INTERIM REPORT 2011

COSTIN

海東青新材料集團有限公司 *

COSTIN NEW MATERIALS GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 2228

* For identification purpose only

CONTENTS

Corporate Information	02
Results Highlights	03
Management Discussion and Analysis	04
Independent Review Report	19
Condensed Consolidated Statement of Comprehensive Income	20
Condensed Consolidated Statement of Financial Position	21
Condensed Consolidated Statement of Changes in Equity	22
Condensed Consolidated Statement of Cash Flows	23
Notes to the Condensed Financial Statements	24

Corporate Information

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

NON-EXECUTIVE DIRECTOR
Ms. Wee Kok Keng

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Zhu Min Ru
Mr. Feng Xue Ben
Mr. Wong Siu Hong

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

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

AUDITOR
RSM Nelson Wheeler
Certified Public Accountants

INVESTOR RELATIONS CONSULTANT
Christensen International Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
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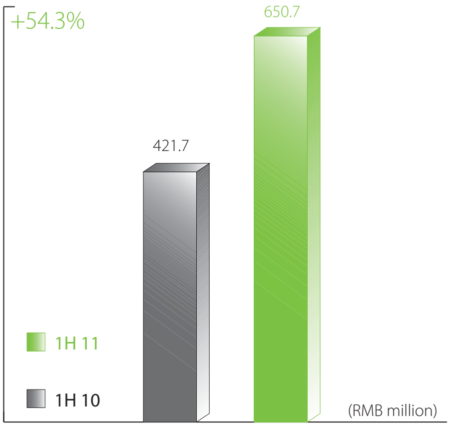
Suites 2703-04
27th Floor, Tower 6
The Gateway
Harbour City
Kowloon

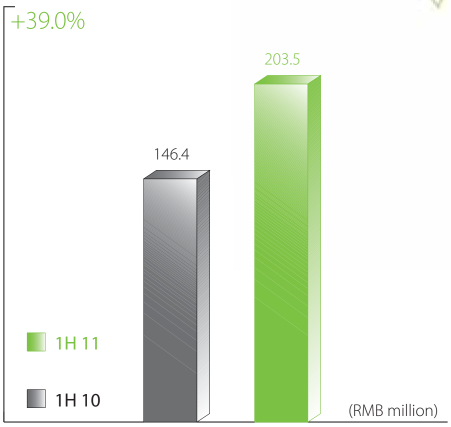
WEBSITE
www.costingroup.com

Results Highlights

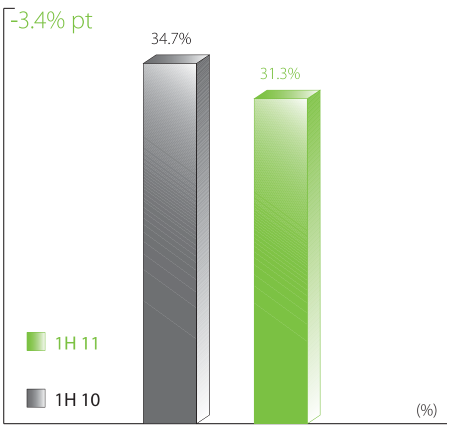
TURNOVER



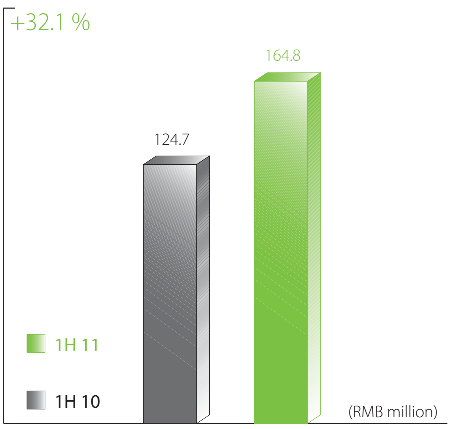
GROSS PROFIT



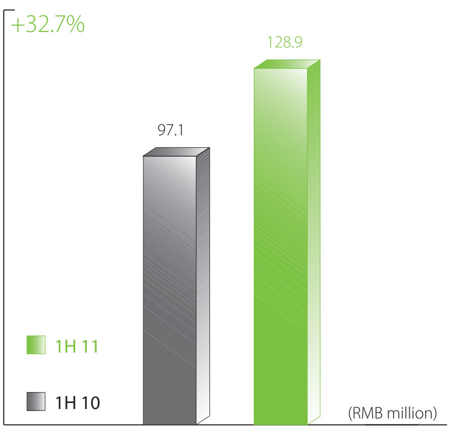
GROSS PROFIT MARGIN



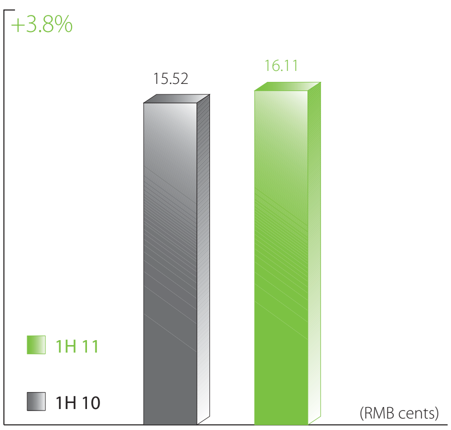
PROFIT FROM OPERATIONS



PROFIT FOR THE PERIOD



BASIC EARNINGS PER SHARE



Management Discussion and Analysis

MARKET REVIEW

Economic Development

Economy was still on the road to recovery marked by many uncertainties and structural adjustments such as the slow improvement in the United States ("US") economy, the spread of sovereign debt crisis in the Euro-region, and the increasing risk of global economic stagflation as a result of higher energy prices. In the People's Republic of China (the "PRC"), the Central government implemented a series of proactive financial policies and stable monetary policies, and also strengthened macro-economic control measures, which helped the country to maintain a steady economic growth. According to the information published by the National Bureau of Statistics of the PRC, the gross domestic products ("GDP") of the PRC amounted to approximately RMB20,440 billion in the first half of 2011, representing a growth of 9.6% over the corresponding period last year.

Industry Development

The Chinese non-woven materials industry developed rapidly as the country's total output of non-woven materials increased from less than 20,000 tons in 1986 to over 1,800,000 tons in 2010. In 2009, the output of non-woven materials in the PRC exceeded that of the European Union for the first time and became the world's largest manufacturer in this area. The Association of the Non-woven Fabrics Industry of the US anticipated that the usage of non-woven materials in the PRC will register an annual growth rate of 12% and the total value consumed by the PRC will increase to approximately US$3.88 billion by 2013.

2011 marks the launch of the PRC's National 12th Five-Year Plan that emphasizes the development of strategic emerging industries, the improvement of environment and the enhancement of living standard, which in turn provides enormous room for the development of non-woven materials. As the PRC government continues to promote low carbon policy for environmental protection purpose, the new materials industry falls within the seven strategic emerging industries according to the PRC's National 12th Five-Year Plan which clearly states that the non-woven materials industry is a key driving force to boost the development of the textiles industry in the PRC. The favourable economic and policy environment provides huge room for the development of the non-woven materials industry, and lays a solid foundation for the sustainable development of the business of COSTIN New Materials Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group").

BUSINESS REVIEW

Diversification of product mix

The Group is engaged in the production and sale of non-woven materials for industrial usage and recycled chemical fibres which are widely applied in various industries as raw materials for the manufacture of household consumer goods and industrial products. Benefiting from the wide application of its products, the Group has successfully diversified its customer base which covers a broad spectrum of industries including iron and steel, cement, coal-fired electricity, chemicals, coal, ferrous metals, as well as trading companies and manufacturers of textiles, shoes, luggage and leather goods. Apart from developing the domestic market, the Group also exports its products to overseas regions via trading companies and distributors.

Through diversification of product mix and expansion of customer base, the Group has successfully strengthened its business structure and solidified its profitability. During the six months ended 30 June 2011, the Group closely monitored market trends and stepped up its research efforts to expand product varieties, improved product quality and enhanced product applications, which responded to customer needs from different industries, thereby helping the Group to widen its business horizon.

BUSINESS REVIEW (Continued)

Active expansion of production capacities

Given the rapid growth of the market demand for non-woven materials and recycled chemical fibres, the Group has made consistent efforts to expand production capacities during the six months ended 30 June 2011, so as to continuously enhance its economies of scale and maintain its competitiveness and market share.

The production facilities of the Group currently occupies a site area of approximately 177,522 sq. m. with a total gross floor area of approximately 98,851 sq. m. The Group currently has 26 production lines for non-woven materials, including 17 stitch-bonded production lines and 9 needle-punching production lines, with a total production capacity of approximately 160.3 million yards per annum. In addition, the Group currently has 2 production lines of recycled chemical fibres with an annual production capacity of 42,000 tons.

During the first half of 2011, the Group completed the expansion of production lines of recycled chemical fibres with a 40% increase in annual production capacity from 30,000 tons to 42,000 tons. The government has also increased the Group's imported PET chips volume from 30,000 tons to 53,000 tons per annum. On the basis of satisfying the internal production demand, the Group may sell any unused PET chips in the PRC, which shall boost its sales income and enhance its profitability. In the aspect of the non-woven materials, the Group's 3 new needle-punching production lines and 6 new stitch-bonded production lines have already commenced production in the second quarter of 2011, representing additional annual production capacities of 12 million yards and 26 million yards, respectively.

Emphasis on product research and development

Adhering to the belief of "environmental protection for reform and technological advancement for modernisation", that emphasizes the importance of professional technologies, sophisticated automation of production facilities and outstanding research capabilities, the Group always commits to technological research for product improvement, which not only enhances product features and production efficiency, but also minimizes environmental pollution.

In June 2011, the Group's new centre for research and development ("R&D") of new products and materials has commenced operation. On the other hand, the Group has put in great efforts to establish cooperation with higher education institutions with an aim to boost its technological research capabilities. The Group signed an agreement with the Wuhan Textile University for co-development of "new eco-friendly broussonetia papyifera fibres" that has been recognised by the National Development and Reform Commission of Quanzhou as a key technological project in its National 12th Five-Year Plan. In addition, the Group has entered into a co-operation agreement with the Tianjin Polytechnic University for the R&D of "recycled textiles composite technologies". The Group established a "Research and Development Centre for Resources Allocation" with the Donghua University and a "Research and Development Centre for Eco-friendly Filtration Materials" with the Zhejiang Sci-Tech University, which was appointed as the "Learning and Practice Base for the Zhejiang Sci-Tech University".

Strengthening the shareholder base

On 18 July 2011, the Company completed the issue of a US$30,000,000 (equivalent to approximately HK$233,400,000) convertible bond (the "Bond") to CITIC Capital China Access Fund Limited ("CITIC Capital"), an investment fund managed by a subsidiary of CITIC Capital Holdings Limited, and successfully introduced CITIC Capital as a new investor in the Company. Through the issuance of the Bond, the Group obtained sufficient capital for its business expansion which will ultimately boost its competitiveness and market share. In addition, the Group's shareholder base will be further expanded and strengthened after the conversion of the Bond.

FINANCIAL REVIEW

For the period ended 30 June 2011, the Group achieved remarkable growth in results with turnover up approximately 54.3% to approximately RMB650.7 million while profit attributable to owners of the Company increased by approximately 32.7% to approximately RMB128.9 million.

Turnover

Turnover for the period ended 30 June 2011 was approximately RMB650.7 million, representing an increase of approximately 54.3% or approximately RMB229.0 million over the corresponding period of last year. The growth was primarily due to an increase in the overall selling price of the Group's products, and growth in the sales quantities of non-woven materials and recycled chemical fibres.

Turnover of non-woven materials for the period ended 30 June 2011 was approximately RMB508.4 million, representing an increase of approximately 53.9% or approximately RMB178.1 million from the same period of last year. Turnover of recycled chemical fibres was approximately RMB141.8 million, representing an increase of approximately 55.1% or approximately RMB50.4 million from the same period of last year.

During the six months ended 30 June 2011, export sales to Hong Kong and overseas market accounted for approximately 32.0% (Six months ended 30 June 2010: 53.9%) of the Group's turnover while sales in the PRC accounted for approximately 68.0% (Six months ended 30 June 2010: 46.1%). As part of the PRC's National 12th Five-Year Plan, the new materials industry in which the Group is categorised belongs to one of the "Seven Strategic Emerging Industries" and is considered by the State Council to be a major force in guiding the future development of the economy. The non-woven materials and recycled chemical fibres are well-placed to meet the opportunities provided by the massive market and favourable policies. While the non-woven materials and recycled chemical fibres are becoming more popular in the PRC and more widely applicable, alongside the continual increase in the GDP and disposable income in the PRC, the Group considers that domestic sales will continue to gain importance in the future in order to align with the ever-growing opportunities in the PRC.

During the six months ended 30 June 2011, the Group sold approximately 43.6 million yards of non-woven materials, representing an increase of approximately 33.2% from the same period of last year, while its sales of recycled chemical fibres raised to approximately 14,600 tons, representing an increase of approximately 21.7% from the same period of last year. The increase in sales was attributable to the Group's consistent efforts to develop new functional products and the increase in purchases made by new and existing customers in recognition of the outstanding quality and functionality of the Group's products.

Gross profit and gross profit margin

For the six months ended 30 June 2011, gross profit was approximately RMB203.5 million, representing an increase of approximately 39.0% or approximately RMB57.1 million as compared with the same period in 2010. The increase in gross profit was mainly driven by the growth in sales volume and average selling prices of the Group's products. The gross profit for the non-woven materials segment accounted for approximately 82.3% of the total gross profit during the six months ended 30 June 2011. The gross profit for the recycled chemical fibre segment accounted for approximately 17.7% of the total gross profit during the six months ended 30 June 2011. The overall gross profit margin of the Group was approximately 31.3%, representing a decrease of 3.4 percentage points as compared to the same period of last year. The gross profit margin for non-woven materials segment decreased from approximately 36.4% for the six months ended 30 June 2010 to approximately 32.9% for the six months ended 30 June 2011. As for the recycled chemical fibres segment, its gross profit margin was approximately 25.4% for the six months ended 30 June 2011, representing a decrease of 3.1 percentage points as compared to the same period of last year.

FINANCIAL REVIEW (Continued)

Gross profit and gross profit margin (Continued)

The decrease in gross profit margin for non-woven materials and recycled chemical fibres was principally due to the increase in the cost of raw materials during the first half of 2011. Since the Group has already gradually adjusted its product prices upward, it is expected that the gross profit margin for the full year will increase as compared with the first half of 2011.

Distribution expenses

For the six months ended 30 June 2011, distribution expenses decreased by approximately RMB0.8 million as compared to the same period in 2010. Distribution expenses accounted for approximately 1.0% of the Group's turnover for the six months ended 30 June 2011 (Six months ended 30 June 2010: 1.8%). The decrease in distribution expenses was mainly due to the Group's optimization of logistics and transportation arrangements for goods and raw materials during the six months ended 30 June 2011.

Administrative expenses

Administrative expenses for the six months ended 30 June 2011 increased by approximately RMB21.6 million as compared to the same period in 2010. The increase in administrative expenses was mainly due to the increase of share-based compensation expenses of approximately RMB9.3 million incurred in relation to the grant of 13,710,000 share options to the directors of the Company (the "Directors") and employees in January 2011. Such share-based compensation expenses were derived from the application of International Accounting Standards and did not have any negative impact on the Group's cash flow. Excluding the share-based compensation expenses, administrative expenses accounted for approximately 4.9% of the Group's turnover for the six months ended 30 June 2011 (Six months ended 30 June 2010: 4.7%), which remained almost unchanged from the first half of last year.

Finance costs

Finance costs for the six months ended 30 June 2011 increased by approximately RMB2.3 million as compared to the same period in 2010. Finance costs accounted for approximately 1.0% of the Group's turnover for the six months ended 30 June 2011 (Six months ended 30 June 2010: 0.9%), which remained almost unchanged from the first half of last year.

Income tax expense

The Group's effective income tax rate for the six months ended 30 June 2011 was approximately 18.7%, which did not constitute a material change from 19.6% for the corresponding period in 2010.

Profit attributable to owners of the Company and net profit margin

Profit attributable to owners of the Company for the six months ended 30 June 2011 was approximately RMB128.9 million, representing an increase of approximately 32.7% or approximately RMB31.8 million as compared with the first half of 2010. The Group's net profit margin for the six months ended 30 June 2011 was approximately 19.8%, representing a decrease of 3.2 percentage points as compared with the corresponding period of last year. The decrease in net profit margin was mainly due to a drop in the Group's gross profit margin and an increase in share-based compensation expenses. As the Group has gradually adjusted the prices of its products upward, management expects that the gross profit margin for the full year will be higher than that of the first half of 2011.

FINANCIAL REVIEW (Continued)

Earnings per share

The Group's basic earnings per share for the six months ended 30 June 2011 was approximately RMB16.11 cents, representing an increase of approximately 3.8% as compared with the same period in 2010, which was due to an increase in profit attributable to owners of the Company for the period. The percentage increase in basic earnings per share for the six months ended 30 June 2011 was lower than the percentage increase in profit for the period attributable to owners of the Company as a result of the dilution effect of the issue of new shares upon the listing of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 21 June 2010.

The Group's diluted earnings per share for the six months ended 30 June 2011 was approximately RMB16.11 cents (Six months ended 30 June 2010: RMB15.52 cents).

Liquidity and financial resources

The Company's shares (the "Shares") were successfully listed on the Stock Exchange on 21 June 2010. The Company offered 200,000,000 new Shares at HK$2.38 per share and the net proceeds of the global offering was approximately HK$439.8 million after deducting related underwriting fees and other expenses. The Company currently intends to use the net proceeds in the following areas: (i) approximately 43.2% for the establishment of production facilities for the manufacturing of non-woven fabrics for use as in composite synthetic leather; (ii) approximately 37.0% for the establishment of production facilities for the manufacturing of non-woven fabrics for use in filtration materials; (iii) approximately 8.4% for the expansion of the Group's existing technology centre and the establishment of a research centre for new materials; (iv) approximately 2.3% for the construction of ancillary facilities; and (v) approximately 9.1% as the Group's general working capital. As at the date of this interim report, the Group already used approximately HK$37.0 million of the net proceeds for establishment of the filtrating materials production facilities and approximately HK$11.6 million for the expansion of its existing technology centre and the establishment of a research centre for new materials. In addition, approximately HK$40 million was used as the Group's general working capital. The Group already deposited the remaining unused proceeds in licensed banks in Hong Kong and the PRC.

On 18 July 2011, the Company completed the issue of the Bond with an aggregate principal amount of US$30,000,000 to CITIC Capital and raised approximately HK$233,400,000 in net proceeds. As at the date of this interim report, the net proceeds remained unused and has already been deposited in licensed banks in Hong Kong.

The Group generally finances its operations with internally generated cash flow and facilities provided by its principal bankers in Hong Kong and the PRC. The Group had non-pledged bank deposits with more than three months to maturity and bank and cash balances of approximately RMB602.9 million (31 December 2010: RMB627.8 million) and pledged bank deposits of approximately RMB31.6 million (31 December 2010: RMB26.3 million) as at 30 June 2011. The Group's bank and cash balances were mostly held in Hong Kong dollar and Renminbi.

As the Group conducts business transactions principally in Renminbi and US dollars, management considered that the Group's exposure to exchange rate risk at the operational level is not significant. Accordingly, the Group had not used any financial instruments for hedging purposes during the six months ended 30 June 2011. Nevertheless, management will continue to monitor its foreign exchange exposure and is prepared to take prudent measures such as hedging when appropriate actions are required.

FINANCIAL REVIEW (Continued)

Liquidity and financial resources (Continued)

As at 30 June 2011, the Group's bank loans amounted to approximately RMB230.5 million (31 December 2010: RMB177.8 million), of which 95.0% (31 December 2010: 100%) was repayable within one year. The Group's bank loans were made in US dollars and Renminbi, whilst approximately 18.6% (31 December 2010: 40.7%) of such bank loans bore interest at fixed lending rate. As at 30 June 2011, the Group's gearing ratio was approximately 15.0% calculated as bank loans divided by total assets (31 December 2010: 14.3%). Net current assets and net assets as at 30 June 2011 were approximately RMB582.1 million (31 December 2010: RMB625.9 million) and approximately RMB995.0 million (31 December 2010: RMB904.2 million), respectively.

As at 30 June 2011, certain prepaid land lease payments, buildings and investment properties of the Group with carrying values of approximately RMB27.1 million (31 December 2010: RMB29.4 million), RMB13.0 million (31 December 2010: RMB13.5 million) and RMB11.8 million (31 December 2010: RMB19.9 million), respectively, were pledged to secure general banking facilities granted to the Group.

As at 30 June 2011, the Group did not have any contingent liabilities (31 December 2010: Nil).

Significant investments and acquisitions

During the six months ended 30 June 2011, the Group acquired property, plant and equipment and incurred costs for construction in progress of approximately RMB12.7 million and RMB146.7 million (Six months ended 30 June 2010: approximately RMB23.6 million and 15.0 million), respectively.

PROSPECTS

Thanks to the PRC's rapid economic development, there is an ever-growing demand for various consumables in the country. Moreover, with the implementation of the PRC's National 12th Five-Year Plan in 2011, which emphasizes the expansion of domestic consumption and the development of a green economy, new eco-friendly materials have emerged as one of the key industries with much development potential. This will provide numerous opportunities for the growth of non-woven materials and recycled chemical fibres which are the Group's core products. The Group will continue to closely monitor market trends and seize favourable market conditions to execute its own "3rd Five-Year Plan", which aims to bring its business to a new height.

Expansion of production capacity

In response to insatiable market demand for high quality non-woven materials and recycled chemical fibres, the Group will continue to expand its production capacity with the installation of new production facilities, which will strengthen its competitiveness and leadership in the industry. The Group's new production line with an annual production capacity of 18,000,000 square meters of high-thermal resistance filtration materials will commence operation in September 2011. Moreover, the Group will commence production of composite synthetic leather in the third quarter of 2012, with a targeted annual production capacity of 22,500,000 square meters. The Group has already purchased a land with a site area of approximately 600 mu in Yongan City in Fujian Province. This land is reserved for the establishment of new production facilities for recycled chemical fibres, which aims to boost its annual production capacity from the current 42,000 tons per annum to approximately 162,000 tons per annum after its commencement of operation in 2014. The date of operation commencement of the recycled chemical fibres was postponed to a later date mainly due to the delay in delivery of the land in subject by the relevant government department.

PROSPECTS (Continued)

Strengthening of R&D and improvement of product quality

The Group possesses strong R&D capability, which is one of its fundamental advantages over its competitors. The Group will allocate more resources to R&D with an aim to achieve technological advancement and maintain its leadership in this aspect. Backed by its powerful R&D centre for product development and improvement, the Group is striving for continuous expansion of product application scope, enlargement of customer base, and strengthening of training for professional staff. Currently, the Group is accredited as a Fujian Provincial-Level Corporate Technology Centre, a Fujian High-Tech Enterprise, and named as "Fabrics China Pioneer Plant – Environment-Friendly Filtering Materials" that is the only R&D centre for eco-friendly filtration materials in the PRC. The Group is also the only non-woven materials production enterprise in the PRC to obtain the American Scientific Certification System (SCS) Recycled Content Certificate.

The Group believes that its commitment to improve and optimize the functionality and production technology of non-woven materials is fundamental to its sustainable development and business success. The PRC government is expected to tighten regulatory control over conventional polluting industries such as steel, cement, coal and power plants, which will result in escalating demands for filtration materials with specialised environmental-friendly properties from these related industries. The Group will capitalize on its co-operation with tertiary education institutions, including the Tianjin Polytechnic University, the Wuhan Textile University, the Zhejiang Sci-Tech University and the Donghua University, for the development and production of eco-friendly non-woven materials with unique functionalities, which will unleash numerous business potentials.

The Group will also improve and optimise the functionalities, production technologies and qualities of its non-woven materials and recycled chemical fibres. By refining its recycling and pollutant-reducing capabilities for reduction of production costs, the Group shall achieve sustainable development, strengthen its competitiveness and expand its customer base, thereby solidifying its leadership in the market successfully.

Enhancing manufacturing efficiency to boost competitiveness

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

In order to accomplish the aforementioned goals, the Company will establish and maintain an efficient management and operating system by strictly complying with the ISO9001 and ISO14001 standards. The Group will also review and improve its production management systems (including inventory and cost control aspects). Furthermore, the Group will also expand its production facilities and capacities in accordance with its financial position and strengths, which will help it achieve better cost-effectiveness and financial performance.

PROSPECTS (Continued)

Continued expansion of sales network

During the six months ended 30 June 2011, the Company's sales activities were conducted through its professional sales team as well as distributors in Hong Kong and overseas. The Group will continue to recruit experienced sales personnel and provide them with training on a regular basis. The Group aims to build an energetic, proactive, experienced, well-trained and knowledgeable sales team to ensure that its customers receive unparalleled professional services.

The PRC government has adopted low-carbon policies that tighten pollutant emission regulations, emphasize waste-management and support the development of the recycling industry. The Group is engaged in the new materials industry that is being considered by the State Council as one of the "Seven Strategic Emerging Industries" to propel the country's economic growth and prosperity in future as outlined in the PRC's National 12th Five-Year Plan. The recycled materials and high-end eco-friendly filtering products are strategically positioned to capture opportunities provided by these favourable policies and massive market demands. Therefore, the Group intends to gradually shift its positioning from household consumer goods to industrial consumables, while continuing to explore the high-end filtration materials and recycled materials markets. Since the PRC government is expected to tighten its regulatory controls over conventional polluting industries such as steel, cement, coal and power plants, it will result in escalating demands for filtration materials with specialised environmental-friendly properties from these related industries. Given the continuous growth of the PRC's GDP and her people's disposable income, the Group expects to increase its domestic sales percentage so as to tap the fast growing new business opportunities in the PRC market.

Conclusion

Looking ahead, the Group will strive to enhance its production capability, expand its sales network and product categories, and also boost its operational efficiency, with an aim to become a leading enterprise in the non-woven materials and recycled chemical fibres markets. Thanks to the PRC's steady economic growth and robust market demands, the Group is confident that it will continue to achieve remarkable results and provide attractive returns to investors.

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 30 June 2011, the Group had a total of 783 employees (31 December 2010: 647). The Group always maintains cordial working relationships with its employees and commits to the provision of excellent training and development opportunities for its staff. The Group's remuneration packages are maintained at a competitive level and are reviewed periodically. Bonus and share options are also granted to employees according to their respective performance, appraisals and industry practices. In January 2011, the Company granted 13,710,000 share options to the Directors and employees pursuant to the share option scheme adopted by the Company on 12 May 2010 (the "Share Option Scheme"), with an exercise price of HK$7.12 per share. As at the date of this interim report, 13,290,000 share options is unexercised and 420,000 share options has been lapsed.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

On 19 August 2011, the Directors have resolved to pay an interim dividend of HK3.5 cents per share for the six months ended 30 June 2011 (six months ended 30 June 2010: HK3.5 cents). The interim dividend will be paid to the shareholders of the Company (the "Shareholders") as recorded on the register of members of the Company on Friday, 16 September 2011. It is expected that the interim dividend will be paid to the Shareholders on or about Thursday, 22 September 2011.

The register of members of the Company will be closed from Monday, 12 September 2011 to Friday, 16 September 2011, both days inclusive, during which period no transfer of shares shall be effected. To qualify for the interim dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, 9 September 2011.

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

As at 30 June 2011, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to be notified to the Company and the Stock Exchange were as follows:

(i) Interests and short positions in the Shares

Name of Director	Capacity	Number of shares	Approximate percentage of issued shares
Chim Wai Kong	Settlor of trust *(Note 1)*	420,000,000 (L)	52.50%
	Beneficiary of trust *(Note 2)*	159,600,000 (L)	19.95%
	Interests of controlled corporation *(Note 3)*	1,900,000 (L)	0.24%
	Beneficial owner *(Note 4)*	290,000 (L)	0.04%
Chim Wai Shing Jackson	Settlor of trust *(Note 1)*	420,000,000 (L)	52.50%
	Beneficiary of trust *(Note 5)*	113,400,000 (L)	14.18%
	Beneficial owner *(Note 6)*	230,000 (L)	0.03%
Chim Fo Che	Beneficiary of trust *(Note 7)*	54,600,000 (L)	6.83%
	Beneficial owner *(Note 8)*	60,000 (L)	0.01%
Hong Ming Qu	Beneficiary of trust *(Note 9)*	18,900,000 (L)	2.36%
	Beneficial owner *(Note 10)*	110,000 (L)	0.01%
Zhu Min Ru	Beneficial owner *(Note 11)*	200,000 (L)	0.03%
Feng Xue Ben	Beneficial owner *(Note 12)*	200,000 (L)	0.03%

(L): Long Position

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

(i) Interests and short positions in the Shares (Continued)

Notes:

1. *420,000,000 Shares are held by Nian's Brother Holding Limited ("Nian's Holding"). The entire interest of Nian's Holding is wholly owned by Nian's Brother Investment Limited ("Nian's Investment") which in turn is held by JMJ Holdings Limited ("JMJ") as a nominee in favour of RBS Coutts Trust (Switzerland) Ltd. ("RBS Coutts"). JMJ is a company incorporated in the British Virgin Islands ("BVI") provided by RBS Coutts for the purpose of establishing the Nian's Brother Trust. RBS Coutts is the trustee of Nian's Brother Trust. Nian's Brother Trust is a discretionary trust set up by Chim Wai Kong and Chim Wai Shing Jackson, both being executive Directors, for the benefit of their family members. For the purpose of Part XV of the SFO, each of Chim Wai Kong and Chim Wai Shing Jackson is deemed to be interested in the Shares held by Nian's Holding as the settlors of Nian's Brother Trust.*

2. *Chim Wai Kong is also one of the beneficiaries of the Nian's Brother Trust and is deemed to be interested in 159,600,000 Shares indirectly held by Nian's Holding.*

3. *1,900,000 Shares are held by Better Prospect Limited ("Better Prospect") which is 100% owned by Chim Wai Kong. He is therefore deemed to be interested in the 1,900,000 Shares held by Better Prospect. Chim Wai Kong is a director of Better Prospect.*

4. *Chim Wai Kong is also taken to be interested as a grantee of share options to subscribe for 290,000 Shares at an exercise price of HK$7.12 per Share under the Share Option Scheme.*

5. *Chim Wai Shing Jackson is also one of the beneficiaries of the Nian's Brother Trust and is deemed to be interested in 113,400,000 Shares indirectly held by Nian's Holding.*

6. *Chim Wai Shing Jackson is also taken to be interested as a grantee of share options to subscribe for 230,000 Shares at an exercise price of HK$7.12 per Share under the Share Option Scheme.*

7. *Chim Fo Che, an executive Director, is one of the beneficiaries of the Nian's Brother Trust. He is therefore deemed to be interested in the 54,600,000 Shares indirectly held by Nian's Holding.*

8. *Chim Fo Che is also taken to be interested as a grantee of share options to subscribe for 60,000 Shares at an exercise price of HK$7.12 per Share under the Share Option Scheme.*

9. *Hong Ming Qu, an executive Director, is one of the beneficiaries of the Nian's Brother Trust. He is therefore deemed to be interested in the 18,900,000 Shares indirectly held by Nian's Holding.*

10. *Hong Ming Qu is also taken to be interested as a grantee of share options to subscribe for 110,000 Shares at an exercise price of HK$7.12 per Share under the Share Option Scheme.*

11. *Zhu Min Ru is taken to be interested as a grantee of share options to subscribe for 200,000 Shares at an exercise price of HK$7.12 per Share under the Share Option Scheme.*

12. *Feng Xue Ben is taken to be interested as a grantee of share options to subscribe for 200,000 Shares at an exercise price of HK$7.12 per Share under the Share Option Scheme.*

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

(ii) Long position in the shares of associated corporations of the Company

(a) Nian's Holding (Note 1)

Name of Director	Capacity	Number of shares held in associated corporation	Approximate percentage of issued share capital of the associated corporation
Chim Wai Kong	Settlor of trust *(Note 2)*	5,760	100%
	Beneficiary of trust *(Note 3)*	2,189	38%
Chim Wai Shing Jackson	Settlor of trust *(Note 2)*	5,760	100%
	Beneficiary of trust *(Note 4)*	1,555	27%
Chim Fo Che	Beneficiary of trust *(Note 5)*	749	13%
Hong Ming Qu	Beneficiary of trust *(Note 6)*	259	4.5%

Notes:

1. *Nian's Holding is the beneficial owner of 52.5% of the shareholding of the Company.*

2. *The entire interest of Nian's Holding is wholly owned by Nian's Investment, whose only issued share in turn is held by JMJ as a nominee in favour of RBS Coutts for the purpose of establishing the Nian's Brother Trust. RBS Coutts is the trustee of Nian's Brother Trust. Nian's Brother Trust is a discretionary trust set up by Chim Wai Kong and Chim Wai Shing Jackson, both being executive Directors, for the benefit of their family members. Each of Chim Wai Kong and Chim Wai Shing Jackson is therefore deemed to be interested in the entire issued capital of Nian's Holding as the settlor of the Nian's Brother Trust.*

3. *Chim Wai Kong is also one of the beneficiaries of the Nian's Brother Trust and is deemed to be interested in 2,189 shares of Nian's Holding.*

4. *Chim Wai Shing Jackson is also one of the beneficiaries of the Nian's Brother Trust and is deemed to be interested in 1,555 shares of Nian's Holding.*

5. *Chim Fo Che, an executive Director, is one of the beneficiaries of the Nian's Brother Trust. He is therefore deemed to be interested in the 749 shares of Nian's Holding.*

6. *Hong Ming Qu, an executive Director, is one of the beneficiaries of the Nian's Brother Trust. He is therefore deemed to be interested in the 259 shares of Nian's Holding.*

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

(ii) Long position in the shares of associated corporations of the Company (Continued)

(b) Nian's Investment (Note 1)

Name of Director	Capacity	Number of shares held in associated corporation	Approximate percentage of issued share capital of the associated corporation
Chim Wai Kong	Settlor of trust *(Note 2)*	1	100%
	Beneficiary of trust *(Note 3)*	0.38	38%
Chim Wai Shing Jackson	Settlor of trust *(Note 2)*	1	100%
	Beneficiary of trust *(Note 4)*	0.27	27%
Chim Fo Che	Beneficiary of trust *(Note 5)*	0.13	13%
Hong Ming Qu	Beneficiary of trust *(Note 6)*	0.05	4.5%

Notes:

1. *Nian's Investment is the holding company of Nian's Holding, which in turn holds 52.5% shareholding in the Company.*

2. *The entire interest of Nian's Investment is held by JMJ as a nominee in favour of RBS Coutts for the purpose of establishing the Nian's Brother Trust. RBS Coutts is the trustee of Nian's Brother Trust. Nian's Brother Trust is a discretionary trust set up by Chim Wai Kong and Chim Wai Shing Jackson, both being executive Directors, for the benefit of their family members. Each of Chim Wai Kong and Chim Wai Shing Jackson is therefore deemed to be interested in the entire issued capital of Nian's Investment as the settlor of the Nian's Brother Trust.*

3. *Chim Wai Kong is also one of the beneficiaries of the Nian's Brother Trust and is deemed to be interested in 0.38 share of Nian's Investment.*

4. *Chim Wai Shing Jackson is also one of the beneficiaries of the Nian's Brother Trust and is deemed to be interested in 0.27 share of Nian's Investment.*

5. *Chim Fo Che, an executive Director, is one of the beneficiaries of the Nian's Brother Trust. He is therefore deemed to be interested in the 0.13 share of Nian's Investment.*

6. *Hong Ming Qu, an executive Director, is one of the beneficiaries of the Nian's Brother Trust. He is therefore deemed to be interested in the 0.05 share of Nian's Investment.*

Save as disclosed above, as at 30 June 2011, none of the Directors and the chief executives of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code contained in the Listing Rules to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the Share Option Scheme adopted by the Company on 12 May 2010, the details of which were disclosed in the prospectus of the Company dated 8 June 2010, at no time during the six months ended 30 June 2011 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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

So far as is known to any Director or chief executive of the Company, as at 30 June 2011, the persons or companies (other than a Director or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of Shareholder	Capacity	Number of shares	Approximate percentage of issued shares
Nian's Holding	Beneficial owner	420,000,000 (L)	52.50%
Nian's Investment *(Note 1)*	Interest of controlled corporation	420,000,000 (L)	52.50%
JMJ	Interest of controlled corporation *(Note 2)*	420,000,000 (L)	52.50%
RBS Coutts	Trustee *(Note 2)*	420,000,000 (L)	52.50%
Chim Wai Kong	Settlor of trust *(Note 3)*	420,000,000 (L)	52.50%
Chim Wai Shing Jackson	Settlor of trust *(Note 4)*	420,000,000 (L)	52.50%
Headwell *(Note 5)*	Beneficial owner	66,700,000 (L)	8.34%
Modern Creative *(Note 5)*	Interest of controlled corporation	66,700,000 (L)	8.34%
Liu Shu Fa	Interest of controlled corporation and family interest	66,700,000 (L)	8.34%
Wang Juan	Interest of controlled corporation and family interest	66,700,000 (L)	8.34%
Gerfalcon Holding Limited *(Note 6)*	Beneficial Owner	60,000,000 (L)	7.50%
Hui Cheung Mau	Interest of controlled corporation	60,000,000 (L)	7.50%
Sze Fo Chau	Interest of controlled corporation	60,000,000 (L)	7.50%

(L): Long Position

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

Notes:

1. *Nian's Holding is a wholly-owned subsidiary of Nian's Investment. For the purpose of Part XV of the SFO, Nian's Investment is therefore deemed to be interested in the Shares held by Nian's Holding.*

2. *The entire interest of Nian's Investment is held by JMJ as a nominee in favour of RBS Coutts for the purpose of establishing the Nian's Brother Trust. RBS Coutts is the trustee of Nian's Brother Trust. For the purpose of Part XV of the SFO, JMJ and RBS Coutts are deemed to be interested in the Shares indirectly held by Nian's Investment.*

3. *Chim Wai Kong is one of the two settlors of Nian's Brother Trust, which is a discretionary trust set up for the benefit of his family members. For the purpose of Part XV of the SFO, Chim Wai Kong is deemed to be interested in the Shares held indirectly by Nian's Investment.*

4. *Chim Wai Shing Jackson is one of the two settlors of Nian's Brother Trust, which is a discretionary trust set up for the benefit of his family members. For the purpose of Part XV of the SFO, Chim Wai Shing Jackson is deemed to be interested in the Shares indirectly held by Nian's Investment.*

5. *Headwell Investments Limited ("Headwell") is a wholly-owned subsidiary of Modern Creative Group Limited ("Modern Creative"). For the purpose of Part XV of the SFO, Modern Creative is therefore deemed to be interested in the Shares held by Headwell. Modern Creative is owned by Liu Shu Fa as to 50% and Wang Juan as to 50%. Liu Shu Fa is the spouse of Wang Juan. Liu Shu Fa and Wang Juan are deemed to be interested in the Shares held by each other.*

6. *Gerfalcon Holding Limited is owned by Hui Cheung Mau as to 50% and Sze Fo Chau as to 50%.*

Save as disclosed herein, the Directors are not aware of any person who was, as at 30 June 2011, directly or indirectly, interested or had short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, was directly or indirectly, interested in 5% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of the Company or any options in respect of such capital.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 June 2011, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's securities.

CODE OF CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the Code of Corporate Governance Practices, as set out in Appendix 14 to the Listing Rules, throughout the six months ended 30 June 2011.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of the Directors, all the Directors confirmed that they had compiled with the required standards as set out in the Model Code throughout the six months ended 30 June 2011.

AUDIT COMMITTEE AND REVIEW OF INTERIM FINANCIAL STATEMENTS

The audit committee of the Company (the "Audit Committee") comprises Mr. Wong Siu Hong (independent non-executive Director), Mr. Zhu Min Ru (independent non-executive Director) and Ms. Wee Kok Keng (non-executive Director).

The Group's unaudited interim report for the six months ended 30 June 2011 have been reviewed by the Audit Committee, who are of the opinion that such report complies with the applicable accounting standards, the Listing Rules and legal requirements and that adequate disclosures have been made.

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2011 has also been reviewed by RSM Nelson Wheeler, the auditor of the Company, in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", whose review report is disclosed in page 19 of this interim report.

By order of the Board
COSTIN New Materials Group Limited

Chim Wai Kong
Chairman

Hong Kong, 19 August 2011

Independent Review Report

TO THE BOARD OF DIRECTORS OF
COSTIN NEW MATERIALS GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 20 to 32 which comprises the condensed consolidated statement of financial position of COSTIN New Materials Group Limited (the "Company") and its subsidiaries (collectively referred as the "Group") as at 30 June 2011 and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Federation of Accountants. A review of interim financial information consists of making inquires, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

19 August 2011

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

	Note	Six months ended 30 June 2011 RMB'000 (unaudited)	2010 RMB'000 (unaudited)
Turnover	3	**650,733**	421,701
Cost of goods sold		**(447,233)**	(275,262)
Gross profit		**203,500**	146,439
Other income		**9,316**	5,577
Distribution expenses		**(6,722)**	(7,510)
Administrative expenses		**(41,329)**	(19,761)
Profit from operations		**164,765**	124,745
Finance costs	4	**(6,248)**	(3,926)
Profit before tax		**158,517**	120,819
Income tax expense	5	**(29,639)**	(23,730)
Profit for the period attributable to owners of the Company	6	**128,878**	97,089
Other comprehensive income for the period, net of tax			
Exchange differences on translating foreign operations		**(3,646)**	(403)
Total comprehensive income for the period attributable to owners of the Company		**125,232**	96,686
Earnings per share	8		
Basic		**RMB16.11 cents**	RMB15.52 cents
Diluted		**RMB16.11 cents**	RMB15.52 cents

Condensed Consolidated Statement of Financial Position

At 30 June 2011

	Note	30 June 2011 RMB'000 (unaudited)	31 December 2010 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	9	243,974	243,647
Construction in progress	9	168,296	26,480
Investment properties		19,269	19,908
Prepayments for acquisition of property, plant and equipment		14,807	7,089
		446,346	297,124
Current assets			
Inventories		112,635	61,553
Trade and bills receivables	10	313,667	225,823
Prepayments, deposits and other receivables		32,192	7,079
Pledged bank deposits		31,631	26,306
Non-pledged bank deposits with more than three months to maturity		102,503	100,000
Bank and cash balances		500,390	527,842
		1,093,018	948,603
Current liabilities			
Trade and bills payables	11	235,984	97,626
Accruals and other payables		41,048	33,736
Bank loans		218,868	177,833
Finance lease payables		163	161
Current tax liabilities		14,822	13,320
		510,885	322,676
Net current assets		582,133	625,927
Total assets less current liabilities		1,028,479	923,051
Non-current liabilities			
Finance lease payables		459	554
Bank loans		11,600	–
Deferred tax liabilities		21,397	18,269
		33,456	18,823
NET ASSETS		995,023	904,228
Capital and reserves			
Share capital		70,400	70,400
Reserves		924,623	833,828
TOTAL EQUITY		995,023	904,228

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

	(Unaudited)								
	Share capital	Share premium	Share-based payment reserve	Foreign currency translation reserve	Statutory reserve	Capital reserve	Merger reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	80,000	–	–	(102)	51,899	–	–	175,204	307,001
Total comprehensive income for the period	–	–	–	(403)	–	–	–	97,089	96,686
Effect of group reorganisation	(79,974)	–	–	–	–	–	79,974	–	–
Effect of loan capitalisation	–	–	–	–	–	20,934	–	–	20,934
Capitalisation	52,774	(52,774)	–	–	–	–	–	–	–
Issue of shares – issue by way of public offer	17,600	401,280	–	–	–	–	–	–	418,880
Share issue expenses	–	(31,890)	–	–	–	–	–	–	(31,890)
Changes in equity for the period	(9,600)	316,616	–	(403)	–	20,934	79,974	97,089	504,610
At 30 June 2010	70,400	316,616	–	(505)	51,899	20,934	79,974	272,293	811,611
At 1 January 2011	70,400	316,616	–	(8,265)	76,388	20,934	79,974	348,181	904,228
Total comprehensive income for the period	–	–	–	(3,646)	–	–	–	128,878	125,232
Dividends paid *(note 7)*	–	–	–	–	–	–	–	(43,753)	(43,753)
Share-based payments	–	–	9,316	–	–	–	–	–	9,316
Changes in equity for the period	–	–	9,316	(3,646)	–	–	–	85,125	90,795
At 30 June 2011	70,400	316,616	9,316	(11,911)	76,388	20,934	79,974	433,306	995,023

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**51,728**	52,804
NET CASH USED IN INVESTING ACTIVITIES	**(86,785)**	(2,313)
NET CASH GENERATED FROM FINANCING ACTIVITIES	**9,401**	421,473
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(25,656)**	471,964
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**527,842**	124,432
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(1,796)**	(403)
CASH AND CASH EQUIVALENTS AT END OF PERIOD, REPRESENTED BY	**500,390**	595,993
Bank and cash balances	**500,390**	595,993

Notes to the Condensed Financial Statements

For the six months ended 30 June 2011

1. BASIS OF PREPARATION

These condensed financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board (the "IASB") and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These condensed financial statements should be read in conjunction with the 2010 annual financial statements of the Group. The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2010.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") issued by the IASB that are relevant to its operations and effective for its accounting year beginning on 1 January 2011. IFRSs comprise International Financial Reporting Standards; International Accounting Standards and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years.

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

Notes to the Condensed Financial Statements

For the six months ended 30 June 2011

3. SEGMENT INFORMATION

(a) Information about segment profit/(loss) and segment assets:

	Non-woven[1] materials RMB'000 (unaudited)	Recycled[2] chemical fibres RMB'000 (unaudited)	Others RMB'000 (unaudited)	Total RMB'000 (unaudited)
6 months ended 30 June 2011:				
Revenue from external customers	508,356	141,842	535	650,733
Intersegment revenue	–	2,126	–	2,126
Segment profit/(loss)	167,469	36,032	(1)	203,500
At 30 June 2011:				
Segment assets	194,413	67,996	131,837	394,246
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
6 months ended 30 June 2010:				
Revenue from external customers	330,245	91,456	–	421,701
Intersegment revenue	–	2,813	–	2,813
Segment profit	120,348	26,091	–	146,439
	(audited)	(audited)	(audited)	(audited)
At 31 December 2010:				
Segment assets	142,488	65,366	–	207,854

Note (1): *Non-woven materials was previously named as non-woven fabrics which includes non-woven fabrics and other types of non-woven materials.*

Note (2): *Recycled chemical fibres was previously named as chemical fibres, which includes chemical fibres produced from recycled materials, such as PET chips.*

3. SEGMENT INFORMATION (Continued)

(b) Reconciliations of segment profit:

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Total profit of reportable segments	**203,500**	146,439
Unallocated amounts:		
Other income	**9,316**	5,577
Distribution expenses	**(6,722)**	(7,510)
Administrative expenses	**(41,329)**	(19,761)
Finance costs	**(6,248)**	(3,926)
Consolidated profit before tax	**158,517**	120,819

4. FINANCE COSTS

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Finance lease charges	**22**	–
Interest expense on:		
Bank loans	**6,226**	3,455
Long term borrowings	**–**	471
	6,248	3,926

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax – the People's Republic of China ("PRC") enterprise income tax	**26,511**	19,108
Deferred tax	**3,128**	4,622
	29,639	23,730

5. INCOME TAX EXPENSE (Continued)

Pursuant to relevant laws and regulations in the PRC, the Group's subsidiary 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) ("Xinhua Company") 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.

No provision for Hong Kong Profits Tax has been made for the subsidiaries located in Hong Kong as they did not have assessable profits during the period (Six months ended 30 June 2010: Nil).

The Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands during the period (Six months ended 30 June 2010: Nil).

6. PROFIT FOR THE PERIOD

The Group's profit for the period is arrived at after charging/(crediting):

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Government grants	**(4,817)**	(3,100)
Interest income	**(2,605)**	(477)
Rental income	**(1,809)**	(1,809)
Cost of inventories sold	**447,233**	275,262
Depreciation of property, plant and equipment	**12,361**	11,583
Depreciation of investment properties	**639**	639
Directors' remuneration		
Salaries, bonus and allowances	**1,762**	1,289
Contribution to retirement benefit schemes	**15**	–
Share-based payment expenses	**904**	–
	2,681	1,289
Net exchange loss	**27**	487
Operating leases charges	**2,284**	779
Research and development expenditure	**1,323**	1,163
Staff costs (excluding directors' remuneration)		
Salaries, bonus and allowances	**15,695**	11,295
Contribution to retirement benefit schemes	**186**	114
Share-based payment expenses	**8,412**	–
	24,293	11,409

7. DIVIDENDS

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Proposed interim dividend RMB2.9 cents (HK3.5 cents) (2010: RMB3.1 cents (HK3.5 cents)) per ordinary share	**22,979**	24,640
Final dividend for the year ended 31 December 2010 approved and paid – RMB5.5 cents (HK6.5 cents) (2009: note) per ordinary share	**43,753**	20,000
	66,732	44,640

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

8. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following:

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Earnings		
Profit attributable to owners of the Company, used in the basic earnings per share calculation	**128,878**	97,089
Number of shares		
Weighted average number of ordinary shares used in basic earnings per share calculation	**800,000,000**	625,414,365

The diluted earnings per share and the basic earnings per share are the same as the effects of all potential ordinary shares are anti-dilutive for the period ended 30 June 2011 (Six months ended 30 June 2010: The Company did not have any dilutive potential ordinary shares).

9. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS

During the six months ended 30 June 2011, the Group acquired property, plant and equipment and incurred costs for construction in progress of approximately RMB12,724,000 and RMB146,694,000 respectively (Six months ended 30 June 2010: RMB23,616,000 and RMB14,973,000 respectively).

10. TRADE AND BILLS RECEIVABLES

	30 June 2011 RMB'000 (unaudited)	31 December 2010 RMB'000 (audited)
Trade receivables	289,823	221,823
Bill receivables	23,844	4,000
	313,667	225,823

The Group normally allows credit terms to customers ranging 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 of the Company.

The aging analysis of the trade receivables at the end of the reporting period, based on the invoice date, and net of allowance, is as follows:

	30 June 2011 RMB'000 (unaudited)	31 December 2010 RMB'000 (audited)
0-30 days	129,861	103,125
31-60 days	97,931	72,085
61-90 days	51,473	36,480
91-120 days	10,558	9,486
121-150 days	–	647
	289,823	221,823

As at 30 June 2011, trade receivables of RMB52,986,000 (31 December 2010: RMB44,821,000) were pledged to banks to secure short term bank loans granted to the Group.

11. TRADE AND BILLS PAYABLES

	30 June 2011 RMB'000 (unaudited)	31 December 2010 RMB'000 (audited)
Trade payables	136,729	86,626
Bills payables *	99,255	11,000
	235,984	97,626

* *Bills payables for purchase of plant and machinery amounted to RMB77,066,000 (31 December 2010: Nil) were included.*

The Group normally obtains credit terms ranging from 30 to 90 days from its suppliers.

The aging analysis of the trade payables at the end of the reporting period, based on the date of receipt of goods, is as follows:

	30 June 2011 RMB'000 (unaudited)	31 December 2010 RMB'000 (audited)
0-30 days	80,792	50,279
31-60 days	34,529	32,390
61-90 days	18,130	2,576
91-120 days	3,143	1,307
121-150 days	53	23
Over 150 days	82	51
	136,729	86,626

12. RELATED PARTY TRANSACTIONS

(a) In addition to those related party transactions and balances disclosed elsewhere in the condensed financial statements, the Group had the following transactions with its related parties during the period:

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Rental income charged to a related company	**1,339**	1,339
Rental expenses charged by related companies	**700**	700

(b) Remuneration of key management personnel:

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Salaries, bonus and allowances		
– Directors	**1,762**	1,289
– Senior management	**302**	2,167
Sub-total	**2,064**	3,456
Contribution to retirement benefit schemes		
– Directors	**15**	–
– Senior management	**5**	6
Sub-total	**20**	6
Share-based payment expenses		
– Directors	**904**	–
– Senior management	**2,836**	–
Sub-total	**3,740**	–
Total	**5,824**	3,462

13. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 June 2011 (31 December 2010: Nil).

14. CAPITAL COMMITMENTS

	30 June 2011 RMB'000 (unaudited)	31 December 2010 RMB'000 (audited)
Contracted but not provided for:		
Prepaid land lease payments	61,200	–
Purchase of property, plant and equipment	8,179	113,461
Construction of buildings	–	14,191
	69,379	127,652

15. EVENTS AFTER THE REPORTING PERIOD

On 18 July 2011, the Company issued 4% convertible bond due 2013 (the "Bond") to CITIC Capital China Access Fund Limited with an aggregate principal amount of US$30,000,000, equivalent to approximately HK$233,400,000.

The Bond can be converted into ordinary shares of HK$0.10 each in the share capital of the Company (the "Shares") at any time on the business day after the expiry of three months from the date of issuance of the Bond until the fifth business days before (and excluding) the second anniversary of the date of issuance of the Bond (the "Maturity Date") in multiples of US$15,000,000 at the initial conversion price of HK$5.15 (the "Conversion Price"), subject to adjustments.

There is no early redemption of the Bond. All of the outstanding Bond are to be redeemed on the Maturity Date at 116.64% of the outstanding principal amount of the Bond.

Based on the initial Conversion Price, the Shares fall to be issued upon full conversion of the Bond will be 45,320,388 Shares (the "Conversion Shares"), representing approximately 5.67% of the current issued share capital of the Company and 5.36% of the issued share capital as enlarged by the issue of Conversion Shares.

16. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 19 August 2011.