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12 December 2011

The Directors
China Weaving Materials Holdings Limited
Guotai Junan Capital Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to China Weaving Materials Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2010 and six months ended 30 June 2011 (the "Relevant Periods") for inclusion in the prospectus of the Company dated 12 December 2011 (the "Prospectus") in connection with the initial public offering ("IPO") of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in Cayman Islands on 4 May 2011 as an exempted company with limited liability under Company Law of Cayman Islands. The Company is an investment holding company and has not carried out any other business since its incorporation. Pursuant to a group reorganisation ("Group Reorganisation"), as more fully explained in the section headed "History and Corporate Structure" in the Prospectus, the Company became the holding company of the Group on 14 October 2011.

Throughout the Relevant Periods and at the date of this report, the Company has interests in the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment and legal form	Issued and fully paid/registered capital	Equity interest attributable to the Group					Principal activities
			As at 31 December			As at 30 June	At the date of this report	
			2008	2009	2010	2011		
Direct								
Jolly Success International Limited ("Jolly Success")	British Virgin Islands ("BVI") 3 March 2011 Incorporated	HK$1,000	N/A	N/A	N/A	100%	100%	Investment holding
Indirect								
Treasure Resources Corporation Limited 珍源有限公司 ("Treasure Resources")	Hong Kong 13 April 2011 Incorporated	HK$1,000	N/A	N/A	N/A	100%	100%	Investment holding
Jinyuan Textiles Co. Ltd. Jiangxi 江西金源紡織有限公司 ("Jiangxi Jinyuan")	The People's Republic of China (the "PRC") 10 October 2005 Wholly foreign-owned enterprise	RMB148,820,000	100%	100%	100%	100%	100%	Manufacturing and trading of polyester yarns, polyester-cotton blended yarns and cotton yarns

The statutory financial statements of Jiangxi Jinyuan for the years ended 31 December 2008, 2009 and 2010 which were prepared in accordance with relevant accounting principles and regulations applicable to enterprises established in the PRC, were audited by 江西富豐特會計師事務所 Jiangxi Fulante Certified Public Accountants, certified public accountants registered in the PRC.

No audited financial statements have been prepared for the Company and Jolly Success since their respective dates of incorporation as they were incorporated in countries where they were not subject to statutory audit requirements. No audited financial statements have been prepared for Treasure Resources since its date of incorporation as its first statutory financial statements are not yet due to be issued.

For the purpose of this report, the directors of the Company and Jiangxi Jinyuan have prepared the consolidated financial statements of the Company and its subsidiaries, Jolly Success and Treasure Resources from the date of incorporation of the Company to 30 June 2011 and financial statements of Jiangxi Jinyuan for the Relevant Periods respectively in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") (the "Underlying Financial Statements"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with the International Standards of Auditing and have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Financial Information set out in this report has been prepared from the Underlying Financial Statements on the basis set out in note 2 to the Financial Information. No adjustment has been made by us to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the Company and Jiangxi Jinyuan who approved their issue. The directors of the Company are responsible for 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 Underlying Financial Statements, to form an opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereon, for the purpose of this report, gives a true and fair view of the state of affairs of the Group as at 31 December 2008, 2009, 2010 and 30 June 2011 and the Company as at 30 June 2011, and of the combined results and cash flows of the Group for the Relevant Periods.

The comparative combined statement of comprehensive income, combined statement of changes in equity and combined statement of cash flows of the Group for the six months ended 30 June 2010 together with the notes thereon (the "June 2010 Financial Information") have been extracted from the Group's unaudited combined financial information for the same period, which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the June 2010 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by HKICPA. Our review of the June 2010 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the June 2010 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the June 2010 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information, which conform with IFRSs.

A. FINANCIAL INFORMATION

Combined Statements of Comprehensive Income

	NOTES	Year ended 31 December			Six months ended 30 June	
		2008	2009	2010	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	6	545,292	663,438	930,666	411,161	526,559
Cost of sales		(515,119)	(576,205)	(781,294)	(350,465)	(453,737)
Gross profit		30,173	87,233	149,372	60,696	72,822
Investment and other income	8	6,018	10,927	7,027	2,141	1,939
Fair value change on held-for-trading investment		(3,451)	—	—	—	—
Distribution and selling expenses		(10,129)	(12,041)	(12,902)	(6,695)	(5,368)
Administrative expenses		(7,076)	(9,020)	(9,932)	(4,465)	(9,725)
Other expenses		—	—	—	—	(5,973)
Finance costs	9	(14,417)	(10,907)	(16,009)	(7,434)	(8,432)
Profit and total comprehensive income for the year/period attributable to owners of the Company	10	1,118	66,192	117,556	44,243	45,263
Earnings per share — Basic	14	RMB0.15 cents	RMB8.83 cents	RMB15.67 cents	RMB5.90 cents	RMB6.04 cents

Combined Statements of Financial Position

	NOTES	As at 31 December 2008 RMB'000	As at 31 December 2009 RMB'000	As at 31 December 2010 RMB'000	As at 30 June 2011 RMB'000
Non-current assets					
Property, plant and equipment	15	382,331	378,079	381,436	403,873
Prepaid lease payments	16	12,721	12,445	13,361	13,207
Deposits on acquisition of property, plant and equipment		—	—	15,450	—
Secured deposits for obligations under finance leases	27	—	15,521	15,521	15,521
		395,052	406,045	425,768	432,601
Current assets					
Inventories	17	67,087	96,657	115,705	85,657
Trade and other receivables	18	15,177	15,318	27,976	10,156
Note receivables	19	6,505	5,689	12,329	3,080
Prepaid lease payments	16	276	276	299	299
Amounts due from related companies	20 & 35(e)	14,707	22,750	—	—
Pledged bank deposits	21	106,201	42,801	29,609	54,332
Cash and bank balances	21	26,221	46,164	113,514	33,197
		236,174	229,655	299,432	186,721
Current liabilities					
Trade and other payables	22	97,642	47,345	39,116	30,998
Note payables	23	252,000	74,000	41,650	12,100
Dividend payable		—	42,900	85,800	—
Amounts due to related companies	25	25,900	—	—	7,154
Amount due to a director	25	—	5,000	—	—
Bank borrowings	26	86,230	221,649	289,837	266,412
Obligations under finance leases	27	4,129	18,924	24,151	24,542
		465,901	409,818	480,554	341,206
Net current liabilities		(229,727)	(180,163)	(181,122)	(154,485)
Total assets less current liabilities		165,325	225,882	244,646	278,116
Non-current liabilities					
Deferred income	24	7,014	6,864	6,714	6,639
Obligations under finance leases	27	—	37,415	24,573	12,854
		7,014	44,279	31,287	19,493
Net assets		158,311	181,603	213,359	258,623
Capital and reserves					
Share capital/paid-in capital	28	148,820	148,820	148,820	148,820
Reserves		9,491	32,783	64,539	109,803
Total equity attributable to owners of the Company		158,311	181,603	213,359	258,623

Statement of Financial Position

	NOTES	At 30 June 2011
		RMB'000
The Company		
Non-current asset		
Investment in a subsidiary		—
Current asset		
Prepayments		1,526
Current liabilities		
Accrued expenses		345
Amount due to a related company	25	7,154
		7,499
Net current liabilities		(5,973)
Total assets less current liabilities		(5,973)
Capital and reserve		
Share capital	28	—
Accumulated loss		(5,973)
Deficiency attributable to owners of the Company		(5,973)

Combined Statements of Changes in Equity

	Share capital/ paid-in capital	Special reserve	Statutory surplus reserve	Accumulated profits	Total
	RMB'000	RMB'000	RMB'000 *(note 1)*	RMB'000	RMB'000
As at 1 January 2008	148,820	—	4,163	4,210	157,193
Profit and total comprehensive income for the year	—	—	—	1,118	1,118
As at 31 December 2008 and 1 January 2009	148,820	—	4,163	5,328	158,311
Profit and total comprehensive income for the year	—	—	—	66,192	66,192
Dividends recognised as distribution *(note 13)*	—	—	—	(42,900)	(42,900)
Transfer of statutory surplus reserve	—	—	10,790	(10,790)	—
As at 31 December 2009 and 1 January 2010	148,820	—	14,953	17,830	181,603
Profit and total comprehensive income for the year	—	—	—	117,556	117,556
Dividends recognised as distribution *(note 13)*	—	—	—	(85,800)	(85,800)
Transfer of statutory surplus reserve	—	—	23,622	(23,622)	—
As at 31 December 2010 and 1 January 2011	148,820	—	38,575	25,964	213,359
Issue of shares of Jolly Success	1	—	—	—	1
Exchange of shares upon Group Reorganisation *(note 2)*	(1)	1	—	—	—
Profit and total comprehensive income for the period	—	—	—	45,263	45,263
As at 30 June 2011	148,820	1	38,575	71,227	258,623
Unaudited					
As at 1 January 2010	148,820	—	14,953	17,830	181,603
Profit and total comprehensive income for the period	—	—	—	44,243	44,243
As at 30 June 2010	148,820	—	14,953	62,073	225,846

Note:

(1) Statutory surplus reserve representing appropriations from the profits after taxation of Jiangxi Jinyuan established in the PRC forms part of shareholders' equity of Jiangxi Jinyuan. In accordance with the PRC Company Law and the Articles of Association of Jiangxi Jinyuan, Jiangxi Jinyuan is required to appropriate an amount at a minimum of 10% of its profits after taxation each year to a statutory surplus reserve until the statutory surplus reserve reaches 50% of its registered capital. The statutory surplus can be used for converting into additional capital of Jiangxi Jinyuan.

(2) On 13 June 2011, the Company alloted and issued 900,000 nil paid shares, together with the existing 100,000 nil paid shares in exchange of the entire share capital of Jolly Success.

Combined Statements of Cash Flows

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
CASH FLOW FROM OPERATING ACTIVITIES					
Profit for the year/period	1,118	66,192	117,556	44,243	45,263
Adjustments for:					
Interest income	(1,722)	(1,926)	(1,006)	(529)	(459)
Interest expenses	6,322	8,591	14,452	6,984	8,140
Amortisation of deferred income	(150)	(150)	(150)	(75)	(75)
Amortisation of prepaid lease payments	276	276	286	138	154
Amortisation of upfront fee related to obligation under finance lease	—	—	583	292	292
Depreciation of property, plant and equipment	12,300	16,596	17,329	8,575	9,083
Discounting charges on note receivables	8,095	2,316	974	158	—
Loss on disposal of property, plant and equipment	—	—	2	—	36
Fair value change on held-for-trading investment	3,451	—	—	—	—
Operating cash flows before movements in working capital	29,690	91,895	150,026	59,786	62,434
Decrease/(increase) in inventories	7,754	(29,570)	(19,048)	(25,609)	30,048
(Increase)/decrease in trade and other receivables	(7,107)	2,339	(15,138)	(2,077)	14,720
(Increase)/decrease in note receivables	(3,255)	(84)	(8,289)	(1,360)	7,149
Decrease in held-for-trading investment	16,269	—	—	—	—
Increase/(decrease) in note payables	68,700	(79,625)	(6,325)	(10,100)	(29,550)
Increase/(decrease) in trade and other payables	511	7,601	(607)	(1,067)	(8,118)
Cash generated from/(used in) operations	112,562	(7,444)	100,619	19,573	76,683
Interest paid	(6,080)	(8,141)	(12,658)	(6,108)	(7,858)
NET CASH GENERATED FROM/ (USED IN) OPERATING ACTIVITIES	106,482	(15,585)	87,961	13,465	68,825

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
CASH FLOW FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment	(68,664)	(37,242)	(26,869)	(9,837)	(419)
(Increase)/decrease in pledged bank deposits	(71,751)	63,400	13,192	8,620	(24,723)
Increase in secured deposits for obligations under finance leases	—	(15,521)	—	—	—
Advance to related companies	(17,807)	(47,249)	(36,485)	(7,685)	—
Payments for construction in progress	(30,184)	—	(1,441)	(47)	(11,609)
Repayment from a third party	3,312	—	2,480	2,480	—
Advance to a third party	—	(2,480)	(1,700)	(1,700)	—
Repayment from related companies	3,100	39,206	60,935	26,250	—
Interest received	1,722	1,926	1,006	529	459
Deposits on property, plant and equipment and prepaid lease payments	—	—	(15,450)	(1,778)	—
Addition to prepaid lease payments	—	—	(1,225)	—	—
NET CASH (USED IN)/ GENERATED FROM INVESTING ACTIVITIES	(180,272)	2,040	(5,557)	16,832	(36,292)
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from bank borrowings	100,900	271,649	289,837	130,000	143,412
Proceeds from sale and leaseback arrangements	9,910	58,250	16,710	—	—
Repayment of bank borrowings	(91,652)	(135,330)	(220,000)	(110,000)	(164,737)
Dividends paid	(14,300)	—	(42,900)	(42,900)	(85,800)
Issued of shares of Jolly Success	—	—	—	—	1
Advances from third parties	—	—	28,000	28,000	—
Repayment of loans from third parties	(10,100)	(33,000)	(28,000)	—	—
Repayment to related companies	(10,000)	(25,900)	(10,000)	—	—
Proceeds from note financing	124,400	26,025	—	—	—
Repayment of note financing	—	(124,400)	(26,025)	—	—
Advance from a related company	—	—	10,000	10,000	7,154
Discounting charges paid on note receivables	(8,095)	(2,316)	(974)	(158)	—

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Repayment of obligations under finance leases	(6,023)	(6,490)	(26,702)	(10,673)	(12,880)
Advance from/(repayment to) a director.	—	5,000	(5,000)	(5,000)	—
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	95,040	33,488	(15,054)	(731)	(112,850)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	21,250	19,943	67,350	29,566	(80,317)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR/PERIOD	4,971	26,221	46,164	46,164	113,514
CASH AND CASH EQUIVALENTS AT THE END OF YEAR/PERIOD represented by cash and bank balance	26,221	46,164	113,514	75,730	33,197

Notes to the Financial Information

1. GENERAL

The Company is a private limited company incorporated in the Cayman Islands. The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business of the Company is at Room 1321, Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong.

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

The Financial Information is presented in Renminbi ("RMB"), which is the same as the functional currency of Jiangxi Jinyuan.

2. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL INFORMATION

Jiangxi Jinyuan was established on 10 October 2005 and was directly owned by Mr. Zheng Hong, the controlling shareholder of Jiangxi Jinyuan as well as Mr. Irons Sze, Mr. Lin Shing Yun and Ms. Chow Ping (collectively referred to as the "Ultimate Controlling Shareholders"), prior to the Group Reorganisation.

Jolly Success was incorporated in the British Virgin Islands on 3 March 2011. The authorised share capital of Jolly Success was HK$50,000 divided into 50,000 shares of HK$1.00 each and its issued and paid up share capital was HK$1,000, comprising 1,000 shares of HK$1.00 each, of which all were held by the four companies wholly-owned by each of the Ultimate Controlling Shareholders respectively.

Treasure Resources was incorporated in Hong Kong on 13 April 2011. The authorised share capital of Treasure Resources was HK$10,000 divided into 10,000 shares of HK$1.00 each and its issued and paid up share capital was HK$1,000, comprising 1,000 shares of HK$1.00 each, of which all were held by Jolly Success.

Pursuant to the Group Reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of Jolly Success and Treasure Resources on 13 June 2011 by interspersing the Company between Jolly Success and the Ultimate Controlling Shareholders. The Company further allotted and issued 900,000 nil paid shares to Ultimate Controlling Shareholders and Orient Dynasty Holdings Limited, a company incorporated in BVI, which is an independent third party together with the existing 100,000 nil paid shares in issue, in exchange of the entire share capital of Jolly Success.

On 14 October 2011, the Ultimate Controlling Shareholders transferred their equity interest in Jiangxi Jinyuan to Treasure Resources in exchange of the allotment and issue of 1,000 shares of Treasure Resources to Jolly Success and accordingly, the Company became the holding company of companies now comprising the Group.

As Jiangxi Jinyuan, Jolly Success, Treasure Resources and the Company have been under common control of Mr. Zheng Hong, prior to and after the Group Reorganisation, the combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the Relevant Periods have been prepared as if the current group structure had been in existence throughout the Relevant Periods, or since the respective dates of incorporation of the relevant entities now comprising the Group where there is a shorter period. The combined statements of financial position of the Group as at 31 December 2008, 2009 and 2010 and 30 June 2011 have been prepared to present the assets and liabilities of the entities now comprising the Group which were in existence at those dates.

As of 31 December 2008, 2009, 2010 and 30 June 2011, the Group has net current liabilities of approximately RMB229,727,000, RMB180,163,000, RMB181,122,000 and RMB154,485,000 respectively. Up to the date of this report, the Group has already obtained roll over of bank loans amounting to RMB202,000,000 and 3 years banking facilities of RMB140,000,000. Accordingly, the management of the Group is satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future, after taking into consideration the banking facilities already in place and internal financial resources and accordingly, the Underlying Financial Statements have been prepared on a going concern basis.

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

The IASB issued a number of new International Accounting Standard ("IAS"), IFRSs, amendments and interpretations (hereinafter collectively referred to as "new IFRS") which are effective for the Group's financial period beginning on 1 January 2011. For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Group has adopted all these new IFRS and other existing IFRS consistently throughout the Relevant Periods.

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

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

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2012.
4 Effective for annual periods beginning on or after 1 July 2012.

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

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The Financial Information has been prepared in accordance with the following accounting policies which conform with IFRS issued by IASB. In addition, the Financial Information includes 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.

Revenue recognition

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

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

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

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

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

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

Property, plant and equipment

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

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

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

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

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant leases.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

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

Investment in a subsidiary

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

Leasing

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

The Group as lessee

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

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

Leasehold land and building

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the combined statement of financial position and is amortised over the lease term on a straight-line basis.

Sale and leaseback

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

Foreign currencies

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

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

Government grants

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

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

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

Retirement benefits costs

Payments to state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

Impairment of assets

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

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

Financial instruments

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

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

Financial assets

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

Effective interest method

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

Interest income is recognised on an effective interest basis.

Loans and receivables

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

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

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

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade payables, note payables, amounts due to related companies/director and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*.

Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

Financial liabilities are derecognised when 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 and payable is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Inventory valuation method and write down of inventories

Inventory is valued at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Where the estimated net realisable value for slow-moving inventories are lower (higher) than expected, a write-down (reversal of write-down) would be recognised in the profit or loss in the period that such a write-down (reversal of write-down) takes place. The Group's carrying amount of inventory as at 31 December 2008, 2009, 2010 and 30 June 2011 was approximately RMB67.09 million, RMB96.66 million, RMB115.71 million and RMB85.66 million, respectively.

Depreciation

The Group depreciates the property, plant and equipment over their estimated useful lives, using straight-line method, at the rates ranging from 3% to 10% per annum. The estimated useful lives that the Group depreciates the property, plant and equipment reflect the management's estimate of the periods that the Group intends to derive future economic benefits from the use of the assets by taking into account of industry normal practice. The Group's carrying amount of property, plant and equipment as at 31 December 2008, 2009, 2010 and 30 June 2011 was approximately RMB382.33 million, RMB378.08 million, RMB381.44 million and RMB403.87 million, respectively.

6. REVENUE

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

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Sales of polyester yarns	319,967	380,921	527,978	251,855	260,329
Sales of polyester-cotton blended yarns	217,211	253,400	350,849	136,433	240,494
Sales of cotton yarns	8,114	29,117	51,839	22,873	25,736
	545,292	663,438	930,666	411,161	526,559

7. SEGMENT INFORMATION

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

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

The operations of the Group are derived from Jiangxi Jinyuan, therefore, the executive directors review the overall result of Jiangxi Jinyuan as a whole prepared under PRC GAAP for the purposes of resources allocation and performance assessment for the years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2011, respectively. Other than revenue analysis as set out in note 6, no operating results and other discrete financial information relating to the yarn products is prepared regularly for internal reporting to the CODM for resources allocation and performance assessment. The operations of Jiangxi Jinyuan represent single operating and reportable segment of the Group under IFRS 8 "Operating Segments".

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

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Segment (loss) profit reviewed by CODM	(2,452)	57,792	113,106	43,168	50,761
Adjusted for income in relation to government grants	3,570	8,400	4,450	1,075	475
Unallocated expenses	—	—	—	—	(5,973)
Group's profit for the Relevant Periods	1,118	66,192	117,556	44,243	45,263

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets reviewed by CODM	631,226	635,700	725,200	617,796
Unallocated assets	—	—	—	1,526
Group's total assets	631,226	635,700	725,200	619,322

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Segment liabilities reviewed by CODM	465,901	447,233	505,127	346,561
Adjusted for deferred income	7,014	6,864	6,714	6,639
Unallocated liabilities	—	—	—	7,499
Group's total liabilities	472,915	454,097	511,841	360,699

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

Geographical information

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

Information about major customers

No revenue from single customer contributing over 10% of the total sales of the Group in the Relevant Periods.

8. INVESTMENT AND OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Interest income on pledged bank deposits and bank balances	1,722	1,926	1,006	529	459
Government grants based on value-added tax paid *(note)*	3,420	8,250	4,300	1,000	—
Government grants on purchase of land use right *(note)*	150	150	150	75	75
Other government grant	—	—	—	—	400
Income from scrap sales	462	443	1,486	469	839
Others	264	158	85	68	166
	6,018	10,927	7,027	2,141	1,939

Note:

Government grants include refund of purchase cost of land use right and grants based on value-added tax from the PRC government. Both subsidies were generally provided in relation to the establishment of Jiangxi Jinyuan in 2005. Government grants based on value-added tax paid are recognised in the combined statement of comprehensive income when received and no specific conditions have been required to be met. Those government grants related to the refund of the purchase cost of land use right are recognised as deferred income *(see note 24)*, which is non-recurring in nature.

9. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Interest on:					
— Bank borrowings wholly repayable within five years	6,080	8,141	12,658	6,108	7,858
— Finance leases	242	450	1,794	876	1,260
	6,322	8,591	14,452	6,984	9,118
Discounting charges on note receivables	8,095	2,316	974	158	—
Amortisation of upfront fee related to obligations under finance leases	—	—	583	292	292
	14,417	10,907	16,009	7,434	9,410
Less: amounts capitalised	—	—	—	—	(978)
	14,417	10,907	16,009	7,434	8,432

Borrowing costs capitalised during the year/period arose on the general borrowing pool and are calculated by applying the following capitalisation rates per annum to expenditure on qualifying assets.

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	%	%	%	%	%
Capitalisation rate	—	—	—	—	6.48

10. PROFIT FOR THE YEAR/PERIOD

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit for the year/period has been arrived at after charging:					
Auditor's remuneration	26	26	30	—	—
Cost of inventories recognised as an expense	515,119	576,205	781,294	350,465	453,737
Depreciation of property, plant and equipment	12,300	16,596	17,329	8,575	9,083
Amortisation of prepaid lease payments	276	276	286	138	154
Total depreciation and amortisation	12,576	16,872	17,615	8,713	9,237
Loss on disposal of property, plant and equipment	—	—	2	—	36
Listing expenses (included in other expenses)	—	—	—	—	4,954
Directors' remuneration:					
Fees	—	—	—	—	—
Salaries and other benefits	147	147	147	82	186
Retirement benefit scheme contributions	1	2	2	1	1
	148	149	149	83	187
Other staff costs	33,675	45,337	47,101	22,683	27,009
Retirement benefit scheme contributions (excluding directors)	5	17	36	11	71
Total staff costs	33,828	45,503	47,286	22,777	27,267

11. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

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

For the year ended 31 December 2008

	Fees	Salaries and other benefits	Retirement benefit scheme contributions	Total emoluments
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:				
Zheng, Yongxiang	—	147	1	148
Zheng, Hong	—	—	—	—
Non-executive director:				
Sze, Irons	—	—	—	—
	—	147	1	148

For the year ended 31 December 2009

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

For the year ended 31 December 2010

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

For the six months ended 30 June 2010 (Unaudited)

	Fees	Salaries and other benefits	Retirement benefit scheme contributions	Total emoluments
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:				
Zheng, Yongxiang	—	82	1	83
Zheng, Hong	—	—	—	—
Non-executive director:				
Sze, Irons	—	—	—	—
	—	82	1	83

For the six months ended 30 June 2011

	Fees	Salaries and other benefits	Retirement benefit scheme contributions	Total emoluments
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:				
Zheng, Yongxiang	—	95	1	96
Zheng, Hong	—	91	—	91
Non-executive director:				
Sze, Irons	—	—	—	—
	—	186	1	187

No directors waived any emoluments for the years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2011.

Mr. Zheng Hong and Mr. Zheng Yongxiang were appointed as executive directors and Mr. Sze Irons was appointed as non-executive director of the Company on 4 May 2011.

Of the 5 highest paid employees in the Group, 1, 1, 1, 1 and 2 were directors of the Company for the years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2010 and 2011 whose emoluments are included in disclosures above. The emoluments of the remaining 4, 4, 4, 4 and 3 individuals for the years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2010 and 2011, were as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Salaries and other benefits	191	198	197	89	86
Retirement benefit scheme contributions	—	—	—	—	—
	191	198	197	89	86

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	Number of employees	Number of employees	Number of employees	Number of employees (Unaudited)	Number of employees
Emoluments of these remaining highest paid individuals were within the following band:					
Nil – HK$1,000,000	4	4	4	4	3

12. INCOME TAX EXPENSE

The Company is tax exempted under the laws of the Cayman Islands. No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from Hong Kong.

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

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

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

The application of EIT reduction related to the purchase of domestic manufactured equipment in 2006 and 2007 was approved by the Jiangxi Administration of State Taxation of Fengxi District. Jiangxi Jinyuan was entitled to a total tax reduction of RMB38.41 million for the years ended 31 December 2006 and 2007. Among them, RMB0.28 million, RMB8.51 million, RMB14.81 million, RMB5.53 million (unaudited) and RMB12.81 million have been utilised to offset the income tax liability of Jiangxi Jinyuan in 2008, 2009, 2010 and the six months ended 30 June 2010 and 2011 respectively. The remaining RMB2.00 million was carried forward for future tax reduction as at 30 June 2011.

No provision for EIT has been made as after applying the tax concession, if applicable, the remaining tax expense was fully reduced by the utilisation of tax credit obtained from domestic manufactured equipment for the years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2011.

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

Taxation expense for the Relevant Periods can be reconciled to the profit for the year/period per the combined statements of comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit for the year/period	1,118	66,192	117,556	44,243	45,263
Tax at PRC EIT rate of 25%	280	16,548	29,389	11,060	11,316
Tax effect of expenses not deductible for tax purpose	288	215	116	—	1,596
Tax effect of tax concession granted	(284)	(8,513)	(14,821)	(5,530)	—
Additional tax credit for purchase of domestic manufactured equipment	(284)	(8,513)	(14,821)	(5,530)	(12,809)
Others	—	263	137	—	(103)
Taxation for the year/period	—	—	—	—	—

13. DIVIDENDS

During the Relevant Periods, Jiangxi Jinyuan had declared dividend to its shareholders prior to the Group Reorganisation as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Shareholders of Jiangxi Jinyuan	—	42,900	85,800	—	—

The rates of dividend and the number of shares ranking for dividend 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 Periods is based on the profit attributable to owners of the Company for the Relevant Periods and on the 750,000,000 shares in issue during these periods on the assumption that the Group Reorganisation and the capitalisation issue as more fully described in the section headed "Statutory and General Information" in Appendix VI to the Prospectus has been effective on 1 January 2008.

No diluted earnings per share is presented for the Relevant Periods as there are no potential ordinary shares outstanding during those years/periods.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Construction in progress	Plant and machinery	Office equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2008	62,862	33,883	164,159	853	2,582	264,339
Additions	2,009	60,022	74,750	111	110	137,002
Transfer from construction in progress	71,000	(78,054)	7,054	—	—	—
At 31 December 2008 and 1 January 2009	135,871	15,851	245,963	964	2,692	401,341
Additions	522	—	11,502	174	146	12,344
Transfer from construction in progress	—	(15,851)	15,851	—	—	—
At 31 December 2009 and 1 January 2010	136,393	—	273,316	1,138	2,838	413,685
Additions	328	1,441	17,369	469	1,081	20,688
Disposals	—	—	—	(10)	(2)	(12)
Transfer from construction in progress	—	(325)	325	—	—	—
At 31 December 2010 and 1 January 2011	136,721	1,116	291,010	1,597	3,917	434,361
Additions	—	31,137	61	358	—	31,556
Disposals	—	—	(50)	(24)	—	(74)
At 30 June 2011	136,721	32,253	291,021	1,931	3,917	465,843
ACCUMULATED DEPRECIATION						
At 1 January 2008	593	—	5,885	64	168	6,710
Charge for the year	2,828	—	9,097	135	240	12,300
At 31 December 2008 and 1 January 2009	3,421	—	14,982	199	408	19,010
Charge for the year	4,054	—	12,136	157	249	16,596
At 31 December 2009 and 1 January 2010	7,475	—	27,118	356	657	35,606
Charge for the year	4,098	—	12,741	176	314	17,329
Eliminated on disposals of assets	—	—	—	(8)	(2)	(10)
At 31 December 2010 and 1 January 2011	11,573	—	39,859	524	969	52,925
Charge for the period	2,049	—	6,788	89	157	9,083
Eliminated on disposals of assets	—	—	(17)	(21)	—	(38)
At 30 June 2011	13,622	—	46,630	592	1,126	61,970
CARRYING AMOUNTS						
At 31 December 2008	132,450	15,851	230,981	765	2,284	382,331

	Buildings	Con-struction in progress	Plant and machinery	Office equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2009	128,918	—	246,198	782	2,181	378,079
At 31 December 2010	125,148	1,116	251,151	1,073	2,948	381,436
At 30 June 2011	123,099	32,253	244,391	1,339	2,791	403,873

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

Buildings and plant and machinery with an aggregate carrying amount of approximately RMB208.68 million, RMB196.62 million, RMB198.59 million and RMB193.42 million have been pledged to secure general banking facilities granted to the Group as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively *(see note 33)*.

16. PREPAID LEASE PAYMENTS

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

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Analysed for reporting purposes as:				
Current assets	276	276	299	299
Non-current assets	12,721	12,445	13,361	13,207
	12,997	12,721	13,660	13,506

Prepaid lease payments with a carrying amount of approximately RMB12.37 million, RMB12.11 million, RMB12.44 million and RMB12.28 million have been pledged to secure general banking facilities granted to the Group as at 31 December 2008, 2009 and 2010 and 30 June 2011, respectively *(see note 33)*.

17. INVENTORIES

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	38,880	32,697	77,124	20,468
Work in progress	5,862	6,777	10,418	8,781
Finished goods	22,345	57,183	28,163	56,408
	67,087	96,657	115,705	85,657

Inventories with a carrying amount of Nil, approximately RMB19.07 million, RMB20 million and RMB46.98 million have been pledged to secure general banking facilities granted to the Group as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively *(see note 33)*.

18. TRADE AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	—	85	531	—
Advance payment to suppliers	13,432	9,429	27,425	8,610
Advance to a third party *(note)*	—	2,480	—	—
Value-added tax receivables	1,725	3,304	—	—
Prepayment	20	20	20	1,546
	15,177	15,318	27,976	10,156

Note:

The amount as at 31 December 2009 was unsecured, interest free and fully repaid in 2010.

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

No interest is charged on overdue trade receivables. The Group's policy is to recognise allowance for doubtful debts aged over 1 year as these receivables that are past due beyond 1 year are generally not recoverable based on historical experience. No allowance for doubtful debts are recognised for the years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2011 as no receivables are aged over 1 year as at the end of each reporting period.

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

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
1–30 days	—	85	454	—
31–90 days	—	—	77	—
	—	85	531	—

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

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of nil, nil, RMB77,000 and nil as at 31 December 2008, 2009, 2010 and 30 June 2011 which are past due as at the reporting date for which the Group has not provided for impairment loss. Based on historical experience, the receivables are generally recoverable as supported by on-going settlements from customers. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
31–90 days	—	—	77	—

19. NOTE RECEIVABLES

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

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
1–30 days	800	1,400	4,323	—
31–60 days	775	2,360	4,927	—
61–90 days	2,630	1,849	2,400	820
91–120 days	500	—	679	450
121–150 days	800	—	—	425
Over 150 days	1,000	80	—	1,385
	6,505	5,689	12,329	3,080

Included above are note receivables amounting to RMB5,605,000, RMB3,090,000 and RMB4,624,000 and RMB3,080,000 as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively, which have been endorsed to the Group's creditors for settlement of the payables at the same amount. These notes have not yet been matured at end of the respective reporting periods.

Included above are note receivables amounting to RMB900,000, RMB1,649,000 and RMB2,100,000 which have been endorsed to a related company for financing purposes as at 31 December 2008, 2009 and 2010 respectively.

20. AMOUNTS DUE FROM RELATED COMPANIES

The amounts were unsecured, interest free and repayable on demand. The amounts were fully settled in the following financial year.

Details of the Group's relationship and the balances with these related companies are set out in note 35.

21. PLEDGED BANK DEPOSITS/CASH AND BANK BALANCES

Bank balances carried interest at market rates of 0.36% per annum as at 31 December 2008, 2009, 2010 and 0.5% per annum as at 30 June 2011. Pledged bank deposits, carried interest at market rates of 1.71%, 1.71%, 2.25% and 2.85% per annum as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively. Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group *(see note 33)*, of which RMB5,000,000 as at 31 December 2008, 2009 and 2010 and RMB40,000,000 as at 30 June 2011 will be released upon the settlement of the relevant short term bank borrowings, and the balance of approximately RMB101,201,000, RMB37,801,000, RMB24,609,000 and RMB14,332,000 as at 31 December 2008, 2009, 2010 and 30 June 2011 respectively were used for settlement of the note payables upon maturity.

22. TRADE AND OTHER PAYABLES

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	20,434	7,200	6,921	5,346
Value-added tax payable	—	—	4,821	4,422
Other payables *(note)*	33,036	64	70	132
Other tax payable	—	1,050	1,597	715
Accrual for salary and wages	3,438	3,800	4,098	4,400
Accrued charges	4,045	3,346	3,161	3,544
Payable for acquisition of property, plant and equipment	32,522	7,624	2	2
Deposits from customers	4,167	24,261	18,446	12,437
	97,642	47,345	39,116	30,998

Note:

As at 31 December 2008, other payables included loans from third parties with carrying amount of RMB33,000,000. These amounts were unsecured, interest free and fully repaid in 2009.

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

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
1–30 days	20,434	6,797	6,281	4,326
31–90 days	—	332	633	1,020
Over 90 days	—	71	7	—
	20,434	7,200	6,921	5,346

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

23. NOTE PAYABLES

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

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
1–30 days	51,000	13,000	5,650	—
31–90 days	50,300	46,000	16,000	3,600
91–180 days	150,700	15,000	20,000	8,500
	252,000	74,000	41,650	12,100

During the years ended 31 December 2008 and 2009, approximately RMB124,400,000 and RMB26,025,000 notes were issued to a related company and third parties for financing purposes, respectively. As at 31 December 2008 and 2009, outstanding notes in respect of these arrangements were amounted to approximately RMB102,100,000 and RMB5,000,000, respectively.

24. DEFERRED INCOME

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

25. AMOUNTS DUE TO RELATED COMPANIES/A DIRECTOR

The amounts were unsecured, interest free, non-trading in nature and repayable on demand. The amounts outstanding as at 31 December 2008 were fully settled during the Relevant Periods. The amount due to a related company of approximately RMB7,154,000 as at 30 June 2011 will be settled before the listing of shares of the Company on the Stock Exchange. Details of the Group's relationship with these related companies are set out in note 35.

26. BANK BORROWINGS

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Secured bank borrowings *(Note 2)*	85,330	200,000	237,737	226,412
Unsecured bank borrowings *(Note 3)*	900	21,649	52,100	40,000
	86,230	221,649	289,837	266,412

Notes:

(1) All the bank borrowings are repayable within one year based on the scheduled repayment dates set out in the respective loan agreements and therefore shown under current liabilities.

(2) These bank borrowings were secured by the Group's land use rights, buildings, plant and machinery, inventories, bank deposits *(see note 33)* or buildings and/or land use rights owned by a related company of the Group. The Group has obtained banking facilities relating to trust receipt loans of approximately RMB20.7 million at 31 December 2010, and RMB7.4 million and USD1 million at 30 June 2011. They bore bank charges from 0.05% to 0.15% of the issued trust receipt loans. As at 31 December 2010 and 30 June 2011, the Group had trust receipt loans of approximately RMB20.7 million and RMB7.4 million respectively.

Except for the trust receipt loans as mentioned above, they bore fixed interest rates from 5.31% to 8.22% per annum or floating interest rates ranging from 100% to 110% of the benchmark borrowing rate in the PRC as at 31 December 2008, 2009, 2010 and 30 June 2011.

(3) Unsecured bank borrowings bore floating interest rate at 110% of the benchmark borrowing rate in the PRC as at 31 December 2009 and 2010 and 30 June 2011 except for an amount of RMB900,000, RMB1,649,000 and RMB2,100,000 as at 31 December 2008, 2009 and 2010, respectively, which were non-interest bearing.

(4) The weighted average effective interest rate on bank borrowings is 7.11%, 5.66%, 5.28% and 6.30% per annum as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively. All borrowings are denominated in RMB.

(5) As at 30 June 2011, the Group has USD1 million undrawn trust receipt loan facility. As at 31 December 2008, 2009 and 2010, the Group did not have any undrawn borrowing facilities.

(6) Details of the guarantee or securities given by related companies over the bank borrowings are set out in note 35(d).

27. OBLIGATIONS UNDER FINANCE LEASES

The Group entered into sale and leaseback arrangements with certain independent third parties in relation to certain of Group's machineries during the Relevant Periods. The Group considered that these lease arrangements are finance lease as substantially all the risks and rewards incidental to ownership of these machineries retained with the Group. In addition, the Group has options to purchase the machineries with a nominal amount at the end of the lease terms. The lease terms ranged from 1 to 4 years. Interest rates underlying all obligations under finance leases are fixed at the date of inception at 4.9%, 3.0% to 3.8%, 3.0% to 8.0% and 3.0% to 8.0% per annum as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments				Present value of minimum lease payments			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2008	2009	2010	2011	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amounts payable under finance leases:								
Within one year	4,331	21,240	27,315	28,401	4,129	18,924	24,151	24,542
In more than one year but not more than two years	—	21,424	25,191	12,268	—	18,561	22,743	12,032
In more than two years but not more than five years	—	20,335	1,884	841	—	18,854	1,830	822
	4,331	62,999	54,390	41,510	4,129	56,339	48,724	37,396
Less: future finance charges	(202)	(4,910)	(4,499)	(3,239)	N/A	N/A	N/A	N/A
Less: amortisation of upfront fee	—	(1,750)	(1,167)	(875)	N/A	N/A	N/A	N/A
Present value of lease obligations	4,129	56,339	48,724	37,396	4,129	56,339	48,724	37,396
Less: Amount due for settlement within 12 months (shown under current liabilities)					(4,129)	(18,924)	(24,151)	(24,542)
Amount due for settlement after 12 months					—	37,415	24,573	12,854

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets and denominated in RMB. The obligations with carrying amount of RMB56,339,000 and RMB37,873,000 and RMB28,634,000 as at 31 December 2009, 2010 and 30 June 2011, respectively, are also secured by deposits amounting to RMB15,521,000.

Deposit amounting to RMB12,500,000 in respect of a finance lease will be released upon the settlement of the relevant obligations with remaining lease term over 1 year. The remaining deposit will be used to settle the purchase cost of the relevant asset at the end of the lease term. This deposit bears fixed rate interest at 2% per annum and interest income is receivable upon the expiry of lease term.

As at 31 December 2009, 2010 and 30 June 2011, a related party of the Group had given guarantees to the obligation under finance leases. Details are set out in note 35(d)(ii).

28. SHARE CAPITAL/PAID-IN CAPITAL

The Group

The paid-in capital as at 31 December 2008, 2009 and 2010 represented the registered capital of Jiangxi Jinyuan. As at 30 June 2011, the share capital represented the combined share capital of the Company and registered capital of Jiangxi Jinyuan.

The Company

The Company was incorporated in Cayman Islands as an exempted company with limited liability under the Company Law of Cayman Islands on 4 May 2011.

At the date of incorporation, the authorised share capital of the Company was HK$380,000 divided into 3,800,000 shares of HK$0.1 each, of which 100,000 shares were allotted and issued at nil paid shares to the shareholders. On 13 June 2011, the Company further allotted and issued 900,000 nil paid shares to the Ultimate Controlling Shareholders and Orient Dynasty Holdings Limited, together with the existing 100,000 nil paid shares in issue, in exchange of the entire share capital of Jolly Success.

29. CAPITAL MANAGEMENT

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

The capital structure of the Group consists of net debts (which include amounts due to related companies/a director, bank borrowings and obligations under finance leases, net of cash and cash equivalents) and equity attributable to owners of the Company, comprising capital, reserves and accumulated profits.

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

30. FINANCIAL INSTRUMENTS

30a. Categories of financial instruments

The Group

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Loans and receivables (including cash and cash equivalents)	153,633	135,490	171,504	106,130
Financial liabilities				
Amortised cost	450,122	315,537	338,480	291,146

The Company

	As at 30 June 2011
	RMB'000
Financial liabilities	
Amortised cost	7,154

30b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, note receivables, amounts due from related companies, pledged bank deposits, cash and bank balances, trade and other payables, note payables, amounts due to related companies/a director, bank borrowings and obligations under finance leases.

The Company's major financial instrument is amount due to a related company.

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

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings *(see note 26)* and obligations under finance leases *(see note 27)*.

The Group is also exposed to cash flow interest rate risk in relation to the variable-rate pledged bank deposits, bank balances and bank borrowings *(see notes 21 and 26)*.

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

Interest rate sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2011 would decrease/ increase by approximately RMB286,000, RMB875,000, RMB862,000 and RMB318,000, respectively.

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation as at 31 December 2008, 2009, 2010 and 30 June 2011 by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the combined statements of financial position.

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

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

The management of the Group believes that the Group is not exposed to significant credit risk with the related companies as based on historical repayment records, the Group had not encountered any difficulties in collecting from them in the past and is not aware of any financial difficulties being experienced by them.

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

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

Liquidity risk

In preparing the Underlying Financial Statements, the management of the Group has given careful consideration to the future liquidity and going concern of the Group in light of the fact that the Group's current liabilities exceeded its current assets by approximately RMB229,727,000, RMB180,163,000, RMB181,122,000 and RMB154,485,000 as at 31 December 2008, 2009, 2010 and 30 June 2011 respectively. Up to the date of this report, the Group has already obtained roll over of bank loans amounting to RMB202,000,000 and 3 years banking facilities of RMB140,000,000. Accordingly, the management of the Group is satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future, after taking into consideration the banking facilities already in place and internal financial resources and accordingly, the Underlying Financial Statements have been prepared on a going concern basis.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2008, 2009, 2010, the Group did not have unutilised bank loan facilities. As at 30 June 2011, the Group has USD1 million undrawn trust receipt loan facility. Details of which are set out in note 26.

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

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

Liquidity and interest risk tables

The Company

	Weighted average interest rate	On demand	1-3 months	3 months to 1 year	1 to 5 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 30 June 2011							
Non-derivative financial liabilities							
Amount due to a related company	—	7,154	—	—	—	7,154	7,154

The Group

	Weighted average interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	1 to 5 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2008							
Non-derivative financial liabilities							
Trade and other payables	—	52,992	—	33,000	—	85,992	85,992
Note payables	—	51,000	50,300	150,700	—	252,000	252,000
Amounts due to related companies	—	25,900	—	—	—	25,900	25,900
Obligations under finance leases	4.89%	866	1,732	1,733	—	4,331	4,129
Bank borrowings							
— interest free	—	400	300	200	—	900	900
— fixed	7.27%	—	5,047	15,792	—	20,839	20,000
— variable	7.17%	10,046	10,075	47,846	—	67,967	65,330
		141,204	67,454	249,271	—	457,929	454,251
As at 31 December 2009							
Non-derivative financial liabilities							
Trade and other payables	—	14,888	—	—	—	14,888	14,888
Note payables	—	13,000	46,000	15,000	—	74,000	74,000
Amount due to a director	—	5,000	—	—	—	5,000	5,000
Obligations under finance leases	3.12%	—	5,090	16,150	41,759	62,999	56,339
Bank borrowings							
— interest free	—	1,549	—	100	—	1,649	1,649
— fixed	5.31%	—	5,034	15,590	—	20,624	20,000
— variable	5.74%	20,111	—	186,912	—	207,023	200,000
		54,548	56,124	233,752	41,759	386,183	371,876

	Weighted average interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	1 to 5 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2010							
Non-derivative financial liabilities							
Trade and other payables	—	6,993	—	—	—	6,993	6,993
Note payables	—	5,650	16,000	20,000	—	41,650	41,650
Obligations under finance leases	4.21%	1,712	6,233	19,370	27,075	54,390	48,724
Bank borrowings							
— interest free	—	11,422	11,315	100	—	22,837	22,837
— fixed	5.36%	—	5,029	66,669	—	71,698	70,000
— variable	5.86%	10,029	—	192,768	—	202,797	197,000
Financial guarantee contracts	—	50,000	—	—	—	50,000	—
		85,806	38,577	298,907	27,075	450,365	387,204
As at 30 June 2011							
Non-derivative financial liabilities							
Trade and other payables	—	5,480	—	—	—	5,480	5,480
Note payables	—	—	3,600	8,500	—	12,100	12,100
Amount due to a related company	—	7,154	—	—	—	7,154	7,154
Obligations under finance leases	4.13%	1,672	6,195	20,534	13,109	41,510	37,396
Bank borrowings							
— interest free	—	—	—	7,412	—	7,412	7,412
— fixed	6.14%	—	—	70,215	—	70,215	67,000
— variable	6.60%	—	88,098	110,083	—	198,181	192,000
		14,306	97,893	216,744	13,109	342,052	328,542

The amount included above for financial guarantee contracts is the maximum amount the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at 31 December 2010, the Group considers that it is more likely than not that no amount will be payable under the arrangement. The guarantees have been released during the six months ended 30 June 2011.

30c. Fair value

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

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

31. CAPITAL COMMITMENTS

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted for but not provided in the Financial Information in respect of acquisition of property, plant and equipment	2,631	—	12,550	—

32. RETIREMENT BENEFIT SCHEME

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

The total cost charged to combined statements of comprehensive income of approximately RMB6,000, RMB19,000, RMB38,000, RMB12,000 (unaudited) and RMB41,000 for the years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2010 and 2011, respectively, represent contribution paid to the scheme for the Relevant Periods.

33. PLEDGED OF ASSETS

Assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group or borrowings of the Group *(see notes 26 and 27)*:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	208,677	196,618	198,591	193,418
Prepaid lease payments	12,367	12,105	12,438	12,278
Inventories	—	19,070	20,000	46,980
Pledged bank deposits	106,201	42,801	29,609	54,332
Secured deposits for obligations under finance leases	—	15,521	15,521	15,521
	327,245	286,115	276,159	322,529

In addition, the Group's obligations under finance leases *(see note 27)* are secured by the lessors' title to the leased assets, which have a carrying amount of RMB11.95 million, RMB70.67 million, RMB56.36 million and RMB50.58 million as at 31 December, 2008, 2009, 2010 and 30 June 2011, respectively.

34. CONTINGENT LIABILITIES

As at 31 December 2010, the Group issued financial guarantees to banks in respect of banking facilities granted to a related company. These guarantees have been released during the six months ended 30 June 2011. Details are set out in note 35(d)(iv).

35. RELATED PARTY TRANSACTIONS

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

Name of related company	Relationship with the Group
(i) 福建省金綸高纖股份有限公司 (Fujian Jinlun Fiber Joint Stock Co., Ltd.*) ("Fujian Jinlun") . . .	Mr. Zheng Baoyou, father of Mr. Zheng Hong, one of the Ultimate Controlling Shareholders of Jiangxi Jinyuan, is the chairman and legal representative of this related company. 福建省長樂市金源紡織有限公司 (see below) had significant influence through holding of 46.55% equity interest in this related company *(note)*
(ii) 江西寶源彩紡有限公司 (Jiangxi Baoyuan Colourful Textile Co., Ltd.*)	Ms. Lin Xiaochun, mother of Mr. Zheng Hong, and a brother of Mr. Zheng Hong held 47.5% and 30% equity interests in this related company respectively on trust for a third party as security for repayment of loans advanced by them to this third party *(note)*
(iii) 奉新寶誠房地產有限公司 (Fengxin Baocheng Real Estate Limited*)	a director of Jiangxi Jinyuan, Mr. Zheng Yongxiang, is a controlling shareholder of this related company
(iv) 福建省長樂市金源紡織有限公司 (Fujian Changle Jinyuan Textiles Limited*)	a director of Jiangxi Jinyuan, Mr. Zheng Yongxiang and his uncle collectively controlled this related company *(note)*. Mr. Zheng Yongxiang and his uncle held 40% and 15% equity interest in this related company respectively
(v) 奉新縣長新投資發展有限公司 (Fengxin County Changxin Investment Development Limited*)	a director of Jiangxi Jinyuan, Ms. Chen Xiuyin is a controlling shareholder of this related company
(vi) 福建省長樂市元隆針紡有限公司 (Fujian Changle Yuanlong Knitting Limited*)	Ms. Chen Ailan, wife of Mr. Zheng Hong, held 25% equity interests in this related company
(vii) 高新織材(香港)有限公司 (High-Tech Woven Material (Hong Kong) Limited)	Mr. Zheng Hong, is a controlling shareholder of this related company

Note:

On 13 December 2010, Mr. Zheng Yongxiang disposed of his shareholdings in item (iv) to a third party. On 8 March 2011, Ms. Lin Xiaochun and the brother of Mr. Zheng Hong transferred their entire shareholdings in item (ii) to a third party upon agreement to early repay the loan to this third party.

* *English translated name is for identification purposes only*

(b) Name of related party who is an individual and has balance with the Group as at the end of respective reporting periods and his relationship with the Group are as follows:

Name of related party	Relationship with the Group
Zheng, Hong.	Director and one of the Ultimate Controlling Shareholders of Jiangxi Jinyuan

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

	Notes	Year ended 31 December 2008	2009	2010	Six months ended 30 June 2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Purchase of raw materials from a related company *(note)*		32,734	45,850	38,464	21,941	3,385
Non-trading advance to related companies	20	17,807	47,249	36,485	7,685	—
Repayment from related companies	20	3,100	39,206	60,935	26,250	—
Repayment to related companies	25	10,000	25,900	10,000	—	—
Non-trading advance from a related company	25	—	—	10,000	10,000	7,154
Non-trading advance from (repayment to) a director	25	—	5,000	(5,000)	(5,000)	—

Note: Apart from the purchase from Fujian Jinlun as disclosed above, Jiangxi Jinyuan had purchased raw materials from Fujian Jinlun through a trading company amounting to RMB11,737,000 during the year ended 31 December 2008.

The related party transactions other than advance will continue after the listing of shares of the Company on the Stock Exchange.

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

(i) Secured bank borrowings of RMB20 million, RMB20 million, RMB20 million and RMB15 million as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively, were secured by the buildings and/or land use rights owned by a related company.

Also, secured bank borrowings of RMB45.33 million, RMB140 million, RMB100 million and RMB65 million as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively, are guaranteed by certain related companies, certain directors of the Company and/or father of certain directors of the Company and the guarantees will be released before the listing of shares of the Company on the Stock Exchange.

Unsecured bank borrowings of RMB20 million, RMB50 million and RMB40 million as at 31 December 2009, 2010 and 30 June 2011, respectively, were guaranteed by certain related companies and certain directors of the Company and/or director of a related company and the guarantees will be released before the listing of shares of the Company on the Stock Exchange.

(ii) As at 31 December 2009, 2010 and 30 June 2011, Fujian Jinlun has given guarantees to Jiangxi Jinyuan for its obligations under finance leases with carrying amount of RMB50 million, RMB33.33 million and RMB25 million, respectively and the guarantees will be released before the listing of shares of the Company on the Stock Exchange.

(iii) As at 31 December 2008, 2009, 2010 and 30 June 2011, certain directors of the Company have provided unlimited personal guarantee to banks in respect of general facilities granted to Jiangxi Jinyuan.

(iv) As at 31 December 2010, Jiangxi Jinyuan has given guarantees to Fujian Jinlun for its bank borrowings with maximum amount of RMB50 million which have been utilised in full by this related company. Fair value of the financial guarantee contracts is considered as insignificant at initial recognition. No provision for financial guarantee contracts has been made as the default risk is low. As at 30 June 2011, all guarantees have been released.

(v) During the years ended 31 December 2008 and 2009, approximately RMB124,400,000 and RMB26,025,000 respectively notes were issued to a related party and third parties for financing purposes.

(vi) As at 31 December 2008, 2009 and 2010, note receivables amounting to RMB900,000, RMB1,649,000 and RMB2,100,000 have been endorsed to a related company for financing purposes.

(e) The balances due to/from related parties at end of reporting period are as follows:

	Note	As at 31 December 2008	As at 31 December 2009	As at 31 December 2010	As at 30 June 2011
		RMB'000	RMB'000	RMB'000	RMB'000
Due from related companies	*20*				
Non-trading in nature:					
江西寶源彩紡有限公司 (Jiangxi Baoyuan Colourful Textile Co., Ltd.)		7,464	14,000	—	—
福建省金綸高纖股份有限公司 (Fujian Jinlun Fiber Joint Stock Co., Ltd.)		2,243	—	—	—
奉新寶誠房地產有限公司 (Fengxin Baocheng Real Estate Limited)		—	8,750	—	—
福建省長樂市元隆針紡有限公司 (Fujian Changle Yuanlong Knitting Limited)		5,000	—	—	—
		14,707	22,750	—	—

	Year ended 31 December 2008	Year ended 31 December 2009	Year ended 31 December 2010	Six months ended 30 June 2010	Six months ended 30 June 2011
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
In respect of the amounts due from related parties, the maximum amounts outstanding during the Relevant Periods are set out as follows:					
Related companies					
江西寶源彩紡有限公司 (Jiangxi Baoyuan Colourful Textile Co. Ltd.)	7,464	21,000	25,985	15,210	—
福建省金綸高纖股份有限公司 (Fujian Jinlun Fiber Joint Stock Co., Ltd.)	14,500	8,375	12,792	12,000	3,385
奉新寶誠房地產有限公司 (Fengxin Baocheng Real Estate Limited)	—	12,200	8,750	8,750	—
福建省長樂市元隆針紡有限公司 (Fujian Changle Yuanlong Knitting Limited)	5,000	5,000	—	—	—

The Group

	Note	As at 31 December 2008 RMB'000	As at 31 December 2009 RMB'000	As at 31 December 2010 RMB'000	As at 30 June 2011 RMB'000
Due to related companies	*25*				
福建省長樂市金源紡織有限公司 (Fujian Changle Jinyuan Textiles Limited)		20,000	—	—	—
奉新縣長新投資發展有限公司 (Fengxin County Changxin Investment Development Limited)		5,900	—	—	—
高新織材(香港)有限公司 (High-tech Woven Material (Hong Kong) Limited)		—	—	—	7,154
		25,900	—	—	7,154
Due to a director	*25*				
Zheng, Hong		—	5,000	—	—

The Company

	Note	As at 31 December 2008 RMB'000	As at 31 December 2009 RMB'000	As at 31 December 2010 RMB'000	As at 30 June 2011 RMB'000
Due to a related company	*25*				
高新織材(香港)有限公司 (High-tech Woven Material (Hong Kong) Limited)		—	—	—	7,154

(f) Compensation of key management personnel

The remuneration of key management members, who are the executive directors of Jiangxi Jinyuan during the Relevant Periods was as follows:

	As at 31 December 2008 RMB'000	As at 31 December 2009 RMB'000	As at 31 December 2010 RMB'000	As at 30 June 2011 RMB'000
Short-term benefits	265	265	265	251
Post-employment benefits	—	—	—	—
	265	265	265	251

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

B. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable to the Company's directors by the Company or any of its subsidiaries during the Relevant Periods.

Under the arrangements presently in force, the aggregate remuneration of the Company's directors for the year ending 31 December 2011 paid or payable by the Company or any of its subsidiaries is expected to be approximately RMB370,000.

C. EVENTS AFTER THE REPORTING PERIOD

The following events took place subsequent to 30 June 2011:

(a) On 14 October 2011, the Ultimate Controlling Shareholders transferred their equity interest in Jiangxi Jinyuan to Treasure Resources in exchange of the allotment and issue of 1,000 shares of Treasure Resources to Jolly Success and accordingly, the Company became the holding company of companies now comprising the Group.

(b) Pursuant to the shareholders' resolutions passed on 3 December 2011 to approve the matters set out in the paragraph headed "Resolutions in Writing of All the Shareholders Passed on 3 December 2011" in Appendix VI to the Prospectus:

   (i) the authorised share capital of the Company was increased from HK$380,000 to HK$1,000,000,000 by the creation of an additional 9,996,200,000 shares of HK$0.1 each;

   (ii) conditional on the share premium account of the Company being credited as a result of the issue of shares by the Company pursuant to the global offering of the Company, the Directors of the Company were authorised to capitalise an amount of up to HK$74,900,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 749,000,000 shares of HK$0.1 each, such shares to be allotted and issued to the shareholders whose names appearing on the register of members of the Company at the close of business on 3 December 2011 (or as such shareholders may direct) in proportion (as nearly as possible without fractions) to their existing shareholdings in the Company; and

   (iii) principal terms of the share option scheme were approved and adopted by the shareholders of the Company. Details are set out in Appendix VI to the Prospectus.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any financial periods subsequent to 30 June 2011.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong