海東青新材料集團有限公司*

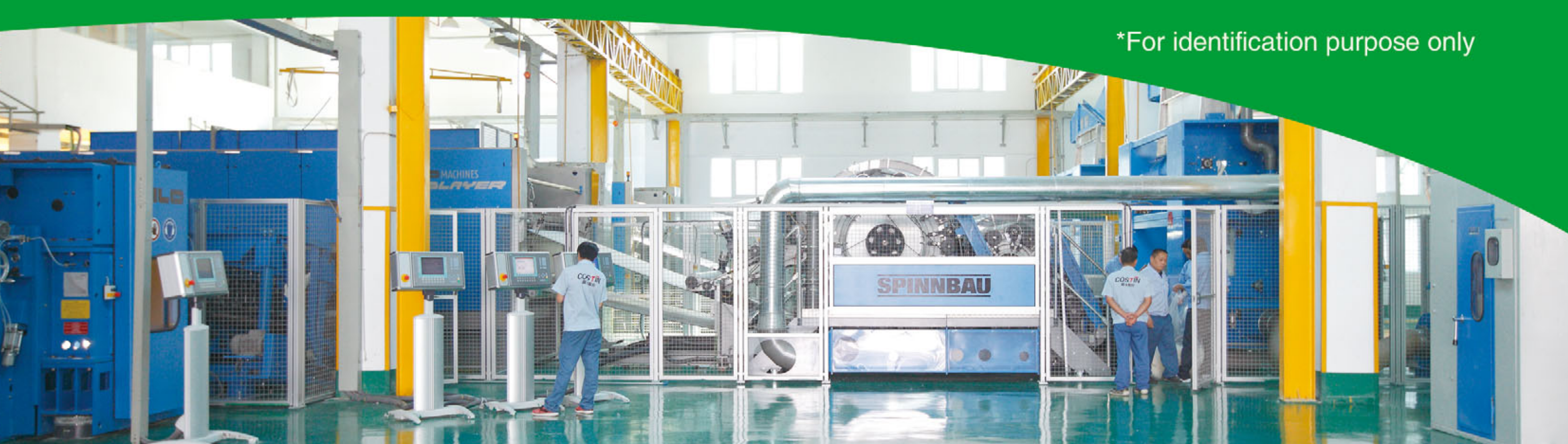
COSTIN NEW MATERIALS GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code:2228

2011
ANNUAL REPORT

*For identification purpose only



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COSTIN

Corporate Information

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Ms. Wee Kok Keng

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhu Min Ru
Mr. Feng Xue Ben
Mr. Wong Siu Hong

AUTHORISED REPRESENTATIVES

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

COMPANY SECRETARY

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

AUDITOR

RSM Nelson Wheeler
Certified Public Accountants

INVESTOR RELATIONS CONSULTANT

Christensen International Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Wanchai
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REGISTERED OFFICE

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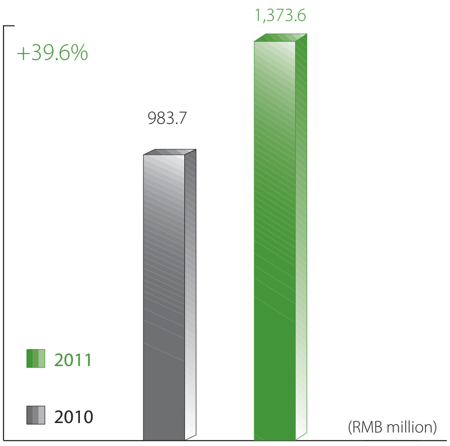
The Gateway
Harbour City
Kowloon

WEBSITE

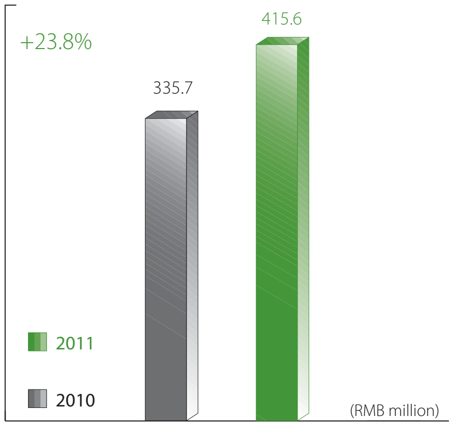
www.costingroup.com

Results Highlights

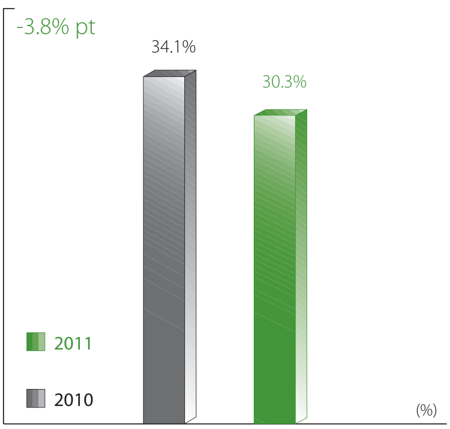
TURNOVER



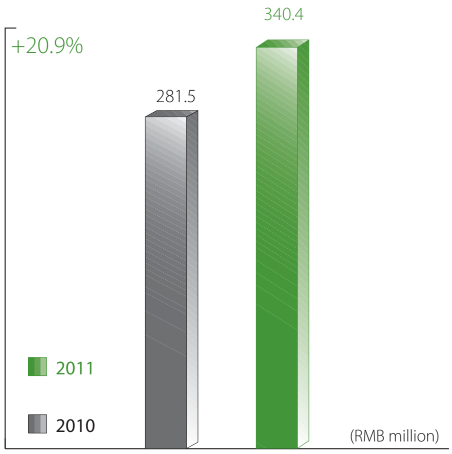
GROSS PROFIT



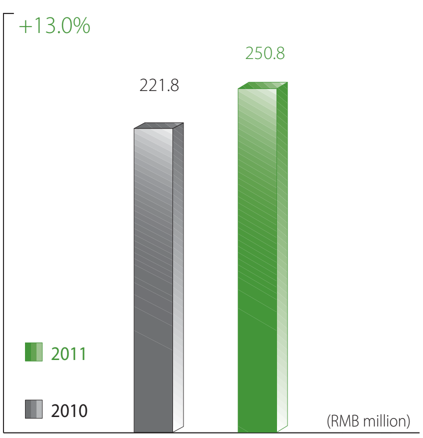
GROSS PROFIT MARGIN



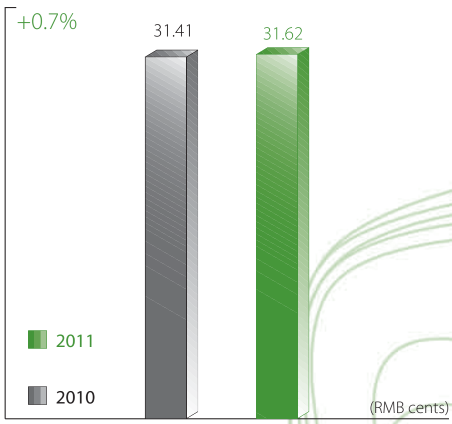
PROFIT FROM OPERATIONS



PROFIT FOR THE YEAR



BASIC EARNINGS PER SHARE



Chairman's Statement

To our esteemed shareholders,

I am pleased to present, on behalf of the board (the "Board") of directors (the "Directors") of COSTIN New Materials Group Limited (the "Company"), the annual report for the Company and its subsidiary companies (collectively referred to as the "Group") for the year ended 31 December 2011.

By leveraging on the strong competence in research and development ("R&D"), the precise development strategies, a diversified product mix and broad customer base, the Group achieved rapid growth in its business during 2011, and recorded remarkable performance in its various performance indicators. During the year under review, turnover of the Group reached approximately RMB1,373.6 million, representing an increase of approximately 39.6% from RMB983.7 million in 2010; whereas gross profit rose approximately 23.8% from RMB335.7 million in 2010 to RMB415.6 million this year. Profit for the year attributable to owners of the Company reached approximately RMB250.8 million, representing a growth of approximately 13.0% from RMB221.8 million in 2010. Basic earnings per share for the year was approximately RMB31.62 cents (2010: RMB31.41 cents). The Group achieved significant growth in its earnings, which was mainly benefited from the surge in the sales volume and selling prices of non-woven materials and recycled chemical fibres.

2011 was the second year following the listing of the Group. It was also a year when crisis and development as well as challenges and opportunities prevailed concurrently. On the one hand, the global economy became more dynamic and complicated since the outbreak of financial tsunami in United States during 2008. The sluggish recovery in the United States, the contagion effect of debt crisis in Europe and the inflation pressure faced by the emerging economies resulted in the slowdown of growth in the world economy. The momentum in the growth of global trade also demonstrated a downward moving trend. At the same time, the People's Republic of China (the "PRC") mitigated the fluctuation in the international economic environment from persistently implementing a proactive fiscal policy and stable monetary policy. There had been steady growth in the economy. According to the statistics as published by the National Bureau of Statistics in the PRC, the gross domestic products for the year of 2011 amounted to RMB47,160 billion, an increase of 9.2% as compared to last year. At the same time, the proportion of domestic consumption to the aggregate amount of economic growth increased. There were positive progresses recorded upon the means of achieving economic developments and the reconciliation of economic structure.

Demand for various consumer goods continued to expand as a result of the sustainable and steady development of the economy in the PRC. The non-woven materials industry in the PRC has experienced robust growth. In 2009, the output of non-woven materials in the PRC exceeded that of the European Union for the first time and became the world's largest manufacturer in this area. The Association of the Non-woven Fabrics Industry of the US anticipated that the usage of non-woven materials in the PRC will register an annual growth rate of 12% and the total value consumed by the PRC will increase to approximately US$3.88 billion by 2013. It was proposed by the Ministry of Industry and Information Technology of the PRC ("Ministry of Industry and Information") that, during the National 12th Five-Year Plan period, the total volume of non-woven materials processed for industrial usage will reach about 12.9 million tons, representing an increase of 9.5% per annum while its market value will reach RMB1,000 billion, representing an increase of 15% per annum.

According to the National 12th Five-Year Plan for the Development of the Chemical Fibres Industry as published by the Ministry of Industry and Information, R&D and commercialization of biomass fiber will be accelerated in the PRC. This will further enhance clean production and the integrated utilization of resources, thereby setting up the business model of recycling for the chemical fibres industry. It is expected that by 2015, the scale of recycling obsolete and old polyester products and chemical fibres fabric clothing will reach 7 million tons per annum.

It was proposed in the National 12th Five-Year Plan for the Development of the Textiles for Industrial Usage as published by the Ministry of Industry and Information that the application of pocket style thermal-resistant dust filters at coal-fired power plants in the PRC was currently less than 10%, and was much lower than the 60% level in Europe. As the PRC further enhanced its requirements about the emission of powder and dust pollutants, the application of pocket style thermal-resistant dust filters will be gradually promoted. It is expected that the demand for the application of pocket style thermal-resistant dust filters at coal-fired power plants will grow at an annual rate of more than 15% in the coming five years.

Chairman's Statement

In 2011, the output volume from non-woven fabrics enterprises in the PRC was approximately 3.12 million tons, whilst turnover reached approximately RMB67.7 billion, representing an increase of approximately 11.6% and 31.3%, respectively. In 2011, the export value from the PRC non-woven fabrics industry reached approximately US$1.48 billion, representing an increase of approximately 38.7% from 2010.

In terms of policy environment, the PRC government is actively expanding domestic demand and promoting a green economy. This will bring countless business opportunities to the non-woven materials and recycled chemical fibres producing by the Group. The new materials industry for which the Group belongs to was classified by the PRC government in the National 12th Five-Year Plan as the seven strategic emerging industries. The non-woven materials industry is regarded as a key driving force to boost the development of the PRC textiles industry. The huge demand subsisting in the market and a favourable policy environment will create a positive external environment for the further development of the Group's businesses.

Faced with the benign industry development environment and incentive measures in the pipeline, the Group vigorously expanded its production capacity during the year under review, so as to capitalize from the ongoing increase in demand from the market and drive the businesses to reach new heights. As at 31 December 2011, the number of non-woven materials production lines increased from 17 to 28, whereas the production capacity of non-woven materials, thermal-resistant filtration materials and recycled chemical fibres production lines amounted to approximately 160 million yards, 18 million sq. m. and 42,000 tons per annum, respectively.

The listing of the Company's shares on the Stock Exchange of Hong Kong Limited the ("Stock Exchange") allowed the Group to tap into the international capital market, which also considerably enhanced the reputation and image of the Group. By leveraging on the deep-rooted competences accumulated by the Group through years of development, the Group was named as one of the most potential listed company by Forbes, a well-known finance magazine in the world, and ranked 48th amongst the 100 companies selected in "Forbes China's Top 100 Public Small Businesses" for 2012.

Looking ahead, the Group will practically implement its "Third Five-Year Plan", which will comprehensively increase the capabilities in production, R&D as well as marketing and sales. The position in the market will be optimized. The Group is aspiring to become the world's leading enterprise in new materials and recycled materials, and will devote its contribution to the development of the new materials industry.

On behalf of the Board, I wish to express my sincere appreciation for the continuous concern and relentless support to the Company from all shareholders, investors and cooperation partners. I also wish to thank the working and dedication devoted by all staff of the Group. The Group will continue to fully leverage on the favourable industry policies and demonstrate its competitive edges in the recycled economy, which will bring more value to every party in cooperation through the steady and sustainable development of the Group.

Chim Wai Kong
Chairman

Hong Kong, 27 March 2012

Management Discussion and Analysis

BUSINESS REVIEW

Wide applications of diversified products with a broad base of customers

The non-woven materials and recycled chemical fibres produced and sold by the Group are widely applied in various industries as raw materials for the manufacture of household consumer goods and industrial products. The non-woven materials produced by the Group are widely applied as raw materials in the manufacturing of footwear, clothing, luggage, shopping bag, household decorations and filtration materials. On the other hand, recycled chemical fibres produced by the Group also has wide applications and can be used as raw materials in the production of textiles, fillings and non-woven materials. Moreover, the Group can also tailor-made products that satisfy the special requirements of different customers, including state-of-the-art non-woven materials that have functions such as water-resistant, anti-bacteria, fragrance and thermal resistant, which can facilitate to explore broader market for the Group.

Benefited from the versatile functions derived from its product mix and their extensive scope of applications, the Group developed a diversified customer base covering industries including iron and steel, cement, coal-fired power plants, chemicals, coal, ferrous metals, as well as trading companies and manufacturers of textiles, shoes, luggage and leather goods. Apart from actively developing domestic consumption market, the Group has been continuously exploring overseas market.

A diversified product mix and a broad customer base laid a stable and ample business structure for the Group. Apart from expanding its scope of businesses and income sources, the Group has the ability to mitigate the market fluctuation of a single product, and secured its competitiveness and profitability in return. During the year under review, the Group closely monitored the market trends, and took the initiatives to expand the product categories, improve the product qualities and increase the number of applications. The requirements of customers from different industries were met, which further increased its market share and augmented its competitive edges.

Proactive expansion of production capacity reinforcing leading position

Faced with the rapid growth in demand for non-woven materials and recycled chemical fibres, the Group continued to build new production facilities and undertake technology upgrade to existing production facilities during the year under review in order to expand the production capacity. Competitiveness and market share continued to enhance and effectively consolidated the Group's leading position in the market.

As at 31 December 2011, the production facilities of the Group occupied a site area of approximately 177,522 sq.m. with a total gross floor area of approximately 73,306 sq.m. and a lettable area of approximately 22,372 sq.m. The Group currently has 28 production lines for non-woven materials, including 17 stitch-bonded production lines (with a production capacity of 103.0 million yards per annum) and 9 needle-punching production lines (with a production capacity of 56.5 million yards per annum), and 2 production lines of thermal resistant filtration materials (with a production capacity of 18 million sq.m. per annum). In addition, the Group has 2 production lines of recycled chemical fibres with an annual production capacity of 42,000 tons.

In 2011, the Group completed the expansion of recycled chemical fibres production lines with a 40% increase in annual production capacity from 30,000 tons to 42,000 tons. The Group also obtained approval from the government to increase the volume of imported PET chips from 30,000 tons to 53,000 tons per annum. On the basis of satisfying the internal production demand, the Group may sell any unused PET chips to external parties, which shall boost its sales income and enhance its profitability. In the aspect of non-woven materials, the Group's 3 new needle-punching production lines and 6 new stitch-bonded production lines have already commenced production in the second quarter of the year, representing additional annual production capacities of 12 million yards and 26 million yards, respectively. The production lines for thermal resistant filtration materials with an annual production capacity of approximately 18 million sq.m. has commenced operation in the fourth quarter of 2011. In addition, the Group expected that the production of composite synthetic leather will commence in 2013 with an production capacity of approximately 22.5 million sq.m. per annum.

BUSINESS REVIEW (CONT'D)

Commitment in product R&D to enhance technology competence

The Group is aware that a brilliant R&D competency is a factor critical to the development of new products and expansion of business. Therefore the Group is committed in the innovation of R&D. Through the grooming of experienced technical staff and entering cooperation with academic institutions, our standard of technology continued to improve. In the meantime, the Group effectively applied its professional technologies, highly automated state-of-the-art facilities and strong R&D competencies to improve its existing products, to enhance production efficiencies and to broaden its market presence.

During the year under review, the Group obtained a series of R&D progresses. The Group's new centre for R&D of new products and materials has commenced operation in June this year. On the other hand, the Group has been committed to establish research cooperation relationship with well-known higher education institutions, which can build up a professional R&D team that can enhance the technological capabilities. The Group signed a co-operation agreement with the Wuhan Textile University for co-development of "new eco-friendly broussonetia papyifera fibres" that has been recognised by the National Development and Reform Commission of Quanzhou in Fujian Province as a key technological project in its National 12th Five-Year Plan. In addition, the Group has entered into a co-operation agreement with the Tianjin Polytechnic University for the R&D of "recycled textiles composite technologies". The Group established a "Research and Development Centre for Resources Allocation" with the Donghua University in Shanghai, a "Research and Development Centre for Eco-friendly Filtration Materials" with the Zhejiang Sci-Tech University, and was appointed as the "Learning and Practice Base for the Zhejiang Sci-Tech University".

The Group's competence in R&D has been widely recognised by the public. Currently, the Group is accredited as a Fujian Provincial-Level Corporate Technology Centre, a Fujian High-Tech Enterprise, and the only R&D centre for ecofriendly filtration materials in the PRC. The Group is also the only non-woven materials production enterprise in the PRC that has obtained the American Scientific Certification System (SCS) Recycled Content Certificate. As of 31 December 2011, the Group had 9 patents and was applying for registration of 24 patents, including 27 patents being developed by the Group independently and 6 patents jointly developed with the Tianjin Polytechnic University.

Enhancement of brand image with recognitions of competencies

The competitiveness and development potential of the Group as a leading enterprise in the industry were widely recognised by the peers and the capital market upon its ongoing business development. The Group was proudly named as one of the most potential listed company by Forbes, a well-known finance magazine in the world, and ranked 48th amongst the 100 companies selected in "Forbes China's Top 100 Public Small Businesses" for 2012.

In addition, by capitalizing on the ample R&D experience and strong scientific research competencies, together with its persistence in the production of quality products and protection of environment, the Group successively received certificates from international professional institutions. The Group currently has the ISO9001: 2008 quality assurance certificate, ISO14001:2004 environment management certificate, Swiss eco-Confidence in Textiles certification and the SATRA certificate, an authoritative institution in the footwear industry of the world. It is also the first non-woven materials production enterprise in the PRC to obtain the American Scientific Certification System (SCS) Recycled Content Certificate. Moreover, the Group was the first non-woven materials enterprise receiving INTERTEK "carbon footprint" certificate during the year and obtained the Green Leaf label. The Group was also awarded Top 100 Export Enterprises of Textiles and Garment industry in the PRC and Top 10 Textile Enterprises in the PRC in terms of Industrial Competitiveness by the China Textile Industry Association.

BUSINESS REVIEW (CONT'D)

Strengthening the shareholder base

On 18 July 2011, the Company completed the issue of a US$30,000,000 convertible bond to CITIC Capital China Access Fund Limited ("CITIC Capital China"), an investment fund managed by a subsidiary of CITIC Capital Holdings Limited ("CITIC Capital"), and successfully introduced CITIC Capital as a new investor in the Company. Through the issuance of the convertible bond, the Group obtained strong capital support for the development of its key business, which will enhance the Group's market presence and competitiveness. In addition, the Group's capital base will be effectively strengthened upon future conversion of the convertible bond.

Furthermore, on 19 January 2012, Nian's Brother Holding Limited ("Nian's Holding"), a controlling shareholder of the Company, as vendor entered into a conditional sale and purchase agreement with 重慶中節能實業有限責任公司 (CECIC Chongqing Industry Co., Ltd.) ("CECIC") as purchaser, pursuant to which Nian's Holding has agreed to sell, and CECIC has agreed to purchase 225,160,000 shares of the Company, representing approximately 29.00% of the issued share capital of the Company. Subject to the satisfaction of the conditions precedent set out in the sale and purchase agreement, upon completion of the transaction, CECIC will become the single largest shareholder of the Company, which will further enhance the shareholder base of the Company. CECIC is currently principally engaged in investment in projects in the environmental protection industry.

FINANCIAL REVIEW

For the year ended 31 December 2011, the Group achieved remarkable growth in its financial performance as compared with 2010. The Group's turnover increased by approximately 39.6% to approximately RMB1,373.6 million while profit attributable to owners of the Company increased by approximately 13.0% to approximately RMB250.8 million.

Turnover

Turnover for the year ended 31 December 2011 was approximately RMB1,373.6 million, representing an increase of approximately 39.6% or approximately RMB389.9 million over last year. The growth was primarily due to an increase in the overall selling price of the Group's products, and growth in the sales quantities of non-woven materials and recycled chemical fibres.

Turnover of non-woven materials for the year ended 31 December 2011 was approximately RMB1,058.4 million, representing an increase of approximately 39.3% or approximately RMB298.8 million from last year. Turnover of recycled chemical fibres for the year ended 31 December 2011 was approximately RMB306.8 million, representing an increase of approximately 36.9% or approximately RMB82.7 million from last year.

During the year ended 31 December 2011, export sales to Hong Kong and overseas market accounted for approximately 30.2% (2010: 44.2%) of the Group's turnover while sales in PRC (except Hong Kong) accounted for approximately 69.8% (2010: 55.8%). As part of the PRC's National 12th Five-Year Plan, the new materials industry in which the Group is categorised belongs to one of the "Seven Strategic Emerging Industries" and is considered by the State Council to be a major force in guiding the future economic development of the society. The non-woven materials and recycled chemical fibres produced by the Group are well-placed to meet the opportunities provided by the massive market and favourable policies. While the non-woven materials and recycled chemical fibres are becoming more popular in the PRC and more widely applied, alongside the increase in the GDP and disposable income in the PRC, the Group considers that domestic sales will gain importance in the future in order to align with the ever-growing opportunities in the PRC.

During the year under review, the Group sold approximately 90.7 million yards of non-woven materials, representing an increase of approximately 25.1% from last year, while its sales volume of recycled chemical fibres was approximately 31,600 tons, representing an increase of approximately 12.1% from last year. The increase in sales volume was attributable to the Group's consistent efforts to develop new functional products and the increase in purchases made by new and existing customers in recognition of the outstanding quality and functionality of the Group's products.

FINANCIAL REVIEW (CONT'D)

Gross profit and gross profit margin

For the year under review, gross profit of the Group was approximately RMB415.6 million, representing an increase of approximately 23.8% or approximately RMB79.9 million as compared with 2010. The increase in gross profit was mainly driven by the growth in sales volume and average selling prices of the Group's products. During the year under review, the gross profit for the non-woven materials segment accounted for approximately 82.3% of the total gross profit. The gross profit for the recycled chemical fibres segment accounted for approximately 17.2% of the total gross profit. The gross profit for thermal resistant filtration materials segment accounted for approximately 0.3% of the total gross profit, and the gross profit for other products accounted for approximately 0.2% of the total gross profit. During the year under review, the overall gross profit margin of the Group's products was approximately 30.3%, representing a decrease of 3.8 percentage points as compared to last year. The gross profit margin for non-woven materials segment decreased from approximately 35.8% for the year ended 31 December 2010 to approximately 32.3% for the year ended 31 December 2011. As for the recycled chemical fibres segment, its gross profit margin was approximately 23.3% for the year ended 31 December 2011, representing a decrease of approximately 5.2 percentage points as compared to last year. The decrease in gross profit margin for non-woven materials and recycled chemical fibres was principally due to the increase in the cost of raw materials and other production costs during the year ended 31 December 2011.

Distribution expenses

For the year ended 31 December 2011, distribution expenses decreased by approximately RMB1.0 million as compared to 2010. Distribution expenses accounted for approximately 1.3% of the Group's turnover for the year ended 31 December 2011 (2010: 1.7%). The decrease in the proportion of distribution expenses to turnover was mainly due to the Group's optimization of logistics and transportation arrangements for goods and raw materials during the year under review.

Administrative expenses

Administrative expenses for the year ended 31 December 2011 increased by approximately RMB30.9 million as compared to 2010. The increase in administrative expenses was mainly due to the increase of share-based compensation expenses of approximately RMB13.4 million incurred in relation to the grant of 13,710,000 share options to the directors and employees of the Group in January 2011. Such share-based compensation expenses were expenses solely derived from the application of International Accounting Standards and did not have any negative impact on the Group's cash flow. Excluding the share-based compensation expenses, the percentage of administrative expenses to turnover was approximately 4.7% for the year ended 31 December 2011 (2010: 4.8%), which was almost the same as last year.

Finance costs

Finance costs for the year ended 31 December 2011 increased by approximately RMB19.3 million as compared to 2010. The increase in finance costs was mainly due to the issue of convertible bond at an amount of US$30 million by the Company in July 2011 to CITIC Capital China, which increased the finance costs during the year under review by approximately RMB10.9 million. Excluding the finance costs arising from such convertible bond, the percentage of finance costs to turnover has slightly increased to approximately 1.1% for the year ended 31 December 2011 (2010: 0.7%).

Income tax expense

The Group's effective income tax rate for the year ended 31 December 2011 was approximately 20.1% (2010: 19.1%), which increased slightly as compared with last year.

FINANCIAL REVIEW (CONT'D)

Profit attributable to owners of the Company and net profit margin

Profit attributable to owners of the Company for the year ended 31 December 2011 was approximately RMB250.8 million, representing an increase of approximately 13.0% or approximately RMB29.0 million as compared with 2010. The Group's net profit margin for the year under review was approximately 18.3%, representing a decrease of 4.2 percentage points as compared with last year. The decrease in net profit margin was mainly due to a drop in the Group's gross profit margin during the year, an increase in share-based compensation expenses and an increase in finance costs upon the issue of convertible bond.

Earnings per share

Basic earnings per share for the year ended 31 December 2011 was approximately RMB31.62 cents, representing an increase of approximately 0.7% as compared with 2010. The percentage increase in basic earnings per share was lower than the percentage increase in profit attributable to owners of the Company as a result of the dilution effect of the issue of new shares upon the listing of the Company on the Stock Exchange, on 21 June 2010, which increased the weighted average number of ordinary shares used in basic earnings per share calculation.

No diluted earnings per share are presented as the Company did not have any dilutive potential ordinary share in respect of share options for the year ended 31 December 2011. The effect of potential ordinary shares in respect of convertible bond is anti-dilutive for the year ended 31 December 2011. The Company did not have any dilutive potential ordinary share for the year ended 31 December 2010.

Liquidity and financial resources

The Company's shares were listed on the Stock Exchange on 21 June 2010 and the net proceeds of the global offering was approximately HK$439.8 million after deducting related underwriting fees and other expenses. The proceeds were applied during the year in accordance with the proposed applications set out in the Company's prospectus dated 8 June 2010. As at the date of this report, the Group already used approximately HK$143.7 million of the net proceeds for establishment of the filtration materials production facilities and approximately HK$14.7 million for the expansion of its existing technology centre and the establishment of a research centre for new materials. In addition, approximately HK$40 million was used as the Group's general working capital. The Group has deposited the remaining unused proceeds in licensed banks in Hong Kong and the PRC.

In July 2011, the Company completed the issue of convertible bond with an aggregate principal amount of US$30 million to CITIC Capital China, and raised approximately HK$233.8 million in net proceeds. Such proceeds were applied in the capital expenditure and working capital of the Group. As at the date of this report, the net proceeds of approximately HK$130.0 million were applied as the general working of the Group. The Group has deposited the remaining unused proceeds in licensed banks in Hong Kong and the PRC.

The Group generally finances its operations with internally generated cash flow and facilities provided by its principal bankers in Hong Kong and the PRC. The Group had bank and cash balances of approximately RMB844.5 million (2010: RMB627.8 million) and pledged bank deposits of approximately RMB20.7 million (2010: RMB26.3 million) as at 31 December 2011. The Group's bank and cash balances were mostly held in Hong Kong dollar and Renminbi.

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

FINANCIAL REVIEW (CONT'D)

Liquidity and financial resources (Cont'd)

As at 31 December 2011, the Group's bank loans amounted to approximately RMB352.8 million (2010: RMB177.8 million), of which approximately 79.3% (2010: 100%) was repayable within one year. The Group's bank loans were made in US dollars and Renminbi, whilst approximately 43.8% (2010: 40.7%) of such loans bore interest at fixed lending rate. As at 31 December 2011, the Group's gearing ratio was approximately 31.3% calculated as bank loans plus convertible bond divided by total assets (2010: 14.3%). The increase in gearing ratio was mainly attributable to the issue of convertible bond at a principal amount of US$30 million to CITIC Capital China in July 2011 by the Company. Net current assets and net assets of the Group as at 31 December 2011 were approximately RMB863.9 million (2010: RMB625.9 million) and approximately RMB1,020.8 million (2010: RMB904.2 million), respectively.

As at 31 December 2011, certain prepaid land lease payments, buildings and investment properties of the Group with carrying values of approximately RMB37.3 million (2010: RMB29.4 million), RMB12.6 million (2010: RMB13.5 million) and RMB18.6 million (2010: RMB19.9 million), respectively, were pledged to secure general banking facilities granted to the Group.

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

Significant investments and acquisitions

During the year ended 31 December 2011, the Group acquired property, plant and equipment and incurred costs for construction in progress of approximately RMB29.9 million and RMB159.0 million (2010: approximately RMB28.7 million and 43.9 million), respectively.

PROSPECTS

The PRC economy is developing at a stable and rapid pace. With further uplift of the standard of living by its people, the development of the new materials industry demonstrated a booming trend in both production and sales. In the meantime, the comparative advantages enjoyed by the new materials industries over those of the traditional materials industries were gradually reflected from scarcity of production resources and the continuous surge in energy price. This also laid an intact foundation for the development of the new materials industry.

The National 12th Five-Year Plan period is a period critical to the promotion of domestic demand, development of recycled economy and green economy, during which the optimization of the industry structure was facilitated in full force. It was stated in the National 12th Five-Year Plan that the new materials industry for which the Group belongs to falls within the seven strategic emerging industries. According to the plan, the PRC government will procure the development of ecofriendly hi-tech products with high added value and encourages the reorganization within the industry through mergers and acquisitions initiated from competitive enterprises. The industry chain will thus be integrated from upstream to downstream in sizeable and scaleable manner. As a leading enterprise in the industry with strong competence in R&D, the Group will capture enormous development opportunities from a series of favourable policies.

In order to capitalize the opportunities arising from the market, the Group formulated the "Third Five-Year Plan", which will comprehensively increase the capabilities in production, R&D as well as marketing and sales. The position in the market will be optimized. By then, the Group's businesses will reach new heights and can devote the contribution necessary to the development of the new materials industry.

PROSPECTS (CONT'D)

Expansion of production capacity

The Group is aware that there is a huge potential demand for non-woven materials and recycled chemical fibres from the market. The Group will continue to build new production facilities and upgrade its existing production lines so as to enhance production capacity, which will further improve the advantages from scale and consolidate its leading position in the market. The Group has acquired a parcel of land of approximately 600 mu at Yongan City, Fujian Province, and intends to further expand the production capacity of its recycled chemical fibres from 42,000 tons per annum at present to approximately 162,000 tons per annum. It is expected that production will commence in 2014. The Group expected that the timing for the operation of this expansion plan for recycled chemical fibres may be later than that was originally planned mainly due to the delay in the delivery of the land by the relevant government authorities.

Enhancement of R&D competence

The strong competence of the Group in R&D has a good reputation in the industry, and is also one of the core competitive advantages allowing the Group to be an industrial leader. The Group believes that, through persisting in the improvement of the functions and technologies in non-woven materials, promoting recycling behaviours and reducing emission of pollutants, production costs can be lowered. This is also a factor critical to the sustainable development of the Group. Therefore, the Group adopts continuous enhancement of technology standards and R&D competence as one of its primary development strategies.

First, the Group will augment the investment in production hardware. State-of-the-art research and production equipment will be imported from overseas. The allocation of resources to R&D centres will be strengthened and perfected. This will create a sound environment for R&D. At the same time, the Group will strengthen its training to professional staff, and will groom talents endowed with advanced technologies in the industry, thereby conceiving a technical team leading in the industry. Moreover, the Group will also proactively leverage from the advantages in entering cooperation ventures with academic institutions and drive such cooperation initiatives in full force, so as to develop and produce ecofriendly non-woven materials with special function enriching the product mix.

By adhering to an energetic spirit in the innovation of technology, the Group will continue to expand the scope of application for its products in the development and upgrade of its products on the basis of strong R&D competence. Customers base will be expanded, which will enhance the competitiveness of the Group. Apart from exploring the markets through the development of new products, the Group will also attract upstream and downstream consumption by its forward-looking strategic visions and outstanding R&D competence in the industry. The Group will thus equip with practical technologies that can steer the market and obtain competitive edges in the upgrade and innovation of the industry.

Improvement of operation efficiency

As a high-tech production enterprise, the Group has used its best endeavours to achieve the following as its primary missions: optimizing the quality of its products, enhancing operation efficiencies, and reducing production costs. As such, the Group will strictly adhere to international industry standard so as to ensure the quality of its products. Operation efficiencies will be enhanced from inaugurating a scientific and effective operation system. Production costs will be reduced through economies of scale.

The Group will continue to strictly comply with ISO9001 and ISO14001 standards, to review and improve its control systems, and to enhance its product pass rate through segmented management in order to launch more products with better quality. In the course of production, the Group will establish and maintain advanced scientific management and operation systems. Tight control will be imposed over inventories and production costs so as to ensure the efficient operation of its businesses. In addition, the Group will introduce new production facilities according to its own financial position and technological competence. Production capacities will be expanded so as to improve cost effectiveness and profit margin.

PROSPECTS (CONT'D)

Enlargement of sales and marketing network

In order to enlarge the customer base and build up a closer relationship with customers within and outside the PRC, the Group is devoted to establish a sales and marketing team that is energetic, experienced, well-trained and in control of expertise that can provide professional services to its customers.

The Group has clearly expressed its sales and marketing strategies in the "Third Five-Year Plan", which has formulated the guidance policies of "tapping into international market" and "sustaining life-long loyalty". The Group will perfect the general deployment within the Greater China region and establish a sales and marketing network with extensive coverage.

Optimization of market positioning

The State Council of the PRC regards the non-woven materials industry as an important force for the upgrade of the industry as it has the advantages of consuming less natural resources and providing higher added value in its products. Considerable attention will be placed on the strategic development of the industry. The non-woven materials and recycled chemical fibres produced by the Group will capitalize on the enormous business opportunities arising from this market and the favourable policies offered by the PRC government to achieve a promising growth. The Group will timely adjust its product mix and scope of applications according to the requirements in the market and optimize its positioning, thereby achieving breakthrough in the development of its businesses.

The Group is planning to shift the positioning of its products in the market from household consumer goods to industrial products, so as to capitalize on the opportunities brought by the prosperous development in the industrial new materials market. Of which, the Group will actively explore the market of high-end filtration materials and recycled materials. It is expected that the PRC government will continue to tighten its regulation over polluting industries such as iron and steel, cement, coal-fired, power plants, the demand for filtration materials with special ecofriendly functions will continue to increase. This will in turn lay a foundation for the development of ecofriendly new materials. In addition, being driven by a number of favourable policies such as increasing investments in infrastructure construction and energy saving and emission reduction sectors, it is expected that the demand for geotextile and high-performance composite materials will increase gradually, and will become new profit centres of the Group.

In view of the steady development in the PRC economy and the further enhancement in the demand for new materials, the Group is planning to explore domestic demand in the next phase of development. This will support the Group to capture business opportunities arising in the PRC, thereby balancing the fluctuation in the international market and obtaining better sales performance.

Conclusion

As a leader in the non-woven materials and recycled chemical fibres industries, the Group enjoys advantages over production capacity, operation efficiency, R&D as well as marketing and sales. Faced with the steady development of the PRC economy, and the rapid growth of industrial demand, the Group will strategically expand its production capacity in order to increase its scale of production. More customers will be acquired from an expanded product mix. Added value to the products will be increased from improvement in R&D competence. Sales network will be enlarged to capture new opportunities arising in its business development activities. As a result of ample experiences in the industry, a scientific model of management and precise strategic vision, the Group is confident that it will achieve steady development in future and bring fruitful return to its investors.

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 31 December 2011, the Group had a total of 796 employees (2010: 647). The Group always maintains cordial working relationships with its employees and commits to the provision of excellent training and development opportunities for its staff. The Group's remuneration packages are maintained at a competitive level and are reviewed periodically. Bonus and share options are also granted to employees according to their respective performance, appraisals and industry practices. In January 2011, the Company granted 13,710,000 share options to the Directors and employees with an exercise price of HK$7.12 per share.

Report of the Directors

The Directors of the Company herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group's operations are substantially conducted in the PRC through its direct or indirect subsidiaries. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover and results by principal activities and geographical area of operations for the year ended 31 December 2011 is set out in note 6 to the financial statements.

RESULTS, FINAL DIVIDEND, ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The Group's result for the year ended 31 December 2011 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 39 to 41.

On 27 March 2012, the Directors have resolved to recommend the payment of a final dividend of HK$0.065 per Share to the shareholders of the Company (the "Shareholders") as recorded on the register of members of the Company on Monday, 21 May 2012. The final dividend will be paid to the Shareholders on or about Friday, 25 May 2012. Coupled with the interim dividend of HK$0.035 per Share that was already paid to the Shareholders during the year, the total amount of dividends declared to the Shareholders for the year ended 31 December 2011 will be amounted to HK$0.1 per Share.

The annual general meeting (the "AGM") of the Company will be held on Friday, 11 May 2012. The register of members of the Company will be closed from Wednesday, 9 May 2012 to Friday, 11 May 2012, both days inclusive, during which period no transfer of Shares shall be effected. To qualify for the attendance and voting at the AGM, all transfers of Shares, accompanied by the relevant Share certificates, must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 8 May 2012.

The register of members of the Company will be closed from Thursday, 17 May 2012 to Monday, 21 May 2012, both days inclusive, during which period no transfer of Shares shall be effected. To qualify for the proposed final dividend, all transfers of Shares, accompanied by the relevant Share certificates, must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 16 May 2012.

SUMMARY FINANCIAL INFORMATION

RESULTS

	Year ended 31 December				
	2011	2010	2009	2008	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**1,373,606**	983,738	746,566	619,420	460,090
Profit before tax	**313,820**	274,306	180,626	146,984	105,374
Income tax expense	**(63,050)**	(52,480)	(32,035)	(40,804)	(38,382)
Profit for the year attributable to owners of the Company	**250,770**	221,826	148,591	106,180	66,992

ASSETS AND LIABILITIES

	Year ended 31 December				
	2011	2010	2009	2008	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**1,743,405**	1,245,727	627,997	560,469	495,291
Total liabilities	**(722,570)**	(341,499)	(320,996)	(381,957)	(352,959)
Net assets	**1,020,835**	904,228	307,001	178,512	142,332

Notes:

(1) The consolidated results of the Group for the years ended 31 December 2010 and 2011 are set out on page 39 of this annual report.

(2) The consolidated financial position of the Group as at 31 December 2010 and 2011 are as set out on page 40 of the annual report.

(3) The summary financial information for the two years ended 31 December 2007 and 2008 was extracted from the Company's prospectus dated 8 June 2010 (the "Prospectus").

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 14 and 16 to the financial statements, respectively. Details of the Group's investment properties is set out in note 16 to the financial statement.

BORROWINGS

Details of the borrowings of the Group as at 31 December 2011 are set out in notes 22 and 23 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 27 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2011, the Company had distributable reserves of approximately RMB230,510,000. Under the Company's memorandum and articles of association and the Companies Law (Revised) of the Cayman Islands, the share premium of the Company of approximately RMB240,477,000 at 31 December 2011 are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year, the Company repurchased its own shares on the Stock Exchange as follows:

Month/Year	Number of shares repurchased	Highest price paid per share *HK$*	Lowest price paid per share *HK$*	Aggregate price paid *HK$'000*
August 2011	7,579,000	4.60	4.42	34,527
September 2011	14,122,000	4.14	3.79	54,553
October 2011	1,877,000	3.67	3.31	6,504

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium and transaction costs paid on the repurchase of the shares of approximately HK$93,226,000 and HK$295,000 respectively were charged to the Company's and the Group's reserves.

Save as disclosed above, there were no other purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries for the year ended 31 December 2011.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling approximately RMB1,000,000 (2010: RMB870,000).

RETIREMENT BENEFITS SCHEMES

The Group operates a MPF Scheme for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of the trustees. The employees of the subsidiaries in the PRC participate in the state-managed retirement benefits schemes operated by the relevant local government authority in the PRC. The subsidiaries are required to make contributions to the schemes at a certain percentage of the basic salaries of their employees. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions.

The total cost charged to the consolidated income statement of approximately RMB565,000 (2010: RMB306,000) represents retirement benefit schemes contributions paid/payable to the schemes by the Group at the rates specified in the rules of the schemes. At 31 December 2010 and 2011, no contributions due in respect of the reporting years had not been paid over to the schemes.

No employer's contribution was forfeited during the year. No unutilised forfeited contribution (2010: Nil) was available at 31 December 2011 to reduce the Group's future contributions.

The Group does not have any other pension scheme for its employees. In the opinion of the directors of the Company, the Group did not have any significant contingent liabilities as at 31 December 2011 in respect of the retirement of its employees.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 47% (2010: 52%) of the total sales for the year and sales to the largest customer included therein accounted for approximately 13% (2010: 15%). Purchases from the Group's five largest suppliers accounted for approximately 32% (2010: 46%) of the total purchases for the year and purchases from the largest supplier included therein accounted for approximately 12% (2010: 17%).

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers during the year.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

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

Non-executive director:

Ms. Wee Kok Keng

Independent non-executive directors:

Mr. Zhu Min Ru
Mr. Feng Xue Ben
Mr. Wong Siu Hong

In accordance with article 107 of the Company's articles of association, Mr. Chim Wai Shing Jackson, Mr. Zhu Min Ru and Mr. Feng Xue Ben will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The directors of the Company, including non-executive director and independent non-executive directors, are subject to retirement by rotation and re-election in accordance with the provisions of the Company's articles of association.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and of the senior management of the Group are set out on pages 33 to 37 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 21 June 2010 and may be terminated by not less than three months' prior notice in writing served by either party on the other.

Each of the non-executive Director and independent non-executive Directors has signed an appointment letter with the Company for a term of three years commencing from 21 June 2010 and may be terminated by not less than three months' prior notice in writing served by either party on the other.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year.

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

As at 31 December 2011, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to be notified to the Company and the Stock Exchange were as follows:

(i) Interests and short positions in the Shares

Name of Director	Capacity	Number of shares	Approximate percentage of issued shares
Chim Wai Kong	Settlor of trust *(Note 1)*	420,000,000 (L)	54.09%
	Beneficiary of trust *(Note 2)*	159,600,000 (L)	20.56%
	Interests of controlled corporation *(Note 3)*	1,900,000 (L)	0.24%
	Beneficial owner *(Note 4)*	290,000 (L)	0.04%
Chim Wai Shing Jackson	Settlor of trust *(Note 1)*	420,000,000 (L)	54.09%
	Beneficiary of trust *(Note 5)*	113,400,000 (L)	14.61%
	Beneficial owner *(Note 6)*	230,000 (L)	0.03%
Chim Fo Che	Beneficiary of trust *(Note 7)*	54,600,000 (L)	7.03%
	Beneficial owner *(Note 8)*	60,000 (L)	0.01%
Hong Ming Qu	Beneficiary of trust *(Note 9)*	18,900,000 (L)	2.43%
	Beneficial owner *(Note 10)*	110,000 (L)	0.01%
Zhu Min Ru	Beneficial owner *(Note 11)*	200,000 (L)	0.03%
Feng Xue Ben	Beneficial owner *(Note 12)*	200,000 (L)	0.03%

(L): Long Position

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

(i) Interests and short positions in the Shares (Cont'd)

Notes:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) Nian's Holding (Note 1)

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

Notes:

1. *Nian's Holding is the beneficial owner of 54.09% of the shareholding of the Company.*

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

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

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

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

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

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

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

(b) Nian's Investment (Note 1)

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

Notes:

1. *Nian's Investment is the holding company of Nian's Holding, which in turn holds 54.09% shareholding in the Company.*

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

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

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

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

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

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

Save as disclosed above, as at 31 December 2011, none of the Directors and the chief executives of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code contained in the Listing Rules to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option disclosures in note 29 to the financial statements, at no time during the year ended 31 December 2011 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") which became effective on 12 May 2010. Pursuant to the Scheme, the directors may, at their discretion, invite any eligible employees (including executive directors), any non-executive directors, shareholders, suppliers and customers of the Group and any other parties having contributed or may contribute to the development of the Group to take up options to subscribe for the Shares. The subscription price shall be a price determined by the directors, but shall not be less than the highest of (i) the closing price of the Shares on the date of the offer; (ii) the average closing price of the Shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Share.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme must not exceed 30% of the total issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the total number of Shares in issue as at the date of commencement of the Listing of the Shares on the Stock Exchange. The Company may seek approval of the Company's shareholders in general meeting for refreshing the 10% limit under the Scheme save that the total number of Shares which may be issued upon exercise of all options to be granted under the Scheme under the limit as refreshed shall not exceed 10% of the total number of Shares in issue as at the date of approval of the limit.

The total number of Shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue. Where any further grant of options to a participant would result in the total number of Shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the total number of Shares in issue, such further grant must be separately approved by the shareholders of the Company in general meeting with such participant and his associates abstaining from voting.

SHARE OPTION SCHEME (CONT'D)

On 14 January 2011, the Board approved the grant of a total 13,710,000 share options to certain directors and employees of the Group to subscribe for shares of HK$0.1 each in the Company at an exercise of HK$7.12 per share.

The following table discloses movements in the ourtstanding share options during the year:

	Number of share options					
Grantee	Outstanding at 1 January 2011	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31 December 2011	Exercise price
Executive Directors	–	690,000	–	–	690,000	HK$7.12
Independent non-executive Directors	–	400,000	–	–	400,000	HK$7.12
Employees	–	12,620,000	–	(480,000)	12,140,000	HK$7.12
	–	13,710,000	–	(480,000)	13,230,000	

Further details of the exercisable periods of the share options are disclosed in note 29 to the consolidated financial statements.

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

So far as is known to any Director or chief executive of the Company, as at 31 December 2011, the persons or companies (other than a Director or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of Shareholder	Capacity	Number of shares/ underlying shares	Approximate percentage of issued shares
Nian's Holding	Beneficial owner	420,000,000 (L)	54.09%
Nian's Investment *(Note 1)*	Interest of controlled corporation	420,000,000 (L)	54.09%
JMJ	Interest of controlled corporation *(Note 2)*	420,000,000 (L)	54.09%
RBS Coutts	Trustee *(Note 2)*	420,000,000 (L)	54.09%
Headwell *(Note 3)*	Beneficial owner	66,700,000 (L)	8.59%
Modern Creative *(Note 3)*	Interest of controlled corporation	66,700,000 (L)	8.59%
Liu Shu Fa	Interest of controlled corporation and family interest	66,700,000 (L)	8.59%
Wang Juan	Interest of controlled corporation and family interest	66,700,000 (L)	8.59%
Gerfalcon Holding Limited *(Note 4)*	Beneficial Owner	60,000,000 (L)	7.73%
Hui Cheung Mau	Interest of controlled corporation	60,000,000 (L)	7.73%
Sze Fo Chau	Interest of controlled corporation	60,000,000 (L)	7.73%

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

Name of Shareholder	Capacity	Number of shares/ underlying shares	Approximate percentage of issued shares
CITIC Capital China Access Fund Limited *(Note 5)*	Beneficial owner	45,320,388(L)	5.84%
CITIC Capital Holdings Limited *(Note 5)*	Interest of controlled corporation	45,320,388(L)	5.84%
CITIC Limited *(Note 5)*	Interest of controlled corporation	45,320,388 (L)	5.84%
China Investment Corporation *(Note 5)*	Interest of controlled corporation	45,320,388(L)	5.84%

(L): Long Position

Notes:

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

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

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

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

5. *These 45,320,388 underlying shares represent the shares which may be issued upon full conversion of the convertible bond in a principal amount of US$30,000,000 issued to CITIC Capital China Access Fund Limited. CITIC Capital China Access Fund Limited is a wholly-owned subsidiary of CITIC Capital Investment Management (Cayman) Limited, which in turn is wholly-owned by CITIC Capital Asset Management Limited. CITIC Capital Asset Management Limited is a wholly-owned subsidiary of CITIC Capital Holdings Limited which is owned as to 55% by CITIC Limited and 40% by Warlord Investment Corporation, a wholly-owned subsidiary of China Investment Corporation. For the purpose of Part XV of the SFO, CITIC Capital Holdings Limited, CITIC Limited and China Investment Corporation are therefore deemed to be interested in the underlying shares in which CITIC Capital China Access Fund Limited is interested.*

Save as disclosed herein, the Directors are not aware of any person who was, as at 31 December 2011, directly or indirectly, interested or had short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, was directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of the Company or any options in respect of such capital.

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group during the year are set out in note 33 to the financial statements and such related parties transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. Save as disclosed therein, there were no other transactions which would need to be disclosed as connected transactions in compliance with the disclosure requirements in Chapter 14A of the Listing Rules.

The Directors (including the independent non-executive Directors) have confirmed that the above transactions have been and shall be entered into in the ordinary and usual course of the Group's business, on normal commercial terms and the terms are fair, reasonable and in the interest of the shareholders of the Company as a whole.

The Group had the following continuing connected transactions with related parties during the year:

Rental Agreement between Xinhua Co. and Hua Xin Plastic

On 5 January 2009, Xinhua Share Co., Ltd. Fujian (福建鑫華股份有限公司, "Xinhua Co.") as tenant and Jinjiang Hua Xin Plastic & Rubber Products Co., Ltd. (晉江華鑫塑料橡膠製品有限公司, "Hua Xin Plastic") as landlord entered into a rental agreement (the "2009 Rental Agreement (1)") whereby Xinhua Co. agreed to lease from Hua Xin Plastic two premises with total areas of 3,374.16 sq.m. for production and operation purposes. The 2009 Rental Agreement (1) is for a term of 36 months commencing in January 2009 and expiring in December 2011. The monthly rental is RMB46,103.50, exclusive of water and electricity charges, and is fixed throughout the term of the rental agreement.

For the year ended 31 December 2011, Xinhua Co. paid total rentals of RMB553,242 to Hua Xin Plastic.

Subsequent to the year end date, on 11 January 2012, the 2009 Rental Agreement (1) was renewed for a terms of 36 months commencing from 1 January 2012 at a monthly rental of RMB46,103.50, exclusive of water and electricity charges.

Rental Agreements between Xinhua Co. and Hua Xin Weaving

On 5 January 2009, Xinhua Co. as tenant and Huaxin Weaving Development Co., Ltd. Jinjiang (晉江市華鑫織造發展有限公司, "Hua Xin Weaving") as landlord entered into a rental agreement (the "2009 Rental Agreement (2)") whereby Xinhua Co. agreed to lease from Hua Xin Weaving three premises with total areas of 7,059.41 sq.m. for production and operation purposes. The 2009 Rental Agreement (2) is for a term of 36 months commencing in January 2009 and expiring in December 2011. The monthly rental is RMB70,594.10, exclusive of water and electricity charges, and is fixed throughout the term of the rental agreement.

For the year ended 31 December 2011, Xinhua Co. paid total rentals of RMB847,129.20 to Hua Xin Weaving under the above rental agreement.

Subsequent to the year end date, on 11 January 2012, the 2009 Rental Agreement (2) was renewed for a terms of 36 months commencing from 1 January 2012 at a monthly rental of RMB70,594.10, exclusive of water and electricity charges.

On 16 March 2011, Hua Xin Weaving as tenant and Xinhua Co. as landlord entered into a Rental Agreement (the 2011 Rental Agreement) whereby Hua Xin Weaving agreed to lease from Xinhua Co. six premises with total areas of 20,290.68 sq.m. for production and operations purposes. The 2011 Tenancy Agreement is for a term of three years commencing from 1 January 2011 to 31 December 2013. The monthly rental is approximately RMB223,197.48, exclusive of water and electricity charges, and is fixed throughout the term of the tenancy agreement.

Hua Xin Weaving has been granted a right of first refusal to purchase the premises under the 2011 Rental Agreement. The 2011 Rental Agreement is also renewable upon the consent of Xinhua Co. with Hua Xin Weaving giving two months notice prior to the expiry thereof.

On 11 January 2012, Hua Xin Weaving as tenant and Xinhua Co. as landlord entered into a supplemental rental agreement (the Supplemental Rental Agreement) whereby Hua Xin Weaving agreed to reduce the area of rental premises from 20,290.68 sq.m. to 15,351.84 sq.m. with effect from 1 January 2012. The monthly rental is reduced from RMB223,197.48 to RMB168,870.24, exclusive of water and electricity charges, and is fixed throughout the term of the rental agreement. Other terms of the 2011 Rental Agreement remain unchanged.

For the year ended 31 December 2011, Xinhua Co. received total rentals of RMB2,678,369.76 from Hua Xin Weaving under the above rental agreement.

CONNECTED AND RELATED PARTY TRANSACTIONS (CONT'D)

Maximum aggregate Annual values

Based on the rents payable per month as set out in the 2009 Rental Agreement (1) and the 2009 Rental Agreement (2), the breakdown of the annual caps payable by Xinhua Co. thereunder are as follows:

	Year ended 31 December 2009 *RMB*	Year ended 31 December 2010 *RMB*	**Year ended 31 December 2011** ***RMB***
2009 Rental Agreement (1)	553,242.00	553,242.00	**553,242.00**
2009 Rental Agreement (2)	847,129.20	847,129.20	**847,129.20**
Total	1,400,371.20	1,400,371.20	**1,400,371.20**

Based on the rent receivable per month as set out in the 2011 Rental Agreement and the Supplemental Rental Agreement, the annual caps received by Xinhua Co. thereunder are as follows:

	Year ended 31 December 2011 ***RMB***	Year ending 31 December 2012 *RMB*	Year ending 31 December 2013 *RMB*
2011 Rental Agreement and Supplemental Rental Agreement	**2,678,369.76**	2,026,442.88	2,026,442.88

Xinhua Co. is a wholly-owned subsidiary of the Company. Hua Xin Plastic is wholly-owned by Mr. Chim Wai Kong while Hua Xin Weaving is owned as to approximately 99.75% by Mr. Chim Wai Kong and 0.25% by Mr. Chim Wai Shing, Jackson, both of which are executive Directors and controlling shareholders of the Company. Accordingly, the entering of the above-mentioned rental agreements constituted continuing connected transactions of the Company as defined in chapter 14A of the Listing Rules. Further details of these rental agreements were disclosed in the Company's Prospectus dated 8 June 2010 and the announcements of the Company dated 16 March 2011 and 11 January 2012.

RSM Nelson Wheeler was engaged to report on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the aforesaid continuing connected transactions in accordance with Rule 14.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

Based on the information and documents made available to them, RSM Nelson Wheeler concluded that:

– the above continuing connected transactions have been approved by the Company's Board of Directors;

– there are written agreements in place governing each of the continuing connected transactions and the transactions have been entered into in accordance with such agreements. No side agreement has been entered into in respect of the above continuing connected transactions; and

– the aggregate annual values of the above continuing connected transactions have not exceeded the maximum aggregate annual values as stated in the above maximum aggregate annual values table.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to date of this report, no directors are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, pursuant to the Listing Rules, other than those businesses of which the directors of the Company were appointed as directors to represent the interest of the Company and/or the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is available to the Company and within the knowledge of the directors, there is sufficient public float of more than 25% of the Company's issued shares as at the date of this report.

CORPORATE GOVERNANCE

Information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 29 to 32.

INDEPENDENT CONFIRMATION

The Company has received, form each independent non-executive director, an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange. The Company considers all the independent non-executive directors are independent.

AUDITOR

RSM Nelson Wheeler was appointed as auditor of the Company on 20 October 2009. There have been no other change of auditor in the last three years.

RSM Nelson Wheeler will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Chim Wai Kong
Chairman

Hong Kong
27 March 2012

Corporate Governance Report

INTRODUCTION

The Company is committed to ensuring high standards of corporate governance. Throughout the year of 2011, the Company has complied with the principles and provisions on the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company (the "Model Code"). Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Model Code for the year ended 31 December 2011.

BOARD OF DIRECTORS

The Board currently comprises four executive directors, one non-executive director and three independent non-executive directors. For a Director to be considered independent, the Board follows the requirements set out in the Listing Rules and must determine that the director does not have any direct or indirect material relationship with the Group. Under the Company's articles of association, every director is subject to retirement by rotation at least once every three years and their re-election is subject to a vote by the shareholders. All independent non-executive directors are appointed for a specific terms.

The Board determines the overall strategies, monitors and controls operating and financial performance and sets appropriate policies to manage risks in pursuit of the Group's strategic objectives. Day-to-day management of the Group's business is delegated to the senior management. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate. Matters reserved for the Board are those affecting the Group's overall strategic and financial policies including dividend policy, material contracts and major investments. All Board members have separate and independent access to the Group's senior management to fulfill their duties. They also have full and timely access to relevant information about the Group and are kept abreast of the conduct, business activities and development of the Group. Independent professional advice can be sought at the Group's expense upon their request.

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 21 June 2010 and may be terminated by not less than three months' prior notice in writing served by either party on the other.

Each of the non-executive Director and independent non-executive Directors has signed an appointment letter with the Company for a term of three years commencing from 21 June 2010 and may be terminated by not less than three months' prior notice in writing served by either party on the other.

The Board meets regularly to review the financial and operating performance of the Group, to make important decisions and to approve future strategies. Ten Board meetings were held in 2011. Individual attendance of each director at the Board meetings, the Audit Committee meetings, the Nomination Committee meetings and the Remuneration Committee meetings during 2011 is set out below:

Director	Attendance/Number of Meetings Board	Audit Committee	Nomination Committee	Remuneration Committee
Executive Director				
Mr. Chim Wai Kong *(Chairman)*	10/10	N/A	1/1	N/A
Mr. Chim Wai Shing, Jackson *(Chief Executive Officer)*	10/10	N/A	N/A	3/3
Mr. Chim Fo Che	10/10	N/A	N/A	N/A
Mr. Hong Ming Qu	10/10	N/A	N/A	N/A
Non-Executive Director				
Ms. Wee Kok Keng	6/10	3/4	N/A	N/A
Independent Non-Executive Director				
Mr. Zhu Min Ru	10/10	4/4	1/1	3/3
Mr. Feng Xue Ben	10/10	N/A	1/1	3/3
Mr. Wong Siu Hong	9/10	4/4	1/1	3/3

To implement the strategies and plans adopted by the Board effectively, executive directors and senior management meets regularly to review the performance of the businesses of the Group and make financial and operational decisions.

Biographical details of the directors, together with information about the relationship among them, can be found under the Profile of Directors and Senior Management section on pages 33 to 35.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Group has appointed Mr. Chim Wai Kong as the Chairman and Mr. Chim Wai Shing, Jackson as the Chief Executive Officer. The roles of the Chairman and the Chief Executive Officer are segregated. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in discharging its responsibilities. The Chief Executive Officer is responsible for the day-to-day management of the Group's business. Mr. Chim Wai Kong is the elder brother of Chim Wai Shing Jackson.

REMUNERATION COMMITTEE

The Remuneration Committee has clear terms of reference and is accountable to the Board. The principle role of the committee is to exercise the powers of the Board to determine and review the remuneration packages of individual executive directors and senior management, considering factors such as salaries paid by comparable companies, time commitment and responsibilities of individuals. The terms of reference of the Remuneration Committee can be obtained from the websites of the Company and the Stock Exchange.

During the year, the Remuneration Committee reviewed the remuneration policies and approved the salary of directors and senior management. The remuneration of each director is determined by the committee with reference to his/her duties and responsibilities with the Company. No executive director has taken part in any discussion about his own remuneration. Three meetings were held by the Remuneration Committee in 2011. Three out of four of the committee members are independent non-executive directors of the Company. Its current members include:

Mr. Zhu Min Ru – *Chairman*
Mr. Chim Wai Shing, Jackson
Mr. Feng Xue Ben
Mr. Wong Siu Hong

Directors' remunerations for the year are disclosed in note 11 to the financial statements.

NOMINATION COMMITTEE

The Nomination Committee has clear terms of reference and is accountable to the Board. The principle role of the committee is to exercise the powers of the Board to review the structure, size and composition (including the skills, knowledge and experiences) of the Board on a regular basis and make recommendations to the Board regarding any proposed change. The terms of reference of the Nomination Committee can be obtained from the websites of the Company and the Stock Exchange.

The terms of reference of the Nomination Committee have been determined with reference to the Code. The Nomination Committee is responsible for identifying potential new directors and recommending to the Board for decision. A Director appointed by the Board is subject to re-election by Shareholders at the first annual general meeting after his/her appointment. Under the Company's articles of association, at each annual general meeting one-third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at an annual general meeting at least once every three years. Basically, the nomination procedure follows the articles of association of the Company. Potential new Directors are selected on the basis of their qualification, skills and experience which the Nomination Committee considers will make a positive contribution to the performance of the Board. One meeting was held by the Nomination Committee in 2011. Three out of four of the committee members are independent non-executive directors of the Company. Its current members include:

Mr. Feng Xue Ben – *Chairman*
Mr. Chim Wai Kong
Mr. Zhu Miu Ru
Mr. Wong Siu Hong

AUDIT COMMITTEE

The Audit Committee has clear terms of reference and is accountable to the Board. The committee assists the Board in meeting its responsibilities for ensuring an effective system of internal control and compliance, and in meeting its external financial reporting objectives. The terms of reference of the Audit Committee can be obtained from the websites of the Company and the Stock Exchange. Four meetings were held by the Audit Committee in 2011. Two out of three of the committee members are independent non-executive directors. Its current members include:

Mr. Wong Siu Hong – *Chairman*
Mr. Zhu Miu Ru
Ms. Wee Kok Keng

The committee members possess diversified industry experience and the Chairman of the Committee has appropriate professional qualifications and experience in accounting matters. During the year, the Committee considered the external auditors' re-appointment and their projected audit fees, reviewed the interim and annual financial statements and reviewed the Group's internal control system.

The Group's audited consolidated results for the year ended 31 December 2011 has been reviewed by the audit committee of the Company.

INTERNAL CONTROLS

The Group's internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorized use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. It provides reasonable, but not absolute, assurance against material misstatement or loss rather than the elimination of risks associated with its business activities.

The Board is responsible for maintaining an adequate system of internal control for the Group and the directors has conducted a review of its effectiveness during the year.

AUDITORS' REMUNERATION

During the year, the Group has incurred auditors' remuneration in respect of audit and auditing related services of approximately RMB1,383,000, out of which approximately RMB1,336,000 was paid/payable to the Company's auditors, Messrs RSM Nelson Wheeler. In addition, professional fee of approximately RMB15,000 was paid/payable by the Group for the taxation services rendered by RSM Nelson Wheeler.

FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing the Group's financial statements which give a true and fair view and are in accordance with appropriate International Financial Reporting Standards. Appropriate accounting policies are being selected and applied consistently.

The responsibilities of the external auditors with respect to financial reporting are set out in the Independent Auditors' Report on page 38.

Directors and Senior Management Profile

DIRECTORS

Executive Directors

CHIM, Wai Kong (粘為江), aged 56, is the chairman of the Group and an executive Director. Mr. Chim is principally responsible for the strategic development of the Group's operation. Mr. Chim has over 13 years of experience in non-woven materials industry. In 2001 and 2006, Mr. Chim was appointed as member of the 9th Committee in Quanzhou, Fujian Province of the Chinese People's Political Consultative Conference ("CPPCC") (中國人民政治協商會議福建省泉州市第九屆委員會委員) and member of the 10th Committee in Quanzhou, Fujian Province of the CPPCC (中國人民政治協商會議福建省泉州市第十屆委員會委員) respectively. In 2004, Mr. Chim was elected as Vice President of the 7th Executive Committee of General Chamber of Commerce in Jin Jiang (晋江市總商會第七屆理事會副會長), member of the 1st Executive Committee of Good Faith Council in Fujian Province (福建省誠信促進會第一屆理事會理事) and Vice President of the 8th Executive Committee of Jin Jiang Federation of Industry and Commerce (General Chamber of Commerce) (晋江市工商聯（總商會）第八屆理事會副會長). In March 2007, Mr. Chim was appointed as Supervisor of Party Conduct and Honesty in Jin Jiang (晋江市黨風廉政監督員) by Jin Jiang People's Government of Jin Jiang Committee under Communist Party of China (中共晋江市委員會晋江市人民政府) for a period of five years. In 2007, Mr. Chim was appointed as member of the 10th Committee in Fujian Province of the CPPCC (中國人民政治協商會議第十屆福建省委員會委員) and Honourary President of the 2nd Executive Committee of Jin Jiang Charity Federation (晋江市慈善總會第二屆理事會榮譽會長). Mr. Chim was appointed as a Director on 23 September 2009. Mr. Chim is the elder brother of Chim Wai Shing Jackson, Chim Fo Che and Hong Ming Qu.

CHIM, Wai Shing Jackson (粘偉誠), aged 38, is the chief executive officer of the Group and an executive Director. Mr. Chim is principally responsible for the management and formulation of the operation strategy of the Group. Mr. Chim has 13 years of experience in the non-woven materials industry. Mr. Chim was awarded as senior engineer by Fujian Providence Personnel Department (福建省人事廳) in 2006. In April 2001, Mr. Chim was elected as Chairman of the first Executive Committee of the Jin Jiang Overseas Friendship Association (晋江市海外聯誼會第一屆理事). In January 2003, Mr. Chim was appointed as Vice Chairman of the 1st Executive Committee of Quanzhou International Chamber of Commerce (泉州國際商會第一屆理事會副會長). In March 2007, Mr. Chim was appointed as Vice Chairman of the 6th Committee of Science and Technology Association in Long Hu Town (龍湖鎮科學技術協會第六屆委員會副主席). In May 2008, Mr. Chim was appointed as the first Honourary Dean of Strait Brand Economic Development Research Institute in Fujian Province (福建省海峽品牌經濟發展研究院首屆榮譽院長). Moreover, Mr. Chim is awarded as top 10 leading persons in China non-woven materials industry in 2009 (2009 中國非織造布行業管理十大領軍人物) and the special contribution prize to China Management Science (中國管理科學成就特別貢獻獎) in 2009. In 2010, Mr. Chim was also appointed as the Vice President of the Association of Industrial Textiles in China (中國產業用紡織品行業協會) and was selected as an outstanding entrepreneur in environment protection (環境保護優秀企業家). Mr. Chim is the visiting professor of School of Textiles of Tianjin Polytechnic University and vice president of World Eminence Chinese Business Association (世界傑出華商協會), Mr. Chim graduated with a master degree in management from Xiamen University (廈門大學) in 2005. Mr. Chim was appointed as a Director on 26 August 2009. Mr. Chim is the younger brother of Chim Wai Kong and Chim Fo Che, and the elder brother of Hong Ming Qu.

CHIM, Fo Che (粘火車), aged 53, is an executive Director. Mr. Chim is principally responsible for the administration and business development of the Group. Mr. Chim has 13 years of experience in the non-woven materials industry. Mr. Chim graduated with a bachelor degree in engineering from Xiamen University (廈門大學) in 2000. Mr. Chim was appointed as a Director on 23 September 2009. Mr. Chim is the younger brother of Chim Wai Kong and the elder brother of Chim Wai Shing Jackson and Hong Ming Qu.

DIRECTORS (CONT'D)

Executive Directors (Cont'd)

HONG, Ming Qu (洪明取), aged 33, is an executive Director. Mr. Hong is principally responsible for marketing and supply chain management of the Group. Mr. Hong has over 8 years of experience in non-woven materials industry. Mr. Hong graduated with a bachelor degree majoring in civil engineering from Xiamen University (廈門大學) in 2002. In May 2008, Mr. Hong completed the China Nonwovens Training Course 2008 jointly organised by CNITA and Association of the Nonwoven Fabrics Industry of the US. Mr. Hong was appointed as a Director on 23 September 2009. Mr. Hong is the younger brother of Chim Wai Kong, Chim Wai Shing Jackson and Chim Fo Che.

Non-executive Director

WEE, Kok Keng, aged 40, was appointed as a non-executive Director on 5 February 2010. Ms. Wee has over 17 years experience in accounting, finance and business management and held senior positions in various multinational companies. Ms. Wee graduated from the University of Adelaide with a bachelor of commerce in 1994. She was advanced to the status of Certified Practising Accountant of CPA Australia in 2000. Ms. Wee serves as independent investment director in Jin Shu Investment Limited from January 2007 till present. Prior to this appointment, she worked in Tele-Atlas Asia-Pacific Pte. Ltd as vice president, finance, Asia Pacific from July 2006 to December 2006 mainly responsible for finance related matters and some administrative and managerial responsibilities. From December 2003 to June 2006, Ms. Wee worked in Ventures Trust Pte Ltd as managing director fully responsible for the origination, implementation and execution of corporate finance works. From November 2000 to October 2003, she worked in Mitsubishi Securities (Singapore), holding the position of vice president from January 2003 onwards mainly responsible for the promotion and marketing of corporate advisory services and the execution and documentation of corporate advisory transactions. From July 1996 to November 2000, she worked in Maybank Investment Bank Berhad (previously known as Aseambankers Malaysia Berhad) as assistant manager in Corporate Finance Department with a portfolio that included fund raising, initial public listing, restructuring, reverse take-over, backdoor listing, acquisitions and dispositions of businesses and assets, etc.. From January 1994 to January 1996, Ms. Wee was an auditor in Arthur Andersen & Co..

Independent non-executive Directors

ZHU, Min Ru (朱民儒), aged 63, was appointed as an independent non-executive Director on 4 February 2010. Mr. Zhu has over 29 years of experience in textile industry. Mr. Zhu completed the professional course in textile chemical engineering with Tianjin Industrial College of Textile (later renamed as Tianjin Polytechnic University) in January 1982 and was granted a bachelor degree in textile chemical engineering by the same college in December 1982. Mr. Zhu has been the president of CNITA since its establishment in 2001 and is now the honourary chairman. In December 2003, Mr. Zhu obtained the professional qualification of senior engineer with remuneration of the professor grade (享受教授級待遇的高級工程師) by Stateowned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會). Mr. Zhu was appointed a member of the editorial board of the annual China Textile Industry Development Report (中國紡織工業發展報告) from 2002–2009. Mr. Zhu acted as an independent director of Ningbo YAK Technology Industrial Company Limited (寧波宜科科技實業股份有限公司), a company listed on Shenzhen Stock Exchange (stock code: 002036) from July 2007 till present. Mr. Chu also acted as an independent director of Zhejiang Longfu Hi Tech New Materials Company Limited (浙江尤夫高新纖維股份有限公司), a company listed on Shenzhen Stock Exchange (stock code: 002427) from June 2010 till present.

DIRECTORS (CONT'D)

Independent non-executive Directors (Continued)

FENG, Xue Ben (馮學本), aged 60, was appointed as an independent non-executive Director on 4 February 2010. Mr. Feng has over 26 years of experience in textile industry. He is currently the chief engineer in Wuxi Jiayuan Nonwovens Technology Research Institute (無錫嘉元非織造技術研究所). From December 2007 until now, for a period of four years, Mr. Feng served as deputy director of the Non-woven Fabrics Machinery Professional Committee under China Textile Machinery and Equipment Industrial Association (中國紡織機械器材工業協會非織造布機械專業委員會) and an expert consultant of China Industrial Textiles Association (中國產業用紡織品協會), as well as the vice president of the Study Group of non-woven machinery of China Textile Machinery Society (中國紡織機械學會非織造機械學組) since 2011. Mr. Feng is the chief editor of the professional textbook titled "Pine Non-woven Fabrics Technology and Quality Control" (《針刺非織造布工藝技術與產品控制》) and a wealth of articles in chemical fibres, non-woven materials and non-woven industrial facilities. Mr. Feng acted as an independent director of Fujian Nanfang Co., Ltd (福建南紡股份有限公司), a company listed on Shanghai Stock Exchange (stock code: 600483) from June 2002 to May 2008. Mr. Feng also acted as an independent non-executive director of China Automotive Interior Decoration Holdings Limited (中國汽車內飾集團有限公司), a company listed on the Growth Enterprise Board of Hong Kong Stock Exchange from 29 September 2010.

WONG, Siu Hong (黃兆康), aged 43, was appointed as an independent non-executive Director on 4 February 2010. Mr. Wong graduated from Deakin University in Australia with a bachelor of commerce double majoring in accounting and commercial law in 1994. Before joining the Group, Mr. Wong worked in an international accounting firm and has 16 years of experience in auditing, accounting and finance. Mr. Wong is now the chief financial officer and company secretary of Heng Tai Consumables Group Limited, a company listed on the Stock Exchange (stock code: 197). Mr. Wong has been appointed as an independent non-executive director of Huafeng Group Holdings Limited, a company listed on the Stock Exchange (stock code: 364) since September 2004. Mr. Wong is a certified public accountant of the CPA Australia and the of Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants).

SENIOR MANAGEMENT

CHAN, Kwok Yuen Elvis (陳國源), aged 39, is the chief financial officer and company secretary of the Company and is responsible for the accounting, financial, secretarial and investor relation affairs of the Group. Mr. Chan has over 15 years of experience in the field of accounting and finance. Prior to joining the Group, Mr. Chan served as the chief financial officer and company secretary of Kiu Hung Energy Holdings Limited, a company listed on the main board of the Stock Exchange (stock code: 381), for over 9 years. Mr. Chan is a fellow of the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants, an associate of the Institute of Chartered Accountants in England and Wales, a Chartered Financial Analyst of the CFA Institute and a member of the Hong Kong Society of Financial Analysts. Mr. Chan obtained a bachelor degree in commerce from Queen's University of Canada in 1995 and is currently pursuing a master of science degree in corporate governance and directorship at the Hong Kong Baptist University. Mr. Chan is an executive director of The Hong Kong Fujian Charitable Education Fund (香港福建希望工程基金會) since 2010.

JI, Li Quan (紀理荃), aged 50, is the chief operating officer of the Company and the chief executive officer of Xinhua Co.. Mr. Ji joined the Group in August 2010 and is responsible for the daily operation of Xinhua Co.. Mr. Ji graduated from Xiamen Institute of Finance (廈門財經學院) in 1985, and graduated from the Economic and Management School of Peking University in 1990 with a major in economics management. Mr. Ji has over 21 years of experiences in enterprise management.

SENIOR MANAGEMENT (CONT'D)

CHEN, Min Tsung (陳敏聰), aged 53, is the deputy chief executive officer of Xinhua Co. mainly responsible for overseeing the daily operations of administration matters and human resource management matters and ensuring the implementation of company policies. Mr. Chen graduated from Lingdong School of Commerce in Taiwan (嶺東商業專科學校) and joined the Group in 2006.

CHEN, Hui (陳暉), aged 43, is the deputy chief executive officer of Xinhua Co.. Mr. Chen has 17 years of experience in accounting and finance and is mainly responsible for overseeing the finance and accounting matters and co-coordinating inter-departmental work relations. Mr. Chen joined the Group in April 2005.

WONG, Kai Lam (黃啟霖), aged 32, is the internal control officer of the Company and is responsible for the internal control and risk management affairs of the Group. Mr. Wong has over 9 years of experience in the field of accounting and finance. Mr. Wong obtained a bachelor degree in accountancy from The Hong Kong Polytechnic University in 2005. Mr. Wong is currently pursuing an executive master of business administration degree at the University of Birmingham of the United Kingdom. Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants.

TIAN, Yu Sheng (田雨勝), aged 51, is the deputy chief executive officer and the technology and production director of Xinhua Co.. Mr. Tian joined the Group in November 2010, who is mainly responsible for the production and technologies management system. Mr. Tian graduated from the Distance Learning College of the Party School of the Central Committee of C.P.C. (中共中央黨校函授學院) in 2001 with a degree in law and obtained the title of engineer. Mr. Tian has more than 33 years of experiences in the production and technologies management for textiles and non-woven materials industries.

WANG, Hong Hai (王洪海), aged 43, is the deputy chief executive officer of Xinhua Co. mainly responsible for the daily operations of supply chain management center. Mr. Wang has completed a postgraduate study in Excellent CEO Leadership and an EMBA at Yangtze Delta Region Institute of Tsinghua University (清華大學長三角學院) with major in enterprise management and marketing. Mr. Wong has 16 years of marketing management experience. Mr. Wong joined the Group in April 2011.

ZHAI, Hong Bing (翟紅兵), aged 45, is the director of president's office of Xinhua Co. mainly responsible for internal coordination and external public relations matters. Ms. Zhai graduated from Beijing Zhangcheng College with a bachelor degree majoring in business administration in 2001. Ms. Zhai also completed the internal auditor training in environmental management system (ISO14001:2004) in 2007, and completed the training for internal auditor regarding ISO9001:2008 quality assurance system. She received the certificate from American Certification Institute in 2011, and obtained the qualification of Certified Quality Engineer ("CQE"). During the same year, she passed the review by the appraisal committee conducted against the appraisal standards as published by the Ministry of Commerce and Ministry of Labour of the People's Republic of China. Ms. Zhai was also qualified by the Ministry of Human Resources and Social Security as a senior operation officer. Ms. Zhai joined the Group in 2007 and is also the party branch secretary and the president of the labour union of Xinhua Co..

SENIOR MANAGEMENT (CONT'D)

PANG, Jian Zhu (逄建竹), aged 49, is the director of human resources center of Xinhua Co.. Ms. Pang has over 15 years of experience in textile industry. Ms. Pang graduated from the Distance Learning College of the Party School of the Central Committee of C.P.C (中共中央黨校函授學院) majoring in Economics Management in 1995. Ms. Pang joined the Group in 2008.

YANG, Ze Lin (楊澤林), aged 40, is the general manager of new material business of Xinhua Co.. Mr. Yang joined the Group in October 2003, who is mainly responsible for the operations of new material business department. Mr. Yang graduated from department of nonwoven textile of Tianjin Institute of Textile Science and Technology (天津紡織工學院非織造系) in 1995. Mr. Yang has accumulated over 17 years of experience in engaging in the industry of nonwoven materials.

Prof. GUO, Bing Chen (郭秉臣), aged 67, is the senior consultant of research and development centre of Xinhua Co.. Prof. Guo graduated from Tianjin Industrial College of Textile (later renamed as Tianjin Polytechnic University), majoring in textile engineering in 1980. Prof. Guo was conferred professorship in 1998. Over the decades of academic endeavours, Prof. Guo had attained remarkable achievements in research and development and published a wealth of theses in the textile and nonwoven materials industry. Amongst them, the book titled "Non-woven Textile" (《非織造布學》) received exceptional recognitions including but not limited to the Science and Technology Awards (科學技術獎) and the "Tenth Five-year" Outstanding Teaching Material of ministry and commission level (「十五」部委級優秀教材) by China National Textile And Apparel Council (中國紡織工業協會) in 2005 and 2006 respectively. Prof. Guo joined the Group in 2007.

Prof. SHEN, Hang Gen (沈恒根教授), aged 57, is the senior consultant of research and development centre of Xinhua Co.. Prof. Shen graduated from Xi'an University of Architecture & Technology with a major in industrial ventilation and dust separation in February 1982 and thereafter taught in the university. Prof. Shen was conferred professorship in 1997. Since joining Dong Hua University (formerly known as China Textile University (中國紡織大學)) in 1999, Prof. Shen has endeavoured in teaching and scientific research. Currently he assumes professional duties such as vice-chairman of environmental engineering section of Chinese Society of Environmental Science (中國環境科學學會環境工程分會), vice chairman of professional committee for electric power and environmental protection of Chinese Society for Electrical Engineering (中國電機工程學會電力環保專業委員會) and standing committee member of bag-type dust collector section of China Association of Environmental Protection Industry (中國環保產業協會袋式除塵分會). In his professional arena, he presented tens of academic papers at academic standards of bachelors, masters and doctors, and received patents in more than ten items of technologies. In recent years, he had achieved remarkable achievement in textile for filtration and separation industry. Prof. Shen obtained Golden Bridge Award from China Institute of Technology Market in 2009, the Science and Technology Award from China Textile Industry Association of Textile in 2010, the Outstanding Project Award from Shanghai Research Commercialization Association in 2010. "Industrial Ventilation", a curriculum taught by Prof. Shen, was awarded Shanghai Boutique Course in 2011. He also participated in the preparation of two environmental protection standards for the power industry and one environmental standard for Shanghai municipality. Prof. Shen joined the Group in September 2011.

Independent Auditor's Report

RSM! Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

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

We have audited the consolidated financial statements of COSTIN New Materials Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 39 to 94, which comprise the consolidated and Company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's results and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

27 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Turnover	6	**1,373,606**	983,738
Cost of goods sold		**(957,974)**	(648,050)
Gross profit		**415,632**	335,688
Other income	7	**21,107**	10,355
Distribution expenses		**(18,149)**	(17,157)
Administrative expenses		**(78,230)**	(47,341)
Profit from operations		**340,360**	281,545
Finance costs	8	**(26,540)**	(7,239)
Profit before tax		**313,820**	274,306
Income tax expense	9	**(63,050)**	(52,480)
Profit for the year attributable to owners of the Company	10	**250,770**	221,826
Other comprehensive income for the year, net of tax			
Exchange differences on translating foreign operations		**(6,178)**	(8,163)
Total comprehensive income for the year attributable to owners of the Company		**244,592**	213,663
Earnings per share	13		
Basic		**RMB31.62 cents**	RMB31.41 cents

Consolidated Statement of Financial Position

At 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	14	**399,534**	243,647
Construction in progress	15	**30,962**	26,480
Investment properties	16	**18,630**	19,908
Prepayments for acquisition of property, plant and equipment		**6,260**	7,089
		455,386	297,124
Current assets			
Inventories	18	**82,368**	61,553
Trade and bills receivables	19	**302,017**	225,823
Prepayments, deposits and other receivables		**38,389**	7,079
Pledged bank deposits	20	**20,704**	26,306
Bank and cash balances	20	**844,541**	627,842
		1,288,019	948,603
Current liabilities			
Trade and bills payables	21	**93,314**	97,626
Accruals and other payables		**42,938**	33,736
Bank loans	22	**279,748**	177,833
Finance lease payable	24	**165**	161
Current tax liabilities		**7,960**	13,320
		424,125	322,676
Net current assets		**863,894**	625,927
Total assets less current liabilities		**1,319,280**	923,051
Non-current liabilities			
Bank loans	22	**73,034**	–
Convertible bond	23	**193,007**	–
Finance lease payable	24	**364**	554
Deferred tax liabilities	26	**32,040**	18,269
		298,445	18,823
NET ASSETS		**1,020,835**	904,228
Capital and reserves			
Share capital	27	**68,475**	70,400
Reserves	28(a)	**952,360**	833,828
TOTAL EQUITY		**1,020,835**	904,228

Approved by the Board of Directors on 27 March 2012

Chim Wai Kong
Director

Chim Wai Shing, Jackson
Director

Statement of Financial Position

At 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Investment in a subsidiary	17	19,287	20,221
Current assets			
Prepayments		206	318
Dividend receivables		112,687	28,900
Due from subsidiaries	17	351,643	335,588
Bank and cash balances	20	10,419	7,817
		474,955	372,623
Current liabilities			
Accruals and other payables		919	882
Due to a subsidiary	17	1,331	1,395
		2,250	2,277
Net current assets		472,705	370,346
Total assets less current liabilities		491,992	390,567
Non-current liabilities			
Convertible bond	23	193,007	–
NET ASSETS		298,985	390,567
Capital and reserves			
Share capital	27	68,475	70,400
Reserves	28(b)	230,510	320,167
TOTAL EQUITY		298,985	390,567

Approved by the Board of Directors on 27 March 2012

Chim Wai Kong
Director

Chim Wai Shing, Jackson
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Share capital RMB'000	Share premium account RMB'000 (note 28 (c)(i))	Share-based payment reserve RMB'000 (note 28 (c)(ii))	Convertible bond reserve RMB'000	Foreign currency translation reserve RMB'000 (note 28 (c)(iii))	Statutory reserve RMB'000 (note 28 (c)(iv))	Capital reserve RMB'000 (note 28 (c)(v))	Merger reserve RMB'000 (note 28 (c)(vi))	Retained profits RMB'000	Total RMB'000
At 1 January 2010	80,000	–	–	–	(102)	51,899	–	–	175,204	307,001
Total comprehensive income for the year	–	–	–	–	(8,163)	–	–	–	221,826	213,663
Transfer to statutory reserve	–	–	–	–	–	24,489	–	–	(24,489)	–
Effect of group reorganisation	(79,974)	–	–	–	–	–	–	79,974	–	–
Effect of loan capitalisation	–	–	–	–	–	–	20,934	–	–	20,934
Capitalisation	52,774	(52,774)	–	–	–	–	–	–	–	–
Issue of shares	17,600	401,280	–	–	–	–	–	–	–	418,880
Share issue expenses	–	(31,890)	–	–	–	–	–	–	–	(31,890)
Dividends paid *(note 12)*	–	–	–	–	–	–	–	–	(24,360)	(24,360)
Changes in equity for the year	(9,600)	316,616	–	–	(8,163)	24,489	20,934	79,974	172,977	597,227
At 31 December 2010 and 1 January 2011	**70,400**	**316,616**	**–**	**–**	**(8,265)**	**76,388**	**20,934**	**79,974**	**348,181**	**904,228**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(6,178)**	**–**	**–**	**–**	**250,770**	**244,592**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**–**	**60,941**	**–**	**–**	**(60,941)**	**–**
Repurchase of shares	**(1,925)**	**(76,139)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(78,064)**
Recognition of equity component of convertible bond	**–**	**–**	**–**	**3,068**	**–**	**–**	**–**	**–**	**–**	**3,068**
Share-based payments	**–**	**–**	**13,379**	**–**	**–**	**–**	**–**	**–**	**–**	**13,379**
Dividends paid *(note 12)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(66,368)**	**(66,368)**
Changes in equity for the year	**(1,925)**	**(76,139)**	**13,379**	**3,068**	**(6,178)**	**60,941**	**–**	**–**	**123,461**	**116,607**
At 31 December 2011	**68,475**	**240,477**	**13,379**	**3,068**	**(14,443)**	**137,329**	**20,934**	**79,974**	**471,642**	**1,020,835**

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**313,820**	274,306
Adjustments for:			
Depreciation		**29,398**	24,661
Equity-settled share-based payments		**13,379**	–
Finance costs		**26,540**	7,239
Loss on disposals of property, plant and equipment		**25**	–
Interest income		**(6,934)**	(2,356)
Operating profit before working capital changes		**376,228**	303,850
Increase in inventories		**(20,815)**	(34,536)
Increase in trade and bills receivables		**(76,194)**	(64,321)
Increase in prepayments, deposits and other receivables		**(31,310)**	(6,676)
(Decrease)/increase in trade and bills payables		**(4,312)**	4,572
Increase in accruals and other payables		**3,798**	13,340
Cash generated from operations		**247,395**	216,229
Finance lease charges paid		**(41)**	(26)
Interest paid		**(19,094)**	(7,213)
Taxes paid		**(54,639)**	(27,422)
Net cash generated from operating activities		**173,621**	181,568
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	30(i)(ii)	**(17,746)**	(24,332)
Proceeds from disposals of property, plant and equipment		**313**	–
Payment for construction in progress	30(i)(ii)	**(158,657)**	(38,474)
Increase in prepayments for acquisition of property, plant and equipment		**(6,260)**	(7,089)
Interest received		**6,934**	2,356
Decrease in pledged bank deposits		**5,602**	243
Decrease/(increase) in non-pledged bank deposits with more than three months to maturity	20	**100,000**	(100,000)
Net cash used in investing activities		**(69,814)**	(167,296)

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of convertible bond		**194,443**	–
Proceeds from issue of shares	27(b)	**–**	418,880
Share issue expenses paid		**–**	(23,755)
Repurchase of shares	27(c)	**(78,064)**	–
Drawdown of bank loans		**445,259**	258,995
Repayment of bank loans		**(267,634)**	(215,147)
Drawdown of other loan		**–**	16,884
Repayment of other loan		**–**	(16,884)
Repayment of capital element of finance lease payable		**(158)**	(178)
Net repayment of factoring loans		**–**	(23,549)
Increase in amount due to a related party		**–**	802
Decrease in amount due from a related company		**–**	19,108
Decrease in amount due to a related company		**–**	(7,294)
Repayment of loan from a related company		**–**	(5,395)
Dividends paid	12	**(66,368)**	(24,360)
Net cash generated from financing activities		**227,478**	398,107
NET INCREASE IN CASH AND CASH EQUIVALENTS		**331,285**	412,379
Effect of foreign exchange rate changes		**(14,586)**	(8,969)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**527,842**	124,432
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**844,541**	527,842
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances	20	**844,541**	527,842

Notes to the Financial Statements

For the year ended 31 December 2011

1. GENERAL INFORMATION

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

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 17 to the financial statements.

In the opinion of the directors of the Company, as at 31 December 2011, Nian's Brother Holding Limited ("Nian's Holding"), a company incorporated in the British Virgin Islands, is the immediate parent; JMJ Holdings Limited, a company incorporated in the British Virgin Islands, is the ultimate parent and Nian's Brother Trust* is the ultimate controlling party of the Company.

* *Beneficiaries of the trust are Chim Wai Kong, Chim Wai Shing Jackson, Hong Ming Qu, Chim Fo Che, Nian Wei Deng and Hong Lian Qiao.*

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with IFRSs and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

In the Company's statement of financial position the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Merger accounting for business combination under common control

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

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

The consolidated statements of financial position have been prepared to present the assets and liabilities of the combining entities as if the Group structure as at 31 December 2011 had been in existence at the end of each reporting period. The net assets of the combining entities are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or gain on bargain purchase at the time of common control combination, to the extent of the continuation of the controlling party's interest.

There was no adjustment made to the net assets nor the net profit or loss of any combining entities in order to achieve consistency of the Group's accounting policies.

(c) Foreign currency translation

(i) Functional and presentation currency

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

The directors consider that the major operating subsidiaries are located in the PRC, choosing RMB as the presentation currency best suits the needs of the shareholders and investors.

(ii) Transactions and balances in each entity's financial statements

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

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Foreign currency translation (Cont'd)

(iii) Translation on consolidation

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

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in the foreign currency translation reserve.

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

(d) Property, plant and equipment

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

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

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

Buildings	5%
Prepaid land lease payments	5%
Machinery and equipment	10%–20%
Office equipment and fixtures	20%–33.33%
Motor vehicles	20%–25%
Leasehold improvements	Over lease term

The useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Property, plant and equipment (Cont'd)

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

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

(e) Investment properties

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

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

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

(f) Leases

The Group as lessee

(i) Operating leases

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

(ii) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets over the shorter of the lease term and their estimated useful lives.

The Group as lessor

Operating leases

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Research and development expenditure

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

(h) Inventories

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

(i) Recognition and derecognition of financial instruments

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

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

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

(j) Trade and other receivables

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(k) Cash and cash equivalents

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

(l) Financial liabilities and equity instruments

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

(i) Borrowings

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

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

(ii) Convertible bonds

Convertible bonds which entitle the holder to convert the bonds into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded option for the holder to convert the bonds into equity of the Group, is included in equity as capital reserve. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

(iii) Trade and other payables

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

(iv) Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Revenue recognition

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

(i) Sales of goods

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

(ii) Interest income

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

(iii) Rental income

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

(iv) Subcontracting fee income

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

(v) Government grants

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

(n) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(o) Share-based payments

The Group issues equity-settled share-based payments to certain directors and employees.

Equity-settled share-based payments to directors and employees are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

(p) Borrowing costs

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(q) Taxation

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(r) Related parties

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

(B) An entity is related to the Group (reporting entity) if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(s) Impairment of assets

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

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

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

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

(t) Provisions and contingent liabilities

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

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

(u) Events after the reporting period

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

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

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

Legal title of a building

As stated in note 14 to the financial statements, the Group has not obtained the relevant building ownership certificate of a building. Despite the fact that the Group has not obtained the relevant building ownership certificate, the directors determine to recognise that building on the grounds that they expect the application for relevant building ownership certificate in future should have no major difficulties and the Group is in substance controlling that building.

Key sources of estimation uncertainty

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

(a) Property, plant and equipment and depreciation

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

(b) Income taxes

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

(c) Impairment loss for bad and doubtful debts

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

(d) Allowance for slow-moving inventories

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

5. FINANCIAL RISK MANAGEMENT

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

(a) Foreign currency risk

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

(i) At 31 December 2011, if the RMB had weakened 5 per cent against the HK$ with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB2,384,000 lower (2010: RMB3,405,000 higher), arising mainly as a result of the foreign exchange difference on pledged bank deposits and bank and cash balances denominated in RMB held by a subsidiary incorporated in Hong Kong and HK$ held by subsidiaries incorporated in PRC.

If the RMB had strengthened 5 per cent against the HK$ with all other variables held constant, consolidated profit after tax for the year would have been RMB2,384,000 higher (2010: RMB3,405,000 lower), arising mainly as a result of the foreign exchange difference on pledged bank deposits and bank and cash balances denominated in RMB held by a subsidiary incorporated in Hong Kong and HK$ held by subsidiaries incorporated in PRC.

(ii) At 31 December 2011, if the RMB had weakened 5 per cent against the US$ with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB2,434,000 lower (2010: RMB2,239,000 higher), arising mainly as a result of the foreign exchange difference on trade and bills receivables/payables and bank loans denominated in US$.

If the RMB had strengthened 5 per cent against the US$ with all other variables held constant, consolidated profit after tax for the year would have been RMB2,434,000 higher (2010: RMB2,239,000 lower), arising mainly as a result of the foreign exchange difference on trade and bills receivables/payables and bank loans denominated in US$.

(b) Credit risk

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

The Group has certain concentration of credit risk as 52% (2010: 69%) of the total trade receivables was due from the Group's five largest trade receivables as at 31 December 2011.

The credit risk on pledged bank deposits and bank and cash balances is limited because the counterparties are banks with high credit-ratings.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Liquidity risk

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

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

	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*
At 31 December 2011			
Trade and bills payables	**93,314**	**–**	**–**
Accruals and other payables	**42,938**	**–**	**–**
Bank loans	**296,792**	**24,903**	**57,409**
Finance lease payable	**194**	**194**	**194**
Convertible bond	**7,576**	**224,447**	**–**
At 31 December 2010			
Trade and bills payables	97,626	–	–
Accruals and other payables	33,736	–	–
Bank loans	183,849	–	–
Finance lease payable	203	203	406

(d) Interest rate risk

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

At 31 December 2011, if interest rates at that date had been 100 basis points lower/higher with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB7,049,000 (2010: RMB5,460,000) lower/higher, arising mainly as a result of lower/higher interest income on bank and cash balances.

At 31 December 2011, if interest rates at that date had been 100 basis points lower/higher with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB1,635,000 (2010: RMB875,000) higher/lower, arising mainly as a result of lower/higher interest expense on bank loans.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(e) Categories of financial instruments at 31 December

	2011 **RMB'000**	2010 *RMB'000*
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**1,204,573**	886,457
Financial liabilities:		
Financial liabilities measured at amortised cost	**671,571**	298,910

(f) Fair values

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

6. TURNOVER AND SEGMENT INFORMATION

(a) Turnover

The Group's turnover represents sales of goods to customers.

(b) Segment information

The Group has three reportable segments as follows:

(i) Non-woven materials * – manufacture and sale of non-woven fabrics and other types of non-woven materials

(ii) Recycled chemical fibres * – manufacture and sale of chemical fibres produced from recycled materials such as PET chips

(iii) Thermal resistant filtration materials – manufacture and sale of thermal resistant filtration materials

* *Non-woven materials was previously named as non-woven fabrics and recycled chemical fibres was previously named as chemical fibres.*

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

The Group's other operating segment includes the chemical industry business, which manufacture and sale of chemical products. This segment does not meet any of the quantitative thresholds for determining reportable segment. The information of this other operating segment is included in the 'other' column.

6. TURNOVER AND SEGMENT INFORMATION (CONT'D)

(b) Segment information (Cont'd)

The accounting policies of the operating segments are the same as those described in note 3 to the financial statements. Segment profits or losses do not include corporate income and expenses. Segment assets do not include investment properties, trade and bills receivables, prepayments, deposits and other receivables, pledged bank deposits, bank and cash balances and corporate assets.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

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

	Non-woven materials		Recycled chemical fibres		Thermal resistant filtration materials		Other		Total	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Year ended 31 December										
Revenue from external customers	1,058,385	759,611	306,800	224,127	4,237	–	4,184	–	1,373,606	983,738
Intersegment revenue	856	–	5,772	5,289	–	–	–	–	6,628	5,289
Segment profit	342,050	271,897	71,588	63,791	1,184	–	810	–	415,632	335,688
Depreciation	10,698	9,298	5,678	5,468	936	–	289	–	17,601	14,766
Additions to segment non-current assets	52,398	68,133	3,843	3,317	134,681	–	206	–	191,128	71,450
At 31 December										
Segment assets	157,360	142,488	65,020	65,366	142,366	–	4,846	–	369,592	207,854

6. TURNOVER AND SEGMENT INFORMATION (CONT'D)

(b) Segment information (Cont'd)

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

	2011 RMB'000	2010 RMB'000
Segment revenue		
Total revenue of reportable segments	1,380,234	989,027
Elimination of intersegment revenue	(6,628)	(5,289)
Consolidated revenue	1,373,606	983,738

	2011 RMB'000	2010 RMB'000
Profit or loss		
Total profit of reportable segments	415,632	335,688
Unallocated amounts:		
Other income	21,107	10,355
Distribution expenses	(18,149)	(17,157)
Administrative expenses	(78,230)	(47,341)
Finance costs	(26,540)	(7,239)
Consolidated profit before tax	313,820	274,306

	2011 RMB'000	2010 RMB'000
Segment assets		
Total assets of reportable segments	369,592	207,854
Unallocated amounts:		
Property, plant and equipment	128,774	126,077
Investment properties	18,630	19,908
Construction in progress	10,236	1,560
Prepayments for acquisition of property, plant and equipment	6,000	325
Inventories	4,522	2,953
Trade and bills receivables	302,017	225,823
Prepayments, deposits and other receivables	38,389	7,079
Pledged bank deposits	20,704	26,306
Bank and cash balances	844,541	627,842
Consolidated total assets	1,743,405	1,245,727

6. TURNOVER AND SEGMENT INFORMATION (CONT'D)

(b) Segment information (Cont'd)

(iii) Geographical information:

	2011 RMB'000	2010 RMB'000
Revenue		
PRC except Hong Kong	**959,454**	548,948
Hong Kong	**212,080**	254,594
Dubai	**202,072**	180,196
Consolidated total revenue	**1,373,606**	983,738

In presenting the geographical information, revenue is based on the locations of the customers.

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

(iv) Revenue from major customers:

	2011 RMB'000	2010 RMB'000
Customer		
Customer a	**111,634**	120,319
Customer b	**138,556**	154,868
Customer c	**63,769**	93,467
Customer d	**184,093**	20,284

Each of the major customer represents a single external customer whose sale transaction amount is 10% or more of the revenue of the Group.

7. OTHER INCOME

	2011 **RMB'000**	2010 *RMB'000*
Government grants *(note)*	**8,717**	3,571
Interest income	**6,934**	2,356
Rental income *(note 16)*	**3,618**	3,618
Income from trading of scrap materials	**1,823**	788
Others	**15**	22
	21,107	10,355

Note:

Government grants mainly represented rewards and subsidies granted by local authorities.

8. FINANCE COSTS

	2011 **RMB'000**	2010 *RMB'000*
Finance leases charges	**41**	26
Interest expense on bank loans	**15,206**	6,747
Interest expense on other loans – Wholly payable within five years:		
Factoring loans	**431**	–
Convertible bond	**10,862**	–
Other loan *(note)*	**–**	466
	26,540	7,239

Note:

During the year ended 31 December 2010, Gerfalcon Industrial (Nonwoven) Investment Company Limited borrowed a loan from a third party of approximately RMB16,884,000 (equivalent to HK$19,863,000), interest-bearing at a fixed rate 11% per annum, unsecured and was settled before 31 December 2010.

9. INCOME TAX EXPENSE

	2011 RMB'000	2010 RMB'000
Current tax		
PRC enterprise income tax ("PRC EIT")	**49,279**	43,444
Deferred tax *(note 26)*	**13,771**	9,036
	63,050	52,480

The new PRC EIT law (the "New Tax Law") passed by the Tenth National People's Congress on 16 March 2007 introduces various changes which include the unification of the enterprise income tax rate for domestic and foreign enterprises at 25%. The New Tax Law was effective from 1 January 2008.

On 26 October 2009, Xinhua Share Co., Ltd. Fujian ("Xinhua Co.") was recognised as an advanced technology enterprise (高新技術企業) and is entitled to enjoy an income tax concession at a preferential rate of 15% effective from 1 January 2009. Applicable PRC EIT rate of 15% has been applied for the provision of income tax expenses for three years from 1 January 2009 to 31 December 2011.

On 11 January 2012, Xinhua Co. was recognised as a comprehensive resourses utilisation enterprise (資源綜合利用企業) and is entitled to enjoy an income tax concession for exemption of 10% of the turnover from recycled chemical fibres for two years from 1 January 2011 to 31 December 2012.

No provision for PRC EIT is required for other subsidiaries of the Company established and registered in the PRC since they have no assessable profits during the years ended 31 December 2010 and 2011.

No provision for Hong Kong Profits Tax is required for the subsidiaries of the Company incorporated in Hong Kong since they have no assessable profits for the years ended 31 December 2010 and 2011.

The reconciliation between the income tax expense and the product of profit before tax multiplied by the weighted average tax rate of the consolidated companies is as follows:

	2011 RMB'000	2010 RMB'000
Profit before tax	**313,820**	274,306
Tax at the weighted average tax rate of 15% (2010: 15%)	**45,807**	41,146
Tax effect of expenses that are not deductible	**8,476**	2,851
Tax effect of income that are not taxable	**(478)**	(553)
Tax effect of temporary difference not recognised	**76**	–
Tax effect of tax concession	**(4,602)**	–
PRC dividend withholding tax *(note 26)*	**13,771**	9,036
Income tax expense	**63,050**	52,480

10. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging the following:

	2011 **RMB'000**	2010 RMB'000
Auditor's remuneration	**1,383**	1,315
Cost of inventories sold *(note (i))*	**957,974**	648,050
Depreciation of property, plant and equipment	**28,120**	23,383
Depreciation of investment properties	**1,278**	1,278
Loss on disposals of property, plant and equipment	**25**	–
Net exchange loss	**545**	2,179
Operating leases charges in respect of land and buildings	**3,683**	1,811
Research and development expenditure *(note (ii))*	**2,832**	2,791
Staff costs (excluding directors' emoluments)		
Salaries, bonus and allowances	**40,164**	24,283
Equity-settled share-based payments	**12,086**	–
Retirement benefit scheme contributions	**535**	288
	52,785	24,571

Notes:

(i) Cost of inventories sold includes staff costs, depreciation and operating lease charges during the year ended 31 December 2011 of approximately RMB40,409,000 (2010: RMB28,879,000) which are included in the amounts disclosed separately above.

(ii) Research and development expenditure includes staff costs during the year ended 31 December 2011 of approximately RMB2,036,000 (2010: RMB806,000) which are included in the amount disclosed separately above.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) The emoluments of each director were as follows:

For the year ended 31 December 2011

	Fees *RMB'000*	Salaries and allowances *RMB'000*	Discretionary bonus *RMB'000*	Equity-settled share-based payments *RMB'000*	Retirement benefit scheme contributions *RMB'000*	Total *RMB'000*
Name of director						
Executive directors						
Chim Wai Kong	–	1,324	–	344	10	1,678
Chim Wai Shing Jackson	–	1,059	–	273	10	1,342
Chim Fo Che	–	265	–	71	10	346
Hong Ming Qu	–	529	–	131	–	660
	–	3,177	–	819	30	4,026
Non-executive director						
Wee Kok Keng	131	–	–	–	–	131
Independent Non-executive directors						
Zhu Min Ru	131	–	–	237	–	368
Feng Xue Ben	131	–	–	237	–	368
Wong Siu Hong	131	–	–	–	–	131
	393	–	–	474	–	867
	524	3,177	–	1,293	30	5,024

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONT'D)

(a) The emoluments of each director were as follows: (Cont'd)

For the year ended 31 December 2010

	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonus RMB'000	Equity-settled share-based payments RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Name of directors						
Executive directors						
Chim Wai Kong	–	881	–	–	6	887
Chim Wai Shing Jackson	–	703	870	–	6	1,579
Chim Fo Che	–	139	–	–	6	145
Hong Ming Qu	–	352	–	–	–	352
	–	2,075	870	–	18	2,963
Non-executive director						
Wee Kok Keng	69	–	–	–	–	69
Independent Non-executive directors						
Zhu Min Ru	69	–	–	–	–	69
Feng Xue Ben	69	–	–	–	–	69
Wong Siu Hong	69	–	–	–	–	69
	207	–	–	–	–	207
	276	2,075	870	–	18	3,239

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

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONT'D)

(b) The five highest paid individuals in the Group during the year ended 31 December 2011 included 2 (2010: 3) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 3 (2010: 2) individuals are set out below:

	2011 **RMB'000**	2010 RMB'000
Salaries and allowances	**1,883**	1,044
Discretionary bonus	**472**	2,175
Equity-settled share-based payments	**6,499**	–
Retirement benefit scheme contributions	**20**	18
	8,874	3,237

The emoluments fell within the following band:

	Number of individuals	
	2011	2010
Nil to HK$1,000,000 (equivalent to Nil to RMB835,000 (2010: RMB870,000))	**–**	1
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,252,001 to RMB1,669,000 (2010: RMB1,305,001 to RMB1,740,000))	**1**	–
HK$2,000,001 to HK$2,500,000 (equivalent to RMB1,669,001 to RMB2,087,000 (2010: RMB1,740,001 to RMB2,175,000))	**1**	–
HK$2,500,001 to HK$3,000,000 (equivalent to RMB2,087,001 to RMB2,504,000 (2010: RMB2,175,001 to RMB2,610,000))	**–**	1
HK$7,000,001 to HK$7,500,000 (equivalent to RMB5,843,001 to RMB6,260,000 (2010: RMB6,090,001 to RMB6,525,000))	**1**	–
	3	2

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

12. DIVIDENDS

	2011 *RMB'000*	2010 *RMB'000*
Interim dividend of RMB2.9 cents (HK3.5 cents) (2010: RMB3.0 cents (HK3.5 cents)) per ordinary share paid	**22,615**	24,360
Proposed final dividend of RMB5.3 cents (HK6.5 cents) (2010: final dividend payment of RMB5.5 cents (HK6.5 cents)) per ordinary share	**40,841**	43,753
	63,456	68,113

13. EARNINGS PER SHARE

Basic earnings per share

	2011 *RMB'000*	2010 *RMB'000*
Earnings		
Profit attributable to owners of the Company, used in basic earnings per share calculation	**250,770**	221,826
Number of shares		
Weighted average number of ordinary shares used in basic earnings per share calculation	**793,138,000**	706,310,370

The effect of potential ordinary shares in respect of convertible bond is anti-dilutive for the year ended 31 December 2011.

No diluted earnings per share are presented as the Company did not have any dilutive potential ordinary sharing in respect of share options for the year ended 31 December 2011.

The Company did not have any dilutive potential ordinary share for the year ended 31 December 2010.

14. PROPERTY, PLANT AND EQUIPMENT

	The Group						
	Buildings	Prepaid land lease payments	Leasehold improvements	Machinery and equipment	Office equipment and fixtures	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost							
At 1 January 2010	60,213	88,956	–	127,730	1,896	2,704	281,499
Additions	–	–	552	22,490	319	5,343	28,704
Transfer from construction in progress *(note 15)*	16,018	–	–	1,385	–	–	17,403
At 31 December 2010 and 1 January 2011	76,231	88,956	552	151,605	2,215	8,047	327,606
Additions	2,212	–	528	21,092	2,759	3,354	29,945
Disposals	–	–	–	–	–	(700)	(700)
Exchange differences	–	–	(25)	–	(13)	(53)	(91)
Transfer from construction in progress *(note 15)*	26,888	–	–	126,014	1,181	386	154,469
At 31 December 2011	105,331	88,956	1,055	298,711	6,142	11,034	511,229
Accumulated depreciation							
At 1 January 2010	3,845	5,807	–	48,755	667	1,508	60,582
Charge for the year	3,130	4,438	90	14,667	417	641	23,383
Exchange differences	–	–	(2)	–	(1)	(3)	(6)
At 31 December 2010 and 1 January 2011	6,975	10,245	88	63,422	1,083	2,146	83,959
Charge for the year	4,016	4,438	321	17,114	565	1,666	28,120
Disposals	–	–	–	–	–	(362)	(362)
Exchange differences	–	–	(8)	–	(3)	(11)	(22)
At 31 December 2011	10,991	14,683	401	80,536	1,645	3,439	111,695
Carrying amount							
At 31 December 2011	94,340	74,273	654	218,175	4,497	7,595	399,534
At 31 December 2010	69,256	78,711	464	88,183	1,132	5,901	243,647

14. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The Group's buildings and prepaid land lease payments are located in the PRC under medium term leases.

At 31 December 2011, the Group's building amounted to approximately RMB7,047,000 (2010: RMB17,281,000) of which the relevant building ownership certificate is yet to be granted.

At 31 December 2011, the Group's buildings and prepaid land lease payments with an aggregate amounts of approximately RMB49,941,000 (2010: RMB42,933,000) were pledged to secure banking facilities granted to Xinhua Co. (note 22).

At 31 December 2011, the carrying amount of motor vehicle held by the Group under finance leases amounted to approximately RMB741,000 (2010: RMB1,004,000).

15. CONSTRUCTION IN PROGRESS

	The Group	
	2011	2010
	RMB'000	*RMB'000*
At 1 January	**26,480**	–
Additions	**158,951**	43,883
Transfer to property, plant and equipment *(note 14)*	**(154,469)**	(17,403)
At 31 December	**30,962**	26,480

The Group's construction in progress comprises costs incurred on buildings under construction and plant and machinery pending installation.

16. INVESTMENT PROPERTIES

	The Group RMB'000
Cost	
At 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011	23,701
Accumulated depreciation	
At 1 January 2010	2,515
Charge for the year	1,278
At 31 December 2010 and I January 2011	3,793
Charge for the year	1,278
At 31 December 2011	5,071
Carrying amount	
At 31 December 2011	18,630
At 31 December 2010	19,908

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

The fair values of the Group's investment properties at 31 December 2011 are approximately RMB23,421,000 (2010: RMB23,850,000). The fair values of the Group's investment properties have been determined by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent firm of professional valuer on depreciated replacement cost basis.

At 31 December 2011, the Group's investment properties with aggregate carrying amounts of approximately RMB18,630,000 (2010: RMB19,908,000) were pledged to secure banking facilities granted to Xinhua Co. (note 22).

During the year ended 31 December 2011, property leasing revenue includes gross rental income from investment properties of approximately RMB3,618,000 (2010: RMB3,618,000) (note 7) of which approximately RMB2,678,000 (2010: RMB2,678,000) related to properties leased to a related company (note 33(b)).

17. INVESTMENT IN A SUBSIDIARY

	The Company	
	2011	2010
	RMB'000	*RMB'000*
Unlisted investment, at cost	**19,287**	20,221

The amount due from/(to) subsidiaries are unsecured, interest-free and repayable on demand.

17. INVESTMENT IN A SUBSIDIARY (CONT'D)

Particulars of the subsidiaries as at 31 December 2011 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and paid up capital/registered capital	Percentage of ownership interest Direct	Percentage of ownership interest Indirect	Principal activities
COSTIN Investment Limited ("COSTIN BVI")	British Virgin Islands	20 ordinary shares of US$1.00 each	100%	–	Investment holding
Gerfalcon International Limited ("Gerfalcon International")	British Virgin Islands	1 ordinary share of US$1.00 each	–	100%	Investment holding
海東青工業(非織)投資有限公司 Gerfalcon Industrial (Nonwoven) Investment Company Limited ("Gerfalcon Hong Kong")	Hong Kong	23,790,000 ordinary shares of HK$1.00 each	–	100%	Investment holding
海東青投資有限公司 Gerfalcon Investment Company Limited ("Gerfalcon Investment")	Hong Kong	1,000 ordinary shares of HK$1.00 each	–	100%	Investment holding
海東青非織工業(福建) 有限公司* (Gerfalcon Nonwoven Industrial (Fujian) Co., Ltd.) ("Gerfalcon Fujian")	PRC	Registered capital of US$13,990,000	–	100%	Manufacture of filtration materials and non-woven materials, provisions of information technology and management supporting services
晉江海東青貿易有限公司* (Gerfalcon Trade Co., Ltd. Jinjiang) ("Gerfalcon Jinjiang")	PRC	Registered capital of HK$81,000,000	–	100%	Wholesale of filtration materials and non-woven materials
福建鑫華股份有限公司# (Xinhua Share Co., Ltd. Fujian) ("Xinhua Co.")	PRC	Registered capital of RMB80,000,000	–	100%	Manufacture and sales of recycled chemical fibres and non-woven materials
海東青(北京)科技咨詢有限公司* (COSTIN (Beijing) Technology Consulting Company Limited) ("COSTIN Beijing") *(note (i))*	PRC	Registered capital of HK$10,000,000 *(note (i))*	–	100%	Provisions of non-woven materials technology consulting services and wholesale of filtration materials and non-woven materials
海東青(福建)循環科技有限公司* (COSTIN (Fujian) Recycling Technologies Company Limited) ("COSTIN Fujian") *(note (ii))*	PRC	Registered capital of HK$600,000,000 *(note (ii))*	–	100%	Manufacture of special textile products for industrial usage, high technology chemical fibres and recycled chemical fibres

17. INVESTMENT IN A SUBSIDIARY (CONT'D)

Notes:

(i) *On 10 February 2011, COSTIN (Beijing) was established in the PRC as a wholly-owned foreign enterprise held by Gerfalcon Investment with a registered capital of HK$10,000,000 and was fully paid up on 10 February 2011.*

(ii) *On 28 September 2011, COSTIN (Fujian) was established in the PRC as a wholly-owned foreign enterprise held by Gerfalcon Investment with a registered capital of HK$600,000,000 which have not yet been paid up.*

* *These subsidiaries are registered as wholly-owned foreign enterprise under the PRC laws.*

\# *The subsidiary is registered as wholly-owned domestic enterprise under the PRC laws.*

18. INVENTORIES

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Raw materials	**63,726**	47,846
Finished goods	**18,642**	13,707
	82,368	61,553

19. TRADE AND BILLS RECEIVABLES

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Trade receivables	**290,130**	221,823
Bills receivables	**11,887**	4,000
	302,017	225,823

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 30 to 100 days. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

19. TRADE AND BILLS RECEIVABLES (CONT'D)

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

	2011 RMB'000	2010 RMB'000
Up to 30 days	159,719	103,125
31 to 60 days	80,115	72,085
61 to 90 days	50,294	36,480
91 to 120 days	2	9,486
121 to 150 days	–	647
	290,130	221,823

As at 31 December 2011, approximately RMB58,769,000 (2010: RMB44,821,000) of trade receivables were pledged to banks to secure short-term bank loans granted to the Group (note 22).

As at 31 December 2011, trade receivables of approximately RMB29,000 (2010: RMB647,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2011 RMB'000	2010 RMB'000
Up to 30 days	24	647
31 to 60 days	5	–
	29	647

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

	2011 RMB'000	2010 RMB'000
RMB	227,694	141,423
US$	74,323	84,400
	302,017	225,823

20. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

The carrying amounts of the Group's bank and cash balances are denominated in the following currencies:

The Group

	At 31 December 2011			
	RMB	HK$	US$	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank and on hand	584,524	143,275	11,904	739,703
Bank deposits	103,881	14,618	7,043	125,542
	688,405	157,893	18,947	865,245
Pledged bank deposits	(1,500)	(12,161)	(7,043)	(20,704)
Bank and cash balances	686,905	145,732	11,904	844,541
Non-pledged bank deposits with more than three months to maturity	–	–	–	–
Cash and cash equivalents	686,905	145,732	11,904	844,541

	At 31 December 2010			
	RMB	HK$	US$	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank and on hand	374,716	8,013	39	382,768
Bank deposits	190,556	80,824	–	271,380
	565,272	88,837	39	654,148
Pledged bank deposits	(13,556)	(12,750)	–	(26,306)
Bank and cash balances	551,716	76,087	39	627,842
Non-pledged bank deposits with more than three months to maturity	(100,000)	–	–	(100,000)
Cash and cash equivalents	451,716	76,087	39	527,842

20. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES (CONT'D)

The Group's pledged bank deposits represented deposits pledged to banks to secure banking facilities granted to the Group (note 22).

The Group's pledged bank deposits are at fixed interest rate range from 0.5%–3.33% (2010: 0.5%–1.98%) per annum and therefore are subject to fair value interest rate risk.

As at 31 December 2011, the pledged bank deposits and bank and cash balances denominated in RMB held by the Group's subsidiaries located in the PRC amounted to approximately RMB584,792,000 (2010: RMB388,164,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

The carrying amounts of the Company's bank and cash balances are denominated in the following currencies:

The Company

	At 31 December 2011			
	RMB	**HK$**	**US$**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Cash and cash equivalents	**1,112**	**8,374**	**933**	**10,419**

	At 31 December 2010			
	RMB	HK$	US$	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	108	7,709	–	7,817

21. TRADE AND BILLS PAYABLES

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Trade payables	**93,314**	86,626
Bills payables *(note 22)*	**–**	11,000
	93,314	97,626

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

	2011	2010
	RMB'000	*RMB'000*
Up to30 days	**66,016**	50,279
31 to 60 days	**9,104**	32,390
61 to 90 days	**8,105**	2,576
91 to 120 days	**9,385**	1,307
121 to 150 days	**95**	23
Over 150 days	**609**	51
	93,314	86,626

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

	2011	2010
	RMB'000	*RMB'000*
RMB	**68,654**	69,723
US$	**24,660**	27,903
	93,314	97,626

22. BANK LOANS

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Bank loans	**352,782**	177,833
The borrowings are repayable as follows:		
On demand or within one year	**279,748**	177,833
In the second year	**20,233**	–
In the third to fifth years, inclusive	**52,801**	–
	352,782	177,833
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(279,748)**	(177,833)
Amount due for settlement after 12 months	**73,034**	–

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

	2011	2010
	RMB'000	*RMB'000*
RMB	**234,900**	173,990
US$	**117,882**	3,843
	352,782	177,833

22. BANK LOANS (CONT'D)

The average interest rates per annum are as follows:

	2011	2010
Short-term bank loans (floating rate)	2.61%–8.53%	3.86% – 6.61%
Short-term bank loans (fixed rate)	4.43%–7.35%	5.10% – 5.84%
Long-term bank loans (floating rate)	6.65%	N/A
Long-term bank loans (fixed rate)	7.59%	N/A

Bank loans of approximately RMB154,639,000 (2010: RMB72,390,000) are arranged at fixed interest rates and expose the Group to fair value interest rate risk. Other borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

Bank loans of approximately RMB352,782,000 (2010: RMB177,833,000) and bills payables (note 21) of approximately Nil (2010: RMB11,000,000) are secured by:

– Corporate guarantees provided by the Group's subsidiaries;

– Charges over the buildings, prepaid land lease payments, investment properties, trade receivables and pledged bank deposits (notes 14, 16, 19 and 20); and

– Guarantee from third parties and related companies (note 33(c)).

23. CONVERTIBLE BOND

On 18 July 2011, the Company issued 4% convertible bond due 2013 (the "Bond") to CITIC Capital China Access Fund Limited with an aggregate principal amount of US$30,000,000, equivalent to approximately RMB194,443,000 (HK$233,813,000).

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

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

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

23. CONVERTIBLE BOND (CONT'D)

The net proceeds received from the issue of the Bond have been split between the liability element and an equity component, as follows:

	The Group and the Company
	2011
	RMB'000
Nominal value of the Bond issued	194,443
Equity component	(3,068)
Liability component at date of issue	191,375
Interest charged	10,862
Interest paid	(3,457)
Exchange differences	(5,773)
Liability component at 31 December 2011	193,007

The interest charged for the year is calculated by applying an effective interest rate of 12.48% to the liability component for approximately 6 months period since the Bond were issued.

The directors estimate the fair value of the liability component of the Bond at 31 December 2011 to be approximately RMB192,908,000. This fair value has been calculated by discounting the future cash flows at the market rate.

24. FINANCE LEASE PAYABLE

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**194**	203	**165**	161
In the second to fifth years, inclusive	**388**	609	**364**	554
	582	812	**529**	715
Less: Future finance charges	**(53)**	(97)	**N/A**	N/A
Present value of lease obligations	**529**	715	**529**	715
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(165)**	(161)
Amount due for settlement after 12 months			**364**	554

It is the Group's policy to lease a motor vehicle under finance lease. The lease term is 3.5 years (2010: 4.5 years). At 31 December 2011, the effective borrowing rate was 6.66% (2010: 6.66%). Interest rate is fixed at the contract date and thus expose the Group to fair value interest rate risk. The lease is on a fixed repayment basis and no arrangement has been entered into for contingent rental payment. At the end of the lease term, the Group has the option to purchase the motor vehicle at nominal price.

All finance lease payable is denominated in HK$.

The Group's finance lease payable is secured by the lessor's title to the leased asset.

25. DEFINED CONTRIBUTION RETIREMENT PLAN

The Group's subsidiaries participate in a defined contribution retirement benefit scheme organised by the local authority whereby they are required to make contributions to the scheme at certain percentages of the eligible employees salaries. The local authority is responsible for making the benefit payments to the retired employees covered under the scheme.

26. DEFERRED TAX LIABILITIES

	The Group	
	2011	2010
	RMB'000	*RMB'000*
PRC dividend withholding tax		
At 1 January	**18,269**	9,233
Charge to profit or loss for the year *(note 9)*	**13,771**	9,036
At 31 December	**32,040**	18,269

Pursuant to the New Tax Law (note 9), dividends declared by the subsidiaries in the PRC to parent companies incorporated overseas are subject to withholding tax of 5% to 10%. In accordance with Caishui (2008) No. 1 issued by State Tax Authorities, undistributed profits from the subsidiaries up to 31 December 2007 will be exempted from withholding tax when they are distributed in future. As a result, provision for withholding tax has been made since 1 January 2008. The deferred tax liabilities represent the aggregate amount of temporary differences associated with distributable retained profits of the Group's subsidiaries in the PRC.

27. SHARE CAPITAL

The Company

	Number of shares	**Amount**	**Amount as presented**
		HK$	*RMB*
Authorised:			
Ordinary shares of HK$0.1 each			
At 1 January 2010	3,800,000	380,000	334,400
Increase *(note (a)(i))*	1,996,200,000	199,620,000	175,665,600
At 31 December 2010, 1 January 2011 and 31 December 2011	2,000,000,000	200,000,000	176,000,000
Issued and fully paid:			
At 1 January 2010	10	1	1
Issue of shares – share swap *(note (a)(ii))*	299,990	29,999	26,399
Capitalisation issue *(note (a)(iii))*	599,700,000	59,970,000	52,773,600
Issue of shares – by way of public offer *(note (b))*	200,000,000	20,000,000	17,600,000
At 31 December 2010 and 1 January 2011	800,000,000	80,000,000	70,400,000
Repurchase of shares *(note (c))*	(23,578,000)	(2,357,800)	(1,925,253)
At 31 December 2011	776,422,000	77,642,200	68,474,747

27. SHARE CAPITAL (CONT'D)

The Company (Cont'd)

Notes:

(a) *By resolutions approved in writing by all shareholders on 3 February 2010 and 4 February 2010, the Company resolved, among other things:*

   (i) *that the authorised share capital of the Company was increased from HK$380,000 to HK$200,000,000 by creation 1,996,200,000 new shares ranking pari passu in all respects with the then existing issued shares;*

   (ii) *that the acquisition by the Company of 100% issued share capital of COSTIN BVI was approved and in consideration of the acquisition, the directors of the Company were authorised to allot and issue 269,991 ordinary shares and 29,999 ordinary shares to Nian's Holding and Gerfalcon Holding Limited ("Gerfalcon Holding") respectively, all credited and fully paid, and the 9 and 1 nil paid ordinary shares then held by Nian's Holding and Gerfalcon Holding credited as fully paid; and*

   (iii) *that the directors of the Company were authorised to capitalise the amount of HK$59,970,000 from the amount standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 599,700,000 shares for allotment and issue to the holders of shares whose names appear on the register of members of the Company at the close of business on 12 May 2010 to their then existing shareholdings in the Company.*

(b) *On 21 June 2010, 200,000,000 ordinary shares of HK$0.1 each were issued at HK$2.38 each to the public by way of public offer for a total cash consideration, before related expenses, of RMB418,880,000 (HK$476,000,000). The excess over the par value of the share issued was credited to the share premium account.*

(c) *During the year ended 31 December 2011, the Company repurchased on the market a total of 23,578,000 ordinary shares of the Company with an aggregate consideration of approximately RMB78,064,000 (HK$95,584,000). All of these shares were cancelled. The premium payable on repurchase of shares was charged to share premium account.*

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

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, if any, return capital to shareholders, issue new shares, or sell assets to reduce debt. No changes were made in the objectives, policies and processes during the year ended 31 December 2010 and 2011.

The Group monitors capital using a gearing ratio, which is the Group's total debts (comprising bank loans and convertible bond) over its total assets. The Group's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratio as at 31 December 2011 was 31% (2010: 14%).

28. RESERVES

(a) The Group

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

(b) The Company

	Share premium account RMB'000 (note (c)(i))	Share-based payment reserve RMB'000 (note (c)(ii))	Convertible bond reserve RMB'000	Foreign currency translation reserve RMB'000 (note (c)(iii))	Contributed surplus RMB'000 (note (c)(vii))	Retained profits RMB'000	Total RMB'000
At 1 January 2010	–	–	–	–	–	(129)	(129)
Total comprehensive income for the year	–	–	–	(13,824)	–	20,955	7,131
Share swap	–	–	–	–	20,909	–	20,909
Capitalisation	(52,774)	–	–	–	–	–	(52,774)
Issue of shares – issue by way of public offer	401,280	–	–	–	–	–	401,280
Share issue expenses	(31,890)	–	–	–	–	–	(31,890)
Dividends paid	–	–	–	–	–	(24,360)	(24,360)
Changes in equity for the year	316,616	–	–	(13,824)	20,909	(3,405)	320,296
At 31 December 2010 and 1 January 2011	316,616	–	–	(13,824)	20,909	(3,534)	320,167
Total comprehensive income for the year	–	–	–	(17,777)	–	54,180	36,403
Repurchase of shares	(76,139)	–	–	–	–	–	(76,139)
Recognition of equity component of convertible bond	–	–	3,068	–	–	–	3,068
Share-based payments	–	13,379	–	–	–	–	13,379
Dividends paid	–	–	–	–	–	(66,368)	(66,368)
Changes in equity for the year	(76,139)	13,379	3,068	(17,777)	–	(12,188)	(89,657)
At 31 December 2011	240,477	13,379	3,068	(31,601)	20,909	(15,722)	230,510

28. RESERVES (CONT'D)

(c) Nature and purpose of reserves

(i) Share premium account

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

Share premium represents premium arising from the issue of shares at a price in excess of their par value per share and is not distributable but may be applied in paying up unissued shares of the Company to be issued to the shareholders of the Company as fully paid bonus shares or in providing for the premiums payable on repurchase of shares.

(ii) Share-based payment reserve

The share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted to directors and employees of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 3(o) to the financial statements.

(iii) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(c) to the financial statements.

(iv) Statutory reserve

In accordance with the relevant regulations of the PRC, the Group's subsidiaries established and registered in the PRC are required to transfer a certain percentage of the profit after tax, if any, to a statutory reserve.

(v) Capital reserve

The capital reserve of the Group represents the loan capitalisation arrangement with the then shareholder of Gerfalcon Hong Kong and Gerfalcon Hong Kong on 4 February 2010. Gerfalcon Hong Kong allotted and issued 23,789,920 ordinary shares of HK$1 each to COSTIN BVI.

(vi) Merger reserve

The merger reserve of the Group arose as a result of the Group reorganisation implemented in preparation for the listing of the Company's shares in 2010 and represented the difference between the nominal value of the aggregate capital of the subsidiaries combined under the Group reorganisation over the nominal value of the share capital of the Company issued in exchange therefore.

(vii) Contributed surplus

The contributed surplus of the Company represents the difference between the nominal amount of the share capital issued by the Company and the cost of investment in subsidiaries combined by the Company at the date of the Group reorganisation.

29. SHARE-BASED PAYMENTS

Equity-settled share option scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants include the Company's directors and employees of the Group. The Scheme became effective on 12 May 2010 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of shares options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading day immediately preceding the date of the offer of grant; and (iii) the nominal value of the Company's shares.

29. SHARE-BASED PAYMENTS (CONT'D)

Details of the specific categories of options are as follows:

Date of grant	Vesting period	Exercise period	Exercise price *HK$*	No. of share options granted
14 January 2011	14 January 2011 to 30 June 2011	30 June 2011 to 13 January 2021	7.12	2,947,500
14 January 2011	14 January 2011 to 30 June 2012	30 June 2012 to 13 January 2021	7.12	2,947,500
14 January 2011	14 January 2011 to 30 June 2013	30 June 2013 to 13 January 2021	7.12	2,947,500
14 January 2011	14 January 2011 to 30 June 2014	30 June 2014 to 13 January 2021	7.12	2,947,500
14 January 2011	14 January 2011 to 31 December 2011	31 December 2011 to 13 January 2021	7.12	480,000
14 January 2011	14 January 2011 to 31 December 2012	31 December 2012 to 13 January 2021	7.12	480,000
14 January 2011	14 January 2011 to 31 December 2013	31 December 2013 to 13 January 2021	7.12	480,000
14 January 2011	14 January 2011 to 31 December 2014	31 December 2014 to 13 January 2021	7.12	480,000

If the options remain unexercised after an exercise period from the date of grant, the options expire. Options are forfeited if the employee leaves the Group.

29. SHARE-BASED PAYMENTS (CONT'D)

Details of the share options outstanding during the year are as follows:

For the year ended 31 December 2011

Grantee	Outstanding at 1 January	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31 December	Exercisable at 31 December	Exercise price
Directors	–	1,090,000	–	–	1,090,000	272,500	HK$7.12
Employees	–	12,620,000	–	(480,000)	12,140,000	3,090,000	HK$7.12
	–	13,710,000	–	(480,000)	13,230,000	3,362,500	
Weighted average exercise price	N/A	HK$7.12	–	HK$7.12	HK$7.12	HK$7.12	

The options outstanding at the end of the year have a remaining contractual life of 9.04 years (2010: N/A) and the exercise prices of HK$7.12 (2010: N/A). In 2011, options were granted on 14 January 2011. The estimated fair value of the options on this date is RMB28,349,000 (HK$34,197,000)(2010: N/A).

These fair values were calculated using the Black-Scholes pricing model. The inputs into the model are as follows:

	2011
Share price	HK$7.10
Exercise price	HK$7.12
Expected volatility	43.96%
Expected life	5.23–6.98 years
Risk free rate	1.734%–2.288%
Expected dividend yield	2.29%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 0.57 years. The expected life used in the model has been adjusted, based on the Group's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (MAJOR NON-CASH TRANSACTION)

(i) During the year ended 31 December 2011, additions to property, plant and equipment and construction in progress of approximately RMB8,989,000 and RMB5,303,000 (2010: RMB3,479,000 and RMB5,409,000) respectively were not yet paid and included in accruals and other payables.

(ii) During the year ended 31 December 2011, additions to property, plant and equipment and construction in progress of approximately RMB6,689,000 and RMB400,000 (2010: Nil and Nil) respectively were satisfied by way of utilising the deposits paid in previous year.

31. CAPITAL COMMITMENTS

The Group's capital commitments at the end of the reporting period are as follows:

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Contracted but not provided for		
Construction in progress	**23,680**	14,191
Property, plant and equipment *(Note)*	**1,516**	113,461
Prepaid land lease payments	**61,200**	–
	86,396	127,652

Note:

For the year ended 31 December 2010, letter of credit of approximately Euro dollars ("EUR") 10,214,000 have been issued by the Group's bankers for the contract of acquisition of certain machines amounted to approximately RMB89,917,000 (EUR10,214,000).

32. LEASE COMMITMENTS

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

(a) Lease receivables

	The Group	
	2011	2010
	RMB'000	*RMB'000*
At lessor		
Within one year	**3,070**	392
In the second to fifth years inclusive	**2,678**	–
	5,748	392

Operating lease receivables represent rental receivable from Xinhua Co. for certain of its investment properties. Leases are negotiated for terms ranging from one to two years.

(b) Lease payables

	The Group	
	2011	2010
	RMB'000	*RMB'000*
At lessee		
Within one year	**2,394**	3,796
In the second to fifth years inclusive	**1,559**	3,936
	3,953	7,732

Operating lease payables represent rental payable by Gerfalcon Hong Kong, Gerfalcon Jinjiang, Gerfalcon Beijing and Xinhua Co. for certain buildings. Leases are negotiated for terms ranging from one to three years and rentals are fixed over the lease terms and do not include contingent rentals.

33. MATERIAL RELATED PARTIES TRANSACTIONS

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

Name of related company	Shareholders	Directors
(i) 晉江華鑫塑料橡膠製品有限公司 (Jinjiang Hua Xin Plastic & Rubber Products Co., Ltd.)	100% owned by 華鑫貿易公司 (Wah Hing Trading Company) which is wholly owned by Chim Wai Kong	Hong Lian Qiao, Chim Fo Che, Chim Ping Yu
(ii) 晉江市華鑫織造發展有限公司 (Jinjiang Hua Xin Weaving Development Co., Ltd.)	100% owned by 華鑫國際貿易(香港)有限公司 (Costin Int'l Trade (H.K.) Company Limited) of which 0.25% and 99.75% are owned by Chim Wai Shing Jackson and Chim Wai Kong respectively	Hong Lian Qiao, Chim Ping Yu, Chim Ming Heung
(iii) 晉江南方織造有限公司 (Jinjiang Nan Fang Weaving Co., Ltd.)	100% owned by Nian Sha Sha, the daughter of Chim Wai Kong	Nian Sha Sha, Hong Zu Han, Hong Kai Xuan
(iv) 華鑫國際貿易(香港)有限公司 (Costin Int'l Trade (H.K.) Company Limited)	0.25% owned by Chim Wai Shing Jackson and 99.75% owned by Chim Wai Kong	Chim Wai Shing Jackson, Chim Wai Kong

(b) Save as disclosed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

	2011 **RMB'000**	2010 RMB'000
Rental income charged to a related company *(note (a)(i))* and *(note 16)*	**2,678**	2,678
Rental expenses charged by related companies *(note (a)(i))* and *(note (a)(ii))*	**1,400**	1,400

(c) At 31 December 2011, certain related companies have guaranteed certain banking facilities granted to the Group in the amount of approximately RMB89,810,000 (2010: Nil).

(d) The compensation to the Group's key management personnel is disclosed in note 11 to the financial statements.

34. EVENTS AFTER THE REPORTING PERIOD

(a) On 19 January 2012, Nian's Holding as vender entered into a conditional sale and purchase agreement with 重慶中節能實業有限責任公司 (CECIC Chongqing Industry Co., Ltd.) ("CECIC") as purchaser, pursuant to which Nian's Holding has agreed to sell, and CECIC has agreed to purchase, 225,160,000 shares of the Company, representing approximately 29.00% of the issued share capital of the Company as the date of the conditional sale and purchase agreement. Subject to the satisfaction of the conditions precedent set out in the conditional sale and purchase agreement, immediately following completion, Nian's Holding will cease to be the controlling shareholder of the Company; while CECIC will become the single largest shareholder of the Company after completion.

(b) On 18 January 2012, certain prepaid land lease payments and buildings of the Group with carrying values of approximately RMB18,700,000 and RMB29,000,000, respectively, were pledged to secure general banking facilities in the amount of RMB80,000,000 granted to the Group.

35. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 27 March 2012.