The following is the text of a report, prepared for the sole purpose of inclusion in this prospectus, from the independent joint reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong and Martin C. K. Pong & Company, Certified Public Accountants, Hong Kong.

BDO

龐志鈞會計師行
Martin C. K. Pong & Company

28 June 2011

The Directors
Golden Shield Holdings (Industrial) Limited
Guotai Junan Capital Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Golden Shield Holdings (Industrial) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the three years ended 31 December 2008, 2009 and 2010 (the "Relevant Periods"), including the combined statements of comprehensive income, combined statements of cash flows and combined statements of changes in equity of the Group for each of the Relevant Periods and the combined statements of financial position of the Group as at 31 December 2008 and 2009 and 2010, and the statement of financial position of the Company as at 31 December 2010, together with explanation notes thereon, for inclusion in the prospectus of the Company dated 28 June 2011 (the "Prospectus") in connection with the initial listing 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 Bermuda on 2 July 2010 as an exempted company with limited liability under the Companies Act 1981 of Bermuda.

Pursuant to a corporate reorganisation (the "Reorganisation") as described in note 2 of section II of this report, the Company became the holding company of the subsidiaries now comprising the Group. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

The Group is principally engaged in the production and sale of cotton yarn and grey fabric in the People's Republic of China (the "PRC"). The Company and its subsidiaries have adopted 31 December as their financial year end date. Particulars of the subsidiaries comprising the Group are set out in note 1 of section II of this report.

No audited financial statements have been prepared for the Company and Jade Goal Holdings Limited ("Jade Goal") since their respective dates of incorporation as there are no statutory audit requirements. No audited financial statements have been prepared for Hong Kong Golden Shield Limited ("HKGSL") as it is newly incorporated and has not been involved in any significant business transactions except for the Reorganisation.

The statutory financial statements of Golden Shield Textile (Jing Yang) Co., Ltd.* (金盾紡織(涇陽)有限公司) ("Jing Yang Golden Shield") for the year ended 31 December 2008 were audited by Continental Certified Public Accountants Co., Ltd. (中興華會計師事務所有限責任公司), a firm of certified public accountants registered in the PRC. The statutory financial statements of Jing Yang Golden Shield for the years ended 31 December 2009 and 2010 were audited by Shaanxi Giant C.P.A. Ltd. (陝西嘉瑞德會計師事務所有限公司), a firm of certified public accountants registered in the PRC. These statutory financial statements were prepared in accordance with the relevant accounting principles and accounting rules applicable to enterprises established in the PRC.

For the purpose of this report, the directors of the Company have prepared the combined financial statements (the "Underlying Financial Statements") of the Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Financial Information set out in this report has been prepared by the directors based on the Underlying Financial Statements with no adjustments made thereon and on the basis set out in note 2 of section II.

* *The English name of the subsidiary established in the PRC represents management's best effort at translating the Chinese name of such subsidiary as no English name has been registered.*

Respective Responsibility of directors and joint reporting accountants

The directors of the Company are responsible for the contents of the Prospectus, including the preparation and the true and fair presentation of the Financial Information prepared in accordance with the basis set out in note 2 of section II and accounting policies set out in note 5 of section II, which are in conformity with HKFRSs, the disclosure requirements of the Hong Kong Companies Ordinance and applicable provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you. For the purpose of this report, we have carried out an independent audit on the Underlying Financial Statements for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Underlying Financial Statements. The procedures selected depend on the reporting accountants' judgement, including the assessment of the risks of material misstatement of the Underlying Financial Statements, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation and true and fair presentation of the Underlying Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Underlying Financial Statements.

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

Opinion in respect of the Financial Information

In our opinion, the Financial Information set out below, for the purpose of this report and which is prepared on the basis of presentation in note 2 of section II and in accordance with accounting policies set out in note 5 of section II below, gives a true and fair view of the combined results and cash flows of the Group for the Relevant Periods and of the state of affairs of the Group as at 31 December 2008, 2009 and 2010 and the Company as at 31 December 2010.

I. FINANCIAL INFORMATION

Combined Statements of Comprehensive Income

		Year ended 31 December		
		2008	2009	2010
	Notes	RMB'000	RMB'000	RMB'000
Revenue	*8*	458,904	554,340	709,948
Cost of sales		(344,610)	(401,433)	(553,928)
Gross profit		114,294	152,907	156,020
Other income	*8*	1,514	1,116	2,006
Distribution costs		(5,033)	(6,754)	(9,518)
Administrative expenses		(6,427)	(12,364)	(17,186)
Finance costs	*9*	(3,279)	(3,737)	(751)
Profit before income tax	*10*	101,069	131,168	130,571
Income tax expense	*12*	(25,109)	(32,311)	(33,154)
Profit for the year		75,960	98,857	97,417
Other comprehensive income		—	—	—
Total comprehensive income for the year		75,960	98,857	97,417
Profit and total comprehensive income attributable to owners of the Company		75,960	98,857	97,417
Earnings per share attributable to owners of the Company — basic (RMB cents)	*14*	10.08	13.12	12.93

Combined Statements of Financial Position

		As at 31 December		
		2008	2009	2010
	Notes	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	*15*	51,201	92,378	112,279
Prepaid land lease payments	*16*	9,445	9,874	9,704
Deferred tax asset	*17*	1,162	3,438	308
		61,808	105,690	122,291
Current assets				
Inventories	*18*	32,657	18,819	24,938
Trade receivables	*19*	62,491	88,270	129,205
Prepayments, deposits and other receivables	*20*	13,873	6,607	29,571
Amount due from a related company	*21*	42,678	42,678	—
Pledged bank deposits	*22*	500	1,500	—
Cash and cash equivalents	*22*	108,498	160,080	175,892
		260,697	317,954	359,606
Current liabilities				
Trade payables	*23*	10,143	14,522	9,452
Accruals and other payables	*24*	46,786	56,531	21,642
Current tax liabilities		7,043	9,551	6,800
Bank borrowings	*25*	44,100	30,000	6,850
Provisions	*26*	6,832	6,582	6,384
		114,904	117,186	51,128
Net current assets		145,793	200,768	308,478
Total assets less current liabilities/Net assets		207,601	306,458	430,769

	Notes	As at 31 December 2008 RMB'000	2009 RMB'000	2010 RMB'000
EQUITY				
Equity attributable to owners of the Company				
Share capital	*27*	—	—	—
Reserves	*28*	207,601	306,458	430,769
Total equity		207,601	306,458	430,769

Statement of Financial Position

	Note	As at 31 December 2010 RMB'000
ASSETS AND LIABILITIES		
Non-current assets		—
Current assets		—
Current liabilities		—
Net current assets		—
Net assets		—
EQUITY		
Equity attributable to owners of the Company		
Share capital	*27*	—
Reserves		—
Total equity		—

Combined Statements of Changes in Equity

	Share capital	Statutory surplus reserve	Merger reserve	Share-based compensation reserve	Retained profits	Total equity
	RMB'000	RMB'000 (Note 28)	RMB'000 (Note 28)	RMB'000 (Note 28)	RMB'000	RMB'000
At 1 January 2008	—	3,891	5,124	—	102,835	111,850
Capital contribution to a PRC subsidiary from a shareholder of the PRC subsidiary						
— Transactions with owners	—	—	19,791	—	—	19,791
Profit and total comprehensive income for the year	—	—	—	—	75,960	75,960
Appropriation to statutory surplus reserve	—	7,764	—	—	(7,764)	—
At 31 December 2008 and 1 January 2009	—	11,655	24,915	—	171,031	207,601
Profit and total comprehensive income for the year	—	—	—	—	98,857	98,857
Appropriation to statutory surplus reserve	—	2,612	—	—	(2,612)	—
At 31 December 2009 and 1 January 2010	—	14,267	24,915	—	267,276	306,458
Share-based compensation	—	—	—	335	—	335
Capital contribution to a PRC subsidiary from a shareholder of the PRC subsidiary	—	—	26,559	—	—	26,559
Transactions with owners	—	—	26,559	335	—	26,894
Profit and total comprehensive income for the year	—	—	—	—	97,417	97,417
Appropriation to statutory surplus reserve	—	11,369	—	—	(11,369)	—
At 31 December 2010	—	25,636	51,474	335	353,324	430,769

Combined Statements of Cash Flows

		Year ended 31 December		
		2008	2009	2010
	Notes	RMB'000	RMB'000	RMB'000
Cash flows from operating activities				
Profit before income tax		101,069	131,168	130,571
Adjustments for:				
Loss on disposal of property, plant and equipment	*10*	—	410	361
Depreciation and amortisation	*10*	3,402	5,361	10,030
Share-based compensation		—	—	335
Interest expenses	*9*	3,279	3,737	751
Interest income	*8*	(646)	(496)	(530)
Operating profit before working capital changes		107,104	140,180	141,518
Decrease/(increase) in inventories		322	13,838	(6,119)
Increase in trade receivables		(8,924)	(25,779)	(40,935)
Decrease/(increase) in prepayments, deposits and other receivables		4,168	7,087	(23,595)
(Increase)/decrease in amount due from a related company		(42,678)	—	42,678
(Decrease)/increase in trade payables		(22,175)	4,379	(5,070)
Increase/(decrease) in accruals and other payables		41,662	(5,639)	(19,670)
Decrease in provisions		(287)	(250)	(198)
Cash generated from operations		79,192	133,816	88,609
Income tax paid		(24,830)	(32,079)	(32,775)
Net cash generated from operating activities		54,362	101,737	55,834

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Cash flows from investing activities			
Purchase of property, plant and equipment	(34,864)	(30,188)	(28,086)
Deposit payments for purchase of property, plant and equipment	(950)	(771)	(140)
Settlement of other payables for purchase of property, plant and equipment	—	(395)	(16,455)
Payments for prepaid land lease payments	—	(676)	(90)
Proceeds from disposal of property, plant and equipment	—	216	61
Decrease/(increase) in pledged bank deposits	3,000	(1,000)	1,500
Interest received	646	496	530
Net cash used in investing activities	(32,168)	(32,318)	(42,680)
Cash flows from financing activities			
Interest paid	(3,279)	(3,737)	(751)
Contribution from a shareholder of a PRC subsidiary for capital contributed to a PRC subsidiary	19,791	—	26,559
Proceeds from new bank borrowings	40,000	30,000	6,850
Repayment of bank borrowings	(70,000)	(44,100)	(30,000)
Net cash (used in)/generated from financing activities	(13,488)	(17,837)	2,658
Net increase in cash and cash equivalents	8,706	51,582	15,812
Cash and cash equivalents at beginning of the year	99,792	108,498	160,080
Cash and cash equivalents at end of the year	108,498	160,080	175,892

II. NOTES TO FINANCIAL INFORMATION

1. Corporate information

The Company was incorporated as an exempted company with limited liability in Bermuda on 2 July 2010 under the Companies Act 1981 of Bermuda. The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The principle activity of the Company is investment holding and the Group is principally engaged in the production and sale of cotton yarns and grey fabric.

In the opinion of the directors of the Company, the ultimate holding company of the Company is Tong Fa Limited (通發有限公司) ("Tong Fa"), a limited liability company incorporated in the British Virgin Islands ("BVI").

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

Company name	Place and date of incorporation/ establishment and kind of legal entity	Particulars of issued and fully paid up share capital/registered capital	Attributable equity interest directly	Attributable equity interest indirectly	Principal activities
Jade Goal	Incorporated in BVI on 4 January 2010, limited liability company	US$200	100%	—	Investment holding
HKGSL	Incorporated in Hong Kong on 23 August 2010, limited liability company	HK$1	—	100%	Investment holding
Jing Yang Golden Shield	Incorporated in the PRC on 5 December 2001, wholly foreign-owned enterprise	US$7,370,000	—	100%	Production and sale of cotton yarn and grey fabric

2. Group reorganisation and basis of presentation

The companies in the Group underwent a reorganisation (the "Reorganisation") in preparation for the listing on the Stock Exchange which involved the following:

(a) on 26 March 2010, Mr. Qiu Jianfa ("Mr. Qiu"), Hai Xin Capital Group Limited ("Hai Xin"), Wealth Lake Investment Limited ("Wealth Lake") and Mr. Li Xiaoxiong ("Mr. Li") subscribed for a total of 100 shares of US$1 each of Jade Goal for cash at par;

(b) Jade Goal acquired 1 share of HK$1 of HKGSL for cash at par on 2 September 2010;

(c) HKGSL acquired all equity interests in Jing Yang Golden Shield from Mr. Qiu, trading as Hong Kong Golden Shield International Investment Company, Mr. Kung Shih Kun ("Mr. Kung"), Mr. Cheung Yung ("Mr. Cheung") and Mr. Li (collectively the "JY Vendors") at US$7,370,000 (the "Consideration") on 19 October 2010;

(d) The JY Vendors assigned the benefit of the Consideration to Jade Goal in consideration of Jade Goal issuing 70 shares, 13 shares, 10 shares and 7 shares, all of US$1 each, to Mr. Qiu, Hai Xin (as directed by Mr. Kung), Wealth Lake (as directed by Mr. Cheung) and Mr. Li respectively on 1 November 2010. Upon completion of the said transfer, Mr. Qiu, Mr. Kung, Mr. Cheung and Mr. Li beneficially owned 70%, 13%, 10% and 7% equity interests in Jade Goal respectively;

(e) On 3 November 2010, Mr. Qiu transferred his 140 shares in Jade Goal to Tong Fa, a company wholly owned by Mr. Qiu and Mr. Chen Binghui ("Mr. Chen"), a director of the Company. In recognition of Mr. Chen's past contributions to the Group and to align his interest with the Group's future success, Mr. Qiu assigned 21 shares in Tong Fa as gift to Mr. Chen (note 28). Upon completion of the said transfer, Mr. Qiu, Mr. Chen, Mr. Kung, Mr. Cheung and Mr. Li beneficially owned 55.3%, 14.7%, 13%, 10% and 7% equity interests in Jade Goal respectively; and

(f) on 21 June 2011, the Company acquired the entire issued share capital of Jade Goal from Tong Fa, Hai Xin, Wealth Lake and Mr. Li (collectively the "Vendors") and issued an aggregate of 999,900 Shares, credited as fully paid, to the Vendors as consideration thereof.

Pursuant to the Reorganisation, the Company became the holding company of the subsidiaries now comprising the Group.

The Group is regarded as a continuing entity resulting from the Reorganisation since all of the entities which took part in the Reorganisation were controlled by the same shareholder (the "Controlling Shareholder"), Mr. Qiu, before and immediately after the Reorganisation. Consequently, there was a continuation of the risks and benefits to the Controlling Shareholder. The Reorganisation has been accounted for as a reorganisation under common control. Accordingly, the Financial Information has been prepared using the merger basis of accounting as if the Reorganisation had occurred as of the beginning of the earliest period presented and the Group had always been in existence. The assets and liabilities of the companies now comprising the Group are combined using the existing book values from the Controlling Shareholder's perspective.

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 include the results and cash flows of all companies now comprising the Group, as if the current structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation or establishment, where this is a shorter period. The combined statements of financial position of the Group as at 31 December 2008, 2009 and 2010 have been prepared to present the state of affairs of the Group as if the current group structure had been in existence as at the respective dates.

3. Basis of preparation

The Financial Information has been prepared in accordance with the basis of presentation set out in note 2 and in accordance with the accounting policies in note 5 which comply with HKFRSs, which collective terms include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance. The Financial Information also includes the applicable disclosure requirements of the Listing Rules. All HKFRSs effective for the accounting periods commencing from 1 January 2010, consistently have been adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods. The Financial Information has been prepared under the historical cost convention.

It should be noted that accounting estimates and assumptions are used in the preparation of the Financial Information. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in note 6.

The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

4. Impact of issued but not yet effective HKFRSs

At the date of authorisation of the Financial Information, certain new or amended HKFRSs have been published but are not yet effective, and have not early adopted by the Group.

The directors of the Company anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new or amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new or amended HKFRSs have been issued but are not expected to have a material impact of the Group's Financial Information.

HKFRS 9 Financial Instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets, financial liabilities and the treatment for derecognition. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain non-trade equity investments which will have a choice to be recognised in other comprehensive income. The directors of the Company are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

HKAS 32 Financial Instruments: Presentation (Amendment)

The amendment alters HKAS 32 so that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own (non-derivative) equity instruments. Prior to the amendment, rights issues denominated in a foreign currency "failed" equity classification and were required to be accounted for as derivative liabilities. The amendment should be applied for annual periods beginning on or after 1 February 2010.

HK(IFRIC)-Int 19 Extinguishing Financial Liabilities with Equity Instruments

The HK(IFRIC)-Int 19 clarifies the requirements of HKFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010.

Annual Improvements 2010

The HKICPA has issued "Improvements to Hong Kong Financial Reporting Standards 2010". Most of the amendments become effective for annual periods beginning on or after 1 January 2011. The directors of the Company are currently assessing the possible impacts of the amendments on the Group's results and financial position in the first year of application.

5. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of the Financial Information are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and its subsidiaries comprising the Group for the Relevant Periods. As explained in note 2 above, the acquisition of the subsidiaries under common control has been accounted for using merger accounting.

The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

No amount is recognised in respect of goodwill or gain on bargain purchase at the time of common control combination, to the extent of the continuation of the controlling party's interest. All differences between the cost of acquisition and the amount at which the assets and liabilities are recorded have been recognised directly in equity as part of reserve.

The Financial Information includes the results and financial positions of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities first came under common control, where this is a shorter period, regardless of the date of the common control combination.

All intra-group transactions, balances and unrealised gains on transactions have been eliminated in full on combination. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Impairment of non-financial assets

When an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax asset, inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment, other than construction in progress, to its residual value over its estimated useful life, at the following rates per annum:

Buildings	5%
Plant and machinery	10 to $33^1/_3$%
Furniture, fixtures and office equipment	20%
Motor vehicles	10 to $33^1/_3$%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at the end of each reporting period.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

Construction in progress which mainly represents property, plant and equipment under construction is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct and indirect costs incurred during the periods of construction, installation and testing. When the assets concerned are completed and ready for use, the costs are reclassified to the appropriate category of property, plant and equipment.

Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Operating lease charges as the lessee

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to the profit or loss on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the profit or loss as an integral part of the aggregate net lease payments made.

Prepaid land leases payments

Upfront payments made to acquire land held under an operating lease are stated at costs less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight line basis over the term of the lease except where an alternative basis is more representative of the time pattern of benefits to be derived by the Group from use of the land.

Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of capital are deducted from capital (net of any related income tax benefit) to the extend they are incremental costs directly attributable to the equity transaction.

Financial assets

The Group's financial assets are classified into loans and receivables.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at the end of reporting period.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date.

Derecognition of financial assets occurs when the rights to receive cash flows from the instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

At the end of each reporting period, financial assets are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

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

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

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

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If there is objective evidence that an impairment loss on financial assets has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

Financial liabilities

The Group's financial liabilities include trade payables, accruals and other payables and bank borrowings.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Borrowings

Borrowings are recognised initially at fair value, net of directly attributable transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

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

Trade and other payables

Trade and other payables are recognised initially at their fair value, net of directly attributable transaction costs incurred and subsequently measured at amortised cost, using the effective interest method.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Provisions and contingent liabilities

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in profit or loss.

All provisions are reviewed at the end of reporting period and adjusted to reflect the current best estimate.

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

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

Accounting for income tax

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the end of reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of income tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the end of reporting period between the carrying amounts of assets and liabilities in the Financial Information and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary difference, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

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

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the end of reporting period.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly to equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

    (i) the same taxable entity; or

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. This is usually taken as the time when the goods are delivered and the customers has accepted the goods; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Employee benefits

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

Share-based payment transaction

As mentioned in the notes 2 and 28 to this report, in recognition of Mr. Chen's past contributions to the Group and to align his interest with the Group's future success, Mr. Qiu assigned 21 shares in Tong Fa as gift to Mr. Chen.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Foreign currencies

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All exchange differences are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Related parties

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

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

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

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

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

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

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

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

6. Significant accounting judgements and estimates

The preparation of the Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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 and liabilities within the next financial year, are discussed below.

Impairment of receivables

The provision policy for doubtful debts of the Group is based on an ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on management's judgement. In assessing the ultimate realisation of these receivables, various factors including creditworthiness and the past collection history of the customer or debtors concerned will be taken into account. If the financial conditions of any customers or other debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

Tax

Determining income tax provisions requires the Group to make judgements on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

Provision for obsolete inventories

Management reviews the ageing analysis of inventories of the Group at the end of each reporting period, and makes provision for obsolete and slow moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the latest selling prices and prevailing market conditions.

Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is an indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the recoverable amount of the asset. This requires an estimation of the value in use of the cash-generating unit to which the asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made.

Estimated useful lives of property, plant and equipment

In determining the useful lives of property, plant and equipment, the Group has to consider various factors, such as expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is made based on the experience of the Group with similar assets that are used in a similar way. Depreciation charge is revised if the estimated useful lives of items of property, plant and equipment are different from the previous estimation. Useful lives are reviewed, at the end of each reporting period, based on changes in circumstances.

7. Segment information

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major operations.

The Group's operating business are organised and managed separately according to the nature of products, which each segment representing a strategic business segment that offers different products in the PRC market. The Company's executive directors considered that all of the Group's revenue, operating results and assets and liabilities for the Relevant Periods were mainly derived from its production and sales of textile products.

The Company is an investment holding company and the principle place of the Group's operation is in the PRC. For the purpose of segment information disclosures under HKFRS 8, the Group regards the PRC as its country of domicile. All the Group's revenue and non-current assets are principally attributable to the PRC, being the single geographical region.

8. Revenue and other income

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts (net of value-added tax) during the Relevant Periods.

An analysis of the Group's revenue and other income is as follows:

	Year ended 31 December		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Revenue			
Sale of goods	458,904	554,340	709,948
Other income			
Bank interest income	646	496	530
Gain on sale of scrap materials	316	260	576
Others	552	360	900
	1,514	1,116	2,006

9. Finance costs

	Year ended 31 December		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Interest on bank borrowings wholly repayable within five years	3,279	3,737	751

10. Profit before income tax

The Group's profit before income tax is arrived at after charging:

	Year ended 31 December		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Cost of inventories sold	344,610	401,433	553,928
Depreciation of property, plant and equipment	3,158	5,114	9,770
Amortisation of prepaid land lease payments	244	247	260
Loss on disposal of property, plant and equipment	—	410	361
Auditors' remuneration*	17	36	68
Employee benefit expenses (including directors' remuneration *(note 11)*)			
Wages and salaries	16,362	39,572	51,768
Share-based compensation	—	—	335
Pension scheme contributions	2,224	7,027	6,342
Staff welfare and other expenses	851	2,073	5,003
	19,437	48,672	63,448
Foreign exchange loss, net	119	—	38

* *Auditors' remuneration was related to the fee for statutory audit service paid to the PRC local auditors of the Group's major subsidiary, Jing Yang Golden Shield.*

11. Directors' remuneration and five highest paid employees

(a) *Directors' remuneration*

The remuneration of each of the directors for the Relevant Periods is set out below:

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2008				
Executive directors:				
Mr. Chen	—	55	—	55
Mr. Wu Shoumin	—	41	—	41
Mr. Chen Zhifeng	—	—	—	—
	—	96	—	96
Non-executive directors:				
Mr. Qiu	—	49	—	49
Mr. Lin	—	53	8	61
	—	102	8	110
Independent non-executive directors:				
Mr. Yang Guohao	—	—	—	—
Mr. Kwong Kwan Tong	—	—	—	—
Ms. Xue Fang	—	—	—	—
	—	—	—	—
	—	198	8	206

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2009				
Executive directors:				
Mr. Chen	—	60	—	60
Mr. Wu Shoumin	—	50	—	50
Mr. Chen Zhifeng	—	4	—	4
	—	114	—	114
Non-executive directors:				
Mr. Qiu	—	53	—	53
Mr. Lin	—	58	10	68
	—	111	10	121
Independent non-executive directors:				
Mr. Yang Guohao	—	—	—	—
Mr. Kwong Kwan Tong	—	—	—	—
Ms. Xue Fang	—	—	—	—
	—	—	—	—
	—	225	10	235

	Fees	Salaries, allowances and benefits in kind	Share-based compensation	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2010					
Executive directors:					
Mr. Chen	—	71	335	6	412
Mr. Wu Shoumin	—	59	—	4	63
Mr. Chen Zhifeng	—	54	—	8	62
	—	184	335	18	537
Non-executive directors:					
Mr. Qiu	—	58	—	—	58
Mr. Lin	—	65	—	10	75
	—	123	—	10	133
Independent non-executive directors:					
Mr. Yang Guohao	—	—	—	—	—
Mr. Kwong Kwan Tong	—	—	—	—	—
Ms. Xue Fang	—	—	—	—	—
	—	—	—	—	—
	—	307	335	28	670

During the Relevant Periods, no director waived or agreed to waive any emoluments and no emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

(b) ***Five highest paid individuals***

The five highest paid individuals of the Group during the Relevant Periods included 4 directors whose emoluments are reflected in the analysis presented in note 11(a) above.

The analysis of the emolument of the remaining one highest paid individual, whose remuneration fell within the band of Nil to HK$1,000,000 during the Relevant Periods, are set out below:

	Year ended 31 December		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Salaries, allowances and benefits in kind	39	51	60
Pension scheme contributions	—	8	9
	39	59	69

12. Income tax expense

	Year ended 31 December		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Current tax — PRC			
— Current year	25,879	34,587	30,024
Deferred tax *(note 17)*			
— Current year	(770)	(2,276)	3,130
	25,109	32,311	33,154

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operated. No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the Relevant Periods.

Enterprise income tax ("EIT") arising from the PRC for the Relevant Periods is calculated at 25% of the estimated assessable profits.

On 16 March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New EIT Law"). On 6 December 2007, the State Council issued Implementation Regulations of the New EIT Law. The New EIT Law introduces a wide range of changes which include, but are not limited to, the unification of the EIT rate for domestic and foreign investment enterprises at a rate of 25% with effect from 1 January 2008. Under the new EIT Law, a corporate withholding income tax will be levied on the foreign investor for dividend distributed out of the profits of foreign investment enterprises generated from 1 January 2008 and thereafter. The withholding income tax rate applicable to the Group is 5%. Deferred taxation has not been provided in the Financial Information in respect of temporary differences attributable to the profits earned by the PRC subsidiary amounted to RMB3,882,000, RMB8,551,000 and RMB12,604,000 for the years ended 31 December 2008, 2009 and 2010 respectively as the Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

A reconciliation of the income tax expense applicable to profit before income tax at the statutory tax rate to the income tax expense at the effective tax rate for each of the Relevant Periods is as follows:

	Year ended 31 December		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Profit before income tax	101,069	131,168	130,571
Tax at EIT rate	25,267	32,792	32,643
Others	(158)	(481)	511
Income tax expense	25,109	32,311	33,154

13. Dividends

No dividend had been declared by the Company or any of its subsidiaries during the Relevant Periods.

14. Earnings per share

The calculations of basic earnings per share for the years ended 2008 and 2009 and 2010 are based on the profit attributable to owners of the Company of approximately, RMB75,960,000, RMB98,857,000 and RMB97,417,000 respectively, and on the 753,520,000 ordinary shares issuable (being the number of shares of the Company prior to the listing of the Company's shares on the Stock Exchange) as if these shares had been issued throughout the Relevant Periods. No diluted earnings per share is presented as the Group has no dilutive potential shares during the Relevant Periods.

15. Property, plant and equipment

	Buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 January 2008	12,676	17,948	223	—	—	30,847
Additions	—	8,668	22	1,617	24,952	35,259
At 31 December 2008 and 1 January 2009	12,676	26,616	245	1,617	24,952	66,106
Additions	—	649	114	268	45,886	46,917
Disposals	—	(1,383)	—	—	—	(1,383)
Transfer	12,819	—	—	—	(12,819)	—
At 31 December 2009 and 1 January 2010	25,495	25,882	359	1,885	58,019	111,640
Additions	9	2,657	155	—	27,272	30,093
Disposals	—	(992)	—	—	(114)	(1,106)
Transfer	44,733	40,384	—	—	(85,117)	—
At 31 December 2010	70,237	67,931	514	1,885	60	140,627
Accumulated depreciation:						
At 1 January 2008	3,611	8,003	133	—	—	11,747
Provided for the year	686	2,399	24	49	—	3,158
At 31 December 2008 and 1 January 2009	4,297	10,402	157	49	—	14,905
Provided for the year	827	4,077	28	182	—	5,114
Disposals	—	(757)	—	—	—	(757)
At 31 December 2009 and 1 January 2010	5,124	13,722	185	231	—	19,262
Provided for the year	2,404	7,122	53	191	—	9,770
Disposals	—	(684)	—	—	—	(684)
At 31 December 2010	7,528	20,160	238	422	—	28,348
Net carrying amount:						
At 1 January 2008	9,065	9,945	90	—	—	19,100
At 31 December 2008	8,379	16,214	88	1,568	24,952	51,201
At 31 December 2009	20,371	12,160	174	1,654	58,019	92,378
At 31 December 2010	62,709	47,771	276	1,463	60	112,279

At 31 December 2008, 2009 and 2010, the relevant building ownership certificates of the Group's buildings with net carrying amounts of approximately RMB2,994,000, RMB15,474,000 and RMB2,597,000 respectively have not been obtained. The Group's legal advisor has confirmed that the Group has legally obtained the rights to use these buildings.

16. Prepaid land lease payments

	2008	2009	2010
	RMB'000	RMB'000	RMB'000
At 1 January	9,689	9,445	9,874
Additions	—	676	90
Amortisation	(244)	(247)	(260)
At 31 December	9,445	9,874	9,704

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

At 31 December 2010, certain bank borrowings of the Group were secured by certain of the Group's prepaid land lease payments, which had aggregate carrying amounts of approximately RMB4,948,000 (note 30).

At 31 December 2008 and 2009, certain of the relevant land use right certificates of the Group's prepaid land lease payments with net carrying amount of approximately RMB2,007,000 and RMB2,633,000 respectively have not been obtained. The Group's PRC legal advisor has confirmed that the Group is the rightful and equitable owner of these prepaid land lease payments. The relevant land use right certificates were issued to the Group during the year ended 31 December 2010.

17. Deferred tax asset

The movements in deferred tax asset in relation to provision of social insurance contributions fund during the Relevant Periods are as follows:

	2008	2009	2010
	RMB'000	RMB'000	RMB'000
At 1 January	392	1,162	3,438
Recognised in profit or loss *(note 12)*	770	2,276	(3,130)
At 31 December	1,162	3,438	308

18. Inventories

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Raw materials	24,269	12,416	12,611
Work in progress	2,959	3,065	651
Finished goods	5,429	3,338	11,676
	32,657	18,819	24,938

19. Trade receivables

	As at 31 December		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Trade receivables, gross and net	62,491	88,270	129,205

The Group's trading terms with customers are mainly on credit. The credit term is generally 90 days. The Group's trade receivables are interest-free and relate to a large number of diversified customers and there is no significant concentration of credit risk.

The directors of the Company consider that the fair values of trade receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

An ageing analysis of the trade receivables of the Group as at the end of each reporting period, based on the invoice date, is as follows:

	As at 31 December		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Within 3 months	62,491	88,022	129,205
4 to 6 months	—	248	—
	62,491	88,270	129,205

The ageing analysis of trade receivables of the Group that are neither individually nor collectively considered to be impaired are as follows:

	As at 31 December		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Neither past due nor impaired	62,491	88,022	129,205
Past due within 3 months	—	248	—
	62,491	88,270	129,205

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

20. Prepayments, deposits and other receivables

	As at 31 December		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Prepayment to suppliers *(Note)*	12,760	5,695	16,363
Deposits	950	771	140
Prepaid expenses	163	141	5,408
Other receivables	—	—	7,660
	13,873	6,607	29,571

Note: As at 31 December 2008 and 2009, prepayment to suppliers included a prepayment to 渭南市臨渭區春光棉業有限公司 (Weinan City Linwei District Chun Guang Cotton Company Limited) ("Chun Guang") of approximately RMB2,744,000 and RMB1,610,000 respectively. Mr. Zhang Zemin, an employee of the Group, has beneficial interests in Chun Guang.

21. Amount due from a related company

Particulars of the amount due from a related company are as follows:

	As at 31 December		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
陝西金盾紡織有限公司 Shaanxi Golden Shield Textile Co., Ltd.* ("Shaanxi Golden Shield")	42,678	42,678	—

Maximum amount outstanding during the Relevant Periods

	Year ended 31 December		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Shaanxi Golden Shield	42,678	42,678	42,678

* The English name of the related company established in the PRC represent management's best effort at translating the Chinese name of the related company as no English name has been registered.

Mr. Chen and Mr. Lin, directors of the Company, have beneficial interests in Shaanxi Golden Shield.

The amount due from a related company was unsecured, interest-free and repayable on demand. The amount was fully settled during the year ended 31 December 2010.

22. Pledged bank deposits and cash and cash equivalents

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Cash and bank balances which are denominated in RMB	108,998	161,580	175,892
Less: pledged bank deposits for secured bank borrowings *(note 30)*	(500)	(1,500)	—
Cash and cash equivalents which are denominated in RMB	108,498	160,080	175,892

RMB is not freely convertible into other currencies and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged bank deposits are deposited with creditworthy banks with no recent history of default.

23. Trade payables

The trade payables are interest-free. Generally, the credit period is approximately 90 days.

An ageing analysis of the trade payables of the Group as at the end of each reporting period, based on the invoice date, is as follows:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Within 3 months	9,239	14,509	9,452
4 to 6 months	586	6	—
Over 6 months	318	7	—
	10,143	14,522	9,452

24. Accruals and other payables

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Accruals and other payables *(Note)*	38,810	39,962	14,966
Social insurance contribution payables	4,647	13,752	1,232
Other taxes payables	3,329	2,817	5,444
	46,786	56,531	21,642

Note: As at 31 December 2010, accrual and other payables included amount due to a shareholder of approximately RMB5,786,000 which represented the listing expenses paid on behalf of the Group. The directors of the Company consider that the amount due to such shareholder as at 31 December 2010 will be settled from listing proceeds.

25. Bank borrowings

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Bank loans repayable within one year			
— secured	10,000	30,000	6,850
— unsecured	34,100	—	—
	44,100	30,000	6,850

The ranges of effective interest rates of the Group's borrowings are as follows:

	As at 31 December		
	2008	2009	2010
	%	%	%
Variable-rate borrowings	4.73–7.80	5.38–7.04	—
Fixed-rate borrowings	10.60	—	5.31

The carrying amounts of all the Group's bank borrowings at the end of each reporting period are denominated in RMB.

The directors of the Company estimate the fair value of the bank loans by discounting their future cash flows at the market rate and the directors consider that the carrying amounts of the Group's current and non-current borrowings approximate to their fair values at the end of each reporting period.

Details of the assets pledged to secure the bank borrowings of the Group were disclosed in note 30.

Save as disclosed above, during the year ended 31 December 2008, bank borrowings of the Group were also secured by certain buildings owned by Mr. Chen, a director of the Company which was discharged in August 2008. No bank borrowing was secured by Mr. Chen as at 31 December 2010.

26. Provisions

	2008	2009	2010
	RMB'000	RMB'000	RMB'000
At 1 January	7,119	6,832	6,582
Amounts utilised during the year	(287)	(250)	(198)
At 31 December	6,832	6,582	6,384

The Group provides for probable future staff termination benefits expected to be made to employees of Jing Yang Spinning Mill under the acquisition agreement dated 14 September 2001. The provision is based on the best estimate of the probable future payments at the end of each reporting date.

27. Share capital

The share capital balances as at 31 December 2008, 2009 and 2010 represented the issued and paid-up share capital of the Company, which was deemed to have been in issue throughout the Relevant Periods.

The Company was incorporated in Bermuda on 2 July 2010 with an authorised share capital of HK$300,000 divided into 3,000,000 ordinary shares of par value of HK$0.1 each, 100 ordinary shares were issued nil paid on 26 July 2010.

28. Reserves

Details of the movements on the Group's reserve are as set out in the combined statements of changes in equity in section I.

Statutory surplus reserve

In accordance with the Company Law of the PRC, the Company's subsidiary registered in the PRC is required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses) determined in accordance with generally accepted accounting principles in the PRC to the statutory reserve until the balance of the reserve fund reaches 50% of the entity's registered capital. The statutory reserve can be utilised to offset prior years' losses or to increase capital, provided the remaining balance of the statutory reserve is not less than 25% of registered capital.

Merger reserve

The merger reserve of the Group arose as a result of the Reorganisation which was partially completed on 19 October 2010 and represented the difference between the consideration under the Reorganisation and the nominal value of the share capital of the subsidiary then acquired.

Share-based compensation reserve

As mentioned in note 2(e) to this report, on 3 November 2010, in recognition of Mr. Chen's contributions to the Group and to align his interest with the Group's future success, Mr. Qiu assigned 21 shares in Tong Fa (the "Chen Shares") as gift to Mr. Chen. Pursuant to requirements of HKFRS 2, transfers of equity interests by shareholders to parties that have supplied services to an entity are share-based payments. This also applied to transfers of equity instruments in an entity's parent to parties that have supplied services to an entity.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the equity instruments awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

As no quoted price is available for the Chen Shares granted to Mr. Chen, the directors use their judgement in selecting an appropriate valuation technique. Discounted cash flow model is applied to measure the fair value of the Chen Shares. The growth rates applied in the discounted cash flow model reflect the long-term average growth rates for the Group. The discount rates used are pre-tax and reflect specific risk relating to the Group.

If respect of the Chen Shares, Mr. Chen has undertaken to Mr. Qiu as follows:

i. Mr. Chen shall not transfer or otherwise dispose of or enter into any agreement to transfer or otherwise dispose of or create any options, rights, interests or encumbrances in respect of any of the Chen Shares or any interest therein within a period of 15 year commencing on 3 November 2010 and ending on 2 November 2025 (the "Period");

ii. Mr. Chen shall not be entitled to any dividend/distribution declared/paid in respect of the Chen Shares during the Period;

iii. Mr. Chen shall not be entitled to vote at any general meeting of Tong Fa in respect of the Chen Shares during the Period except as directed by Mr. Qiu; and

iv. if Mr. Chen shall cease to be employed by the Company, Jade Goal, Jing Yang Golden Shield or any of their subsidiaries within the Group until 2 November 2025 for whatever reason, Mr. Chen shall transfer to Mr. Qiu the Chen Shares at nil consideration free from all claims, charges, lien, encumbrances, equities and third party rights and together with all rights attached thereto as at the date of such cessation of employment with the Group (the "Termination Date"); and completion of the transfer of the Chen Shares to Mr. Qiu shall take place at such place as Mr. Qiu shall direct in writing within 7 days from the Termination Date.

Pursuant to the abovementioned undertakings, the vesting period of the Chen Shares commenced on 3 November 2010 and end on 2 November 2025.

Employee compensation expense of RMB335,000 (2008 and 2009: Nil) has been included in the profit or loss for the year ended 31 December 2010. It gave rise to the share-based compensation reserve. No liabilities were recognised due to equity-settled share-based payment transactions.

29. Contingent liabilities

At the end of each reporting period, neither the Group nor the Company had any significant contingent liabilities.

30. Pledge of assets

At the end of each reporting period, the following assets of the Group were pledged to certain banks for securing the bank borrowings (note 25) granted to the Group:

		As at 31 December		
		2008	**2009**	**2010**
	Notes	**RMB'000**	**RMB'000**	**RMB'000**
Prepaid land lease payments	*16*	—	—	4,948
Pledged bank deposits	*22*	500	1,500	—
		500	1,500	4,948

31. Commitments

The Group had the following capital commitments at the end of each reporting period:

	As at 31 December		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Contracted, but not provided for:			
Acquisition of property, plant and equipment	112,666	62,818	37,817

32. Related party disclosures

(a) *Balances and transactions*

Other than the related party balances and transactions disclosed in notes 21, 24 and 25 to the Financial Information, the Group had the following material transactions with related parties during the Relevant Periods:

During the years ended 31 December 2009 and 2010, the Group used the land and buildings owned by Shaanxi Golden Shield as its cotton spinning/weaving mills at nil consideration.

(b) *Compensation of key management personnel*

The emoluments of directors who are also identified as members of key management of the Group during the Relevant Periods are set out in note 11(a).

33. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of each reporting period are as follows:

Financial assets — loans and receivables

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade receivables	62,491	88,270	129,205
Other receivables	—	—	7,660
Amount due from a related company	42,678	42,678	—
Pledged bank deposits	500	1,500	—
Cash and cash equivalents	108,498	160,080	175,892
	214,167	292,528	312,757

Financial liabilities at amortised cost

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade payables	10,143	14,522	9,452
Financial liabilities included in other payables and accruals	46,786	56,531	21,642
Bank borrowings	44,100	30,000	6,850
	101,029	101,053	37,944

34. Financial risk management objectives and policies

The Group's principal financial instruments comprise trade and other receivables, amount due from a related company, pledged bank deposits, cash and cash equivalents, trade payables, accruals and other payables and bank borrowings. These financial instruments mainly arise from its operations.

The carrying amounts of the Group's financial instruments approximated to their fair values as at the end of each reporting period. Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instruments.

These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk means the risk on the fluctuation of fair value on future cash flows of financial instruments which arise from changes in interest rates. Floating interest rate instruments will result in the Group facing the risk of changes in market interest rate, and fixed interest rate instruments will result in the Group facing fair value interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before income tax (through the impact on the Group's bank balances and bank borrowings which are subject to floating interest rate) and the Group's equity.

	Year ended 31 December		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Increase/(decrease) in profit before income tax and equity if:			
100 basis points increase	649	1,315	1,690
100 basis points decrease	(649)	(1,315)	(1,690)

Foreign currency risk

The Group's businesses are located in the PRC and most of the transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB. Accordingly, fluctuations of the exchange rates of RMB against foreign currencies do not have significant effects on the Group's results. The Group has not hedged its foreign exchange rate risk.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to management review. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

As at 31 December 2008 and 2009, the Group had amount due from a related company of RMB42,678,000. With respect to the credit risk arising from the amount due from a related company, management actively monitors the creditworthiness of the related companies to avoid excess concentration of credit risk.

The credit risk of the Group's other financial assets, which mainly comprise of cash and cash equivalents, arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. Credit risk in cash and cash equivalents is mitigated as cash is deposited in banks with high credit rating.

Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents and has available funding through an adequate amount of committed credit facilities to meet its commitments.

The maturity profile of the Group's financial liabilities as at the end of each reporting period, based on the contractual undiscounted payments, are as follows:

	As at 31 December 2008		
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year
	RMB'000	RMB'000	RMB'000
Trade payables	10,143	10,143	10,143
Financial liabilities included in other payables and accruals	46,786	46,786	46,786
Bank borrowings	44,100	46,412	46,412
	101,029	103,341	103,341

	As at 31 December 2009		
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year
	RMB'000	RMB'000	RMB'000
Trade payables	14,522	14,522	14,522
Financial liabilities included in other payables and accruals	56,531	56,531	56,531
Bank borrowings	30,000	30,726	30,726
	101,053	101,779	101,779

	As at 31 December 2010		
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year
	RMB'000	RMB'000	RMB'000
Trade payables	9,452	9,452	9,452
Financial liabilities included in other payables and accruals	21,642	21,642	21,642
Bank borrowings	6,850	7,092	7,092
	37,944	38,186	38,186

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as going concern and to maintain reasonable capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is net debts divided by total equity. Net debts include interest-bearing bank borrowings, trade payables, accruals and other payables, current tax liabilities and provisions less pledged bank deposits and cash and cash equivalents.

At the end of each reporting period, the Group's strategy was to maintain the gearing ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, without limitation, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its business.

The gearing ratios at the end of each reporting period were as follows:

	As at 31 December		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Bank borrowings	44,100	30,000	6,850
Trade payables	10,143	14,522	9,452
Accruals and other payables	46,786	56,531	21,642
Current tax liabilities	7,043	9,551	6,800
Provisions	6,832	6,582	6,384
Less: Cash and cash equivalents	(108,498)	(160,080)	(175,892)
Pledged bank deposits	(500)	(1,500)	—
Net debts	5,906	(44,394)	(124,764)
Total equity	207,601	306,458	430,769
Gearing ratio	2.84%	(14.49)%	(28.96)%

35. Event after the reporting period

The companies in the Group underwent a reorganisation in preparation for the listing of the shares of the Company on the Stock Exchange. Further details of the reorganisation are set out in the sub-paragraph headed "Corporate Reorganisation" in the paragraph headed "Further Information about the Company" in Appendix VI to the Prospectus.

Except as disclosed elsewhere in this report, there are no other material subsequent events undertaken by the Company or by the Group after 31 December 2010.

36. Subsequent financial statements

No audited financial statements have been prepared by the Company or its subsidiaries in respect of any period subsequent to 31 December 2010.

Yours faithfully,

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