

STOCK CODE: 1616

2012 INTERIM REPORT

SILVERMAN HOLDINGS LIMITED



銀仕來控股有限公司
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(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 1616)

2012 INTERIM REPORT

CONTENTS

1. Summary.....	2
2. Corporate Information.....	3
3. Management Discussion and Analysis.....	6
4. Supplementary Information.....	15
5. Consolidated Statement of Comprehensive Income.....	20
6. Consolidated Statement of Financial Position.....	21
7. Consolidated Statement of Changes in Equity.....	23
8. Condensed Consolidated Cash Flow Statement.....	24
9. Notes to the Interim Financial Report	25

SUMMARY

- Turnover was approximately RMB434.7 million, representing a decrease of approximately 2.1% as compared to that of the corresponding period of last year.
- Gross profit margin was approximately 21.5% of the turnover, representing a decrease of approximately 5.3 percentage points as compared to that of approximately 26.8% for the corresponding period of last year.
- As a consequence, gross profit decreased by approximately RMB25.2 million, or approximately 21.2%, to RMB93.6 million for the six months ended 30 June 2012.
- Profit attributable to the equity shareholders of the Company was approximately RMB55.1 million, representing a decrease of approximately 37.4% as compared to that of the corresponding period of last year.

DIVIDEND

- The Board declares the payment of an interim dividend of RMB0.02375 per share.

Corporate Information

The Board of Directors

Executive Directors:

Mr. LIU Dong (*Chairman*)
Mr. TIAN Chengjie
Mr. LIU Zongjun

Non-executive Director:

Mr. YAN Tangfeng

Independent and Non-executive Directors:

Ms. ZHU Beina
Mr. ZHU Ping
Mr. LAM Kai Yeung

Company secretary

Ms. CHAN Yin Wah, ACS, ACIS, ACCA

Authorised representatives

Mr. LIU Dong
Ms. CHAN Yin Wah

Audit committee

Mr. LAM Kai Yeung (*Chairman*)
Ms. ZHU Beina
Mr. ZHU Ping

Remuneration committee

Mr. ZHU Ping (*Chairman*)
Ms. ZHU Beina
Mr. LIU Dong

Nomination committee

Ms. ZHU Beina (*Chairman*)
Mr. ZHU Ping
Mr. LIU Dong

Registered Office

P.O. Box 309,
Ugland House,
Grand Cayman, KY1-1104,
Cayman Islands

Head office, headquarter and principal place of business in the PRC

Yinlong Village,
Economic Development Zone,
Boshan District,
Zibo City,
Shandong Province,
the PRC

Middle Section,
West Guojing Road,
Boshan District,
Zibo City,
Shandong Province,
the PRC

Head office, headquarter and principal place of business in Hong Kong

3907-08, 39th Floor,
Hopewell Centre,
183 Queen's Road East,
Wanchai,
Hong Kong

Legal adviser to the Company (Hong Kong Law)

Li & Partners
22nd Floor, World-Wide House,
Central,
Hong Kong

Compliance adviser

First Shanghai Securities Limited
1905 Wing On House,
71 Des Voeux Road Central,
Hong Kong

Auditor

KPMG
Certified Public Accountants
8th Floor, Prince's Building,
10 Chater Road,
Central,
Hong Kong

Hong Kong branch share registrar and transfer office

Tricor Investor Services Limited
26th Floor, Tesbury centre,
28 Queen's Road East,
Wanchai,
Hong Kong

Cayman Islands branch share registrar and transfer office

Maples Fund Services (Cayman) Limited
P.O. Box 1093, Boundary Hall,
Cricket Square,
Grand Cayman, KY1-1102,
Cayman Islands

Principle banker

Bank of China Limited
Zibo Boshan Branch
63, Center Road,
Boshan District,
Zibo City,
Shandong Province,
the PRC

Stock Code

1616

Company website address

<http://www.ysltex.com>

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In the first half of 2012, due to the impact of economic environment both at home and abroad, China's textile industry saw a substantial decline in the business results and showed a greater pressure on the industry's overall operation.

Internationally, with the escalating European debt crises and instability of the world economy recovery and rising uncertainty, the developed economies such as the United States of America and Europe, being the main consumption bodies, experienced a weak recovery, high unemployment rate and low consumer confidence, which restricted the demand of the developed economies for the textile and apparel products of China. In addition, the bigger price difference between domestic and overseas cotton had a great influence on the international market competition of China's textile industry.

According to the data of Customs Information Website of China, during the first half of 2012, China's export amount for textile materials and products was approximately US\$110.07 billion, which increased by only approximately 0.9% over the same period of 2011, the growth rate dropped by approximately 25.8% as compared to approximately 26.7% of the same period in 2011. Amongst the exported textile materials and products, the export amount for natural fiber products was approximately US\$10.08 billion, which dropped by approximately 8.6% as compared to the corresponding period in the previous year, while the growth rate dropped by approximately 45.1% as compared to the corresponding period in the previous year.

Domestically, although the Gross domestic product ("GDP") of China has realized a 7.8% growth in the first half of 2012, it was the first time with the growth rate lower than 8% in recent years. Assuming deduction of price factors [China's Consumer Price Index ("CPI") for the first half of 2012 increased by 5.4% over the corresponding period in the previous year], the signal of slower economic growth became more obvious. Since September 2011, the tumbling of the cotton price in the international market, which led to the widening price difference with the domestic cotton market price, with up to approximately RMB5,460 per tonne between the price of domestic and overseas cotton in the second quarter of 2012, together with the rising costs of labor and energy, have greatly weakened the market competitiveness and profitability of the Chinese textile enterprises.

Since September 2011, under the policy of National Cotton Purchase and Storage, the price of the domestic cotton price remained generally stable, while the price of the overseas cotton maintained a weak trend which resulted in the bigger price difference between the domestic and overseas cotton. With the development of China's economy, the price of production factors such as labor and fuel in the PRC demonstrates an upward trend. Although there was a continuous improvement in the production efficiency and management standard in the industry, most of the enterprises experienced difficulties in fully covering the multiple cost increase under the competitive environment, the room for raising product prices was limited and the enterprises generally faced an increasing cost pressure.

In January and May 2012, the Ministry of Industry and Information Technology of the People's Republic of China (the "MIIT") and the China National Textile and Apparel Council (the "CNTAC") respectively released "The 12th Five-Year Plan for Textile Industry" (「紡織工業“十二五”發展規劃」) (the "Plan") and "The Outline for Construction of World Textile Power (2011~2020)" (「建設紡織強國綱要(2011~2020年)」) (the "Outline") with the improvement of science and technology and promotion of industry transformation and upgrading as the core, which indicated the four key development areas including strengthening of capabilities of independent innovation, speeding up the technology upgrading as part of the main tasks for the Chinese textile industry during the 12th Five Year Plan, defining the new textile fiber materials industry and high-performance industrial textile products and putting forward policy safeguard measures including improving industrial policies, developing finance functions, fully utilizing financial supporting policies, improving trading climate, intensifying industrial standards, securing textile materials and improving the function of industry associations. The direction of the industry's development formulated in the Plan and the Outline is consistent with the Group's positioning and development goals. We believe that with the gradual recovery of the global economy and implementation of safeguard policies, the domestic and international markets will walk out the trough and return to the steady and healthy track of development.

BUSINESS REVIEW

In the first half of 2012, despite various uncertainties in the domestic and foreign economy and the global textile market, the Group continued to consolidate its business growth including continuously enhancing the development of new-fiber and new-material fabrics, strengthening internal management and cost control, optimizing the resource allocation portfolio and adjusting the product structure according to the market demand. Given its matured and steady innovation system and market resources, the Group effectively digested and reduced the impact of adverse factors and continued to maintain 100% of operating rate; although the business indicators dropped as compared to the same period in the previous year, the gross profit margin and net profit rate were higher than the industry average level, and the Group continued to maintain its leading position in the designated market.

As disclosed in page 12 of the Company's prospectus dated 29 June 2012 (the "Prospectus"), the textile industry in China was in a more competitive market condition for the five-month period ended 31 May 2012 and the gross profit margin of our products dropped to approximately 21.70% for the five-month period ended 31 May 2012. Consistent with the market condition in the first five months of 2012, for the six months ended 30 June 2012, the revenue of the Group was approximately RMB434.7 million, representing a decrease of approximately 2.1% as compared to the corresponding period in the previous year. The decrease was mainly due to the substantial drop in the prices of raw materials, such as cotton, fiber and yarns purchased from external sources; the net profit attributable to the shareholders of the Company was approximately RMB55.1 million, which decreased by approximately 37.4% as compared to that of the corresponding period in the previous year. The decrease in the profit of the Group was mainly due to the impact of decline in international and domestic economy, especially the decline in the international competitiveness of China's textile industry.

During the Period under Review, the sales volume for the main products of the Group, namely jacquard fabrics and dobby fabrics were approximately 4,678,000 meters and 20,485,000 meters respectively, representing increases of 7.5% and 20.9% respectively as compared to the corresponding period in the previous year. In the first half of 2012, the

percentage of revenue derived from jacquard and dobby fabrics made from new materials amounted to 60.5%, representing an increase of 14.4 % from 46.1% of the corresponding period in 2011, which showed the gradual penetration and development of new fabrics and market of the Group.

The Second National “Yinshilai” Cup Jacquard Fabric Innovation Design Contest sponsored by the Group is underway. According to current information known, the contest has received a total of 540 pieces of works, of which, there were 4 pieces of works of the Group have been awarded with silver award and bronze award after the experts’ appraisal and selection on 18 August 2012. The substantial increase of entries and awarded works of the Group reflected that the activity has attracted the attention of more creative agencies and the Group has achieved great progress in product design. The success of the two contests played a positive role in expanding the innovation resources, widening the vision of the R&D personnel of the Group, improving its reputation in the industry and developing the room for future market development for the Group.

FINANCIAL REVIEW

Turnover, gross profit and gross profit margin

The table below is an analysis of the Group’s turnover, gross profit and gross profit margin of its major product categories for the six months ended 30 June 2012 and 2011, respectively:

	For the six months ended 30 June					
	2012			2011		
Product	Turnover RMB’000	Gross profit RMB’000	Gross profit margin %	Revenue RMB’000	Gross profit RMB’000	Gross profit margin %
Jacquard grey fabric	96,474	22,347	23.2	111,731	35,583	31.8
Dobby grey fabrics	320,897	68,330	21.3	302,518	79,038	26.1
Processing service income	6,835	665	9.7	16,939	2,546	15.0
Others	10,505	2,242	21.3	12,635	1,621	12.8
Total	434,711	93,584	21.5	443,823	118,788	26.8

For the six months ended 30 June 2012, the gross profit margin of the Group decreased by approximately 5.3 percentage points, from 26.8% to 21.5%, when compared to that of the corresponding period in the previous year. The decrease was mainly due to the drop of international competitiveness of Chinese textile industry resulted from the decline of economy and widening price difference of domestic and overseas cotton. Moreover, the expense of electricity and labor increased as compared to the corresponding period in the previous year. At the same time of cost control, the Group will develop new and special products according to the market demand, further optimize the product mix, implement flexible and effective marketing strategy and secure the overall gross profit margin to the fullest extent.

Distribution costs

For the six months ended 30 June 2012, the total distribution costs of the Group increased by approximately 8.9% to approximately RMB5.3 million from approximately RMB4.9 million of the corresponding period in the previous year. Such increase was mainly due to the increases in cost of transportation as compared to the same period in the previous year.

Administrative expenses

For the six months ended 30 June 2012, the administrative expenses of the Group was approximately RMB15.9 million, representing an increase of approximately 25.5% when compared to that of approximately RMB12.6 million of the corresponding period in 2011. The increase was mainly due to the substantial increase of approximately RMB1.3 million or 36.1% in the R&D expense from RMB3.6 million of the corresponding period in the previous year to RMB4.9 million in the first half of 2012, and the increase of listing expenses and other operating expenses as compared to the corresponding period in the previous year.

Finance costs

During the Period under Review, the net finance costs of the Group were approximately RMB9.3 million, representing an increase of RMB7.5 million as compared to approximately RMB1.8 million in the first half of 2011. It was mainly due to a foreign exchange gain of approximately RMB7.6 million recorded in the first half of 2011, and a foreign exchange loss of approximately RMB0.6 million in the first half of 2012.

Liquidity and financial resources

As at 30 June 2012, cash and cash equivalents of the Group were approximately RMB84.1 million, representing a decrease of approximately 35.4% from approximately RMB130.2 million as at 31 December 2011. The decrease was mainly because the Group repaid part of the bank loans and accepted more bills for trade debtors settlement during the Period under Review.

For the six months ended 30 June 2012, the Group's net cash generated from operating activities was approximately RMB30.2 million, net cash generated from investing activities was approximately RMB22.5 million and a net cash used in financing activities was approximately RMB98.8 million, and cash and cash equivalents at 30 June 2012 decreased by approximately RMB46.1 million during the Period under Review. The Directors believe that the Group will maintain a sound and stable financial position, with sufficient liquidity and financial resources to satisfy its business need in the coming years.

For the six months ended 30 June 2012, the average trade receivables (including bills receivable) turnover period of the Group was approximately 31 days, up from 35 days as at 31 December 2011. There was no significant change in average trade receivables turnover period.

For the six months ended 30 June 2012, inventory turnover of the Group decreased to 62 days from 90 days for the corresponding period in the previous year. This was mainly because the Group adjusted the inventories according to the market price of materials and orders.

As at 30 June 2012, the Group's borrowings of RMB284.4 million (31 December 2011: RMB332.2 million) bore fixed interest at rates ranging from 3.6% to 7.2% (31 December 2011: 3.2% to 7.3%) per annum. As at 30 June 2012, the Group's borrowings of RMB77.3 million (31 December 2011: RMB87.1 million) bore floating interest at rates ranging from 4.6% to 5.6% (31 December 2011: 3.0% to 5.6%) per annum.

Profit attributable to the equity shareholders of the Company and basic earnings per share

For the six months ended 30 June 2012, net profit attributable to the equity shareholders of the Company was approximately RMB55.1 million, representing a decrease of approximately 37.4% as compared to that of approximately RMB88.0 million for the first half of 2011. The decrease was mainly due to the impact of decline in international and domestic economy, especially the decline in the international competitiveness of China's textile industry. Moreover, the expense of electricity and labor increased as compared to the corresponding period in the previous year. Based on the adverse factors and as briefly disclosed in the Prospectus, the gross profit margin for the six months ended 30 June 2012 dropped to approximately 21.5%, or by 5.3 percentage points, from that of approximately 26.8% for the corresponding period in 2011. As a consequence, the gross profit amount dropped by approximately 21.2%, or approximately RMB25.2 million, to approximately RMB93.6 million for the six months ended 30 June 2012 from that of approximately RMB118.8 million for the corresponding period in the previous year. In addition, due to (i) the appreciation of RMB against HK dollars, and (ii) substantial amounts due to related parties denominated in HK dollars, the foreign exchange gain of the Group amounted to approximately RMB7.6 million recorded for the six months ended 30 June 2011, has not repeated for the six months ended 30 June 2012.

Calculating based on the weighted average of 639,420,000 shares in issue, basic earnings per share of the Company were approximately RMB0.09 for the six months ended 30 June 2012.

Capital structure

The Group has continued to maintain an appropriate mix of equity and debt to ensure an efficient capital structure to reduce capital cost. As at 30 June 2012, the debts of the Group were mainly represented by bank borrowings and obligations under finance leases with total amount of approximately RMB361.7 million (31 December 2011: RMB419.3 million). Cash and cash equivalents were approximately RMB84.1 million (31 December 2011: RMB130.2 million). The gearing ratio was approximately 60.4% (31 December 2011: 112.0%), which is calculated by dividing total debt (i.e. interest-bearing bank borrowings and obligations under finance lease, after deducting cash and cash equivalents) by total equity.

The Group has maintained a balance between the continuity and flexibility of capital by using bank borrowings. As at 30 June 2012, all the debts of the Group will become due within a year.

As at 30 June 2012, the Group's cash and cash equivalents were mainly held in Renminbi, Japanese Yen, US dollars, HK dollars and Euro, of which, approximately RMB82.4 million (31 December 2011: RMB128.8 million) or 97.9% (31 December 2011: 98.9%) of the cash and cash equivalents were held in Renminbi.

Employee and remuneration policy

As at 30 June 2012, the Group had a total of approximately 2,144 employees (30 June 2011: 2,275; 31 December 2011: 2,141). The decrease in the number of the staff as compared to the corresponding period in the previous year was mainly due to the workforce reduction in order to raise the production efficiency. For the six months ended 30 June 2012, staff costs of the Group (including Directors' remuneration in the form of salaries and other allowances) were approximately RMB37.4 million (2011: approximately RMB31.0 million). The increase of staff costs was mainly due to the successive commencement of jacquard looms during the corresponding period in the previous year.

The Group continued to provide training to staff members to improve their operation skill, meanwhile through post-consolidation, process reorganization and improvement of working and living environment of the staff, enabling the average income of staff to increase and loss of employee and number of employment to reduce. The remuneration of the employees of the Group was subject to their working performance, experience and the industry practices. The management of the Group will also periodically review the remuneration policy and details. In addition, the Group provides bonuses and incentives based on their performances to encourage and motivate its staff to strive for better performance. During the year, the Group will continue to provide training to staff members according to their respective skill requirements, such as training sessions on safety and skill.

Share Option Scheme

The Company has adopted a share option scheme (the "Share Option Scheme") on 26 June 2012. The principal terms of the Share Option Scheme was summarized in the section headed "Other information – Share Option Scheme" in Appendix VI to the Prospectus.

The purpose of the Share Option Scheme is to enable the Company to grant options to selected persons as incentives or rewards for their contribution or future contribution to the Group.

During the six months ended 30 June 2012, no option was granted, exercised, cancelled or lapsed under the Share Option Scheme.

Exposure to foreign exchange risk

The Group adopted a prudent policy in managing its exchange rate risks. The imports and exports of the Group were settled in US dollars and a portion of bank deposits and bank borrowings are denominated in Japanese Yen. The repayment period of the import purchases and foreign borrowings is longer than the period of receiving export trade payments. The Group did not experience any significant difficulties in its operations or liquidity as a result of fluctuations in currency exchange rates during the Period under Review. The Directors believe that the Group will have sufficient foreign currency to meet its requirements.

The Group has not used any foreign currency derivatives to hedge against the exposure in foreign exchange.

Contingent liabilities

As at 30 June 2012, the Group did not have any contingent liabilities, save for RMB5.0 million relating to the Mediation Agreement as disclosed in note 15 to the interim financial report (31 December 2011: RMB10.0 million).

Taxation

Taxation of the Group decreased by approximately 38.6% from approximately RMB15.3 million for the first half year of 2011 to approximately RMB9.4 million for the Period under Review. This was mainly due to the decrease in the profit during the Period under Review.

Charges on assets

Save as disclosed in note 11 to the interim financial report, the Group pledged its machinery and equipment with net book value of RMB73,998,000 (31 December 2011: RMB79,833,000) to banks as securities for the bank borrowings as at 30 June 2012.

BUSINESS OUTLOOK AND STRATEGY

Looking ahead, there exist many uncertainties during the economic growth. While as an emerging industry in China, according to the Euromonitor Report, the home textile industry will continue to maintain a growth at a compound annual growth rate (“CAGR”) of approximately 17.9% during the period of 2010 to 2015. In developed countries, the proportions of home textile consumption in the USA and Japan are as high as 40%, while it is only 12% in China. Therefore there is a huge room for development; in 2010, according to the Euromonitor Report, the per capita consumer expenditure on home textile products in China was US\$18, which was only 1/13 and 1/31 of that in Japan and the USA in 2010, respectively. Therefore there is a huge room for the development of the Chinese home textile industry. In recent years, China’s urbanization rate grows at 1% year on year, while there is a widening gap with developed countries. In 2010, for example, according to the data of National Bureau of Statistics of China, the urbanization rate of China was 44%, while that of UK, USA and Korea were 90% , 82% and 82% respectively. In 2011, according to the data of National Bureau of Statistics of China, the per capita disposable income of rural population in China was only approximately RMB6,977, less than 1/3 of that of urban population in China. With the improvement of living standard in the PRC, Chinese people pursue higher and wider requirements on clothing and household textiles such as whether they are comfortable, environment friendly, functional and personalized. Therefore, in view of above accumulative effects, the demand in the fabric market will grow in future.

As a supplier dedicated to offering high-end, functional, differentiated and high value added fabric products to the customers, the Group has established a leading position in the high-end home textile fabric market in the PRC, particularly in the niche market of jacquard and doobby fabric.

Presently, the Company has been successfully listed on the Main Board of the Stock Exchange on 12 July 2012. The Company will fully use this platform to continue to solidify and enhance its leading position in the high-end home textile fabric market in the PRC. We will mainly adopt following strategy and planning:

Expanding our product mix by enhancing our research and development capabilities

We will continue to strengthen our leadership position in the home textile fabric market, especially in the jacquard fabric and dobby fabric segments and capitalize on the expected segmental growth and changes in consumer behavior. To maintain and strengthen our leadership position in the high-end home textile fabric market, we will continue our positioning to offer high-end, functional and differentiated fabric products, further enrich our product mix, innovate our product designs and stay at the technology forefront of the industry.

We plan to invest additional resources in research and development such as upgrading the facilities at our research and development centre, cooperating with external research institutions such as Design College of Nanjing Art Institute for product design innovation and training of our design personnel to enhance our capabilities to commercialize, design and develop our fabric products. In addition, we will continue to develop and broaden the applications of new and special raw materials such as hemp fiber, Bemberg (Cupro fiber) and corn/bamboo blended fiber in our production chain in order to introduce new functional fabrics and improve the designs of our fabric products.

We also intend to recruit more talented fabric designers and enhance training to our design personnel such as successfully completing the Second National “Yinshilai” Cup Jacquard Fabric Innovation Design Contest and organising secondment program with research institutions or universities to exchange innovative idea and strengthen our fabric design capability. We will continue to leverage on our market research capabilities to keep abreast of latest market trend and consumer’s preferences in the PRC. By expanding our product mix and developing our existing products, we believe that our products will continue to appeal to a wide spectrum of new customers which is essential for us to consolidate our leading position in the high-end home textile fabric market in China.

Expanding and upgrading our production facilities to capture growth opportunity and enhance our market share

To meet the anticipated growing demand for high-end and quality home and apparel fabric products and increase our market share, we plan to purchase additional weaving facilities and equipment such as wide width shuttleless loom for manufacturing high-end fabric products. We believe that our expansion plan will enable us to continue to manufacture quality products for our customers on a more timely basis and enlarge our future market share.

In anticipation of the potential future expansion of our production scale and business, we also plan to upgrade our information management system to enhance our system management capability.

Strengthening our brand building efforts for our products

We believe that our strategic focus on offering high-end, functional and differentiated products has contributed to our positive market reputation and brand building as one of the leading high-end home textile fabric manufacturers in the PRC, which is instrumental to the growth of our business. To increase the reach of our brand to customers and our brand recognition, we will strengthen our brand building efforts, particularly in the selected market and industry segments, such as conducting advertising campaigns on well-known newspapers in the industry, magazines, internets and other media as well as increased participation in product promotional activities, organising or sponsoring product design contests such as the national jacquard design contest, and participating in international trade fairs, textile conferences and exhibitions such as International Istanbul Home Textiles Exhibitions, Texworld USA, International Apparel Sourcing Show, Home Textiles Sourcing Expo and Heimtextil Frankfurt. We also plan to increase the frequency of our promotional activities.

Seeking for strategic investments and/or cooperative alliances with a view to securing our raw material supplies and capturing other potential market opportunities as they arise

In addition to our organic expansion, we have been actively seeking strategic investment opportunities in businesses that complement our business.

Given the importance of cotton for cotton yarn production and the fluctuations in cotton price in the recent years, our Directors believe that the ability to secure a steady supply of cotton at reasonable cost is one of the key success factors in the PRC textile industry. To this end, we have been contemplating the possibility of making investment in or form cooperative relationship with cotton producers in cotton growing or distribution regions in China such as Xinjiang Autonomous Region. Our Directors believe that such strategy would enable us to secure abundant quality cotton supplies for our internal production and reduce our reliance on external supplies in the future. This, in turn, provides an opportunity for us to better monitor over the quality of the cotton we use, the supply and price of cotton which eventually increase our flexibility in pricing and costs of sale.

With our success in the manufacturing and sale of fabric products, we also consider leveraging on our established brand image and reputation in the industry to expand our operations into other textile related businesses, such as home and/or apparel textile manufacturing in order to capture potential market opportunities, achieve greater synergies, expand our sales network and diversify our business risk. To this end, we are seeking opportunity to invest in or cooperate with enterprise(s) currently engaged in such businesses and which we consider to be of high quality and have potential for development in order to minimize the upfront cost and risks associated with starting up a new business by us.

We firmly believe that, by further improving our innovation, continuing to consolidate our market position and enhance our good image of “Yinshilai” brand, the Group will be able to take full advantages of the fast development of China’s economy and home textile industry and rapidly grow into a leading enterprise in Chinese high-end home textile fabric industry.

The company expects to finance the above plans from its internal resources, the bank borrowing and the net proceeds from the public offering in July 2012.

SUPPLEMENTARY INFORMATION

Significant investments held

Except for investments in equity securities as presented in the financial report and investment in subsidiaries, the Group did not hold any significant investment in equity interest in any company during the six months ended 30 June 2012.

Future plans for material investments and capital assets

Save as disclosed in the Prospectus in connection with the initial public offering of the Company on 12 July 2012, the Group did not have other plans for material investments and capital assets.

Material acquisitions and disposals of subsidiaries and affiliated companies

During the six months ended 30 June 2012, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

Use of proceeds

The Company was listed on the Stock Exchange on 12 July 2012 and raised net proceeds of approximately HK\$176.6 million (equivalent to approximately RMB143.2 million). The future plans as stated in the Prospectus were derived from the Group's reasonable estimation of the future market conditions based on the information available at the time of preparing the Prospectus. As of the date of this report, the Directors are not aware of material change to the planned use of the proceeds from the plan as stated in the Prospectus.

Events after the reporting period

Save as disclosed in note 17 to the interim financial report, no significant event took place subsequent to 30 June 2012.

Purchase, sale or redemption of the Company's listed securities

As the shares of the Company have been listed on the Main Board of the Stock Exchange since 12 July 2012, from the listing date to the date of this report, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Interests and short positions of Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations

As dealing in the shares of the Company on the Main Board of the Stock Exchange commenced on 12 July 2012, no disclosure of interests or short positions of the Directors and chief executive of the Company in any share, underlying share and debenture of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (the "Associated Corporations") was made to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO as at 30 June 2012.

As at 12 July 2012, the interests and short positions of the Company's directors and chief executive in the shares, underlying shares and debentures of the Company and its Associated Corporations, as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to the Model Code were as follows:

Name of Directors	Name of Group member/ associated corporation	Capacity/nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Mr. LIU Dong	Our company	Interest of a controlled corporation (Note 2)	553,609,836 Shares (L)	69.20%
	Excel Orient Limited	Beneficial owner	1 Share (L)	100%
Mr. YAN Tangfeng	Our company	Interest of a controlled corporation (Note 3)	46,230,066 Shares (L)	5.78%

Notes:

1. The letter "L" denotes the Directors' long position in the Shares or the relevant associated corporation.
2. The Shares are held by Excel Orient Limited which is a company incorporated in the BVI and the entire issued capital of which is beneficially owned by Mr. LIU Dong, one of the Controlling Shareholders and executive Directors.
3. These Shares are held by Sunlion Holdings Limited which is a company incorporated in the BVI and the entire issued capital of which is beneficially owned by Mr. YAN Tangfeng (a non-executive Director).

Interest discloseable under the SFO and substantial shareholders

As the shares of the Company have only been listed on the Main Board of the Stock Exchange since 12 July 2012, no disclosure of interest or short position in any shares and underlying shares of the Company were made to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO as at 30 June 2012.

As at 12 July 2012, so far as was known to the Directors, the following persons (not being a Director or a chief executive of the Company) had interests or short positions in the shares or underlying shares 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 as recorded in the Company's register pursuant to section 336 of the SFO:

Name of Shareholders	Name of Group member/ associated corporation	Capacity/nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Excel Orient Limited (Note 2)	Our company	Beneficial owner	553,609,836 Shares (L)	69.20%
Ms. WANG Lingli	Our company	Family interest (Note 3)	553,609,836 Shares (L)	69.20%
Sunlion Holdings Limited (Note 4)	Our company	Beneficial owner	46,230,066 Shares (L)	5.78%
Ms. YANG Chun	Our company	Family interest (Note 5)	46,230,066 Shares (L)	5.78%

Notes:

1. The letter "L" denotes the Directors' long position in the shares of our Company or the relevant Group member.
2. Excel Orient Limited is a company incorporated in the BVI and the entire issued share capital of which is beneficially owned by Mr. LIU Dong, one of the Controlling Shareholders and executive Directors. Therefore, Mr. LIU Dong is also deemed to have the interest owned by Excel Orient Limited.
3. Ms. WANG Lingli is the spouse of Mr. LIU Dong. Therefore, Ms. WANG Lingli is deemed, or taken to be interested in the Shares which Mr. LIU Dong is interested in for the purpose of the SFO.
4. Sunlion Holdings Limited is a company incorporated in the BVI, the entire issued share capital of which is beneficially owned by Mr. YAN Tangfeng (a non-executive Director). Therefore, Mr. YAN Tangfeng is also deemed to have the interest owned by Sunlion Holdings Limited.
5. Ms. YANG Chun is the spouse of Mr. YAN Tangfeng. Therefore, Ms. YANG Chun is deemed, or taken to be interested in the Shares which Mr. LIU Dong is interested in for the purpose of the SFO.

Corporate governance

The shares of the Company have been listed on the Main Board of the Stock Exchange since 12 July 2012. The Company was prepared to comply with the Corporate Governance Code (the “Code”) after the listing.

The Board confirms that, other than the deviation from Codes A1.8 and A2.1, the Company has complied with the Code set out in Appendix 14 to the Listing Rules from the date of listing on 12 July 2012 up to the date of this report.

Code Provision A1.8 stipulates that an issuer should arrange appropriate insurance cover in respect of legal action against its directors. During the Period under Review, the Company has not yet been listed on the Main Board of the Stock Exchange, therefore, the Company has not arranged any insurance cover. However, the Directors will continue to review the arrangements for insurance cover for the Directors from time to time, and may arrange for insurance cover in the future.

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Liu Dong is the chairman and chief executive officer of the Company. The Board considers that this structure will not impair the balance of power and authority between the board and the management of the Company. The balance of power and authority is ensured by the effective operations of the Board, which comprises experienced and high caliber individuals.

Model Code for Securities Transactions by Directors

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 (the “Model Code”). Since the shares of the Company have been listed on the Main Board of the Stock Exchange since 12 July 2012, the Company confirms that, having made specific enquiry of all Directors, all the Directors have complied with the required standards of dealing as set out in the Model Code from the date of listing on 12 July 2012 up to the date of this report.

Audit Committee

The Company has established an Audit Committee (the “Audit Committee”) on 26 June 2012 with written terms of reference as set out in Appendix 14 to the Listing Rules to set out its authority and duties. The Audit Committee consists of three members, namely Mr. Lam Kai Yeung, Ms. Zhu Beina and Mr. Zhu Ping, all of whom are independent non-executive Directors. Mr. Lam Kai Yeung is the chairman of the Audit Committee.

The Audit Committee has discussed with the management of the Company the internal control and financial reporting matters related to the preparation of the unaudited consolidated interim financial information for the six months ended 30 June 2012. It has also reviewed the unaudited consolidated interim financial information for the six months ended 30 June 2012 with the management of the Company and recommended them to the Board for approval.

Remuneration Committee

The Company has established a Remuneration Committee (the “Remuneration Committee”) on 26 June 2012 with written terms of reference as set out in Appendix 14 to the Listing Rules to set out its authority and duties. The Remuneration Committee consists of three members, namely Mr. Zhu Ping, Ms. Zhu Beina and Mr. Liu Dong, of whom, Mr. Zhu Ping and Ms. Zhu Beina are independent non-executive Directors. Mr. Zhu Ping is the chairman of the Remuneration Committee.

Nomination Committee

The Company has established a Nomination Committee (the “Nomination Committee”) on 26 June 2012 with written terms of reference as set out in Appendix 14 to the Listing Rules to set out its authority and duties. The Nomination Committee consists of three members, namely Ms. Zhu Beina, Mr. Zhu Ping and Mr. Liu Dong, of whom, Ms. Zhu Beina and Mr. Zhu Ping are independent non-executive Directors. Ms. Zhu Beina is the chairman of the Nomination Committee.

Interim dividend

The Board declares the payment of an interim dividend of RMB0.02375 per share (2011: nil).

The Company plans to pay the dividend on 20 September 2012 to the registered shareholders appear in the Register of Members on 14 September 2012. Dividends are declared in RMB and will be paid in Hong Kong dollars based on the official exchange rate of RMB against Hong Kong Dollars as quoted by the People’s Bank of China on 14 September 2012 before payment.

Closure of Register of Members

The Register of Members of the Company will be closed from 12 September 2012 (Wednesday) to 14 September 2012 (Friday). In order to qualify for the above mentioned interim dividends, all transfers accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 11 September 2012 (Tuesday).

Disclosure of Information

The interim report of the Company will also be published on the websites of both the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.ysltex.com>) and shall be dispatched to the shareholders timely and properly.

Consolidated statement of comprehensive income

For the six months ended 30 June 2012 - unaudited

(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2012	2011
		RMB'000	RMB'000
Turnover	3	434,711	443,823
Cost of sales		(341,127)	(325,035)
Gross profit		93,584	118,788
Other net gains	4	1,400	3,845
Distribution costs		(5,325)	(4,888)
Administrative expenses		(15,877)	(12,649)
Profit from operations		73,782	105,096
Finance income	5(a)	2,890	10,665
Finance costs	5(a)	(12,178)	(12,418)
Profit before taxation		64,494	103,343
Income tax	6	(9,421)	(15,341)
Profit and total comprehensive income for the period		55,073	88,002
Profit and total comprehensive income attributable to equity shareholders of the Company		55,073	88,002
Earnings per share (RMB)	7		
Basic and diluted		0.09	0.14

The accompanying notes form part of this interim financial report. Details of the dividends payable to equity shareholders of the Company are set out in note 8.

Consolidated statement of financial position

As at 30 June 2012 - unaudited

(Expressed in Renminbi)

	Note	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Non-current assets			
Fixed assets	9		
- Property, plant and equipment		376,472	402,023
- Interests in leasehold land under operating leases		8,888	8,987
		<u>385,360</u>	<u>411,010</u>
Intangible assets		98	130
Goodwill		6,394	6,394
Investments in equity securities		1,000	1,000
		<u>392,852</u>	<u>418,534</u>
Current assets			
Inventories		133,895	100,789
Trade and other receivables	10	177,369	121,838
Pledged bank deposits	11	144,619	188,380
Cash and cash equivalents	12	84,098	130,228
		<u>539,981</u>	<u>541,235</u>
Current liabilities			
Trade and other payables	13	103,443	270,068
Bank loans		330,659	373,189
Obligations under finance leases		31,067	31,394
Current taxation		5,560	8,261
		<u>470,729</u>	<u>682,912</u>
Net current assets/(liabilities)		<u>69,252</u>	<u>(141,677)</u>
Total assets less current liabilities		<u>462,104</u>	<u>276,857</u>

The accompanying notes form part of this interim financial report.

Consolidated statement of financial position (Continued)

As at 30 June 2012 - unaudited

(Expressed in Renminbi)

	Note	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Non-current liabilities			
Obligations under finance leases		-	14,730
Deferred tax liabilities		2,192	4,024
		<u>2,192</u>	<u>18,754</u>
Net assets		459,912	258,103
Equity			
Capital	14	68	68
Reserves		459,844	258,035
Total equity		459,912	258,103

The accompanying notes form part of this interim financial report.

Consolidated statement of changes in equity

For the six months ended 30 June 2012 - unaudited

(Expressed in Renminbi)

	<u>Capital</u>	<u>Capital</u>	<u>Statutory</u>	<u>Other</u>	<u>Retained</u>	<u>Total</u>
	RMB'000	RMB'000	surplus reserve RMB'000	reserve RMB'000	earnings RMB'000	RMB'000
Balance at 1 January 2011	-	(909)	28,568	(27,377)	95,627	95,909
Change in equity for the six months ended 30 June 2011:						
Profit for the period	-	-	-	-	88,002	88,002
Total comprehensive income	-	-	-	-	88,002	88,002
Issue of shares	68	-	-	-	-	68
Balance at 30 June 2011	68	(909)	28,568	(27,377)	183,629	183,979
Balance at 1 January 2012	68	(909)	43,821	(27,377)	242,500	258,103
Change in equity for the six months ended 30 June 2012:						
Profit for the period	-	-	-	-	55,073	55,073
Total comprehensive income	-	-	-	-	55,073	55,073
Waiver of the amount due to the holding company	-	-	-	146,736	-	146,736
Balance at 30 June 2012	68	(909)	43,821	119,359	297,573	459,912

The accompanying notes form part of this interim financial report.

Condensed consolidated cash flow statement

For the six months ended 30 June 2012 - unaudited

(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2012	2011
		RMB'000	RMB'000
Cash generated from operations		44,133	155,526
Income tax paid		(13,954)	(5,969)
Net cash generated from operating activities		30,179	149,557
Net cash generated from /(used in) investing activities		22,495	(66,196)
Net cash used in financing activities		(98,804)	(95,795)
Net decrease cash and cash equivalents		(46,130)	(12,434)
Cash and cash equivalents at 1 January	12	130,228	68,265
Cash and cash equivalents at 30 June	12	84,098	55,831

The accompanying notes form part of this interim financial report.

Notes to the interim financial report

(Expressed in Renminbi unless otherwise indicated)

1 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), including compliance with International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the “IASB”).

The interim financial report has been prepared in accordance with the same accounting policies adopted in the preparation of the financial information as at and for the year ended 31 December 2011 of the Group, as set out in the accountants’ report in the prospectus of the Company dated 29 June 2012 (the “Prospectus”), except for the accounting policy changes that are expected to be reflected in the 2012 annual financial report. Details of these changes in accounting policies are set out in note 2.

The preparation of the interim financial report requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

In preparing this interim financial report, significant judgement made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those applied to the financial information as at and for the year ended 31 December 2011, as set out in the accountants’ report in the Prospectus.

2 Changes in accounting policies

The International Accounting Standards Board has issued a few amendments to International Financial Reporting Standards that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group’s financial report:

- Amendments to IFRS 7, Financial instruments: Disclosures – Transfers of financial assets

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2 Changes in accounting policies (Continued)

The amendments to IFRS 7 require certain disclosures to be included in the annual financial report in respect of all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset existing at the reporting date, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

3 Turnover and segment information

The principal activities of the Group are the manufacturing and sales of textile products. Turnover represents the sales value of goods supplied to customers and service income (net of sales tax, value-added tax and discounts). The amount of each significant category of revenue recognised in turnover is as follows:

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Sales of textile products:		
- Dobby grey fabrics	320,897	302,518
- Jacquard grey fabrics	96,474	111,731
- Others	10,505	12,635
	427,876	426,884
Processing services income	6,835	16,939
	434,711	443,823

No segment information is presented as the Group is principally engaged in one operating segment which is the manufacturing and sale of textile products. The Group operates in the PRC and its major assets are located in the PRC. The following is an analysis of the Group's revenue by geographical markets:

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
The PRC	412,814	369,753
Overseas	21,897	74,070
	434,711	443,823

4 Other net gains

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Net gain on sale of scrap materials	15	1,486
Net gain on sale of property, plant and equipment	-	300
Net gain on forward exchange contracts	628	41
Financial guarantee issued	-	1,074
Others	757	944
	1,400	3,845

5 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

(a) Finance income and finance costs

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
<i>Finance income</i>		
Interest income	(2,890)	(3,040)
Foreign exchange gain	-	(7,625)
	(2,890)	(10,665)
<i>Finance costs</i>		
Interest on borrowings	10,131	11,440
Less: interest capitalised into property, plant and equipment	-	(1,368)
Interest expenses	10,131	10,072
Finance charges on obligations under finance leases	1,189	2,019
Foreign exchange loss	607	-
Other finance charges	251	327
	12,178	12,418

5 Profit before taxation (Continued)

(b) Other items

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Depreciation	29,665	26,611
Amortisation		
- leasehold land	99	99
- intangible assets	32	16
	<u>29,796</u>	<u>26,726</u>

6 Income tax

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Current tax	11,253	13,430
Deferred tax	(1,832)	1,911
	<u>9,421</u>	<u>15,341</u>

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in those jurisdictions.
- (ii) The Group's Hong Kong subsidiaries, being investment holding companies, do not derive income subject to Hong Kong Profits Tax. For the six months ended 30 June 2012, Hong Kong Profits Tax rate is 16.5% (2011: 16.5%). The payments of dividends by the subsidiaries incorporated in Hong Kong are not subject to withholding tax.
- (iii) Prior to 1 January 2008, the Group's PRC entities, being production-type foreign investment enterprises, were each entitled to a tax holiday of 2-year full exemption followed by 3-year 50% reduction in the income tax rate commencing from their respective first profit-making years from a PRC tax perspective ("2+3 tax holiday").

6 Income tax (Continued)

On 16 March 2007, the Fifth Plenary of the Tenth National People's Congress passed the New Enterprise Income Tax Law of the PRC (the "New Tax Law"), which stipulates the statutory income tax rate at 25% and was effective on 1 January 2008. The New Tax Law and its relevant regulations grandfather the 2+3 tax holidays and require such tax holiday to begin on 1 January 2008 should it be not started earlier. Zibo Huiyin Textile Co., Ltd., a subsidiary of the Company, started its 2+3 tax holiday in 2008. As such, it is exempted from PRC income tax for 2008 and 2009, and is subject to income tax at 12.5% from 2010 to 2012 and at 25% thereafter. During the year ended 31 December 2011, Zibo Yinshilai Textile Co., Ltd. was granted the status of a "High and New Technology Enterprise" and, accordingly, entitles to preferential PRC Enterprise Income Tax rate of 15% from 2011 onwards.

- (iv) According to the New Tax Law and its implementation rules, dividends receivable by non-PRC resident corporate investors from PRC-residents are subject to withholding tax at 10%, unless reduced by tax treaties or arrangements, for profit earned since 1 January 2008. YSL (HK) Ltd. and Huiyin (HK) Ltd., subsidiaries of the Company, were established during 2010 and would be subject to PRC dividend withholding tax on dividends receivables from their PRC subsidiaries.

As at 30 June 2012, temporary difference relating to profit earned by the Company's PRC subsidiaries amounted to RMB178,091,000(2011: RMB137,278,000) for which no deferred tax liability was recognised in respect of the PRC dividend withholding tax at 10% that would be payable on the distribution of these profits as the Group has no plan to distribute them in the foreseeable future.

7 Earnings per share

The calculation of basic and diluted earnings per share for the six months ended 30 June 2012 is based on the profit attributable to equity shareholders of the Company of RMB55,073,000(six months ended 30 June 2011: RMB88,002,000) and the weighted average of 639,420,000 shares (six months ended 30 June 2011: 638,491,916 shares, after adjusting for the share sub-division and the capitalisation issue in 2012), in issue during the interim period.

There was no difference between basic and diluted earnings per share as there were no dilutive potential shares outstanding for the six months ended 30 June 2012 and 30 June 2011 respectively.

8 Dividends

- (i) Dividend payable to equity shareholders attributable to the interim period

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Interim dividend declared after the interim period of RMB 0.02375 per share (2011: nil)	19,000	-

The interim dividend has not been recognised as a liability in the consolidated statement of financial position.

- (ii) Dividend payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period	-	37,024

Dividends paid during the six months ended 30 June 2011 represent dividends declared by Zibo Yinshilai Textile Co., Ltd. and Zibo Huiyin Textile Co., Ltd. to their then shareholders before they became subsidiaries of the Company.

9 Fixed assets

During the six months ended 30 June 2012, the Group acquired items of plant and machinery with a cost of RMB 4,114,000 (six months ended 30 June 2011: RMB 43,140,000). No items of fixed assets were disposed of during the six months ended 30 June 2012 (six months ended 30 June 2011: machinery with net book value of RMB790,000 were disposed of).

10 Trade and other receivables

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis:

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Current	89,823	56,621
Less than 3 month past due	57	1,904
3 to 6 months past due	103	335
	<hr/>	<hr/>
Trade debtors and bills receivable, net of allowance for doubtful debts	89,983	58,860
Prepayments relating to purchases of raw materials	56,496	42,786
Prepayments relating to purchases of fixed assets	4,770	340
Deferred expenses	641	845
Other receivables	25,479	19,007
	<hr/>	<hr/>
	177,369	121,838
	<hr/> <hr/>	<hr/> <hr/>

Trade debtors and bills receivable are due within 1 to 6 months from the date of billing.

11 Pledged bank deposits

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Guarantee deposits for issuance of commercial bills and bank acceptance	1,002	14,083
Guarantee deposits for bank loans	143,617	174,297
	<hr/>	<hr/>
	144,619	188,380
	<hr/> <hr/>	<hr/> <hr/>

12 Cash and cash equivalents

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Bank deposits	83,948	130,169
Cash in hand	150	59
	<u>84,098</u>	<u>130,228</u>

13 Trade and other payables

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis:

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Due within 3 months or on demand	69,121	43,356
Due after 3 months but within 6 months	3,533	7,027
Due after 6 months but within 12 months	280	481
Trade creditors and bills payable	<u>72,934</u>	<u>50,864</u>
Accrued charges	11,311	16,130
Receipts in advance	9,317	11,436
Taxes payable other than income tax	5,891	7,644
Amounts due to related parties	-	176,633
Payables relating to purchases of fixed assets	-	2,531
Other payables	3,990	4,032
Financial liabilities measured at amortised cost	<u>103,443</u>	<u>269,270</u>
Derivative financial instruments:		
- foreign exchange contracts	-	798
	<u>103,443</u>	<u>270,068</u>

14 Capital

- (a) The Company was incorporated in the Cayman Islands on 24 February 2010 as an exempted company with an authorised share capital of US\$ 50,000 divided into 50,000 shares having a par value of US\$1.00. On the same date, 1 share with par value of US\$1.00 was allotted and issued as fully paid at par.
- (b) During the year ended 31 December 2011, 9,999 shares of US\$1.00 each were allotted and issued by the Company.
- (c) On 26 June 2012, the Company sub-divided each of its authorised shares and issued shares of US\$1.00 into 100 shares of US\$0.01 each. As a result of the share sub-division, the authorised share capital of the Company was divided into 5,000,000 shares of US\$0.01 each and the issued share capital of the Company was divided into 1,000,000 shares of US\$0.01 each.
- (d) On 26 June 2012, the Company increased its authorised share capital to US\$100,000,000 by creation of 9,995,000,000 shares of US\$0.01 each.

15 Contingent liabilities

Under a mediation agreement (the “Mediation Agreement”) entered into during the year ended 31 December 2008, which is related to a dispute among shareholders of Zibo Yinlong Industrial Co., Ltd., including Mr. Liu Dong (the director and ultimate controlling party of the Company), a subsidiary of the Group agreed to be jointly and severally liable to a portion of the mediation settlement totaling RMB45,000,000. As at 30 June 2012, the outstanding mediation settlement amounted to RMB5,000,000 (31 December 2011: RMB 10,000,000). During the six months ended 30 June 2012, Mr. Liu Dong remitted the outstanding mediation settlement to the designated bank account of the jurisdiction court, which will pay the outstanding mediation settlement pursuant to the payment schedule under the Mediation Agreement. The Directors do not consider it probable that a claim will be made against the Group under the guarantee as at 30 June 2012 and 31 December 2011. The maximum liability of the Group at 30 June 2012 under the guarantee issued is RMB 5,000,000 (31 December 2011: RMB 10,000,000).

16 Material related party transactions

During the six months ended 30 June 2012, transactions with the following parties are considered to be related party transactions:

<u>Name of party</u>	<u>Relationship with the Group</u>
Mr. Liu Dong (“Mr. Liu”)	Director and ultimate controlling party of the Company
Mr. Lv Ruichuan (“Mr. Lv”) (Note 1)	Senior management of the Company
Ms. Sun Hongchun (“Ms. Sun”)	Senior management of the Company
Mr. Tian Chengjie (“Mr. Tian”)	Director of the Company
Excel Orient Ltd. (“Excel Orient”)	Immediate holding company
Zibo Yinlong Industrial Co., Ltd. (“Yinlong Industrial”) (Note 2)	Controlled by Mr. Liu

16 Material related party transactions (Continued)

Note1: Mr. Lv ceased to be a member of the senior management and was appointed as a consultant of the Company during the six months ended 30 June 2012.

Note 2: Yinlong Industrial ceased to be a related party of the Group after Mr. Liu transferred his interest in Yinlong Industrial to third parties during the year ended 31 December 2011.

The Group has entered into the following material related party transactions during the period:

(a) Transactions with related parties

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Purchases of goods from Yinlong Industrial	-	7,483
Purchases of processing service from Yinlong Industrial	-	889
Purchases of electricity and steam power from Yinlong Industrial	-	1,629
Provision of electricity to Yinlong Industrial	-	1,074
	<u>-</u>	<u>10,075</u>

(b) Key management personnel remuneration

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Short-term employee benefits	585	541
Post-employment benefits	15	19
	<u>600</u>	<u>560</u>

(c) Balances with related parties

The Group had the following balances with related parties:

	At 30	At 30
	June	June
	2012	2011
	RMB'000	RMB'000
Amounts due to Excel Orient	-	176,633
	<u>-</u>	<u>176,633</u>

16 Material related party transactions (Continued)

(c) Balances with related parties (Continued)

The amounts due to Excel Orient were unsecured, interest-free and repayable on or before 23 November 2015. The Group repaid RMB29,897,000 to Excel Orient and Excel Orient waived the remaining balance during the six month ended 30 June 2012. The waived amount of RMB146,736,000 was credited directly to equity as a capital contribution.

(d) Guarantees provided to related parties

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Mr. Liu (note 15)	5,000	10,000

17 Non-adjusting post balance sheet events

On 11 July 2012, 160,580,000 shares of the Company were allotted and issued at the price of HK\$1.10 per share, and the listing and dealing in such shares on the Main Board of the Stock Exchange commenced on 12 July 2012.

On 11 July 2012, the Company capitalised US\$6,384,200 standing to the credit of the share premium account of the Company (the "Capitalisation Issue") by applying such sum in paying up in full at par 638,420,000 shares for allotment and issue to shareholders whose names appear on the register of members of the Company at the close of business on 26 June 2012 in proportion to their then existing holdings in the Company.

Upon completion of the above issues and allotments of the shares (including the Capitalisation Issue) by the Company, the number of the shares of the Company has been increased to 800,000,000 shares, and the share capital of the Company has been increased to US\$8,000,000 (equivalent to approximately RMB50,569,000).

By order of the Board
Silverman Holdings Limited

Liu Dong
Chairman

Shandong, the PRC
28 August 2012



银仕来控股有限公司
SILVERMAN HOLDINGS LIMITED