prepayment for acquisition of machinery and equipments . .	5,354,800	—	—
	<u>51,900,938</u>	<u>46,546,138</u>	<u>—</u>

20. INVESTMENT IN SUBSIDIARIES

The Company

	At 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Due to subsidiaries	—	—	8,344,455

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

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries:

Name of subsidiary	Place of incorporation/ establishment	Issued and paid up capital/Registered capital	Percentage of ownership interest		Principal activities
			Direct	Indirect	
COSTIN Investment Limited	British Virgin Islands	20 ordinary shares of US\$1.00 each	100%	—	Investment holding
Gerfalcon International Limited	British Virgin Islands	1 ordinary shares of US\$1.00 each	—	100%	Investment holding
Gerfalcon Industrial (Nonwoven) Investment Company Limited	Hong Kong	80 ordinary shares of HK\$1.00 each	—	100%	Investment holding
海東青非織工業（福建）有限公司 (Gerfalcon Nonwoven Industrial (Fujian) Co., Ltd.)	PRC	Registered capital of US\$13,990,000	—	100%	Manufacture of filtration materials and non-woven fabrics, provisions of information technology and management supporting services

Name of subsidiary	Place of incorporation/ establishment	Issued and paid up capital/Registered capital	Percentage of ownership interest		Principal activities
			Direct	Indirect	
福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) . . .	PRC	Registered capital of RMB80,000,000	—	100%	Manufacture and sales of chemical fibres and non-woven fabrics
晉江海東青貿易有限公司 (Gerfalcon Trade Co., Ltd. Jinjiang)	PRC	Registered capital of HK\$1,000,000	—	100%	Wholesale of filtration materials and non-woven fabrics

On 17 March 2010, 晉江海東青貿易有限公司 (Gerfalcon Trade Co., Ltd. Jinjiang) was established in the PRC as a wholly foreign owned enterprise held by Gerfalcon Industrial (Nonwoven) Investment Company Limited with a registered capital of HK\$1,000,000.

21. INVENTORIES

	At 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Raw materials	25,510,610	5,158,839	14,259,191
Finished goods	10,662,900	9,498,410	12,757,463
	<u>36,173,510</u>	<u>14,657,249</u>	<u>27,016,654</u>

22. TRADE AND BILLS RECEIVABLES

	At 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Trade receivables	99,718,185	122,589,889	134,583,977
Bills receivables	5,083,000	17,737,315	26,917,885
	<u>104,801,185</u>	<u>140,327,204</u>	<u>161,501,862</u>

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

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

	At 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Up to 30 days	67,954,323	67,715,271	80,687,919
31 to 60 days	26,696,148	45,059,404	33,798,256
61 to 90 days	1,108,744	9,815,214	18,567,324
91 to 120 days	—	—	1,042,638
121 to 150 days	1,285,907	—	487,840
Over 150 days	2,673,063	—	—
	<u>99,718,185</u>	<u>122,589,889</u>	<u>134,583,977</u>

Included in trade receivables are amounts totalling Nil (2008: RMB2,039,062 and 2007: RMB24,499,788) due from related companies (*note 35(d)*), which are repayable on similar credit terms to those offered to the major customers of the Group.

As at 31 December 2009, RMB23,548,885 (2008: RMB14,859,000 and 2007: RMB5,083,000) of bills receivables were pledged to banks to secure factoring loans granted to 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) (*note 27(ii)*).

As at 31 December 2009, trade receivables of RMB2,773,665 (2008: RMB10,769,995 and 2007: RMB27,119,386) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	At 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Up to 30 days	22,055,932	10,769,995	1,243,187
31 to 60 days	1,108,744	—	1,042,638
61 to 90 days	70	—	487,840
91 to 120 days	3,389,316	—	—
121 to 150 days	565,324	—	—
	<u>27,119,386</u>	<u>10,769,995</u>	<u>2,773,665</u>

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

	At 31 December		
	2007	2008	2009
	RMB	RMB	RMB
RMB	99,096,994	123,535,865	114,107,447
US\$.	5,704,191	16,791,339	47,394,415
	<u>104,801,185</u>	<u>140,327,204</u>	<u>161,501,862</u>

23. DUE FROM RELATED PARTIES AND DUE FROM A RELATED COMPANY

- (a) The amounts due from related parties, represents balances due from the then shareholders of 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian), are unsecured, interest-free and repayable within one year:

	<u>At 1 January</u>		<u>At 31 December</u>		
	<u>2007</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	
	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>	
Chim Wai Kong	—	—	5,833,333	—	
Chim Wai Shing Jackson	—	—	9,166,667	—	
Nian Wei Deng	—	—	5,000,000	—	
	—	—	20,000,000	—	
		(note 35(d))	(note 35(d))	(note 35(d))	
Maximum amount outstanding					
during the year ended 31 December					
	<u>2007</u>	<u>2008</u>	<u>2009</u>		
	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>		
Chim Wai Kong	—	35,000,000	5,833,333		
Chim Wai Shing Jackson	—	30,000,000	9,166,667		
Nian Wei Deng	—	15,000,000	5,000,000		
Chim Fo Che	—	10,000,000	—		

- (b) The amount due from a related company is unsecured, interest-free and has been fully repaid before 31 March 2010.

	<u>At 1 January</u>		<u>At 31 December</u>		
	<u>2007</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	
	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>	
晉江市華鑫織造發展有限公司 (Jinjiang Hua Xin Weaving Development Co., Ltd).	—	—	—	19,108,000	
		(note 35(d))	(note 35(d))	(note 35(d))	
Maximum amount outstanding					
during the year ended 31 December					
	<u>2007</u>	<u>2008</u>	<u>2009</u>		
	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>		
晉江市華鑫織造發展有限公司 (Jinjiang Hua Xin Weaving Development Co., Ltd).	—	—	19,108,000		

24. BANK AND CASH BALANCES AND PLEDGED BANK DEPOSITS

The Group's and the Company's bank and cash balances and pledged bank deposits are denominated in the following currencies:

The Group

	At 31 December		
	2007	2008	2009
	RMB	RMB	RMB
RMB	89,171,972	134,833,638	150,495,400
Hong Kong dollars (HK\$)	—	—	643
US\$	243	218,607	485,053
	<u>89,172,215</u>	<u>135,052,245</u>	<u>150,981,096</u>

The Company

	At 31 December 2009
	RMB
HK\$	<u>1</u>

As at 31 December 2009, the Group's bank and cash balances and pledged bank deposits of the Group denominated in RMB amounted to RMB150,495,400 (2008: RMB134,833,638 and 2007: RMB89,171,972). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

As at 31 December 2009, the Group's pledged bank deposits of RMB26,548,749 (2008: RMB68,690,377 and 2007: RMB17,140,627) were pledged to secure banking facilities granted to 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) (note 27(i)).

25. TRADE AND BILLS PAYABLES

	At 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Trade payables	18,822,687	29,023,138	32,050,235
Bills payables (note 27(i))	<u>38,273,947</u>	<u>117,329,184</u>	<u>61,003,472</u>
	<u>57,096,634</u>	<u>146,352,322</u>	<u>93,053,707</u>

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

	At 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Up to 30 days	5,059,260	10,045,917	18,012,699
31 to 60 days	11,977,989	6,621,387	10,075,236
61 to 90 days	—	11,743,162	2,525,225
91 to 120 days	—	612,672	1,410,873
121 to 150 days	—	—	5,976
Over 150 days	1,785,438	—	20,226
	<u>18,822,687</u>	<u>29,023,138</u>	<u>32,050,235</u>

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

	At 31 December		
	2007	2008	2009
	RMB	RMB	RMB
RMB	54,734,742	124,150,452	93,053,707
US\$.	<u>2,361,892</u>	<u>22,201,870</u>	—
	<u>57,096,634</u>	<u>146,352,322</u>	<u>93,053,707</u>

Included in trade payables are amounts totalling Nil (2008: Nil and 2007: RMB10,862,855) due to related companies (*note 35(d)*).

26. DUE TO RELATED COMPANIES, LOANS FROM RELATED COMPANIES AND DUE TO A RELATED PARTY

The amounts due to related companies are unsecured, interest-free and has been fully settled before 31 March 2010 (*note 35(d)*).

The loans from related companies are unsecured, interest bearing at a fixed rate of 5.4% per annum and has been fully settled before 31 March 2010 (*note 35(d)*).

The amount due to a related party, represents balance due to a director and the shareholder of Gerfalcon Industrial (Nonwoven) Investment Company Limited (Mr. Chim Wai Kong) and is unsecured, interest-free, has been fully settled before 31 March 2010 by way of cash and capital contribution in Gerfalcon Industrial (Nonwoven) Investment Company Limited (*note 35(d)*).

27. INTEREST-BEARING BANK BORROWINGS

	At 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Short-term bank loans (<i>note (i)</i>).	94,900,000	114,900,000	134,784,963
Factoring loans (<i>note (ii)</i>).	<u>5,083,000</u>	<u>14,859,000</u>	<u>23,548,885</u>
	<u>99,983,000</u>	<u>129,759,000</u>	<u>158,333,848</u>

The average interest rates per annum at the end of reporting period are as follows:

	As at 31 December		
	2007	2008	2009
Short-term bank loans (floating rate)	5.61%–9.11%	5.58%–9.34%	5.31%–8.95%
Short-term bank loans (fixed rate)	5.85%–7.23%	5.31%–8.59%	4.86%–7.47%
Factoring loans	5.04%–5.10%	2.30%–5.20%	1.92%–3.00%

Short-term bank loans arranged at average floating rate as shown in above table, amounted to RMB53,900,000, RMB58,900,000 and RMB79,794,963 at 31 December 2007, 2008 and 2009 and expose the Group to cash flow interest rate risk.

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

	At 31 December		
	2007	2008	2009
	RMB	RMB	RMB
RMB	99,983,000	129,759,000	149,138,885
US\$.	—	—	9,194,963
	<u>99,983,000</u>	<u>129,759,000</u>	<u>158,333,848</u>

Notes:

- (i) Short-term bank loans of RMB134,784,963 (2008: RMB114,900,000 and 2007: RMB94,900,000) and bills payables (*note 25*) of RMB61,003,472 (2008: RMB117,329,184 and 2007: RMB38,273,947) are secured by:
- Charges over the buildings, machinery and equipment, investment properties, prepaid land lease payments and pledged bank deposits of 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) (*notes 15, 17, 18 and 24*); and
 - Guarantee from third parties, related companies and directors/shareholders of 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) (*note 35(c)(i)*).
- (ii) Factoring loans of RMB23,548,885 (2008: RMB14,859,000 and 2007: RMB5,083,000) are secured by charges over bills receivables (*note 22*).

28. DEFINED CONTRIBUTION RETIREMENT PLAN

Pursuant to the relevant labour rules and regulations in the PRC, 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) participates in a defined contribution retirement benefit scheme organised by the local authority whereby 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) is required to make contributions to the scheme at certain percentages of the eligible employees salaries. The local authority is responsible for making the benefit payments to the retired employee covered under the scheme.

29. DEFERRED TAX LIABILITIES

	<u>2007</u>	<u>2008</u>	<u>2009</u>
	RMB	RMB	RMB
At 1 January	—	—	3,664,769
Charge to profit or loss for the year (<i>note 10(a)</i>)	<u>—</u>	<u>3,664,769</u>	<u>5,568,575</u>
At 31 December	<u>—</u>	<u>3,664,769</u>	<u>9,233,344</u>

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

30. SHARE CAPITAL**The Group**

The share capital in the combined statements of financial position as at 31 December 2007, 2008 and 2009 represented the combined capital of the companies now comprising the Group in which the Controlling Shareholders held direct interests.

The Company

	<u>Number of</u>	<u>Amount</u>	<u>Amount as</u>
	shares	HK\$	presented
			RMB
Authorised:			
3,800,000 ordinary shares of HK\$0.1 each	<u>3,800,000</u>	<u>380,000</u>	<u>334,400</u>
Issued and fully paid:			
10 ordinary shares of HK\$0.1 each	<u>10</u>	<u>1</u>	<u>1</u>

The Company was incorporated on 26 August 2009 with an authorised share capital of HK\$380,000 divided into 3,800,000 at par of HK\$0.1 each. On 26 August 2009, 1 share was allotted and issued at par and on 23 September 2009, 9 shares were allotted and issued at par to the shareholders disclosed in note 2.

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

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, if any, return capital to shareholders, issue new shares, or sell assets to reduce debt. No changes were made in the objectives, policies and processes during the year ended 31 December 2007, 2008 and 2009.

The Group monitors capital using a gearing ratio, which is the Group's total debts (comprising amounts due to related companies, loans from related companies, due to a related party and interest-bearing bank borrowings) over its total assets. The Group's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratio as at 31 December 2009 was 30% (2008: 36% and 2007: 54%).

31. RESERVES

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

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

Notes:

- (i) During the year ended 31 December 2009, additions to property, plant and equipment and prepaid land lease payments of Nil and RMB46,546,138, (2008: RMB5,354,800 and Nil and 2007: RMB2,379,200 and Nil) respectively were satisfied by way of utilizing the deposits paid in previous year.
- (ii) During the year ended 31 December 2009, 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) disposed certain buildings and investment properties, with carrying amounts of RMB27,412,352 and RMB3,385,814 to a related company for a consideration of RMB27,671,755 and RMB3,385,814 respectively (*note 35(b)*). The consideration of the buildings and investment properties were agreed based on market value of these assets by reference to a valuation report issued by a PRC appraiser. The proceeds were settled by way of set-off against the loan from a related company.
- (iii) During the year ended 31 December 2009, 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) acquired certain properties, plant and equipment and inventories from related companies at a total consideration of Nil (2008: RMB2,415,952 and 2007: RMB34,041,724). The proceeds were settled by set-off against amounts due to related companies.
- (iv) The dividend of RMB70,000,000 and RMB20,000,000 paid to the then shareholders of 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) during year ended 31 December 2008 and 2009 respectively was settled by way of set-off against amounts due from related parties.
- (v) During the year ended 31 December 2009, prepayments of RMB7,293,546 (2008: Nil and 2007: Nil) were paid by a related company on behalf of the Group.

33. COMMITMENTS

At end of reporting period, the Group had the following capital commitments:

	At 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Contracted but not provided for			
Construction in progress	12,614,774	25,246,062	—
Property, plant and equipment	2,763,200	321,204	223,000
Prepaid land lease payments	23,840,000	23,840,000	—
	<u>39,217,974</u>	<u>49,407,266</u>	<u>223,000</u>

34. LEASE COMMITMENTS

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

(a) Lease receivables

	At 31 December		
	2007	2008	2009
	RMB	RMB	RMB
As lessor			
Within one year	2,044,970	1,287,568	3,618,010
In the second to fifth years inclusive	—	—	391,517
	<u>2,044,970</u>	<u>1,287,568</u>	<u>4,009,527</u>

Operating lease receivables represent rental receivable from 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) for certain of its investment properties. Leases are negotiated for an average term of one to two years.

(b) Lease payables

	At 31 December		
	2007	2008	2009
	RMB	RMB	RMB
As lessee			
Within one year	—	—	1,400,371
In the second to fifth years inclusive	—	—	1,400,371
	<u>—</u>	<u>—</u>	<u>2,800,742</u>

Operating lease payables represent rental payable by 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) for certain of its buildings. Leases are negotiated for an average term of one to two years and rentals are fixed over the lease terms and do not include contingent rentals.

35. MATERIAL RELATED PARTIES TRANSACTIONS

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

<u>Name of related company</u>	<u>Shareholders</u>	<u>Directors</u>
(i) 晉江華鑫塑料橡膠製品有限公司 (Jinjiang Hua Xin Plastic & Rubber Products Co., Ltd.) . . .	100% owned by 華鑫貿易公司 (Wah Hing Trading Company) which is wholly owned by Chim Wai Kong	Hong Lian Qiao, Chim Fo Che, Chim Ping Yu
(ii) 晉江市華鑫織造發展有限公司 (Jinjiang Hua Xin Weaving Development Co., Ltd.)	100% owned by 華鑫國際貿易 (香港) 有限公司 (Costin Int'l Trade (H.K.) Company Limited) of which 0.25% and 99.75% are owned by Chim Wai Shing Jackson and Chim Wai Kong respectively	Hong Lian Qiao, Chim Ping Yu, Chim Ming Heung
(iii) 福建鑫華進出口有限公司 (Fujian Xin Hua Import and Export Co., Ltd.)	65% owned by Chim Wai Shing Jackson and 35% owned by Hong Lian Qiao	Chim Wai Shing Jackson
(iv) 晉江龍湖龍達廢品回收有限公司 (Jinjiang Long Hu Long Da Waste Product Collection Co., Ltd.)	60% owned by Nian Wei Deng and 40% owned by Hong Ming Qu	Nian Wei Deng
(v) 晉江南方織造有限公司 (Jinjiang Nan Fang Weaving Co., Ltd.)	100% owned by Nian Sha Sha, the daughter of Chim Wai Kong	Nian Sha Sha, Hong Zu Han, Hong Kai Xuan
(vi) 華鑫國際貿易 (香港) 有限公司 (Costin Int'l Trade (H.K.) Company Limited)	0.25% owned by Chim Wai Shing Jackson and 99.75% owned by Chim Wai Kong	Chim Wai Shing Jackson, Chim Wai Kong
(vii) 華鑫貿易公司 (Wah Hing Trading Company) .	Chim Wai Kong is the sole proprietor	Chim Wai Kong
(viii) 晉江華鑫無紡纖維實業有限公司 (COSTIN Plastic Rubber Products Co., Ltd. Jinjiang) . . .	100% owned by 華鑫貿易公司 (Wah Hing Trading Company) upon establishment. On 31 July 2009, Wah Hing Trading Company transferred its entire equity interests in 晉江華鑫無紡纖維實業有 限公司 (Jinjiang Hua Xin Non-weaving fibres Co., Ltd.) to an independent third party	Chim Wai Kong, Chim Wai Shing Jackson, Chim Fo Che, Nian Wei Deng, Sze Ho Chau

- (b) Save as disclosed elsewhere in the Financial Information, the Group had the following material transactions with its related parties during the Relevant Period:

	Note	Year ended 31 December		
		2007	2008	2009
		RMB	RMB	RMB
Sales of goods to related companies		27,932,179	15,631,099	—
Sales of goods through related companies	5(f)	22,335,681	101,375,321	12,380,742
Purchase of raw materials from related companies		11,982,694	42,872	—
Purchase of raw materials through related companies	5(f)	7,028,691	68,589,386	51,592,470
Agency fees charged by related companies		300,000	1,676,043	505,276
Rental income charged to a related company		78,690	1,039,159	2,544,748
Rental expenses charged by related companies		3,613,023	802,794	1,400,371
Gas expenses charged by a related company		5,402,026	—	—
Interest expense on loans from related companies	9	—	—	3,225,080
Loans from related companies	26	—	65,000,000	10,256,091
Repayment of loans from related companies	26	—	—	41,600,374
Advance to related parties	23	—	90,000,000	—
Advance from a related party	26	—	—	20,132,266
Land acquired from a related company		—	—	1,448,000
Property, plant and equipment and inventories acquired from related companies		34,041,724	2,415,952	80,000
Property, plant and equipment disposed to related companies		941,694	566,283	—
Property, plant and equipment and investment properties disposed to a related company	32(ii)	—	—	31,057,569
Advance from related companies	26	191,306,287	17,710,000	65,436,836
Advance to related companies	23, 26	75,416,000	174,960,370	78,235,196

- (c) Save as disclosed elsewhere in the Financial Information, the Group had the following financial guarantees with related parties at end of reporting period:

- (i) At 31 December 2009, certain directors also the shareholders of 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) have guaranteed the banking facilities granted to 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) totalled RMB141,654,882 (2008: RMB157,444,493 and 2007: RMB82,900,000), of which Nil (2008: RMB78,544,493 and 2007: RMB27,000,000) were jointly guaranteed by related companies.
- (ii) At 31 December 2009, 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) has guaranteed certain bank loans granted to certain related companies and third parties totalled Nil (2008: Nil and 2007: RMB45,000,000) and Nil (2008: RMB22,000,000 and 2007: RMB9,000,000) respectively. The shareholders of 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) have provided counter-guarantee of the same amounts.
- (iii) At 31 December 2009, certain buildings of Nil (2008: Nil and 2007: RMB3,765,965), investment properties of Nil (2008: RMB3,654,316 and 2007: Nil) and prepaid land lease payments of Nil (2008: RMB6,892,512 and 2007: RMB7,323,294) of 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian)

have been pledged to secure the banking facilities granted to a related company respectively. The shareholders of 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) have provided counter-guarantee of the same amounts.

- (d) Save as disclosed elsewhere in the Financial Information, balances due to/from related parties at end of reporting period are as follows:

	Note	At 31 December		
		2007	2008	2009
		RMB	RMB	RMB
Due from a related company	23			
晉江市華鑫織造發展有限公司 (Jinjiang Hua Xin Weaving Development Co., Ltd.)		—	—	19,108,000
Due from related parties	23			
Mr. Chim Wai Kong		—	5,833,333	—
Mr. Chim Wai Shing Jackson		—	9,166,667	—
Mr. Nian Wei Deng		—	5,000,000	—
		—	20,000,000	—
Due to related companies	26			
晉江華鑫塑料橡膠製品有限公司 (Jinjiang Hua Xin Plastic & Rubber Products Co., Ltd.)		(461,124)	887,196	—
福建鑫華進出口有限公司 (Fujian Xin Hua Import and Export Co., Ltd.)		2,396,287	1,875,767	—
晉江市華鑫織造發展有限公司 (Jinjiang Hua Xin Weaving Development Co., Ltd.)		163,431,782	1,108,814	—
華鑫國際貿易 (香港) 有限公司 (Constin Int'l Trade (H.K.) Company Limited)		600,000	2,382,377	7,293,546
華鑫貿易公司 (Wah Hing Trading Company)		—	422,784	—
		165,966,945	6,676,938	7,293,546
Due to a related party	26			
Mr. Chim Wai Kong		—	—	20,132,266
Loans from related companies	26			
晉江市華鑫織造發展有限公司 (Jinjiang Hua Xin Weaving Development Co., Ltd.)		—	65,000,000	—
華鑫國際貿易 (香港) 有限公司 (Costin Int'l Trade (H.K.) Company Limited)		—	—	5,395,375
		—	65,000,000	5,395,375

	Note	At 31 December		
		2007	2008	2009
		RMB	RMB	RMB
Trade receivables	22			
福建鑫華進出口有限公司 (Fujian Xin Hua Import and Export Co., Ltd.)		24,499,788	2,039,062	—
Trade payables	25			
晉江市華鑫織造發展有限公司 (Jinjiang Hua Xin Weaving Development Co., Ltd.)		10,862,855	—	—

The amounts due from a related company/to related companies/to a related party and loans from related companies have been fully repaid/settled before 31 March 2010.

- (e) **The compensation to the Group's key management personnel is disclosed in note 12 to the Financial Information.**

36. SUBSEQUENT EVENTS

- (a) On 19 January 2010, 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) received a government grant of RMB11 million from 晉江市財政局 (Jinjiang Finance Bureau). Pursuant to 福建省發展和改革委員會，福建省經濟貿易委員會閩發改工業(2009)751號, such government grant is only to be used for needle-punch filtration materials project. Government grant shall be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. If 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) apply the government grant based on the conditions attaching to the grant as stated in the 福建省發展和改革委員會，福建省經濟貿易委員會閩發改工業(2009)751號, the government grant will be recognised as deferred income upon receipt of such government grant and will either be matched with expenses or matched with depreciation charges over the assets useful lives in relation to any depreciable assets purchased.
- (b) On 8 February 2010 and 30 April 2010, Gerfalcon Industrial (Nonwoven) Investment Company Limited entered into two borrowing facility agreements with a company. As at 25 May 2010, Gerfalcon Industrial (Nonwoven) Investment Company Limited has received the total facility sum of HK\$20 million. The loan is interest bearing at 11% per annum, unsecured and will be repayable within 3 years.
- (c) On 22 February 2010, 海東青非織工業(福建)有限公司 (Gerfalcon Nonwoven Industrial (Fujian) Co., Ltd) entered into a purchase agreement with a supplier for supplying of machinery with contract sum amounted to approximately RMB23 million. A deposit of RMB19 million has been paid as at 30 April 2010.
- (d) Pursuant to the written resolution of the shareholders of the Company passed on 12 May 2010, the Company has conditionally adopted a Share Option Scheme. The principal terms of the Share Option Scheme are summarised in the paragraph headed "Share Option Scheme" under the section headed "Statutory and General Information" in Appendix V to the Prospectus.

37. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 31 December 2009.

Yours faithfully
RSM Nelson Wheeler
Certified Public Accountants
Hong Kong