中國節能海東青新材料集團有限公司

CECEP COSTIN NEW MATERIALS GROUP LIMITED

Incorporated in the Cayman Islands with limited liability

Stock Code:2228

2012 Annual Report

中国节能

CHINA ENERGY CONSERVATION AND ENVIRONMENTAL PROTECTION GROUP

中國節能海東青

CECEP COSTIN GROUP

CONTENTS

Corporate Information

EXECUTIVE DIRECTORS
Mr. Yu Heping *(Co-Chairman)*
Mr. Chim Wai Kong *(Co-Chairman)*
Mr. Chim Wai Shing Jackson *(Chief Executive Officer)*
Mr. Xue Mangmang

NON-EXECUTIVE DIRECTORS
Mr. Wang Yangzu
Mr. Qu Pingji
Mr. Zhao Xiangdong
Mr. Pan Tingxuan

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

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Cayman Islands

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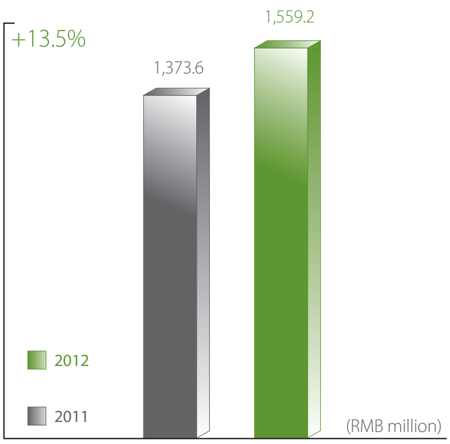
Suites 2703-04
27th Floor, Tower 6
The Gateway
Harbour City
Kowloon

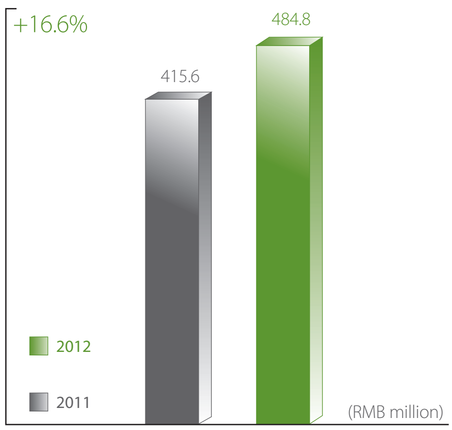
WEBSITE
www.costingroup.com

Results Highlights

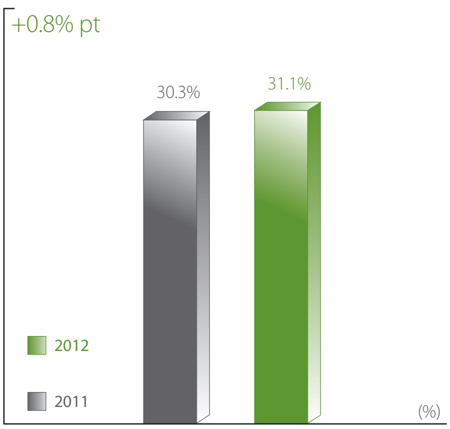
TURNOVER



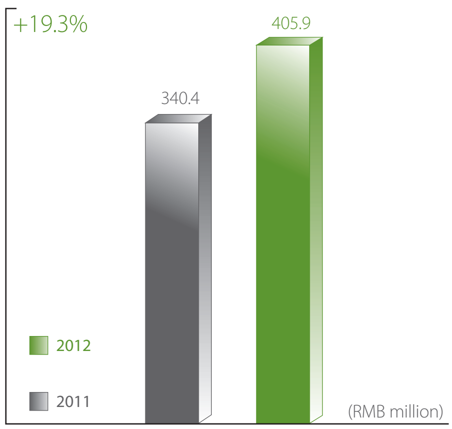
GROSS PROFIT



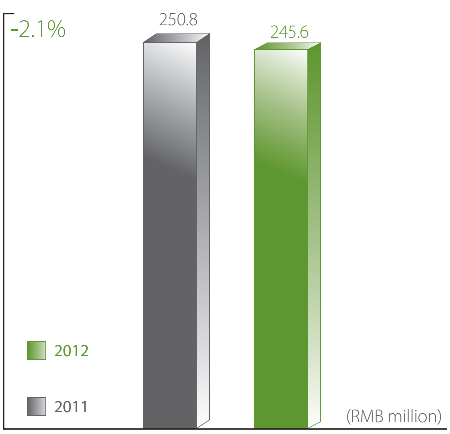
GROSS PROFIT MARGIN



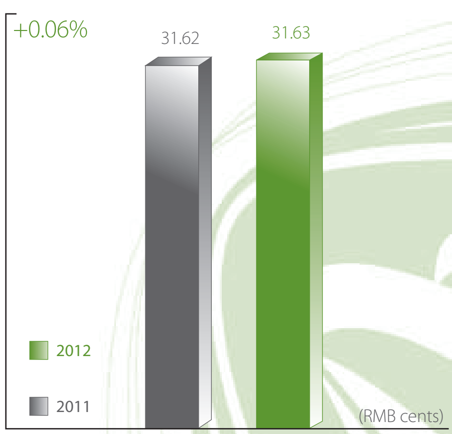
PROFIT FROM OPERATIONS



PROFIT FOR THE YEAR



BASIC EARNINGS PER SHARE



Co-Chairmen's Statement

To our esteemed shareholders,

We are pleased to present, on behalf of the board (the "Board") of directors (the "Directors") of CECEP COSTIN New Materials Group Limited ("CECEP COSTIN" or the "Company"), formerly known as COSTIN New Materials Group Limited, the annual report of the Company and its subsidiary companies (collectively referred to as the "Group") for the year ended 31 December 2012.

In 2012, the Group maintained an upward trajectory in the sales of key products as well as the gross profit margin in spite of the global economic slowdown and challenges in domestic and foreign markets. The favourable trend was the payoff of the Group's long-term investment in product R&D. Besides, our products have a broad application scope and are less susceptible to the business cycle of any single industry.

"Consolidating foundation, guiding applications, identifying resources, and exploring new opportunities" was the guidelines of the Group in 2012. The Group was dedicated to promoting industrial upgrade, optimising the mode of production, facilitating product and technology marketing, cultivating operation and management talents and encouraging creativity and scientific innovation. Meanwhile, with the concerted efforts of the management and every employee, the Group's core business showed a stable rise during the year. During the year under review, turnover of the Group reached RMB1,559,200,000, representing an increase of 13.5% from RMB1,373,600,000 in 2011; gross profit rose to RMB484,800,000, representing an increase of 16.6% from RMB415,600,000 in 2011; profit for the year attributable to owners of the Company reached RMB245,600,000 (2011: RMB250,800,000); and basic earnings per share for the year was approximately RMB31.63 cents (2011: RMB31.62 cents).

In April 2012, the Group seized the opportunity to introduce CECEP Chongqing Industry Co. Ltd ("CECEP Chongqing"), a subsidiary of China Energy Conservation and Environmental Protection Group ("CECEP"), as the Company's single largest shareholder and the Group's strategic partner in the industry. The Company has officially changed its name to "CECEP COSTIN New Materials Group Limited". It is our deepest belief that both parties will cooperate to further consolidate the leading position of CECEP COSTIN in the market of industrial goods by capitalising on the common development concept in energy conservation and environmental protection industry. Meanwhile, the diversified shareholder mix and the Board structure will be able to strengthen the corporate governance in the Company as well, thus, better protecting the interests of all investors.

Given the favourable development environment and policies in the industry, we steadily advanced the business of thermal resistant filtration materials. In 2012, we focused on the business expansion of thermal resistant filtration materials. We believe that the synergy will be stronger as the cooperation with CECEP deepens.

In respect of marketing, during the year under review, the Group adjusted its marketing strategies, integrated and optimised the internal structure and established 6 divisions, including Sales Department of Filtration Materials and Filtration Bags, Sales Department of Shoe Materials and Household Materials, Sales Department of Decoration Materials, Sales Department of Chemical Fibres and Chemicals, Department of International Business Expansion and Industrial Consulting Service Platform, so as to further satisfy the demands of the market and customers. In respect of the domestic market, the Group established 7 key sales regions, namely North China, East China, Central China, South China, Southwest, Northwest and Northeast, adopting the operation and management mode of direct marketing control with regional managers in charge. The new marketing management mode showed its preliminary results with breakthrough already made in overall marketing. The Department of International Business Expansion expanded the sales coverage into Europe, South America, North America and Southeast Asia. Meanwhile, the Company established the Technical Solution Office in order to support the overall marketing system, enabling the internal coordination between the Production Department and the R&D Department for solving technical issues arising from production and the external provision of effective technical solutions to users for using the products.

Co-Chairmen's Statement

The impact on the environment brought by the economic growth in the past 30 years started taking a toll. Currently, few polluting industries such as cement, steel and power generation are using bag-type dust collectors. As a result, the air pollution worsens day by day, which, to a large extent, becomes one of the impediments to the sustainable development of the economy. The heavy smog in North China not long ago was a manifestation of air pollution. We expect that domestic regulatory authorities will raise the emission standards on waste gas and exhaust gas and that energy conservation and environmental protection will also become a critical factor to be considered in future development of the People's Republic of China (the "PRC" or "China"). The "12th Five-Year Plan for New Material Industry" issued in June 2012 pointed out that the average annual increase in the output value of the energy conservation and environmental protection industry in China would be over 15% during the "12th Five-Year Plan" period. It is expected that the total output value of the energy conservation and environmental protection industry will reach RMB4.5 trillion in 2015; and the total output value of new material industry in China will reach RMB2 trillion in 2015 with an average annual increase of over 25%. Apart from expanding the domestic market, the Group will also work with CECEP, our strategic partner, to seek more opportunities in exploring international markets, striking a delicate balance among markets in different regions.

We believe that the favourable context is beneficial for the further expansion of our business. Meanwhile, relying on the improving quality in production, R&D and marketing, we are confident that the Group will firmly implement the "Third Five-Year Plan" with the concerted efforts of all staff and supports from our partners; and as a result, the Group will have a stable upward development, building CECEP COSTIN into a world-leading new materials and recycled materials enterprise. We will exert every effort to create value for the Company and bring satisfactory returns to the shareholders and investors of the Company.

Acknowledgement

We would like to express, on behalf of the Board, heart-felt appreciations for the continuous attention and great support to CECEP COSTIN from all shareholders, investors and partners. We also wish to thank the relentless efforts and dedication of all staff of the Group. The Group will continue to fully leverage on the favourable industry policies and demonstrate its competitive edges in the circular economy, and join hands with parties concerned to create higher value through steady and sustained development of the Group.

Yu Heping
Co-Chairman

Chim Wai Kong
Co-Chairman

Hong Kong, 14 March 2013

Management Discussion and Analysis

BUSINESS REVIEW

In 2012, overwhelmed by the macro-economic environment, the debt crisis in Europe and the US lingered with lackluster global demand and escalating trade frictions. The global economic outlook remained gloomy as the manufacturing sector continued to contract throughout the first three quarters of the year. In spite of that, the breakneck growth for over 30 years brought along severe environmental pollution and made environmental protection an inevitable issue in the PRC. In the National 12th Five-Year Plan, the PRC Government expressed the stance to tighten the regulation on environmental pollution and listed the new materials industry as one of the key development fields. We believe that the potential for market growth in the PRC will persist with increasing emphasis on the market as desire for environmental protection surge and construction standards raise. In response to the changing market, we strive to facilitate product upgrade and production model transformation, so as to embrace the growth opportunities for the Group in the course of satisfying future market demands.

Key products of the Group include differential recycled chemical fibres, non-woven materials with 3D engineering structure and thermal resistant filtration materials. The Group's products have been widely applied as raw materials in the manufacturing of consumer goods and industrial products including filter materials and filtration bags, decoration materials, shoe materials, household materials, chemical fibres and chemicals. The Group also provides tailor-made products that satisfy the specific requirements of different customers, including non-woven materials with special functions such as waterproof, anti-bacteria, anti-UV and flame retardant.

Non-woven materials with 3D engineering structure

In respect of non-woven materials with 3D engineering structure, as at 31 December 2012, the Group has 17 stitch-bonded production lines with a production capacity of approximately 103 million yards per annum; and 9 needle-punching production lines with a production capacity of approximately 57 million yards per annum; bringing the aggregate production capacity to approximately 160 million yards per annum. Such materials are less susceptible to downturns of an individual industry as they have a wide range of applications, leading to a broad customer base. Despite the economic slowdown in 2012, the sales volume of non-woven materials of the Group increased by approximately 5.1% with sales revenue up about 12.7% as compared with 2011. Meanwhile, the average product selling price was 6.8% higher than that of 2011, retaining a higher gross profit margin.

Recycled chemical fibres

As at 31 December 2012, the Group has 2 production lines in total with an annual production capacity of 42,000 tons, handling 53,000 tons of PET chips per annum. Affected by the dormant market environment in the PRC, the selling price of recycled chemical fibres declined slightly in 2012. However, the gross profit margin of recycled chemical fibre products only decreased slightly as the price of PET chips, a major raw material for the fibres, also dropped.

Thermal resistant filtration materials

In respect of thermal resistant filtration materials, the Group currently has 3 production lines with a production capacity of 21 million sq.m. per annum. As the production lines of thermal resistant filtration materials were put into operation only in the fourth quarter of 2011, and the sale is still at its incipient stage, there has been little profit contributed to the Group. Although the filtration materials business stands at the incipient stage, the market response is positive as the products have been used by down-stream and associated enterprises engaged in the manufacturing of environmental protection equipment. It is believed that the bag-type thermal resistant filtration materials sector will keep the momentum in next year as the PRC Government raises the smoke and dust emission standards for coal-fired power generation and related industries. In March 2013, the Group signed a framework sales agreement with CECEP, which has further strengthened the sales cooperation between the Group and CECEP.

BUSINESS REVIEW (CONTINUED)

Product R&D

Being a Fujian Provincial-Level Technology Centre (the "Technology Centre"), the only development base for environmental-friendly filtration materials in the PRC and the only domestic non-woven materials enterprise accredited with SCS Recycled Content Certification, as at 31 December 2012, the Group had 18 patents and is applying for the registration of 35 patents, including 27 patents independently developed by the Group and 8 patents jointly applied for registration by the Group and Tianjin Polytechnic University.

The Group has implemented an "Incentive Scheme for Technological Innovation" to accelerate the progress of the Group's technological upgrade and transformation, support and encourage technological innovation and advancement, strengthen R&D of new products, and facilitate the absorption, conversion and application of new technologies, with an aim to enhance our core competitive edges. The scheme has achieved proven results in promoting the motivation and creativity of technical staff, talent pool cultivation and team building. In 2012, the Group filed applications for the registration of 14 patents, of which 9 were invention patents and the other 5 were utility model patents.

The Group has established the New Products R&D and Marketing Technology Services Committee to step up the efforts in the R&D of new products, with an aim to lift the overall grading of our current products and broaden their applications and to attach additional value and technical content to the products, as well as speeding up the process of technological innovation and upgrade. The committee has also enhanced our services in market technology to push forward the transformation of marketing model with technology as the driving force, and to provide timely and satisfactory technological services to clients in a proactive manner.

The industry standards prepared by the Group for 3 types of non-woven materials were issued and implemented in 2012, which was a manifestation of our leading role in the non-woven materials industry and our predominance in the industry in terms of R&D capabilities and technical prowess. We commenced the operation of the new Technology Centre last year and established the Technical Solution Office with the formation of the auxiliary New Products R&D and Marketing Technology Services Committee, congregating all the technical experts of the Group into a horizontal-structured team and bringing the consultant team of the Group into full play, so as to function the Technical Solution Office as the engine of product R&D and market services. A number of new products with wide applications in the relevant fields have been developed following thorough study and research on the market to match market needs with our practical situations. It is our goal to put such products into mass production in 2013 so as to create a new source of income growth. In the future, the Group will continue to intensify the investment in technology and scientific research, focusing on the study of non-woven materials with 3D engineering structure, consistently exploring combined applications of resources and developing environmental-friendly materials and various functional materials, to provide efficient tailor-made products and relevant technical solutions for customers.

Optimising marketing strategies and integrating the regional sales layout

The Group has established 6 divisions, namely Sales Department of Filter Materials and Filter Bags, Sales Department of Shoe Materials and Household Materials, Sales Department of Decoration Materials, Sales Department of Chemical Fibres and Chemicals, Department of International Business Expansion and Industrial Consulting Service Platform, in the hope of raising the professional standard of each targeted industry, better serving the market and customers with our products and services, and promoting the sales of products.

In addition, the Group optimised the sales layout in the Greater China region by setting up a number of branch companies and representative offices in Beijing, Shanghai, Guangzhou and Hong Kong, with a view to maintaining closer ties with our customers and increasing our market share.

BUSINESS REVIEW (CONTINUED)

Optimising marketing strategies and integrating the regional layout of sales (Continued)

Apart from actively developing the domestic consumption market, the Group has been continuously exploring overseas markets. The Department of International Business Expansion expanded the sales coverage into Europe, South America, North America and Southeast Asia. The Department of International Business Expansion also adopted the mode of B2B E-commerce by leveraging on its internet trading platform to promote and advertise products.

In respect of customer service, the Group further consolidated the products and services of the Group by improving communication with customers through various means and channels to collect feedbacks on product demands and production R&D. Meanwhile, the Group established the Technical Solution Office (the "Office") in order to enable the internal coordination between the Production Department and the R&D Department for solving technical issues arising from production and the external provision of effective technical solutions to users for using the products. Services provided by the Office include engineering design, estimation of product life cycle and operating conditions, the formulation of technical indicators and the design of end products. The Office is also responsible for directing customer feedbacks to the R&D Department and the Production Department, continuously improving product quality and service standards and forming a virtuous cycle.

Outstanding brand strengths

The Group plays a decisive role in the non-woven materials industry. Apart from being Top 100 Export Enterprises of Textiles and Garment Industry in the PRC and Top 10 Most Competitive Textile Enterprises in the PRC as accredited by the China Textile Industry Association, the Group was also listed in "China's Enterprises with Great Potential for 2012" by the world-renowned financial magazine "Forbes" and proudly named as one of the listed companies with highest potential in the PRC.

Strengthening the shareholder base

To further accommodate the need for long-term development of the Group and further consolidate the leading position of the Group in the market of industrial goods. In April 2012, CECEP Chongqing, a subsidiary of CECEP, acquired 29% equity interest in the issued share capital of the Company and became the largest single shareholder of the Company, thus, strengthening our shareholder base. CECEP is the only state-owned enterprise centred on energy conservation and environmental protection and is an integrated service operator with the largest scale and comprehensive competitiveness in the field. The Company has officially changed its name to "CECEP COSTIN New Materials Group Limited". We believe that the strategic cooperation between the Group and CECEP will gradually form a synergy which, among others, creates new product sales channels and strengthens support for product R&D. The Group is also a branch of the Comprehensive Utilization of Solid Material Research Institute under CECEP.

Promising future in filtration material market

Based on the above context, the Group believes that dust collector and filtration materials for industrial use has a promising future and will see a rise in demand from enterprises engaged in power generation, cement and construction materials industries. These favorable factors will further boost the demand for the thermal resistant filtration material products of the Group. In the future, the Group will intensify the investment in high-end environmental-friendly filtration materials and reinforce the filtration business, so as to seize the high-end market of dust collector and filtration materials for industrial use in the PRC. In addition, the Group is conducting researches on the development of a series of brand new recycled products and planning to recycle scrapped thermal resistant filtration materials into new environmental-friendly building materials. The management of the Company believes that the new technology will enable the Group to explore new markets and lower production costs effectively which is also in line with the national policies that encourage green economy and recycling economy, thus achieving better results in energy conservation and emission reduction.

BUSINESS REVIEW (CONTINUED)

Optimising internal integration

To further penetrate the market and accommodate customers' demands, the Group has integrated and optimised the internal structure during the year under review. Categorizing our products and services, the Group established 6 divisions, including Filter Materials and Filter Bags, Shoe Materials and Household Materials, Decoration Materials, Chemical Fibres and Chemicals, International Business Expansion and Industrial Consulting Service Platform. Meanwhile, the Group established the Technical Solution Office in order to coordinate internally the Production Department and the R&D Department to solve technical issues arising in the production of the Group and provide externally the customers with effective technical solutions for using the products. In the future, the Group will continue to render services tailored to the customers' needs through these 6 divisions, improving product quality and service standards, thus achieving better sales and profits.

Reset market layout and expand marketing network

Given the rapid growth in the demand for non-woven materials and recycled chemical fibres, the Group will improve the overall layout of the Greater China network, dividing it into 7 regions, namely North China, East China, South China, Central China, Northeast, Northwest and Southwest, each of which to be overseen by a regional manager, so as to increase our market share and consolidate our leading position. Moreover, the Group is also contemplating the construction of manufacturing facilities in overseas markets in order to expand the overseas sales coverage.

Enhancing R&D competence and launching diversified products

In respect of R&D, the Group will continue to enhance its technological capabilities and strengths in science researches, improve the functions and technologies in non-woven materials and lower the production costs through recycling and reducing pollutants discharges. In the future, the Group will continue to augment the investment in production facilities, introducing state-of-the-art research and production equipments and cultivate a sound environment for R&D. At the same time, the Group will groom talents and equip them with advanced technologies in the industry, thereby conceiving a leading professional technical team. The Group will also proactively expedite the cooperation projects with industry, universities and research academies to develop and produce environmental-friendly non-woven materials with special functions, so as to enrich the product mix, expand the scope of product applications, expand the customer base and sharpen the competitiveness of the Group.

FINANCIAL REVIEW

For the year ended 31 December 2012, the Group achieved steady growth in turnover and remained stable in its financial performance as compared with 2011. The Group's turnover increased by approximately 13.5% to approximately RMB1,559.2 million while profit attributable to owners of the Company slightly decreased by approximately 2.1% to approximately RMB245.6 million.

Turnover

Turnover for the year ended 31 December 2012 was approximately RMB1,559.2 million, representing an increase of approximately 13.5% or approximately RMB185.6 million over last year. The growth was primarily due to an increase in the overall selling price of the Group's non-woven materials products, and growth in the sales quantities of non-woven materials, recycled chemical fibres and thermal resistant filtration materials.

Turnover of non-woven materials for the year ended 31 December 2012 was approximately RMB1,192.7 million, representing an increase of approximately 12.7% or approximately RMB134.3 million from last year. Turnover of recycled chemical fibres for the year ended 31 December 2012 was approximately RMB314.5 million, representing an increase of approximately 2.5% or approximately RMB7.7 million from last year.

FINANCIAL REVIEW (CONTINUED)

Turnover (Continued)

During the year ended 31 December 2012, export sales to Hong Kong and overseas market accounted for approximately 16.2% (2011: 30.2%) of the Group's turnover while sales in the PRC (except Hong Kong) accounted for approximately 83.8% (2011: 69.8%).

During the year under review, the Group sold approximately 95.3 million yards of non-woven materials, representing an increase of approximately 5.1% from last year, while its sales volume of recycled chemical fibres was approximately 34,800 tons, representing an increase of approximately 10.1% 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.

Gross profit and gross profit margin

For the year under review, gross profit of the Group was approximately RMB484.8 million, representing an increase of approximately 16.6% or approximately RMB69.2 million as compared with 2011. The increase in gross profit was mainly driven by the growth in sales volume and average selling prices of the Group's non-woven materials products. During the year under review, the gross profit for the non-woven materials segment accounted for approximately 85.4% of the total gross profit. The gross profit for the recycled chemical fibres segment accounted for approximately 13.7% of the total gross profit. The gross profit for thermal resistant filtration materials segment accounted for approximately 0.8% of the total gross profit, and the gross profit for other products accounted for approximately 0.1% of the total gross profit. During the year under review, the overall gross profit margin of the Group's products was approximately 31.1%, representing an increase of 0.8 percentage points as compared to last year. The gross profit margin for non-woven materials segment increased from approximately 32.3% for the year ended 31 December 2011 to approximately 34.7% for the year ended 31 December 2012. As for the recycled chemical fibres segment, its gross profit margin was approximately 21.1% for the year ended 31 December 2012, representing a decrease of approximately 2.2 percentage points as compared to last year. The increase in gross profit margin for non-woven materials was principally due to the increase in sale volume of products with higher profit margin and increase in average selling prices; the decrease in gross profit margin for recycled chemical fibres was principally due to the decrease in selling price during the year ended 31 December 2012.

Distribution expenses

For the year ended 31 December 2012, distribution expenses increased by approximately RMB2.1 million as compared to 2011. Distribution expenses accounted for approximately 1.3% of the Group's turnover for the year ended 31 December 2012 (2011: 1.3%). The proportion of distribution expenses to turnover remained constant during the year under review.

Administrative expenses

Administrative expenses for the year ended 31 December 2012 increased by approximately RMB6.7 million as compared to 2011. The increase in administrative expenses was mainly due to the increase of staff costs and research and development expenses.

Finance costs

Finance costs for the year ended 31 December 2012 increased by approximately RMB22.9 million as compared to 2011. 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 Access Fund Limited ("CITIC Capital"), which increased the finance costs during the year under review by approximately RMB14.5 million compared with 2011. Excluding the finance costs arising from such convertible bond, the percentage of finance costs to the Group's turnover was approximately 1.5% (2011: 1.1%).

FINANCIAL REVIEW (CONTINUED)

Income tax expense

The Group was not recognised as an advanced technology enterprise in 2012 and therefore was not entitled to enjoy an income tax concession since 2012. The PRC enterprise income tax rate increased from 15% in 2011 to 25% in 2012. The Group's effective income tax rate for the year ended 31 December 2012 was approximately 31.1% (2011: 20.1%).

Profit attributable to owners of the Company and net profit margin

Profit attributable to owners of the Company for the year ended 31 December 2012 was approximately RMB245.6 million, representing a decrease of approximately 2.1% or approximately RMB5.2 million as compared with 2011. The Group's net profit margin for the year under review was approximately 15.8%, representing a decrease of 2.5 percentage points as compared with last year. The decrease in net profit margin was mainly due to an increase in finance costs and increase in PRC enterprise income tax rate in 2012.

Earnings per share

Basic earnings per share for the year ended 31 December 2012 remained stable as approximately RMB31.63 cents (2011: RMB31.62 cents).

The effect of potential ordinary shares in respect of convertible bond was anti-dilutive for the year ended 31 December 2011 and 2012. No diluted earnings per share is presented as the Company did not have any dilutive potential ordinary share in respect of share options for the years ended 31 December 2011 and 2012.

Liquidity and financial resources

The Company's shares were listed on The Stock Exchange of Hong Kong Limited (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 has already used approximately HK$162.7 million of the net proceeds for establishment of the filtration materials production facilities and approximately HK$19.7 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 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, all the net proceeds were applied as the general working capital of the Group.

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 RMB978.0 million (2011: RMB844.5 million) and pledged bank deposits of approximately RMB33.1 million (2011: RMB20.7 million) as at 31 December 2012. 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 (CONTINUED)

Liquidity and financial resources (Continued)

As at 31 December 2012, the Group's bank loans amounted to approximately RMB368.8 million (2011: RMB352.8 million), of which approximately 83.8% (2011: 79.3%) was repayable within one year. The Group's bank loans were made in US dollars and Renminbi, whilst approximately 44.1% (2011: 43.8%) of such loans bore interest at fixed lending rate. As at 31 December 2012, the Group's gearing ratio was approximately 27.7% calculated as bank loans plus convertible bond divided by total assets (2011: 31.3%). The decrease in gearing ratio was mainly attributable to the increase in total assets. Net current assets and net assets of the Group as at 31 December 2012 were approximately RMB851.3 million (2011: RMB863.9 million) and approximately RMB1,212.6 million (2011: RMB1,020.8 million), respectively.

As at 31 December 2012, certain prepaid land lease payments, buildings and investment properties of the Group with carrying values of approximately RMB52.7 million (2011: RMB37.3 million), RMB50.1 million (2011: RMB12.6 million) and RMB14.3 million (2011: RMB18.6 million), respectively, were pledged to secure general banking facilities granted to the Group.

As at 31 December 2012, the Group did not have any contingent liabilities (2011: Nil).

Significant investments and acquisitions

During the year ended 31 December 2012, the Group acquired property, plant and equipment and incurred costs for construction in progress of approximately RMB13.7 million and RMB29.4 million (2011: approximately RMB29.9 million and RMB159.0 million), respectively.

PROSPECTS

To tackle the challenges brought by international financial crisis and global climate change, major economies in the world have turned to green policy and green economy as a solution to stimulate economic growth and transformation. In recent years, the PRC has been vigorously promoting the energy conservation and environmental protection industry which becomes a new economic growth engine and an emerging pillar industry as well as one of the national accentuations of sustained development.

Domestically, the environment issues such as severe air pollution and water pollution caused by the progress of industrialization have garnered increasing attention to environmental protection. To this end, the PRC firmly implements the National 12th Five-Year Plan, which includes accelerating the development in the energy conservation and environmental protection industries, advancing energy conservation and emission reduction with established binding targets, developing green economy, expediting the upgrading of the technical equipments and service standards of the energy conservation and environmental protection industries, so as to maintain a steady and healthy momentum of the PRC's sustainable development.

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 31 December 2012, the Group had a total of 986 employees (2011: 796). 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. The share option scheme (the "Share Option Scheme") was adopted by the Company on 12 May 2010. No share options have been granted by the Company pursuant to the Share Option Scheme during the year ended 31 December 2012. As at 31 December 2012, 12,130,000 share options remained outstanding and 1,100,000 share options have been lapsed during the reporting period.

Corporate Governance Report

INTRODUCTION

The Company is committed to ensuring high standards of corporate governance. Throughout the year of 2012, the Company has complied with all applicable code provisions under the Code on Corporate Governance Practices (from 1 January 2012 to 31 March 2012) and the Corporate Governance Code (from 1 April 2012 to 31 December 2012) (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

According to Rule 3.10A of the Listing Rules, the Company is required to appoint independent non-executive Directors representing at least one-third of the board of Directors of the Company. As at the date of this annual report, the Board comprises a total of four executive Directors, four non-executive Directors and three independent non-executive Directors. In order to comply with Rule 3.10A of the Listing Rules, the Company proposes to appoint at least one additional independent non-executive Director. The Company has made endeavors but will require more time to identify a suitable candidate to act as the additional independent non-executive Director to comply with Rule 3.10A of the Listing Rules. The Company will continue to identify a suitable candidate to act as the additional independent non-executive Director as soon as practicable. Further announcement will be made by the Company as and when appropriate.

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 2012.

BOARD OF DIRECTORS

The Board currently comprises four executive directors, four non-executive directors 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 non-executive directors and independent non-executive directors are appointed for a specific term.

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

BOARD OF DIRECTORS (CONTINUED)

The Board meets regularly to review the financial and operating performance of the Group, to make important decisions and to approve future strategies. Nine Board meetings were held in 2012. Individual attendance of each director at the Board meetings, the general meetings, the Audit Committee meetings, the Nomination Committee meetings and the Remuneration Committee meetings during 2012 is set out below:

	Attendance/Number of Meetings					
Directors	**Board**	**Annual General**	**Extraordinary General**	**Audit Committee**	**Nomination Committee**	**Remuneration Committee**
Executive Directors						
Mr. Yu Heping *(Co-Chairman) (Note 1)*	6/6	1/1	2/2	N/A	N/A	N/A
Mr. Chim Wai Kong *(Co-Chairman)*	9/9	1/1	2/2	N/A	3/3	N/A
Mr. Chim Wai Shing Jackson *(Chief Executive Officer)*	9/9	1/1	2/2	N/A	N/A	2/2
Mr. Chim Fo Che *(Note 2)*	3/3	N/A	N/A	N/A	N/A	N/A
Mr. Hong Ming Qu *(Note 2)*	3/3	N/A	N/A	N/A	N/A	N/A
Mr. Xue Mangmang *(Note 1)*	6/6	1/1	2/2	N/A	N/A	N/A
Non-Executive Directors						
Ms. Wee Kok Keng *(Note 3)*	2/3	N/A	N/A	1/1	N/A	N/A
Mr. Wang Yangzu *(Note 4)*	6/6	0/1	0/2	N/A	N/A	N/A
Mr. Qu Pingji *(Note 4)*	6/6	0/1	0/2	N/A	N/A	N/A
Mr. Zhao Xiangdong *(Note 4)*	6/6	0/1	0/2	N/A	N/A	N/A
Mr. Pan Tingxuan *(Note 4)*	6/6	0/1	1/2	N/A	N/A	N/A
Independent Non-Executive Directors						
Mr. Zhu Min Ru	9/9	1/1	1/2	3/3	3/3	2/2
Mr. Feng Xue Ben *(Note 5)*	9/9	1/1	1/2	2/2	3/3	2/2
Mr. Wong Siu Hong	9/9	1/1	1/2	3/3	3/3	2/2

Notes:

1. *Mr. Yu Heping and Mr. Xue Mangmang were appointed as executive Directors with effect from 25 April 2012.*

2. *Mr. Chim Fo Che and Mr. Hong Ming Qu ceased to act as executive Directors with effect from 25 April 2012.*

3. *Ms. Wee Kok Keng ceased to act as a non-executive Director and therefore a member of the Audit Committee with effect from 25 April 2012.*

4. *Mr. Wang Yangzu, Mr. Qu Pingji, Mr. Zhao Xiangdong and Mr. Pan Tingxuan were appointed as non-executive Directors with effect from 25 April 2012.*

5. *Mr. Feng Xue Ben was appointed as a member of the Audit Committee with effect from 25 April 2012.*

To implement the strategies and plans adopted by the Board effectively, executive directors and senior management meet 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 19 to 24.

TRAINING AND SUPPORT FOR DIRECTORS

Directors must keep abreast of their collective responsibilities. Each newly appointed Director would receive an induction package covering the Group's businesses and the statutory and regulatory obligations of a director of a listed company. The Group also provides briefings and other training to develop and refresh the Directors' knowledge and skills. The Group continuously updates Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices. Circulars or guidance notes are issued to Directors and senior management where appropriate, to ensure awareness of the best corporate governance practices.

A training was organised for Directors in December 2012 to update the Directors on the new amendments to the corporate governance code and associated Listing Rules.

During the period from 1 April 2012 to 31 December 2012, the Directors also participated in the following training:

Directors	*Types of training*
Executive Directors	
Mr. Yu Heping *(Co-Chairman)*	A,B
Mr. Chim Wai Kong *(Co-Chairman)*	A,B
Mr. Chim Wai Shing Jackson *(Chief Executive Officer)*	A,B
Mr. Xue Mangmang	A,B
Non-Executive Directors	
Mr. Wang Yangzu	A,B
Mr. Qu Pingji	A,B
Mr. Zhao Xiangdong	A,B
Mr. Pan Tingxuan	A,B
Independent Non-Executive Directors	
Mr. Zhu Min Ru	A,B
Mr. Feng Xue Ben	A,B
Mr. Wong Siu Hong	A,B

A: attending seminars and/or conferences and/or forums relating to directors' duties
B: reading newspaper, journals and updates relating to the economy, general business or directors' duties etc.

CO-CHAIRMEN AND CHIEF EXECUTIVE OFFICER

The Group has appointed Mr. Yu Heping and Mr. Chim Wai Kong as Co-Chairmen and Mr. Chim Wai Shing Jackson as the Chief Executive Officer. The roles of Co-Chairmen and the Chief Executive Officer are segregated. The primary role of Co–Chairmen 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 Mr. 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. Two meetings were held by the Remuneration Committee in 2012. 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 general meeting or 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. Three meetings were held by the Nomination Committee in 2012. 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. Three meetings were held by the Audit Committee in 2012. All the committee members are independent non-executive directors. Its current members include:

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

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 Committee also continues to monitor and review the Company's corporate governance policies and practices delegated by the Board.

The Group's audited consolidated results for the year ended 31 December 2012 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 unauthorised 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 RMB1,448,000, out of which approximately RMB1,383,000 was paid/payable to the Company's auditors, Messrs RSM Nelson Wheeler. In addition, professional fee of approximately RMB101,000 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 40.

Corporate Governance Report

SHAREHOLDERS RIGHTS

Procedures by which Shareholders may convene an extraordinary general meeting

The Board may, whenever it thinks fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 Months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company. The above procedures are subject to the articles of association of the Company (as amended from time to time), and the applicable legislation and regulations, in particular the Listing Rules (as amended from time to time).

Procedures for putting forward proposals at a Shareholders' meeting

There are no provisions allowing Shareholders to move new resolutions at the general meetings under the Cayman Islands Companies Law (as amended from time to time) or the articles of association of the Company. However, Shareholders who wish to move a resolution may request the Company to convene an extraordinary general meeting following the procedures set out above.

Detailed procedures for shareholders to propose a person for election as a Director are available on the Company's website.

Enquiries to the Board

Shareholders may put forward enquiries to the Board in writing to the Company's principal place of business in Hong Kong at Suites 2703-04, 27th Floor, Tower 6, The Gateway, Harbour City, Kowloon.

INVESTORS RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The management of the Company believes that effective and proper investor relations play a vital role in creating shareholders' value, enhancing the corporate transparency as well as establishing market confidence. As such, the Company has adopted a stringent internal control system to ensure true, accurate, complete and timely disclosure of relevant information pursuant to requirements of relevant laws and regulations in order to ensure all shareholders equal access to information. In addition, the Company has proactively taken the following measures to ensure effective shareholders' communication and transparency:

– maintaining frequent contacts with shareholders and investors through various channels such as meetings and telephone;

– regularly updating the Company's news and developments through the investor relations section of the Company's website;

– arranging on-site visits to the Group's projects for investors and research analysts.

CONSTITUTIONAL DOCUMENTS

At the annual general meeting held on 11 May 2012, the second amended and restated memorandum and articles of association of the Company were approved by the Shareholders so as to bring the articles of association of the Company in line with certain changes to the Listing Rules, to conform with the latest amendments to the Cayman Companies Law, and to facilitate the operation of a co-chairmanship structure for the Company. An updated version of the second amended and restated memorandum and articles of association of the Company is available on the websites of the Company and the Stock Exchange.

Directors and Senior Management Profile

DIRECTORS

Executive Directors

YU Heping (于和平), aged 58, is a co-chairman and an executive Director of the Company. Mr. Yu was appointed as an executive Director of the Company on 25 April 2012. Mr. Yu is principally responsible for the leadership of the Board to ensure that the Board will effectively fulfill its duties. Mr. Yu has over 35 years of experience in the industry of electrical energy resources and energy conservation. From 1977 to 1987, Mr. Yu served as an engineer and commander of project command department (工程指揮部) of Xiaojiang electricity station of Wan County in Sichuan Province (四川省萬縣小江電站). From 1987 to 1989, he served as an executive deputy supervisor (常務副主任) and engineer of electricity office of Wan County in Sichuan Province (四川省萬縣行署三電辦). From 1991 to 1994, he served as a general manager of Wan County Electricity Company (萬縣電力總公司) of Sichuan Province. From 1994 to 2000, he served as a general manager, deputy chairman and chairman of Chongqing Three Gorges Water Conservancy and Electric Power Co. Ltd. Mr. Yu joined CECEP Chongqing since November 1997 and was appointed as the chairman of the board of CECEP Chongqing in January 2011. Mr. Yu is also the assistant to general manager of CECEP, a PRC state-owned enterprise and the parent company of CECEP Chongqing since December 2003. Mr. Yu was appointed as an executive director of Billion Industrial Holdings Limited, a company listed on the Stock Exchange (stock code: 2299) since September 2012. Mr. Yu holds a diploma in electrical engineering from Chongqing University specializing in electrical machinery and electrical apparatus. In 1997, Mr. Yu was awarded the title of Elite Management Person in Water Resources Economics (全國水利經濟優秀管理者) by the Ministry of Water Resources of the People's Republic of China.

CHIM Wai Kong (粘為江), aged 57, is a co-chairman and an executive Director of the Company. Mr. Chim is also a member of the Nomination Committee. Mr. Chim was appointed as an executive Director of the Company on 23 September 2009. Mr. Chim is principally responsible for the leadership of the Board to ensure that the Board will effectively fulfill its duties, and responsible for the strategic development of the Group's operation. Mr. Chim has over 14 years of experience in non-woven materials industry. In 2001 and 2006, Mr. Chim was appointed as a 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 a 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 Jinjiang (晉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 Jinjiang Federation of Industry and Commerce (General Chamber of Commerce) (晉江市工商聯（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 Jinjiang (晉江市黨風廉政監督員) by Jinjiang People's Government of Jinjiang Committee under Communist Party of China (中共晉江市委員會晉江市人民政府) for a period of five years. In 2007, Mr. Chim was appointed as a 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 Jinjiang Charity Federation (晉江市慈善總會第二屆理事會榮譽會長). Mr. Chim is the elder brother of Chim Wai Shing Jackson.

CHIM Wai Shing Jackson (粘偉誠), aged 39, is the chief executive officer and an executive Director of the Company. Mr. Chim is also a member of the Remuneration Committee. Mr. Chim was appointed as an executive Director of the Company on 26 August, 2009. Mr. Chim is responsible for strategic planning and the daily management of the business of the Group. Mr. Chim has more than 10 years of experience in the non-woven materials industry and possesses the qualification of senior engineer. Mr. Chim is the visiting professor of School of Textiles of Tianjin Polytechnic University, the Executive Director of China National Textile and Apparel Council (中國紡織工業聯合會), and the Vice President of the Association of Industrial Textiles in China (中國產業用紡織品行業協會). Mr. Chim graduated with a master degree in management from Xiamen University (廈門大學) in 2005 and was awarded as senior engineer by Fujian Providence Personnel Department (福建省人事廳) in 2006. Mr. Chim is the younger brother of Chim Wai Kong.

DIRECTORS (CONTINUED)

Executive Directors (Continued)

XUE Mangmang (薛茫茫), aged 41, is an executive Director of the Company. Mr. Xue was appointed as an executive Director of the Company on 25 April 2012. Mr. Xue has over 8 years of experience in resources management. Mr. Xue joined CECEP Chongqing in January 2003 and was appointed as a general manager of CECEP Chongqing in April 2012. Mr. Xue was appointed as an executive director of Billion Industrial Holdings Limited, a company listed on the Stock Exchange (stock code: 2299) since September 2012. Mr. Xue graduated from Chongqing University with a Master degree of Business Administration in 2003.

Non-executive Directors

WANG Yangzu (王揚祖), aged 75, is a non-executive Director of the Company. Mr. Wang was appointed as a non-executive Director of the Company on 25 April 2012. Mr. Wang has over 25 years of experience in environmental protection. He was appointed by the Ministry of Environmental Protection of People's Republic of China as a researcher in 1999. He further served as a deputy head of the Ministry from 1988 to 1997 and a committee member of the science & technology commission of the Ministry since 2012. Mr. Wang graduated from Harbin Jianzhu Engineering College (哈爾濱建築工程學院) (later renamed as Harbin Jianzhu University) with a bachelor degree of Civil Engineering in 1962. In 1986, Mr. Wang was awarded 2nd honour of science & technology development in the project of Promotion of Technology on Precipitation by Ramp and Sloping Tube (斜板斜管沉澱技術推廣) by the Ministry of Urban-Rural Development Environment Protection (城鄉建設環境保護部) (later renamed as the Ministry of Housing and Urban-Rural Development of the People's Republic of China). In 1987, he was further awarded with 3rd honour of science & technology development in the project of Extended trial of downcomer of hard PVC plastic for use in civil construction (民用建築硬質聚氯乙烯塑料下水管擴大試用) by the Ministry of Building and Development of the People's Republic of China (中華人民共和國建設部) (later renamed as the Ministry of Housing and Urban-Rural Development of the People's Republic of China). In 1998, he was further awarded a 3rd honour in the project of Programme for Prevention and Control of Water Pollution and the 9th Five-Year Plan of the Huaihe River (淮河流域水污染防冶規劃及「九五」計劃) by the Ministry of Science & Technology of the People's Republic of China. In 1999, he received special allowances from the State Council for his contribution in science and technology development. Mr. Wang served as an independent director of Fengfan Co., Ltd. since 2008, a company listed on the Shanghai Stock Exchange (stock code: 600482). He also served as a director of China Industrial Waste Management, Inc. since September 2011, a company listed on the Over-The-Counter Bulletin Board (stock code: CIWT) of the United States.

QU Pingji (曲平紀), aged 73, is a non-executive Director of the Company. Mr. Qu was appointed as a non-executive Director of the Company on 25 April 2012. Mr. Qu has over 23 years of experience in the industry of organic chemical engineering. He was appointed as senior engineer in organic chemical engineering of National Economic Commission of the People's Republic of China (中華人民共和國國家經濟委員會) in March 1988. He served as deputy president of World economy & Trading United Promotion Society (世界經濟貿易聯合促進會) since May 2009. Mr. Qu graduated from Huadong Textile Tertiary Institution (華東紡織工學院) with a diploma in organic chemistry in 1962.

ZHAO Xiangdong (趙向東), aged 50, is a non-executive Director of the Company. Mr. Zhao was appointed as a non-executive Director of the Company on 25 April 2012. Mr. Zhao has over 25 years of experience in industry of chemical fabrics. From 1986 to 2007, he served as a technician, head of economic and trading department, assistant to general manager, general manager and chairman of Dandong Chemical Fibre Company Limited (丹東化學纖維集團公司). He served as a deputy president of China Chemical Fiber Association since June 2007. He was appointed as an economist in operation management and a senior economist in corporate management by Liaoning Provincial Department of Human Resources in 1992 and Dandong Economic Trading Commission in 1998 respectively.

PAN Tingxuan (潘頲璇), aged 39, is a non-executive Director of the Company. Mr. Pan was appointed as a non-executive Director of the Company on 25 April 2012. Mr. Pan has over 6 years of experience in project management and strategic planning in investment and asset management. He is an executive president of Beijing Juzhen Investment Management Company Limited (北京矩陣投資管理有限公司) since 1 May 2005. Mr. Pan graduated from Hohai University with a diploma of Computer Science and Application in 1992.

DIRECTORS (CONTINUED)

Independent Non-executive Directors

ZHU, Min Ru (朱民儒), aged 64, is an independent non-executive Director of the Company, and the Chairman of the Remuneration Committee, a member of Audit Committee and a member of Nomination Committee. Mr. Zhu was appointed as an independent non-executive Director of the Company on 4 February 2010. Mr. Zhu has over 30 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 Association of Industrial Textiles in China 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 State owned 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 as a member of the editorial board of the China Textile Industry Development Report (中國紡織工業發展報告) from 2002 to 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) since July 2007. Mr. Chu also acted as an independent director of Zhejiang Unifull Industrial Fibre Co., Ltd. (浙江尤夫高新纖維股份有限公司), a company listed on Shenzhen Stock Exchange (stock code: 002427) since June 2010.

FENG, Xue Ben (馮學本), aged 61, is an independent non-executive Director of the Company, and the Chairman of the Nomination Committee, a member of Audit Committee and a member of Remuneration Committee. Mr. Feng was appointed as an independent non-executive Director of the Company on 4 February 2010. Mr. Feng has over 27 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 2007 until now, 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 1st vice president of the Study Group of nonwoven 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 published a wealth of articles in chemical fibres, non-woven materials and non-woven industrial facilities. Mr. Feng acted as an independent non-executive director of China Automotive Interior Decoration Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8321), since 29 September 2010.

WONG, Siu Hong (黄兆康), aged 44, is an independent non-executive Director of the Company, and the Chairman of the Audit Committee, a member of Nomination Committee and a member of Remuneration Committee. Mr. Wong was appointed as an independent non-executive Director of the Company 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. Mr. Wong previously worked in an international accounting firm and has 17 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 served as an independent non-executive director of Huafeng Group Holdings Limited, a company listed on the Stock Exchange (stock code: 364) from September 2004 to July 2012. Mr. Wong is a certified public accountant of the CPA Australia and the Hong Kong Institute of Certified Public Accountants.

Directors and Senior Management Profile

SENIOR MANAGEMENT

CHAN, Kwok Yuen Elvis (陳國源), aged 40, is the chief financial officer, company secretary and an authorized representative of the Company. Mr. Chan is responsible for the implementation and supervision of financial, secretarial and investor relation affairs of the Group. Mr. Chan has over 16 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 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's 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 51, is the chief operating officer of the Company. Mr. Ji is responsible for the daily operation and operation strategy of the Group. 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 (北京大學) in 1990 with a major in economics management. Mr. Ji has over 22 years of experience in enterprise management.

CHEN, Hui (陳暉), aged 44, is the deputy chief executive officer and financial controller of Fujian district of the Company. Mr. Chen is responsible for implementing and supervising the finance and external affairs related to finance for various subsidiaries in Fujian region of the Group. Mr. Chen graduated from The Fujian Economic Management Institute (福建經濟管理幹部學院) with a major in Accounting in 1991. Mr. Chen has over 18 years of experience in accounting and finance industry.

WANG, Hong Hai (王洪海), aged 44, is the deputy chief executive officer and the officer of the supply chain management center of the Company . Mr. Wang is responsible for assisting the chief operating officer to develop the sales strategy operation of the Group, as well as implementing and supervising the operation and management work for each sales department of supply chain management center. Mr. Wang completed a postgraduate study in Excellent CEO Leadership in 2011 and is currently studying an EMBA at Yangtze Delta Region Institute of Tsinghua University (清華大學長三角學院) with a major in enterprise management and advanced marketing. Mr. Wong has over 17 years of marketing management experience.

CHEN, Min Tsung (陳敏聰), aged 54, is the deputy chief executive officer and the human resources department officer of the Company. Mr. Chen is responsible for implementing and supervising the Group's administrative affairs and human resources management team building, to ensure promoting the implementation of different company systems, policies and regulations of the Group. Mr. Chen graduated from Lingdong School of Commerce in Taiwan (嶺東商業專科學校).

TIAN, Yu Sheng (田雨勝), aged 52, is the deputy chief executive officer and the production system director of the Company. Mr. Tian is responsible for implementing and supervising the construction of the production and technologies management and production system, and the technical innovation of organization. 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 34 years of experience in the production and technologies management for textiles and non-woven materials industries. Before joining the Group, Mr. Tian was the deputy executive general manager of Ji Lin Deao Industrial Wood Fabric Co., Ltd. (吉林德奧工業用呢有限公司).

Directors and Senior Management Profile

SENIOR MANAGEMENT (CONTINUED)

CHEN, Jin Long (陳金龍), aged 58, is the assistant of chief operation officer and legal risk control officer of the Company. Mr. Chen is responsible for the legal matters and risk control matters of the Group. Mr. Chen was full of professional experience in the legal sector as he worked in the subordinate units of People's Daily and set up a law firm and worked as a lawyer in Xiamen.

WONG, Kai Lam (黃啟霖), aged 33, is the special assistant to chief executive officer and the internal control officer of the Company. Mr Wong is responsible for monitoring and risk management matters of the Group's internal system and the policy guidelines, and overseeing the construction and supervision of the performance evaluation of human resource center. Mr. Wong has over 10 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 currently a member of the Hong Kong Institute of Certified Public Accountants.

ZHAI, Hong Bing (翟紅兵), aged 46, is the director of president's office and the service coordination director of the supply chain management center of the Company. Ms. Zhai is responsible for coordinating internal management work of the Group's supply chain and the construction of customer information and credit system, and coordinating external executive business affairs of the center. Ms. Zhai graduated from the Great Wall University, Beijing 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 in 2009. 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 National Assessment Committee of Senior Operating Manager conducted against the appraisal standards as published by the Ministry of Commerce and Ministry of Labour of the People's Republic of China, and was qualified as a senior operating manager. Ms. Zhai is currently the Party branch secretary and the president of the labour union of a subsidiary.

YOU, Xiu Yi (尤修意), aged 27, is the external assistant to the chief executive officer of the Company. Mr. You is in charge of the Branding Department, and is responsible for implementing and supervising the brand management, information feedback, campaigns and brand business promotion matters of the Group. Mr. You obtained a bachelor degree in computing and information technology from the Fujian University of Technology in 2007. Mr. You was awarded the accreditation of "Senior Brand Manager" from China General Chamber of Commerce (中國商業聯合會) in 2012. Mr. You obtained many years of experience in brand management.

WU, Rui (吳銳), aged 47, is the general coordinator of the technical solutions office of the Company. Mr. Wu is responsible for implementing and supervising the Group's research and development of new products and market services and technology diagnostic work. Mr. Wu has over 28 years of experience in woven materials industry, and was awarded the champion in the competition of "Five inventions for the Country"《國家五小發明一等獎》in 1990. Mr. Wu was the Production Manager of a non-woven materials factory, and he was well-experienced in production technology, product innovation and management expertise. Mr. Wu has unique insights in product sales and marketing as he also engaged in the sales of non-woven materials for many years. With accumulating rich working experience for many years he gained a deep understanding of non-woven production processes and marketing. Mr. Wu is an economist as his studied economics as his profession. Mr. Wu is a comprehensive talents with high quality and all-round development, as he develops unique theories on the one-stop operation of production, sales and management systems and has abundant practical experience in this regard.

SENIOR MANAGEMENT (CONTINUED)

CHIM, Ping Yu (粘平如), aged 31, is the assistant to the deputy chief executive officer of the Company. Mr. Chim is responsible for the daily operation of each sales department of Supply Chain Management Center of the Group and help coordinate the supervision of the Service Department. Mr. Chim graduated from Xiamen University majoring in Finance in 2008. Mr. Chim was well-experienced in sales and marketing of non-woven materials industry.

WANG, Yan Yan (王研研), aged 34, is the deputy general manager of the Company's subsidiary, COSTIN (Beijing) Technology Consulting Co., Ltd. Miss Wang is responsible for the Group's industry chain consulting business, the development of the Textiles Utilization Complex Pavilion (紡織品綜合利用體驗館), the establishment and operation of Industry Think Tank and the daily management and operation of the COSTIN (Beijing) Technology Consulting Co., Ltd. Miss Wang has over 10 years of experience in information technology sector and was served in the Strategic Investment Department of Beijing Automotive Industry Holding Co Ltd. Miss Wang obtained a master's degree of science from Robert Gordon University of England in 2005, with a major of Quality Control. Miss Wang is now studying an EMBA course in the Peking University.

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 2012.

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 2012 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 2012 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 42 to 44.

On 14 March 2013, the Directors have resolved to recommend the payment of a final dividend of HK$0.065 per ordinary share to the Shareholders as recorded on the register of members of the Company on Tuesday, 21 May 2013. The final dividend will be paid to the Shareholders on or about Monday, 27 May 2013. Coupled with the interim dividend of HK$0.035 per ordinary 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 2012 will be amounted to HK$0.1 per ordinary share.

The annual general meeting (the "AGM") of the Company will be held on Friday, 10 May 2013. The register of members of the Company will be closed from Wednesday, 8 May 2013 to Friday, 10 May 2013, 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 (the "Hong Kong Share Registrar") 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, 7 May 2013.

The register of members of the Company will be closed from Thursday, 16 May 2013 to Tuesday, 21 May 2013, 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 Hong Kong Share Registrar 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, 15 May 2013.

SUMMARY FINANCIAL INFORMATION

Results

	Year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**1,559,223**	1,373,606	983,738	746,566	619,420
Profit before tax	**356,474**	313,820	274,306	180,626	146,984
Income tax expense	**(110,853)**	(63,050)	(52,480)	(32,035)	(40,804)
Profit for the year attributable to owners of the Company	**245,621**	250,770	221,826	148,591	106,180

Assets and liabilities

	At 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**2,104,503**	1,743,405	1,245,727	627,997	560,469
Total liabilities	**(891,935)**	(722,570)	(341,499)	(320,996)	(381,957)
Net assets	**1,212,568**	1,020,835	904,228	307,001	178,512

Notes:

(1) The consolidated results of the Group for the years ended 31 December 2011 and 2012 are set out on page 42 of this annual report.

(2) The consolidated financial position of the Group as at 31 December 2011 and 2012 are as set out on page 43 of the annual report.

(3) The summary financial information for the year ended 31 December 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.

BORROWINGS

Details of the borrowings of the Group as at 31 December 2012 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 2012, the Company had distributable reserves of approximately RMB245,422,000. Under the Company's second amended and restated 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 2012 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 second amended and restated 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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling approximately RMB73,000 (2011: RMB1,000,000).

RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund 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 RMB684,000 (2011: RMB565,000) 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 2011 and 2012, 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 (2011: Nil) was available at 31 December 2012 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 2012 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% (2011: 47%) of the total sales for the year and sales to the largest customer included therein accounted for approximately 17% (2011: 13%). Purchases from the Group's five largest suppliers accounted for approximately 36% (2011: 32%) of the total purchases for the year and purchases from the largest supplier included therein accounted for approximately 12% (2011: 12%).

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 and up to the date of this report were:

Executive Directors:
Yu Heping *(Co-Chairman)* (appointed on 25 April 2012)
Chim Wai Kong *(Co-Chairman)*
Chim Wai Shing Jackson *(Chief Executive Officer)*
Xue Mangmang (appointed on 25 April 2012)
Chim Fo Che (resigned on 25 April 2012)
Hong Ming Qu (resigned on 25 April 2012)

Non-Executive Directors:
Wee Kok Keng (resigned on 25 April 2012)
Wang Yangzu (appointed on 25 April 2012)
Qu Pingji (appointed on 25 April 2012)
Zhao Xiangdong (appointed on 25 April 2012)
Pan Tingxuan (appointed on 25 April 2012)

Independent Non-Executive Directors:
Zhu Min Ru
Feng Xue Ben
Wong Siu Hong

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

The directors of the Company, including non-executive directors 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 19 to 24 of this 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 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 Directors and independent non-executive Directors has signed an appointment letter with the Company for a term of three years 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 2012, 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)*	194,840,000 (L)	25.09%
	Beneficiary of trust *(Note 2)*	59,321,585 (L)	7.64%
	Interests of controlled corporation *(Note 3)*	2,270,000 (L)	0.29%
	Beneficial owner *(Note 4)*	290,000 (L)	0.04%
Chim Wai Shing Jackson	Settlor of trust *(Note 1)*	194,840,000 (L)	25.09%
	Beneficiary of trust *(Note 5)*	49,567,988 (L)	6.38%
	Beneficial owner *(Note 6)*	230,000 (L)	0.03%
Zhu Min Ru	Beneficial owner *(Note 7)*	200,000 (L)	0.03%
Feng Xue Ben	Beneficial owner *(Note 8)*	200,000 (L)	0.03%

(L): Long Position

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

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

Notes:

1. *194,840,000 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 Coutts & Co Trustees (Switzerland) Ltd. ("Coutts") (formerly known as RBS Coutts Trustees (Switzerland) Ltd.). JMJ is a company incorporated in the British Virgin Islands ("BVI") provided by Coutts for the purpose of establishing the Nian's Brother Trust. 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 59,321,585 shares directly held by Nian's Holding.*

3. *2,270,000 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 2,270,000 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 49,567,988 shares directly 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. *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.*

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

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

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

(a) Nian's Holding (Note 1)

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

Notes:

1. *Nian's Holding is the beneficial owner of 25.09% 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 Coutts for the purpose of establishing the Nian's Brother Trust. 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.*

(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%

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

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

(b) Nian's Investment (Note 1) (Continued)

Notes:

1. *Nian's Investment is the holding company of Nian's Holding, which in turn holds 25.09% shareholding in the Company.*

2. *The entire interest of Nian's Investment is held by JMJ as a nominee in favour of Coutts for the purpose of establishing the Nian's Brother Trust. 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.*

Save as disclosed above, as at 31 December 2012, 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 table showing movement in outstanding share options on page 33 of this report, at no time during the year ended 31 December 2012 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 which became effective on 12 May 2010. Pursuant to the Share Option 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 "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.

SHARE OPTION SCHEME (CONTINUED)

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option 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 Share Option 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 Shareholders in general meeting for refreshing the 10% limit under the Share Option Scheme save that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option 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 in general meeting with such participant and his associates abstaining from voting.

No share options have been granted by the Company pursuant to the Share Option Scheme during the year ended 31 December 2012.

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

		Number of share options					
Grantees	Exercise Price	As at 1 January 2012	Granted during the year	Exercised during the year	Lapsed during the year	As at 31 December 2012	Exercised period
Executive Directors							
Chim Wai Kong	HK$7.12	290,000	–	–	–	290,000	30 June 2011– 13 January 2021 *(Note 1)*
Chim Wai Shing Jackson	HK$7.12	230,000	–	–	–	230,000	30 June 2011 – 13 January 2021 *(Note 1)*
Chim Fo Che *(Note 3)*	HK$7.12	60,000	–	–	(60,000)	–	*(Note 3)*
Hong Ming Qu *(Note 4)*	HK$7.12	110,000	–	–	(110,000)	–	*(Note 4)*
Independent non-executives Directors							
Zhu Min Ru	HK$7.12	200,000	–	–	–	200,000	30 June 2011 – 13 January 2021 *(Note 1)*
Feng Xue Ben	HK$7.12	200,000	–	–	–	200,000	30 June 2011 – 13 January 2021 *(Note 1)*
Employees of the Group							
In aggregate	HK$7.12	10,300,000	–	–	(770,000)	9,530,000	30 June 2011 – 13 January 2021 *(Note 1)*
In aggregate	HK$7.12	1,840,000	–	–	(160,000)	1,680,000	31 December 2011 – 13 January 2021 *(Note 2)*
		13,230,000	–	–	(1,100,000)	12,130,000	

SHARE OPTION SCHEME (CONTINUED)

Notes:

1. *The options are subject to vesting schedules and exercise periods as follows:*

% of the options granted	*Vesting date*	*Exercised period*
25%	*30 June 2011*	*30 June 2011 – 13 January 2021*
25%	*30 June 2012*	*30 June 2012 – 13 January 2021*
25%	*30 June 2013*	*30 June 2013 – 13 January 2021*
25%	*30 June 2014*	*30 June 2014 – 13 January 2021*

2. *The options are subject to vesting schedules and exercise periods as follows:*

% of the options granted	*Vesting date*	*Exercised period*
25%	*31 December 2011*	*31 December 2011 – 13 January 2021*
25%	*31 December 2012*	*31 December 2012 – 13 January 2021*
25%	*31 December 2013*	*31 December 2013 – 13 January 2021*
25%	*31 December 2014*	*31 December 2014 – 13 January 2021*

3. *Mr. Chim Fo Che ceased to be an executive Director with effect from 25 April 2012. All options granted to Mr. Chim which had been vested before 25 April 2012 were unexercised and became lapsed on 25 April 2012.*

4. *Mr. Hong Ming Qu ceased to be an executive Director with effect from 25 April 2012. All options granted to Mr. Hong which had been vested before 25 April 2012 were unexercised and became lapsed on 25 April 2012.*

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 2012, the persons or companies (other than a Director or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of Shareholder	Capacity	Number of shares	Approximate percentage of issued shares
Hong Kong Rong An	Beneficial owner *(Note 1)*	225,160,000 (L)	29.00%
CECEP Chongqing	Interest of controlled corporation *(Note 1)*	225,160,000 (L)	29.00%
CECEP	Interest of controlled corporation *(Note 1)*	225,160,000 (L)	29.00%
Nian's Holding	Beneficial owner *(Note 2)*	194,840,000 (L)	25.09%
Nian's Investment	Interest of controlled corporation *(Note 2)*	194,840,000 (L)	25.09%
JMJ	Interest of controlled corporation *(Note 3)*	194,840,000 (L)	25.09%
Coutts	Trustee *(Note 3)*	194,840,000 (L)	25.09%
Headwell	Beneficial owner *(Note 4)*	69,000,000 (L)	8.89%
Modern Creative	Interest of controlled corporation *(Note 4)*	69,000,000 (L)	8.89%
Liu Shu Fa	Interest of controlled corporation and family interest *(Note 4)*	69,000,000 (L)	8.89%
Wang Juan	Interest of controlled corporation and family interest *(Note 4)*	69,000,000 (L)	8.89%
Gerfalcon Holding	Beneficial owner *(Note 5)*	60,000,000 (L)	7.73%
Hui Cheung Mau	Interest of controlled corporation *(Note 5)*	60,000,000 (L)	7.73%
	Beneficiary of trust *(Note 6)*	4,020,206 (L)	0.52%
Sze Fo Chau	Interest of controlled corporation *(Note 5)*	60,000,000 (L)	7.73%
	Beneficiary of trust *(Note 7)*	5,852,158 (L)	0.75%
CITIC Capital	Beneficial owner *(Note 8)*	45,320,388 (L)	5.84%
CITIC Capital Holdings	Interest of controlled corporation *(Note 8)*	45,320,388 (L)	5.84%
CITIC Limited	Interest of controlled corporation *(Note 8)*	45,320,388 (L)	5.84%

(L): Long Position

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

Notes:

1. *Hong Kong (Rong An) Investment Limited ("Hong Kong Rong An") is a wholly-owned subsidiary of CECEP Chongqing which is owned as to 83.36% by CECEP. For the purpose of Part XV of the SFO, CECEP Chongqing and CECEP are therefore deemed to be interested in the shares held by Hong Kong Rong An.*

2. *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.*

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

4. *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.*

5. *Gerfalcon Holding Limited ("Gerfalcon Holding") is owned by Hui Cheung Mau as to 50% and Sze Fo Chau as to 50%.*

6. *Hui Cheung Mau is also one of the beneficiaries of the Nian's Brother Trust and is deemed to be interested in 4,020,206 shares directly held by Nian's Holding.*

7. *Sze Fo Chau is also one of the beneficiaries of the Nian's Brother Trust and is deemed to be interested in 5,852,158 shares directly held by Nian's Holding.*

8. *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. CITIC Capital 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 ("CITIC Capital Holdings") which is owned as to 55% by CITIC Limited. For the purpose of Part XV of the SFO, CITIC Capital Holdings and CITIC Limited are therefore deemed to be interested in the underlying shares in which CITIC Capital is interested.*

Save as disclosed herein, the Directors are not aware of any person who was, as at 31 December 2012, directly or indirectly, interested or had short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, was directly or indirectly, interested in 5% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of the Company or any options in respect of such capital.

CONNECTED AND RELATED PARTIES TRANSACTIONS

Details of the related parties 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.

CONNECTED AND RELATED PARTIES TRANSACTIONS (CONTINUED)

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, 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian#) ("Xinhua Co.") as the tenant and 晉江華鑫塑料橡膠製品有限公司, (Jinjiang Hua Xin Plastic & Rubber Products Co., Ltd.#) ("Hua Xin Plastic") as the 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) was for a term of 36 months commencing in January 2009 and expiring in December 2011.

On 11 January 2012, the 2009 Rental Agreement (1) was renewed for a term of 36 months commencing from 1 January 2012 at a monthly rental of RMB46,103.50, exclusive of water and electricity charges. For the year ended 31 December 2012, Xinhua Co. paid total rentals of RMB553,242 to Hua Xin Plastic.

On 11 January 2012, Xiuhua Co. as the tenant and Hua Xin Plastic as the landlord entered into a rental agreement (the "2012 Rental Agreement") whereby Xinhua Co. agreed to lease from Hua Xin Plastic one premise with total area of 7,700.58 sq.m. for staff quarter. The 2012 Rental Agreement is for a term of 36 months commencing in January 2012 and expiring in December 2014. The monthly rental is RMB70,000 and is fixed throughout the term of the rental agreement. For the year ended 31 December 2012, Xinhua Co. paid total rentals of RMB840,000 to Hua Xin Plastic.

Rental Agreements between Xinhua Co. and Hua Xin Weaving

On 5 January 2009, Xinhua Co. as the tenant and 晉江市華鑫織造發展有限公司 (Huaxin Weaving Development Co., Ltd. Jinjiang#) ("Hua Xin Weaving") as the 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) was for a term of 36 months commencing in January 2009 and expiring in December 2011.

On 11 January 2012, the 2009 Rental Agreement (2) was renewed for a term of 36 months commencing from 1 January 2012 at a monthly rental of RMB70,594.10, exclusive of water and electricity charges. For the year ended 31 December 2012, Xinhua Co. paid total rentals of RMB847,129.20 to Hua Xin Weaving.

On 16 March 2011, Hua Xin Weaving as the tenant and Xinhua Co. as the 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 Rental 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 the tenant and Xinhua Co. as the 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 2012, Xinhua Co. received total rentals of RMB2,026,442.88 from Hua Xin Weaving under the above rental agreements.

CONNECTED AND RELATED PARTIES TRANSACTIONS (CONTINUED)

Maximum aggregate Annual values

Based on the rents payable per month as set out in the 2009 Rental Agreement (1), the 2009 Rental Agreement (2) and the 2012 Rental Agreement, the breakdown of the annual caps payable by Xinhua Co. thereunder are as follows:

	Year ended 31 December 2012 *RMB*	Year ended 31 December 2013 *RMB*	Year ended 31 December 2014 *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
2012 Rental Agreement	840,000.00	840,000.00	840,000.00
Total	2,240,371.20	2,240,371.20	2,240,371.20

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 ended 31 December 2012 *RMB*	Year ended 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 substantial shareholders of the Company. Accordingly, the entering of the abovementioned 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.

Sale and Purchase Framework Agreement between the Group and Fujian Billion

On 18 October 2012, Xinhua Co., 晉江海東青貿易有限公司 (Gerfalcon Trade Co., Ltd. Jinjiang#) and 海東青非織工業(福建)有限公司 (Gerfalcon Nonwoven Industrial (Fujian) Co., Ltd.#) (collectively referred to as the "Purchasers") entered into a sale and purchase framework agreement (the "First Framework Agreement") with 福建百宏聚纖科技實業有限公司 (Fujian Billion Polymerisation Fiber Technology Co., Ltd.#) ("Fujian Billion") whereby the Purchasers agreed to purchase and Fujian Billion agreed to sell polyester filament yarns and waste polyester filament yarns. The First Framework Agreement was with effect from 17 September 2012 to 31 December 2012, and the annual cap for the transactions contemplated thereunder should not be more than RMB22,000,000 (equivalent to approximately HK$27,060,000).

CONNECTED AND RELATED PARTIES TRANSACTIONS (CONTINUED)

CECEP Chongqing is a substantial Shareholder indirectly interested in 29% issued share capital of the Company and thus a connected person of the Company pursuant to the Listing Rules. Upon completion of its acquisition of shares of Billion Industrial Holdings Limited ("Billion Industrial") on 17 September 2012, CECEP Chongqing has become a substantial shareholder interested in 29% issued share capital of Billion Industrial and controlled the composition of a majority of the board of directors of Billion Industrial, as such, each of Billion Industrial and Fujian Billion (being an indirect wholly-owned subsidiary of Billion Industrial) is an associate of CECEP Chongqing and therefore a connected person of the Company pursuant to the Listing Rules.

During the effective period of the First Framework Agreement, the Purchasers has purchased products from Fujian Billion amounted to approximately RMB10,061,000, which was within the annual cap of RMB22 million as disclosed in the Company's announcement dated 18 October 2012.

Sale and Purchase Framework Agreement between the Group and CECEP

On 9 November 2012, Xinhua Co. entered into a sale and purchase framework agreement (the "Second Framework Agreement") with CECEP whereby Xinhua Co. agreed to sell and CECEP or its subsidiaries agreed to purchase non-woven materials, filtration materials, and recycled chemical fibres. The Second Framework Agreement was with effect from 9 November 2012 to 31 December 2012, and the annual cap for the transactions contemplated thereunder shall not be more than RMB20,000,000 (equivalent to approximately HK$24,600,000).

CECEP Chongqing is a substantial Shareholder indirectly interested in 29% issued share capital of the Company and thus a connected person of the Company pursuant to the Listing Rules. CECEP is the controlling shareholder of CECEP Chongqing, as such, CECEP is an associate of CECEP Chongqing and therefore a connected person of the Company pursuant to the Listing Rules.

During the period from 9 November 2012 to 31 December 2012, aggregate sales to CECEP or its subsidiaries pursuant to the framework agreement amounted to approximately RMB574,000, which was within the annual cap of RMB20 million as disclosed in the Company's announcement dated 9 November 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 14A.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 previous announcements of the Company.

The English name is translated for reference only.

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 13 to 18.

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.

AUDIT COMMITTEE

The annual results for the year have been reviewed by the Audit Committee of the Company. The Group's consolidated financial statements have been audited by the Company's auditor, RSM Nelson Wheeler.

ON BEHALF OF THE BOARD
CECEP COSTIN New Materials Group Limited

Yu Heping
Co-Chairman

Chim Wai Kong
Co-Chairman

Hong Kong, 14 March 2013

Independent Auditor's Report

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

We have audited the consolidated financial statements of CECEP COSTIN New Materials Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 42 to 95, which comprise the consolidated and Company statements of financial position as at 31 December 2012, 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.

Independent Auditor's Report

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 2012, 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

14 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Turnover	6	1,559,223	1,373,606
Cost of goods sold		(1,074,399)	(957,974)
Gross profit		484,824	415,632
Other income	7	26,247	21,107
Distribution expenses		(20,280)	(18,149)
Administrative expenses		(84,892)	(78,230)
Profit from operations		405,899	340,360
Finance costs	8	(49,425)	(26,540)
Profit before tax		356,474	313,820
Income tax expense	9	(110,853)	(63,050)
Profit for the year attributable to owners of the Company	10	245,621	250,770
Other comprehensive income for the year, net of tax			
Exchange differences on translating foreign operations		639	(6,178)
Total comprehensive income for the year attributable to owners of the Company		246,260	244,592
Earnings per share	13		
Basic		RMB31.63 cents	RMB31.62 cents

Consolidated Statement of Financial Position

At 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	14	390,330	399,534
Construction in progress	15	41,986	30,962
Investment properties	16	14,268	18,630
Prepayments for acquisition of property, plant and equipment		23,916	6,260
		470,500	455,386
Current assets			
Inventories	18	122,994	82,368
Trade and bills receivables	19	489,748	302,017
Prepayments, deposits and other receivables		10,124	38,389
Pledged bank deposits	20	33,091	20,704
Bank and cash balances	20	978,046	844,541
		1,634,003	1,288,019
Current liabilities			
Trade and bills payables	21	138,395	93,314
Accruals and other payables		62,704	42,938
Bank loans	22	309,000	279,748
Convertible bond	23	214,065	–
Finance lease payables	24	176	165
Current tax liabilities		58,324	7,960
		782,664	424,125
Net current assets		851,339	863,894
Total assets less current liabilities		1,321,839	1,319,280
Non-current liabilities			
Bank loans	22	59,808	73,034
Convertible bond	23	–	193,007
Finance lease payables	24	188	364
Deferred tax liabilities	26	49,275	32,040
		109,271	298,445
NET ASSETS		1,212,568	1,020,835
Capital and reserves			
Share capital	27	68,475	68,475
Reserves	28(a)	1,144,093	952,360
TOTAL EQUITY		1,212,568	1,020,835

Approved by the Board of Directors on 14 March 2013

Yu Heping
Director

Chim Wai Kong
Director

Statement of Financial Position of the Company

At 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Non-current assets			
Investment in a subsidiary	17	**19,290**	19,287
Current assets			
Prepayments		**177**	206
Dividend receivables		**220,551**	112,687
Due from subsidiaries	17	**274,673**	351,643
Bank and cash balances	20	**15,991**	10,419
		511,392	474,955
Current liabilities			
Accruals and other payables		**1,270**	919
Due to a subsidiary	17	**1,450**	1,331
Convertible bond	23	**214,065**	–
		216,785	2,250
Net current assets		**294,607**	472,705
Total assets less current liabilities		**313,897**	491,992
Non-current liabilities			
Convertible bond	23	**–**	193,007
NET ASSETS		**313,897**	298,985
Capital and reserves			
Share capital	27	**68,475**	68,475
Reserves	28(b)	**245,422**	230,510
TOTAL EQUITY		**313,897**	298,985

Approved by the Board of Directors on 14 March 2013

Yu Heping
Director

Chim Wai Kong
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	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 (note 23)	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 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 and 1 January 2012	**68,475**	**240,477**	**13,379**	**3,068**	**(14,443)**	**137,329**	**20,934**	**79,974**	**471,642**	**1,020,835**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**639**	**–**	**–**	**–**	**245,621**	**246,260**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**–**	**31,021**	**–**	**–**	**(31,021)**	**–**
Share-based payments	**–**	**–**	**8,721**	**–**	**–**	**–**	**–**	**–**	**–**	**8,721**
Lapse of share options granted in prior years	**–**	**–**	**(969)**	**–**	**–**	**–**	**–**	**–**	**969**	**–**
Dividends paid (note 12)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(63,248)**	**(63,248)**
Changes in equity for the year	**–**	**–**	**7,752**	**–**	**639**	**31,021**	**–**	**–**	**152,321**	**191,733**
At 31 December 2012	**68,475**	**240,477**	**21,131**	**3,068**	**(13,804)**	**168,350**	**20,934**	**79,974**	**623,963**	**1,212,568**

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**356,474**	313,820
Adjustments for:			
Depreciation		**45,158**	29,398
Equity-settled share-based payments		**8,721**	13,379
Finance costs		**49,425**	26,540
(Gain)/loss on disposals of property, plant and equipment		**(55)**	25
Interest income		**(8,747)**	(6,934)
Operating profit before working capital changes		**450,976**	376,228
Increase in inventories		**(40,626)**	(20,815)
Increase in trade and bills receivables		**(187,731)**	(76,194)
Decrease/(increase) in prepayments, deposits and other receivables		**28,265**	(31,310)
Increase/(decrease) in trade and bills payables		**45,081**	(4,312)
Increase in accruals and other payables		**17,116**	3,798
Cash generated from operations		**313,081**	247,395
Finance lease charges paid		**(29)**	(41)
Interest paid		**(27,755)**	(19,094)
Taxes paid		**(43,254)**	(54,639)
Net cash generated from operating activities		**242,043**	173,621
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	30(i)(ii)	**(13,568)**	(17,746)
Proceeds from disposals of property, plant and equipment		**472**	313
Payment for construction in progress	30(i)(ii)	**(26,815)**	(158,657)
Increase in prepayments for acquisition of property, plant and equipment		**(17,656)**	(6,260)
Interest received		**8,747**	6,934
(Increase)/decrease in pledged bank deposits		**(12,387)**	5,602
(Increase)/decrease in non-pledged bank deposits with more than three months to maturity	20	**(14,655)**	100,000
Net cash used in investing activities		**(75,862)**	(69,814)

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of convertible bond		–	194,443
Repurchase of shares	27(i)	–	(78,064)
Drawdown of bank loans		386,196	445,259
Repayment of bank loans		(370,789)	(267,634)
Repayment of capital element of finance lease payables		(165)	(158)
Dividends paid	12	(63,248)	(66,368)
Net cash (used in)/generated from financing activities		(48,006)	227,478
NET INCREASE IN CASH AND CASH EQUIVALENTS		118,175	331,285
Effect of foreign exchange rate changes		675	(14,586)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		844,541	527,842
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		963,391	844,541
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances	20	963,391	844,541

Notes to the Financial Statements

For the year ended 31 December 2012

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 (the "PRC").

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

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 2012. 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Consolidation (continued)

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.

(b) 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 (CONTINUED)

(b) Foreign currency translation (continued)

(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.

(c) 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.

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.

Notes to the Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) 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.

(e) 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.

(f) Research and development expenditure

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

Notes to the Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) 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.

(h) 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.

(i) 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.

(j) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) 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.

(l) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Revenue recognition (continued)

(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.

(m) 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.

(n) 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.

(o) 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.

Notes to the Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Borrowing costs (continued)

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.

(p) 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 (CONTINUED)

(q) 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).

(r) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Impairment of assets (continued)

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.

(s) 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.

(t) 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 titles 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.

Notes to the Financial Statements

For the year ended 31 December 2012

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$"), United States dollars ("US$") and Danish Krone ("DKK"). 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 2012, 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 RMB4,434,000 (2011: RMB2,384,000) 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 the 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 RMB4,434,000 (2011: RMB2,384,000) 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 the PRC.

(ii) At 31 December 2012, 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 RMB1,856,000 higher (2011: RMB2,434,000 lower), 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 RMB1,856,000 lower (2011: RMB2,434,000 higher), arising mainly as a result of the foreign exchange difference on trade and bills receivables/payables and bank loans denominated in US$.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk

The carrying amount of the trade and bills receivables, other 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 55% (2011: 52%) of the total trade receivables was due from the Group's five largest trade receivables as at 31 December 2012.

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

(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 2012			
Trade and bills payables	**138,395**	**–**	**–**
Accruals and other payables	**62,704**	**–**	**–**
Bank loans	**318,450**	**32,132**	**32,433**
Finance lease payables	**194**	**194**	**–**
Convertible bond	**227,847**	**–**	**–**
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 payables	194	194	194
Convertible bond	7,576	224,447	–

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Interest rate risk

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

At 31 December 2012, 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 RMB7,473,000 (2011: RMB7,049,000) lower/higher, arising mainly as a result of lower/higher interest income on bank deposits balances.

At 31 December 2012, 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 RMB1,554,000 (2011: RMB1,635,000) higher/lower, arising mainly as a result of higher/lower interest expense on bank loans.

(e) Categories of financial instruments at 31 December 2012

	2012 RMB'000	*2011 RMB'000*
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**1,509,362**	1,204,573
Financial liabilities:		
Financial liabilities measured at amortised cost	**773,334**	671,571

(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

Notes to the Financial Statements

For the year ended 31 December 2012

6. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

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.

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	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Year ended 31 December										
Revenue from external customers	1,192,714	1,058,385	314,498	306,800	48,631	4,237	3,380	4,184	1,559,223	1,373,606
Intersegment revenue	3,146	856	1,977	5,772	745	–	-	–	5,868	6,628
Segment profit	414,004	342,050	66,384	71,588	3,962	1,184	474	810	484,824	415,632
Depreciation	13,993	10,698	5,675	5,678	11,024	936	293	289	30,985	17,601
Additions to segment non-current assets	659	52,398	1,755	3,843	12,050	134,681	31	206	14,495	191,128
At 31 December										
Segment assets	143,331	157,360	57,494	65,020	179,148	142,366	4,831	4,846	384,804	369,592

6. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

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

	2012 RMB'000	2011 RMB'000
Segment revenue		
Total revenue of reportable segments	1,565,091	1,380,234
Elimination of intersegment revenue	(5,868)	(6,628)
Consolidated revenue	1,559,223	1,373,606

	2012 RMB'000	2011 RMB'000
Profit or loss		
Total profit of reportable segments	484,824	415,632
Unallocated amounts:		
Other income	26,247	21,107
Distribution expenses	(20,280)	(18,149)
Administrative expenses	(84,892)	(78,230)
Finance costs	(49,425)	(26,540)
Consolidated profit before tax	356,474	313,820

	2012 RMB'000	2011 RMB'000
Segment assets		
Total assets of reportable segments	384,804	369,592
Unallocated amounts:		
Property, plant and equipment	131,031	128,774
Investment properties	14,268	18,630
Construction in progress	34,868	10,236
Prepayments for acquisition of property, plant and equipment	21,819	6,000
Inventories	6,704	4,522
Trade and bills receivables	489,748	302,017
Prepayments, deposits and other receivables	10,124	38,389
Pledged bank deposits	33,091	20,704
Bank and cash balances	978,046	844,541
Consolidated total assets	2,104,503	1,743,405

6. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

(iii) Geographical information:

	2012 RMB'000	*2011 RMB'000*
Revenue		
PRC except Hong Kong	**1,307,286**	959,454
Hong Kong	**188,414**	212,080
Dubai	**22,281**	202,072
Others	**41,242**	–
Consolidated total revenue	**1,559,223**	1,373,606

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

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

(iv) Revenue from major customers:

	2012 RMB'000	*2011 RMB'000*
Customer		
Customer a	**–**	111,634
Customer b	**106,688**	138,556
Customer c	**68,534**	63,769
Customer d	**257,918**	184,093

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

	2012 RMB'000	*2011 RMB'000*
Exchange gain	**1,513**	–
Gain on disposals of property, plant and equipment	**55**	–
Government grants (note)	**11,055**	8,717
Income from trading of scrap materials	**1,527**	1,823
Interest income	**8,747**	6,934
Rental income (note 16)	**2,966**	3,618
Others	**384**	15
	26,247	21,107

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

8. FINANCE COSTS

	2012 RMB'000	2011 RMB'000
Finance leases charges	29	41
Interest expense on bank loans	23,670	15,206
Interest expense on other loans – wholly payable within five years:		
Convertible bond	25,400	10,862
Factoring loans	326	431
	49,425	26,540

9. INCOME TAX EXPENSE

	2012 RMB'000	2011 RMB'000
Current tax		
PRC enterprise income tax ("PRC EIT")	93,618	49,279
Deferred tax (note 26)	17,235	13,771
	110,853	63,050

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. The PRC EIT rate changed from 15% to 25% in 2012.

On 11 January 2012, Xinhua Co. was recognised as a comprehensive resources 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. On 10 July 2012, Xinhua Co. is entitled to extend such tax concession to 31 December 2013.

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 2011 and 2012.

Notes to the Financial Statements

For the year ended 31 December 2012

9. INCOME TAX EXPENSE (CONTINUED)

The reconciliation between the income tax expense and the product of profit before tax multiplied by the weighted average tax rate applicable to profits of the consolidated entities in the respective jurisdictions as follows:

	2012 RMB'000	2011 RMB'000
Profit before tax	**356,474**	313,820
Tax calculated at rates applicable to profits of the consolidated entities in the respective jurisdictions	**99,462**	45,807
Tax effect of expenses that are not deductible	**1,878**	8,476
Tax effect of income that are not taxable	**(431)**	(478)
Tax effect of temporary differences not recognised	**33**	76
Tax effect of unused tax losses not recognised	**1,715**	–
Tax effect of utilisation of tax losses not previously recognised	**(1,177)**	–
Tax effect of tax concession	**(7,862)**	(4,602)
PRC dividend withholding tax (note 26)	**17,235**	13,771
Income tax expense	**110,853**	63,050

10. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging/(crediting) the following:

	2012 RMB'000	2011 RMB'000
Auditor's remuneration	**1,448**	1,383
Cost of inventories sold (note (i))	**1,074,399**	957,974
Depreciation of property, plant and equipment	**44,124**	28,120
Depreciation of investment properties	**1,034**	1,278
(Gain)/loss on disposals of property, plant and equipment	**(55)**	25
Net exchange (gain)/loss	**(1,513)**	545
Operating leases charges in respect of land and buildings	**4,883**	3,683
Research and development expenditure (note (ii))	**6,322**	2,832
Staff costs (excluding directors' emoluments)		
Salaries, bonus and allowances	**47,653**	40,164
Equity-settled share-based payments	**8,345**	12,086
Retirement benefit scheme contributions	**658**	535
	56,656	52,785

Notes:

(i) Cost of inventories sold includes staff costs, depreciation and operating lease charges during the year ended 31 December 2012 of approximately RMB58,910,000 (2011: RMB40,409,000) which are included in the amounts disclosed separately above.

(ii) Research and development expenditure includes staff costs during the year ended 31 December 2012 of approximately RMB2,096,000 (2011: RMB2,036,000) which are included in the amount disclosed separately above.

Notes to the Financial Statements

For the year ended 31 December 2012

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments of each director were as follows:

For the year ended 31 December 2012

	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						
Yu Heping (Co-chairman) (note (i))	–	669	–	–	–	669
Chim Wai Kong (Co-chairman)	–	1,097	–	155	11	1,263
Chim Wai Shing Jackson	–	1,088	–	123	11	1,222
Chim Fo Che (note (ii))	–	86	–	(41)	4	49
Hong Ming Qu (note (ii))	–	171	–	(75)	–	96
Xue Mangmang (note (i))	–	134	–	–	–	134
	–	3,245	–	162	26	3,433
Non-executive directors						
Pan Tingxuan (note (i))	67	–	–	–	–	67
Qu Pingji (note (i))	67	–	–	–	–	67
Wee Kok Keng (note (ii))	41	–	–	–	–	41
Wang Yangzu (note (i))	67	–	–	–	–	67
Zhao Xiangdong (note (i))	67	–	–	–	–	67
	309	–	–	–	–	309
Independent Non-executive directors						
Zhu Min Ru	133	–	–	107	–	240
Feng Xue Ben	133	–	–	107	–	240
Wong Siu Hong	133	–	–	–	–	133
	399	–	–	214	–	613
	708	3,245	–	376	26	4,355

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

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

Notes:

(i) Appointed on 25 April 2012

(ii) Resigned on 25 April 2012

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

Notes to the Financial Statements

For the year ended 31 December 2012

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

The five highest paid individuals in the Group during the year ended 31 December 2012 included 3 (2011: 2) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 2 (2011: 3) individuals are set out below:

	2012 RMB'000	*2011 RMB'000*
Salaries and allowances	**1,424**	1,883
Discretionary bonus	**107**	472
Equity-settled share-based payments	**2,648**	6,499
Retirement benefit scheme contributions	**11**	20
	4,190	8,874

The emoluments fell within the following band:

	Number of individuals	
	2012	*2011*
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,220,001 to RMB1,627,000 (2011: RMB1,252,001 to RMB1,669,000))	**1**	1
HK$2,000,001 to HK$2,500,000 (equivalent to RMB1,627,001 to RMB2,034,000 (2011: RMB1,669,001 to RMB2,087,000))	**–**	1
HK$3,500,001 to HK$4,000,000 (equivalent to RMB2,848,001 to RMB3,254,000 (2011: RMB2,921,001 to RMB3,339,000))	**1**	–
HK$7,000,001 to HK$7,500,000 (equivalent to RMB5,695,201 to RMB6,102,000 (2011: RMB5,843,001 to RMB6,260,000))	**–**	1
	2	3

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

	2012 RMB'000	2011 RMB'000
Interim dividend of RMB2.9 cents (HK3.5 cents) (2011: RMB2.9 cents (HK3.5 cents)) per ordinary share paid	**22,179**	22,615
Proposed final dividend of RMB5.3 cents (HK6.5 cents) (2011: final dividend payment of RMB5.3 cents (HK6.5 cents)) per ordinary share	**40,820**	40,841
	62,999	63,456

13. EARNINGS PER SHARE

Basic earnings per share

	2012 RMB'000	2011 RMB'000
Earnings		
Profit attributable to owners of the Company, used in basic earnings per share calculation	**245,621**	250,770
Number of shares		
Weighted average number of ordinary shares used in basic earnings per share calculation	**776,422,000**	793,138,000

The effect of potential ordinary shares in respect of convertible bond is anti-dilutive for the years ended 31 December 2011 and 2012.

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 years ended 31 December 2011 and 2012.

Notes to the Financial Statements

For the year ended 31 December 2012

14. PROPERTY, PLANT AND EQUIPMENT

	The Group						
	Buildings RMB'000	Prepaid land lease payments RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Office equipment and fixtures RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost							
At 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 and 1 January 2012	105,331	88,956	1,055	298,711	6,142	11,034	511,229
Additions	–	1,201	–	8,241	1,225	3,009	13,676
Disposals	–	–	–	–	(20)	(1,763)	(1,783)
Exchange differences	–	–	–	–	–	1	1
Transfer from construction in progress (note 15)	15,976	–	–	2,366	–	–	18,342
Transfer from investment properties (note 16)	3,328	–	–	–	–	–	3,328
At 31 December 2012	124,635	90,157	1,055	309,318	7,347	12,281	544,793
Accumulated depreciation							
At 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 and 1 January 2012	10,991	14,683	401	80,536	1,645	3,439	111,695
Charge for the year	5,841	4,444	352	30,098	1,135	2,254	44,124
Disposals	–	–	–	–	(11)	(1,346)	(1,357)
Exchange differences	–	–	–	–	–	1	1
At 31 December 2012	16,832	19,127	753	110,634	2,769	4,348	154,463
Carrying amount							
At 31 December 2012	107,803	71,030	302	198,684	4,578	7,933	390,330
At 31 December 2011	94,340	74,273	654	218,175	4,497	7,595	399,534

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

At 31 December 2012, the Group's building amounted to approximately RMB11,176,000 (2011: RMB7,047,000) of which the relevant building ownership certificate is yet to be granted.

At 31 December 2012, the Group's buildings and prepaid land lease payments with an aggregate amounts of approximately RMB102,765,000 (2011: RMB49,941,000) were pledged to secure banking facilities granted to Xinhua Co. (note 22).

At 31 December 2012, the carrying amount of motor vehicle held by the Group under finance leases amounted to approximately RMB524,000 (2011: RMB741,000).

15. CONSTRUCTION IN PROGRESS

	The Group	
	2012	*2011*
	RMB'000	*RMB'000*
At 1 January	**30,962**	26,480
Additions	**29,366**	158,951
Transfer to property, plant and equipment (note 14)	**(18,342)**	(154,469)
At 31 December	**41,986**	30,962

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

Notes to the Financial Statements

For the year ended 31 December 2012

16. INVESTMENT PROPERTIES

	The Group *RMB'000*
Cost	
At 1 January 2011, 31 December 2011 and 1 January 2012	23,701
Transfer to property, plant and equipment (note 14)	(4,828)
At 31 December 2012	18,873
Accumulated depreciation	
At 1 January 2011	3,793
Charge for the year	1,278
At 31 December 2011 and l January 2012	5,071
Charge for the year	1,034
Transfer to property, plant and equipment (note 14)	(1,500)
At 31 December 2012	4,605
Carrying amount	
At 31 December 2012	14,268
At 31 December 2011	18,630

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 2012 are approximately RMB25,700,000 (2011: RMB23,421,000). 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 2012, the Group's investment properties with aggregate carrying amounts of approximately RMB14,268,000 (2011: RMB18,630,000) were pledged to secure banking facilities granted to Xinhua Co. (note 22).

During the year ended 31 December 2012, property leasing revenue includes gross rental income from investment properties of approximately RMB2,966,000 (2011: RMB3,618,000) (note 7) of which approximately RMB2,026,000 (2011: RMB2,678,000) related to properties leased to a related company (note 33(b)).

Notes to the Financial Statements

For the year ended 31 December 2012

17. INVESTMENT IN A SUBSIDIARY

	The Company 2012 RMB'000	2011 RMB'000
Unlisted investment, at cost	**19,290**	19,287

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

Particulars of the subsidiaries as at 31 December 2012 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and paid up capital/ registered capital	Percentage of ownership interest Direct	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
Gerfalcon Industrial (Nonwoven) Investment Company Limited ("Gerfalcon Industrial")	Hong Kong	23,790,000 ordinary shares of HK$1.00 each	–	100%	Investment holding and the sales of non-woven fabrics and chemical fibres
Gerfalcon Investment Company Limited ("Gerfalcon Investment")	Hong Kong	1,000 ordinary shares of HK$1.00 each	–	100%	Investment holding
Gerfalcon Hong Kong Limited	Hong Kong	1,000 ordinary shares of HK$1.00 each (note (i))	–	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

Notes to the Financial Statements

For the year ended 31 December 2012

17. INVESTMENT IN A SUBSIDIARY (CONTINUED)

Name of subsidiary	Place of incorporation/ establishment	Issued and paid up capital/ registered capital	Percentage of ownership interest Direct	Indirect	Principal activities
福建鑫華股份有限公司# (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")	PRC	Registered capital of HK$10,000,000	–	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")	PRC	Registered capital of HK$600,000,000	–	100%	Manufacture of special textile products for industrial usage, high technology chemical fibres and recycled chemical fibres

Note:

(i) *On 3 May 2012, Gerfalcon Hong Kong Limited was incorporated in Hong Kong as a wholly-owned subsidiary held by Gerfalcon International Limited with 1,000 ordinary shares of HK$1.00 each.*

* *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 2012 RMB'000	2011 RMB'000
Raw materials	**83,485**	63,726
Finished goods	**39,509**	18,642
	122,994	82,368

Notes to the Financial Statements

For the year ended 31 December 2012

19. TRADE AND BILLS RECEIVABLES

	The Group	
	2012	2011
	RMB'000	RMB'000
Trade receivables	**475,259**	290,130
Bills receivables	**14,489**	11,887
	489,748	302,017

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 30 to 90 days (2011: 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.

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

	2012	2011
	RMB'000	RMB'000
Up to 30 days	**213,697**	159,719
31 to 60 days	**176,694**	80,115
61 to 90 days	**84,703**	50,294
91 to 120 days	**123**	2
121 to 150 days	**–**	–
Over 150 days	**42**	–
	475,259	290,130

As at 31 December 2012, no trade receivables (2011: RMB58,769,000) were pledged to banks to secure short-term bank loans granted to the Group (note 22).

As at 31 December 2012, trade receivables of approximately RMB864,000 (2011: RMB29,000) 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:

	2012	2011
	RMB'000	RMB'000
Up to 30 days	**821**	24
31 to 60 days	**–**	5
61 to 90 days	**1**	–
91 to 120 days	**42**	–
	864	29

Notes to the Financial Statements

For the year ended 31 December 2012

19. TRADE AND BILLS RECEIVABLES (CONTINUED)

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

	2012 RMB'000	2011 RMB'000
RMB	430,630	227,694
US$	59,118	74,323
	489,748	302,017

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 2012				
	RMB RMB'000	HK$ RMB'000	US$ RMB'000	DKK RMB'000	Total RMB'000
Cash at bank and on hand	942,514	16,324	4,553	–	963,391
Bank deposits	7,152	14,655	683	25,256	47,746
	949,666	30,979	5,236	25,256	1,011,137
Pledged bank deposits	(7,152)	–	(683)	(25,256)	(33,091)
Bank and cash balances	942,514	30,979	4,553	–	978,046
Non-pledged bank deposits with more than three months to maturity	–	(14,655)	–	–	(14,655)
Cash and cash equivalents	942,514	16,324	4,553	–	963,391

20. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES (CONTINUED)

	At 31 December 2011				
	RMB	HK$	US$	DKK	Total
	RMB'000	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

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 2.75%-4.47% (2011: 0.5%-3.33%) per annum and therefore are subject to fair value interest rate risk.

As at 31 December 2012, 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 RMB842,633,000 (2011: RMB584,792,000). 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.

Notes to the Financial Statements

For the year ended 31 December 2012

20. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES (CONTINUED)

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

The Company

	At 31 December 2012			
	RMB	**HK$**	**US$**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Cash and cash equivalents	**967**	**14,253**	**771**	**15,991**

	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

21. TRADE AND BILLS PAYABLES

	The Group	
	2012	2011
	RMB'000	RMB'000
Trade payables	**135,246**	93,314
Bills payables (note 22)	**3,149**	–
	138,395	93,314

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

	2012	2011
	RMB'000	RMB'000
Up to 30 days	**84,318**	66,016
31 to 60 days	**37,566**	9,104
61 to 90 days	**12,510**	8,105
91 to 120 days	**253**	9,385
121 to 150 days	**91**	95
Over 150 days	**508**	609
	135,246	93,314

Notes to the Financial Statements

For the year ended 31 December 2012

21. TRADE AND BILLS PAYABLES (CONTINUED)

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

	2012 RMB'000	*2011 RMB'000*
RMB	**129,835**	68,654
US$	**8,560**	24,660
	138,395	93,314

22. BANK LOANS

	The Group	
	2012 RMB'000	*2011 RMB'000*
Bank loans	**365,295**	352,782
Trust receipt loans	**3,513**	–
	368,808	352,782
The borrowings are repayable as follows:		
On demand or within one year	**309,000**	279,748
In the second year	**28,945**	20,233
In the third to fifth years, inclusive	**30,863**	52,801
	368,808	352,782
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(309,000)**	(279,748)
Amount due for settlement after 12 months	**59,808**	73,034

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

	2012 RMB'000	*2011 RMB'000*
RMB	**245,750**	234,900
US$	**123,058**	117,882
	368,808	352,782

22. BANK LOANS (CONTINUED)

The average interest rates per annum are as follows:

	2012	*2011*
Short-term bank loans (floating rate)	**3.14% – 7.50%**	2.61% – 8.53%
Short-term bank loans (fixed rate)	**3.13% – 7.87%**	4.43% – 7.35%
Long-term bank loans (floating rate)	**7.32%**	6.65%
Long-term bank loans (fixed rate)	**3.80% – 7.59%**	7.59%
Trust receipt loans (floating rate)	**HIBOR + 2.15%**	N/A

Bank loans of approximately RMB162,718,000 (2011: RMB154,639,000) 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 RMB365,295,000 (2011: RMB352,782,000), trust receipt loans of approximately RMB3,513,000 (2011: N/A) and bills payables (note 21) of approximately RMB3,149,000 (2011: Nil) are secured by:

– Corporate guarantees provided by the Company and it'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)).

Trust receipt loans are repayable within 120 days (2011: N/A) from their respective drawdown days.

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. 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 (CONTINUED)

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

	The Group and the Company 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
Interest charged	25,400
Interest paid	(3,759)
Exchange differences	(583)
Liability component at 31 December 2012	214,065

The interest charged for the year is calculated by applying an effective interest rate of 12.48% per annum to the liability component.

The directors estimated the fair value of the liability component of the convertible bond at 31 December 2012 to be approximately RMB209,914,000 (2011: RMB192,908,000). This fair value has been calculated by discounting the future cash flows at the market rate.

Notes to the Financial Statements

For the year ended 31 December 2012

24. FINANCE LEASE PAYABLES

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**194**	194	**176**	165
In the second to fifth years, inclusive	**194**	388	**188**	364
	388	582	**364**	529
Less: Future finance charges	**(24)**	(53)	**N/A**	N/A
Present value of lease obligations	**364**	529	**364**	529
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(176)**	(165)
Amount due for settlement after 12 months			**188**	364

It is the Group's policy to lease certain of its motor vehicle under finance leases. The lease term is 2.5 years (2011: 3.5 years). At 31 December 2012, the average effective borrowing rate was 6.66% (2011: 6.66%). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. At the end of each lease term, the Group has the option to purchase the motor vehicle at nominal prices.

All finance lease payables are denominated in HK$.

The Group's finance lease payables are secured by the lessor's title to the leased assets.

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.

Notes to the Financial Statements

For the year ended 31 December 2012

26. DEFERRED TAX LIABILITIES

	The Group 2012 RMB'000	2011 RMB'000
PRC dividend withholding tax		
At 1 January	**32,040**	18,269
Charge to profit or loss for the year (note 9)	**17,235**	13,771
At 31 December	**49,275**	32,040

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.

At the end of the reporting period the Group has unused tax losses of RMB28,031,000 (2011: Nil) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB12,963,000 (2011: Nil) that will expire in 2017. Other tax losses may be carried forward indefinitely.

27. SHARE CAPITAL

The Company

	Number of shares	Amount HK$	Amount as presented RMB
Authorised:			
Ordinary shares of HK$0.1 each			
At 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012	2,000,000,000	200,000,000	176,000,000
Issued and fully paid:			
At 1 January 2011	800,000,000	80,000,000	70,400,000
Repurchase of shares *(note (i))*	(23,578,000)	(2,357,800)	(1,925,253)
At 31 December 2011, 1 January 2012 and 31 December 2012	776,422,000	77,642,200	68,474,747

Notes to the Financial Statements

For the year ended 31 December 2012

27. SHARE CAPITAL (CONTINUED)

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 2011 and 2012.

The Group monitors capital using a gearing ratio, which is the Group's total debts (comprising bank borrowings 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 2012 was 28% (2011: 31%).

Note:

(i) 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.

28. RESERVES

(a) The Group

The amounts of the Group's reserves and movements therein are presented in the Group's statements of comprehensive income and statements 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 (note 23)	Foreign currency translation reserve RMB'000 (note (c)(iii))	Contributed surplus RMB'000 (note (c)(vii))	Accumulated losses RMB'000	Total RMB'000
At 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 (note 12)	–	–	–	–	–	(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 and 1 January 2012	**240,477**	**13,379**	**3,068**	**(31,601)**	**20,909**	**(15,722)**	**230,510**
Total comprehensive income for the year	**–**	**–**	**–**	**84**	**–**	**69,355**	**69,439**
Share-based payments	**–**	**8,721**	**–**	**–**	**–**	**–**	**8,721**
Lapse of share options granted in prior years	**–**	**(969)**	**–**	**–**	**–**	**969**	**–**
Dividends paid (note 12)	**–**	**–**	**–**	**–**	**–**	**(63,248)**	**(63,248)**
Changes in equity for the year	**–**	**7,752**	**–**	**84**	**–**	**7,076**	**14,912**
At 31 December 2012	**240,477**	**21,131**	**3,068**	**(31,517)**	**20,909**	**(8,646)**	**245,422**

28. RESERVES (CONTINUED)

(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 employees of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 3(n) 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(b) 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 Industrial and Gerfalcon Industrial on 4 February 2010. Gerfalcon Industrial 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.

Notes to the Financial Statements

For the year ended 31 December 2012

29. SHARE-BASED PAYMENTS (CONTINUED)

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 (CONTINUED)

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

For the year ended 31 December 2012

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	–	–	(170,000)	920,000	460,000	HK$7.12
Employees	12,140,000	–	–	(930,000)	11,210,000	5,605,000	HK$7.12
	13,230,000	–	–	(1,100,000)	12,130,000	6,065,000	
Weighted average exercise price	HK$7.12	–	–	HK$7.12	HK$7.12	HK$7.12	

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 8.04 years (2011: 9.04) and the exercise prices of HK$7.12 (2011: HK$7.12). In 2011, options were granted on 14 January 2011. The estimated fair value of the options on that date is RMB28,349,000 (HK$34,197,000). No option were granted during the year ended 31 December 2012.

Notes to the Financial Statements

For the year ended 31 December 2012

29. SHARE-BASED PAYMENTS (CONTINUED)

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 years before the date of grant. 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 2012, additions to property, plant and equipment and construction in progress of approximately RMB9,088,000 and RMB7,854,000 (2011: RMB8,989,000 and RMB5,303,000) respectively were not yet paid and included in accruals and other payables.

(ii) During the year ended 31 December 2012, no additions to property, plant and equipment and construction in progress (2011: RMB6,689,000 and RMB400,000) 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	
	2012	*2011*
	RMB'000	*RMB'000*
Contracted but not provided for		
Construction in progress	–	23,680
Property, plant and equipment	**4,647**	1,516
Prepaid land lease payments	–	61,200
	4,647	86,396

Notes to the Financial Statements

For the year ended 31 December 2012

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	
	2012	2011
	RMB'000	RMB'000
At lessor		
Within one year	**2,418**	3,070
In the second to fifth year inclusive	**–**	2,678
	2,418	5,748

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	
	2012	2011
	RMB'000	RMB'000
At lessee		
Within one year	**4,790**	2,394
In the second to fifth year inclusive	**4,931**	1,559
	9,721	3,953

Operating lease payables represent rental payable by Gerfalcon Industrial, 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.

Notes to the Financial Statements

For the year ended 31 December 2012

33. MATERIAL RELATED PARTIES TRANSACTIONS

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

Name of related company	Shareholders
(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
(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
(iii) 福建百宏聚紓科枝實業有限公司 (Fujian Billion Polymerisation Fiber Technology Co. Ltd.#)	100% owned by Billion Industrial Holdings Limited of which 29% is owned by CECEP Chongqing Industry Co., Ltd.

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

	2012 RMB'000	2011 RMB'000
Trade payable to a related company (note (a)(iii))	3,094	N/A
Rental income charged to a related company (note (a)(i)) and (note 16)	2,026	2,678
Rental expenses charged by related companies (note (a)(i)) and (note (a)(ii))	2,240	1,400
Purchases of raw materials from a related company (note (a)(iii))	10,061	N/A

(c) At 31 December 2012, certain related companies have guaranteed certain banking facilities granted to the Group in the amount of approximately RMB248,000,000 (2011: RMB89,810,000).

The English name is translated for reference only.

Notes to the Financial Statements

For the year ended 31 December 2012

33. MATERIAL RELATED PARTIES TRANSACTIONS (CONTINUED)

(d) Remuneration of key management personnel:

	2012 RMB'000	2011 RMB'000
Salaries, bonus and allowances		
– Directors	**3,953**	3,701
– Key management	**740**	1,122
Sub-total	**4,693**	4,823
Retirement benefit scheme contributions		
– Directors	**26**	30
– Key management	**11**	10
Sub-total	**37**	40
Equity-settled share-based payments		
– Directors	**376**	1,293
– Key management	**8,345**	12,086
Sub-total	**8,721**	13,379
Total	**13,451**	18,242

34. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 14 March 2013.