宏太控股有限公司
Wang Tai Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1400

2013
Annual Report

Contents

CHAIRMAN'S STATEMENT

Dear shareholders, on behalf of the board of directors (the "Board") of Wang Tai Holdings Limited (the "Company"), I am pleased to present the first annual report of the Company and its subsidiaries (collectively the "Group" or "We") for the financial year ended 31 December 2013 for your review.

We principally engage in the production and sales of fabrics and yarns. All of our fabrics and yarns are tailor-made according to customers' specifications. Prior to May 2012, we principally engaged in the production of fabrics. We commenced the production of yarns in May 2012 with a view to lowering the production cost of fabrics and to diversifying our business.

In 2013, our revenue increased by RMB386.2 million, from RMB405.3 million in 2012 to RMB791.5 million in 2013. Such increase primarily reflected (i) the increase in the sales volume of fabric products from approximately 18,946.0 km approximately to 34,599.0 km; and (ii) the operation of our yarns business for the whole year of 2013.

We are pleased that the Group's profit increased by 115.2% from approximately RMB34.8 million for the year ended 31 December 2012 to approximately RMB75.0 million for the year ended 31 December 2013 which was in line with the increase in the revenue and gross profit for the same year. The reasons of the increase are stated in details in the section headed "Management Discussion and Analysis" of this annual report.

We were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 25 April, 2014 (the "Listing Date"). The listing marked another milestone for the Group. We will continue to leverage on our experience of past success and our strengths including the strong research and development capabilities, highly automated production process, our ability to offer a wide range of fabric products together with our expanding production facilities, to strengthen our position to become a leading brand name in the textile industry in Fujian Province and to increase our market presence in the People's Republic of China (the "PRC").

CHAIRMAN'S STATEMENT

APPRECIATION

I would like to take this opportunity to express my most sincere thanks to the board of directors, our management, staff and our respective investors for their contributions to the Group. I also wish to thank our business partners for their support.

Lin Qingxiong
Chairman

Shishi, Fujian, the PRC
28 April, 2014

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

Mr. Lin Qingxiong *(Chairman)*
Mr. Qiu Zhiqiang
Mr. Deng Qinghui

Independent non-executive directors

Mr. Yu Yubin
Mr. Ma Chongqi
Mr. Chan Sui Wa

AUDIT COMMITTEE

Mr. Chan Sui Wa *(Chairman)*
Mr. Yu Yubin
Mr. Ma Chongqi

REMUNERATION COMMITTEE

Mr. Ma Chongqi *(Chairman)*
Mr. Chan Sui Wa
Mr. Yu Yubin

NOMINATION COMMITTEE

Mr. Yu Yubin *(Chairman)*
Mr. Ma Chongqi
Mr. Chan Sui Wa

REGULATORY COMPLIANCE COMMITTEE

Mr. Qiu Zhiqiang *(Chairman)*
Mr. Deng Qinghui
Mr. Siu Kai Chun

COMPANY SECRETARY

Mr. Siu Kai Chun

AUTHORISED REPRESENTATIVES

Mr. Qiu Zhiqiang
Mr. Siu Kai Chun

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong

PRINCIPAL BANKERS

Rural Commercial Bank of Shishi
China Merchants Bank, Quanzhou Shishi Branch
Bank of Quanzhou

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEADQUARTERS IN CHINA

Wubao Science and Technology Park
Hongshan Town
Shishi City
Fujian
China

PLACE OF BUSINESS IN HONG KONG

Unit 02, 15th Floor
Convention Plaza Office Tower
1 Harbour Road
Wanchai
Hong Kong

COMPLIANCE ADVISER

Guotai Junan Capital Limited
27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

CORPORATE INFORMATION

PRINCIPAL SHARE REGISTRAR

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTER

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY'S WEBSITE

www.texitm.com

STOCK CODE

The Stock Exchange of Hong Kong Limited: 1400

MANAGEMENT DISCUSSION AND ANALYSIS

Capitalised terms used in this annual report will have the same meaning as ascribed to it in the prospectus dated 10 April 2014 issued by the Company in connection with the Hong Kong Public Offer (as defined therein) (the "Prospectus").

OVERVIEW

In 2013, the challenging operating environment persisted in China textile industry. Nevertheless, as the market was enormous, enterprises capable of providing products of reliable quality in response to the market demand for differentiated products and achieve satisfactory results in the face of adversity. In 2013, the commencement of operation of our Hubei Production Facilities spurred an increase in production and sales volume in the second half of the year. When compared to 2012, the Group recorded a turnover growth of 95.3% to RMB791.5 million. Profit for the year significantly increased by 115.2% to RMB75.0 million.

INDUSTRY REVIEW

According to the Outline of Development of Textile Industry (2011-2020) issued by the China National Textile and Apparel Council, the annual growth rate in the production value of the textile market in the PRC is expected to reach 12.5% for the period between 2011 to 2020. By 2020, the production value of the textile market in the PRC is expected to be twice as that of 2010 and the percentage of expenditure on clothing to the total expenditures by PRC residents is expected to reach approximately 14.5%.

While demand for textiles kept growing, textile enterprises had been affected by the differentiation in domestic and overseas cotton prices. Yet, with the potential implementation of pilot scheme to subsidize farmers and the proposed changes in purchases of cotton by the Chinese government, it is hopeful that the differences between domestic and international cotton prices will be narrowed. In addition, as predicted in the report on cotton demand by the US Department of Agriculture in December 2013, it reduced the global cotton output forecast by 3.5% while raising the cotton consumption estimates by 2.1%.

BUSINESS REVIEW

We principally engage in the production and sales of fabrics and yarns in the PRC. We currently offer five series of fabrics: (i) interwoven fabric with multi-fibres series; (ii) slub series; (iii) blended fabric series; (iv) stretch fabric series; and (v) pure cotton series. Our fabric products are principally used in the manufacturing of apparel including casual wear and business trousers, shorts, shirts and outer suit jackets. All of our products are tailor-made according to customers' specifications.

We commenced our yarns business in May 2012. The yarns we produce are cotton yarns. We also use the yarns we produce for our fabric production. For the years ended 31 December 2013, approximately 14.6% of the yarns we produced were used for our fabrics production.

MANAGEMENT DISCUSSION AND ANALYSIS

At present, we have two production facilities, namely, Shishi Production Facilities and Hubei Production Facilities. The Shishi Production Facilities first commenced production in June 2006 and are used for production of fabrics with reed width of up to 1.9 metres and yarns while the Hubei Production Facilities is our new production facilities. Our Hubei Production Facilities will be implemented in three phases and the first phase of which commenced operation in June 2013. Our Hubei Production Facilities can be used for production of fabrics with reed width of up to 2.3 metres and yarns after the completion of the construction of the three phases.

The construction of the second phase of Hubei Production Facilities has not yet been commenced at the date of this annual report.

Our revenue increased to approximately RMB791.5 million in 2013. We will continue to focus on expanding our production capacity and increasing our market presence in the PRC.

Going forward, we will continue to focus on our two existing business segments, namely, fabrics and yarns, through continuing the construction of our Hubei Production Facilities.

FINANCIAL REVIEW

Revenue for 2013 compared with 2012

	Year ended 31 December			
	2012		**2013**	
	RMB'000	% to total revenue	**RMB'000**	**% to total revenue**
Fabrics	360,449	88.9	**680,352**	**86.0**
Yarns	44,837	11.1	**111,166**	**14.0**
Total	405,286	100.0	**791,518**	**100.0**

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Our revenue increased by 95.3% from approximately RMB405.3 million for the year ended 31 December 2012 to approximately RMB791.5 million for the year ended 31 December 2013. Such significant increase in the revenue was mainly due to the following factors:

(i) revenue of our fabrics products increased from approximately RMB360.4 million in 2012 to RMB680.4 million in 2013. Such increase in the revenue of our fabrics products was primarily due to (1) our ability to meet customers' requirements and specifications, market preference and fashion trend so as to offer a wide range of fabrics products to our customers. The types of our fabrics products offered to our customers increased significantly from 158 types in 2012 to 441 types in 2013; and (2) the commencement of operation of our Hubei Production Facilities in June 2013 which further expanded our designed annual production capacity for fabrics from 22,798 km as at 31 December 2012 to 46,247 km as at 31 December 2013 in order to support the increase in purchase orders;

(ii) revenue of our yarns products increased from approximately RMB44.8 million in 2012 to RMB111.2 million in 2013. Such increase in the revenue of our yarns products was primarily due to the commencement of yarns business in May 2012 while the results of such business was recorded for the whole year ended 31 December 2013;

(iii) our success in widening the customer base of both fabrics and yarns products. The number of customers of fabrics and yarns products increased from 375 and 28 in 2012 to 401 and 41 in 2013 respectively;

(iv) we strategically focus on providing a large variety of tailor-made products instead of mass production of a few standardised products. We have strong research and development capabilities which enable us to respond promptly to changes in market preference and trend by provision of tailor-made products to our customers. Our Directors believe that this flexibility and our target positioning in the market differentiates us from the domestic enterprises which mainly engage in mass production; and

(v) although the PRC textile market is highly competitive, our Directors consider that our growth in the sales of fabric and yarns products in 2013 was broadly in line with the growth in the PRC textile market as a whole from approximately RMB3,478.1 billion in 2008 to an estimate of approximately RMB7,282.4 billion in 2015. Higher growth was primarily due to our success in offering a variety of fabrics with different features and specifications according to our customers' needs.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of sales

The increase in cost of sales by 95.1% from approximately RMB329.7 million for the year ended 31 December 2012 to approximately RMB643.4 million for the year ended 31 December 2013 was mainly due (i) the increase in the use of raw materials as a result of our business expansion; and (ii) the increase in the subcontracting dyeing charges as a result of our customers' requirement for such fabrics products.

Since the commencement of operation of our Hubei Production Facilities, which was originally scheduled to operate in March 2013, was delayed to June 2013, we purchased grey fabrics of approximately RMB44.0 million in 2013 from third parties in order to reduce our production measures to satisfy our then customers' need. This was only a temporary arrangement to cater for the aforesaid situation and such arrangement was ceased in the third quarter of 2013 and we currently do not have any intention to do the same in the future.

Gross profit and gross profit margin

The increase in gross profit by 96.0% from approximately RMB75.6 million for the year ended 31 December 2012 to approximately RMB148.2 million for the year ended 31 December 2013 was mainly due to (i) the increase in the sales of interwoven fabric with multi-fibres series given that the gross profit generated from such series accounted for more than 80% of the total gross profit of the fabrics business segment for year ended 31 December 2013; and (ii) the increase in the sales of yarns products as a result of the full operation for the year ended 31 December 2013 while such business segment commenced in May 2012.

Although we recorded significant growth in the revenue and gross profit in 2013 as compared to the same in 2012, the gross profit margin remained relatively stable at approximately 18.7% for the years ended 31 December 2012 and 2013. The gross profit margin of fabrics business also remained at a similar level for the years ended 31 December 2012 and 2013. The gross profit margin of our yarns business increased from approximately 11.6% for the year ended 31 December 2012 to approximately 12.6% for the year ended 31 December 2013. It was primarily because our yarns business was still at the preliminary stage in 2012 resulting in lower gross profit margins during such period.

Selling expenses

The increase in selling expenses by 57.1% from approximately RMB1.4 million for the year ended 31 December 2012 to approximately RMB2.2 million for the year ended 31 December 2013 was mainly due to the incurrence of transportation expenses of approximately RMB0.8 million in 2013 which primarily represented delivery cost for those customers who are not situated near our production facilities and transfer of inventories between our Shishi Production Facilities and our Hubei Production Facilities, the operation of which commenced in June 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative expenses

The increase in administrative expenses by 128.0% from approximately RMB13.8 million for the year ended 31 December 2012 to approximately RMB31.5 million for the year ended 31 December 2013 was mainly due to (i) the professional fees for the Listing of approximately RMB9.4 million was recognised in 2013 while no such fee was recognised in 2012; and (ii) there was an increase in the wage rate and the number of our administrative staff.

Other income – net

The significant increase in other income - net by 318.2% from approximately RMB1.1 million for the year ended 31 December 2012 to approximately RMB4.6 million for the year ended 31 December 2013 was mainly due to the increase in government subsidies received in relation to the encouragement of developing domestic enterprise of approximately RMB1.0 million and technological improvement fund in relation to our fabric project of approximately RMB3.4 million.

Finance income

The increase in finance income by 4.6% from approximately RMB1.3 million for the year ended 31 December 2012 to approximately RMB1.4 million for the year ended 31 December 2013 was mainly due to the increase in the average balance of bank and restricted bank deposits for the year ended 31 December 2013.

Finance costs

The increase in finance costs by 8.1% from RMB15.7 million for the year ended 31 December 2012 to approximately RMB17.0 million for the year ended 31 December 2013 was mainly due to the increase in the average balance of borrowings in order to meet our needs of working capital as a result of our business expansion as well as to finance the construction of our Hubei Production Facilities.

Income tax expense

The increase in income tax expense by 132.7% from approximately RMB12.3 million for the year ended 31 December 2012 to approximately RMB28.5 million for the year ended 31 December 2013 primarily was due to the increase in the net profit before tax from approximately RMB47.1 million in 2012 to approximately RMB103.5 million in 2013. The effective tax rate increased from 26.0% for the year ended 31 December 2012 to 27.6% for the year ended 31 December 2013 mainly due to the increase in expense not deductible for the Listing.

Profit and total comprehensive income for the year attributable to owners of our Company

The increase in profit for the year from continuing business and total comprehensive income and profit for the year attributable to owners of the company by 115.2% from approximately RMB34.8 million for the year ended 31 December 2012 to approximately RMB75.0 million for the year ended 31 December 2013 was in line with the increase in the revenue and gross profit for the same year with the reasons stated above.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to satisfy our working capital needs and our capital expenditure needs. Since our establishment, our working capital needs and capital expenditure requirements have been principally financed through a combination of shareholders' equity, cash generated from operations, bank borrowing and other borrowings.

The Group adopts a prudent cash and financial management policy. In order to achieve better cost control and minimize the cost of funds, the Group's treasury activities and centralised and cash and cash equivalents are generally deposited with financial institutions such as banks denominated mostly in Renminbi and Hong Kong dollars.

Net Current Liabilities and Working Capital

The following table sets forth our current assets, current liabilities, current ratio, quick ratio, gearing ratio and debt to equity ratio as at 31 December 2013:

	As at 31 December	
	2012	**2013**
	RMB'000	**RMB'000**
Current assets		
Inventories	62,533	**75,647**
Trade and other receivables	88,015	**167,228**
Cash and cash equivalents	7,278	**47,922**
Restricted bank deposits	48,954	**32,799**
Total current assets	206,780	**323,596**
Current liabilities		
Borrowings	132,686	**182,727**
Trade and other payables	65,436	**156,379**
Notes payables	111,848	**70,498**
Current income tax liabilities	7,789	**18,432**
Total current liabilities	317,759	**428,036**
Net current liabilities	(110,979)	**(104,440)**
Current ratio	65.1%	**75.6%**
Gearing ratio	88.3%	**103.5%**

MANAGEMENT DISCUSSION AND ANALYSIS

	Year ended 31 December	
	2012	**2013**
	RMB'000	**RMB'000**
Capital expenditures		
Shishi Production Facilities		
– Land and buildings	29,247	**8,678**
– Plant and equipment	56,008	**1,507**
	85,255	**10,185**
Hubei Production Facilities		
– Land and buildings	51,625	105,798
– Plant and equipment	17,781	90,749
	69,406	**196,547**
	154,661	**206,732**

As at 31 December 2013, we recorded net current liabilities of approximately RMB104.4 million (2012: RMB110.0 million), and our current ratio as at 31 December 2013 was approximately 75.6% (2012: 65.1%).

INDEBTEDNESS

Our outstanding balance of borrowings from banks and other financial institutions, finance lease liabilities, other borrowings and loans from government as at 31 December 2013 were approximately RMB268.1 million (2012: RMB151.9 million).

Contingent Liabilities

As at 31 December 2013, the Group did not have significant contingent liabilities or guarantees.

Charge on Assets

Details of the Group's charge on assets are set out in Note 7 to the financial statements.

Leasehold land, property, plant and equipment

The Company's leasehold land, property, plant and equipment situated at Shishi and Hubei Production Facilities are land and various buildings in the manufacturing plants. The Company has 100% interest of 2 parcels of land located at Da Sheng Guan Shan Industrial Zone, Huangmei County, Huanggang City, Hubei Province, the PRC with gross floor area of approximately 99,903 square metres and its capital value of approximately RMB11,469,000 as at 28 February 2014. These pieces of land are now vacant and prepared for the development of second and third phase construction of our Hubei Production Facilities.

MANAGEMENT DISCUSSION AND ANALYSIS

Valuation of Properties

For the purpose of listing of the Company's shares on the main board of the Stock Exchange in April 2014, a valuation was conducted on the property interests held by the Group. However, those property interests were still carried at historical costs less accumulated depreciation and impairment, if any, on the Group's financial statements.

By reference to the property valuation as set out in Appendix III to the prospectus of the Company dated 10 April 2014, a relevant surplus of approximately RMB12.2 million was valued in respect of the property interests of the Group as at 28 February 2014. Were the property stated at that valuation, the deprecation charge per year would have increased by approximately RMB305,000.

Use of Proceeds

The shares of the Company were listed on the Stock Exchange on 25 April 2014. Net proceeds from the Global Offering were approximately HK$163.0 million (after deducting the underwriting commission and relevant expenses and assuming that the Over-allotment Option is not exercised) which are to be used in the manner as set out in the Prospectus.

Employees and Emoluments

As at 31 December 2013, the Group employed a total of 898 full-time employees which included management, sales and marketing, procurement, production, quality control and research and product development staff. For the year ended 31 December 2013, the Group's total expenses on the remuneration of employees excluding Directors' was RMB25.3 million, representing 3.2% of the revenue of the Group.

Our emolument policies are formulated based on the performance of individual employee which will be reviewed periodically. Apart from the provident fund scheme (operation in accordance with the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or social insurance fund (including retirement pension, insurance, medical insurance, unemployment insurance and injury insurance and maternity insurance for the PRC employees), discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance. No options have been granted under Company's share option scheme.

Commitments

Details of the Group's commitments are set out in Note 29 to the financial statement.

Material Acquisition and Disposals of Significant Investments

The Group did not have any material investments or capital assets, or material acquisitions or disposals of subsidiaries or significant investments for the year ended 31 December 2013.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Lin Qingxiong (林清雄) (also known as Lin Shiti (林詩體)), aged 47, is our chairman and executive Director. Mr. Lin co-founded Hongtai (China) with Mr. Qiu and an Independent Third Party in 2004. Mr. Lin is responsible for the overall development and strategy of our Group and has played an important role in establishing our Group's presence in the PRC textile and clothing industry. Mr. Lin has over 10 years of experience in the textile and clothing industry in the PRC. Prior to founding Hongtai (China) in 2004, Mr. Lin founded Shishi Gang Yi Dyeing Finishing & Wearing Co., Ltd. (石獅市港溢染整織造有限公司) which was engaged in the textile, clothing and dyeing industry, in July 2001, where he acted as the director and vice general manager until April 2009. Shishi Gang Yi Dyeing Finishing & Wearing Co., Ltd. is one of our suppliers since 2006. Mr. Lin disposed of his 27% equity interest in Shishi Gang Yi Dyeing Finishing & Wearing Co., Ltd. in May 2009 to an Independent Third Party because Mr. Lin decided to focus on the business development of our Group. Mr. Lin was appointed as the standing director of the first council of China Chamber of International Commerce Shishi Chamber of Commerce (中國國際商會石獅市商會首屆理事會) in December 2005. In December 2011, he was appointed as the vice standing president of the third council of Shishi Textile & Garments Commerce Chamber (石獅市紡織服裝商會第三屆理事會). Mr. Lin was appointed the president of the second council of Shishi Hongshan Chamber of Commerce (石獅鴻山商會第二屆理事會) in November 2012 and the vice president of Shishi Federation of Industry & Commerce (石獅市工商業聯合會(總商會)) in May 2013.

Mr. Qiu Zhiqiang (邱志強), aged 45, is our executive Director and the general manager of Hongtai (China). Mr. Qiu was one of the co-founders of Hongtai (China) in 2004. Mr. Qiu is primarily responsible for the daily operation of our Group and overseeing our sales department and procurement department. Mr. Qiu has about 24 years of experience in the textile and clothing industry. From 1989 to 2003, he worked in the production, development and sales of textile products in the Philippines, Mr. Qiu became a member of Textile Producers Association of the Philippines, Inc. (菲律賓紡織同業公會) in October 1996. Mr. Qiu had engaged in the development of the textile industry and sales and development of textile products in the Philippines. In October 1996, he was appointed as the member of the Philippine Cotton Goods Wholesalers Association. Mr. Qiu was appointed as the committeemember of the first council of Shishi Youth Chamber of Commerce (石獅市青年商會第一屆理事會) in 2011. He was primarily responsible for the sales and procurement of textile products.

Mr. Deng Qinghui (鄧慶輝), aged 42, is our executive Director, the vice general manager of Hongtai (China) and the head of our administration and human resources department. Mr. Deng completed a computer information management course in Peking University in July 2004. Mr. Deng joined our Group in March 2010. Prior to joining our Group, Mr. Deng was the human resources manager of Xingye Leather Technology Co., Ltd. (興業皮革科技股份有限公司), a company engaging in the leather industry in the PRC and listed on the Shenzhen Stock Exchange (Stock code: 002674) in 2012, from 2006 to 2007. From September 2007 to June 2009, Mr. Deng was the human resources director of Fujian Fuma Food Group Limited (福建福馬食品集團有限公司) which carried out food production business in the PRC. Mr. Deng obtained the qualification of National Corporate Trainer (企業培訓師) in the PRC in 2007. He was also awarded as the "Advanced Worker of the Human Resources of the National Textile Industry" ("全國紡織業人力資源工作先進工作者") by the China National Textile and Apparel Council (國家紡織人才交流培訓中心) in 2013.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yu Yubin (俞毓斌), aged 42, was appointed as our independent non-executive Director on 27 March 2014. Mr. Yu graduated with a bachelor's degree in English from Fujian Normal University in June 1999. Mr. Yu is currently a practicing lawyer at Titan & Partners and prior to joining Titan & Partners in July 2009. He was a teacher at the senior section of Fujian Jinjiang Yang Zheng Secondary School (福建晉江養正中學高中部) from August 1992 to June 2003. Mr. Yu then worked in Xingye Leather Technology Co., Ltd. (興業皮革科技股份有限公司) from 2003 to 2009.

Mr. Ma Chongqi (馬崇啟), aged 49, was appointed as our independent non-executive Director on 27 March 2014. Mr. Ma graduated from Tianjin Polytechnic University with a major in textile engineering (紡 織 工 程) (formerly known as Tianjin Institute of Textile Science and Technology) in July 1987. Mr. Ma has been a professor at Tianjin Polytechnic University since October 2010. Mr. Ma has been teaching at Tianjin Polytechnic University since July 1987 as an assistant lecturer from July 1988 to September 1993, a lecturer from October 1993 to September 2000 and an assistant professor from October 2000 to September 2010. Mr. Ma is currently a member of the first expert committee of the China Wool Textile Association (中國毛紡織行業協會第一屆專家委員會) and a standing director of the fourth council of the China Wool Textile Association (中國毛紡織行業協會第四屆理事會).

Mr. Chan Sui Wa (陳瑞華), aged 39, was appointed as our independent non-executive Director on 27 March 2014. Mr. Chan has over 13 years of experience in auditing, finance and accounting. Mr. Chan graduated with a bachelor's degree in business administration from the Hong Kong University of Science & Technology in November 1997 and obtained a master's degree in corporate governance from the Hong Kong Polytechnic University in October 2011. Mr. Chan is currently a member of both of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Secretaries and Administrators. Mr. Chan is also a fellow member of Association of Chartered Certified Accountants. In November 2011, Mr. Chan joined Good Concept International Limited (明 創 國 際 有 限 公 司), a company engaging in the provision of financial advisory and company secretarial service, and is currently its financial consultant. Mr. Chan worked at Cacola Furniture International Limited, a company engaging in the home and office furniture business and listed on the Singapore Exchange (Stock code: D2U), as its group financial controller and joint company secretary from November 2006 to June 2009 and as its group financial controller from September 2010 to October 2011. From 2004 to 2006, Mr. Chan was the financial officer at Luxking Group Holdings Ltd (力王集團控股有限公司), a company engaging in the supply of adhesive tape products and listed on the Singapore Exchange (Stock code: L34). Mr. Chan was a senior auditor at PricewaterhouseCoopers, an accounting firm, from 2000 to 2003, a trainee accountant at KP Cheng & Co, an accounting firm, from 1999 to 2000 and Accountant II at Kwan Wong Tan & Fong, an accounting firm from June 1997 until the merger of that firm with Deloitte Touche Tohmatsu on 1 August 1997. He held the position of staff Accountant I at Deloitte Touche Tohmatsu from August 1997 to December 1998.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Zhang Wenwang (張文旺), aged 50, is the vice general manager of Hongtai (China) and the head of our production department. Mr. Zhang obtained a bachelor's degree from Tianjin Institute of Textile Science and Technology (天津紡織工學院) (now known as Tianjin Polytechnic University (天津工業大學)) with a major in textile engineering (紡織工程) in July 1983. Prior to joining our Group in 2011, Mr. Zhang had worked as the chief engineer of several enterprises in the PRC. In December 1995, Mr. Zhang was qualified as a senior engineer (高級工程師). Mr. Zhang was a member of Shanxi Province Enterprise Technology Innovation Committee (山西省企業技術創新專家委員會).

Ms. Liu Xuemin (劉學敏), aged 53, is the chief engineer of Hongtai (China) and the head of our research and development department. Ms. Liu obtained a bachelor's degree from Tianjin Institute of Textile Science and Technology (天津紡織工學院) (now known as Tianjin Polytechnic University (天津工業大學)) with a major in textile engineering (紡織工程) in July 1983. Prior to joining our Group in 2011, Ms. Liu had worked in the research and product development of several enterprises in the PRC. In December 1995, Ms. Liu was qualified as a senior engineer (高級工程師). Ms. Liu was appointed as a member of China Textile Engineering Society Cotton Textile Professional Committee Wearing Technology Group (中國紡織工程學會棉紡織專業委員會織造學組) in September 2003.

Mr. Siu Kai Chun (蕭啟晉) (formerly Siu Kwok Yee (蕭國義)), aged 45, is the chief financial officer and company secretary of our Group. Mr. Siu joined us in May 2013 and is primarily responsible for the overall financial management, corporate governance, investors relationship and financial operations of our Group. Mr. Siu has over 17 years of experience in auditing, finance and accounting. Mr. Siu graduated from the City University of Hong Kong with a bachelor's degree in business studies in December 1994 and completed the executive master of business administration programme at Lingnan (University) College, Sun Yat-sen University (中山大學嶺南(大學)學院), Guangzhou, China in November 2003. Mr. Siu is currently a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Siu is also an associate member of the Institute of Chartered Accountants in England and Wales. Prior to joining our Group, Mr. Siu was a senior manager at Ernst & Young Transactions Limited from June 2012 to May 2013. Mr. Siu was the financial controller from June 2003 to March 2005 and the chief financial officer from April 2005 to March 2012 at CHT (Holdings) Ltd., a company engaging in the manufacture and sale of adhesive tapes, respectively. Mr. Siu also worked as a senior auditor at Ernst & Young from 2000 to 2003, a senior accountant at Debbie Morgan Trading Limited in 1999 and a tax accountant and auditor at PricewaterhouseCoopers from 1994 to 1998.

CORPORATE GOVERNANCE REPORT

The Company has adopted the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as its own code of corporate governance. As the Company was not yet listed on the Stock Exchange during the year ended 31 December 2013 (the "Review Period"), the CG Code was not applicable to the Company for the whole Review Period and the period before the listing of the Company on the Stock Exchange on 25 April 2014 (the "Listing Date"). The manner in which the principles and code provisions in the CG Code are applied and implemented since the Listing Date and up to the date of this annual report (the "Period") is explained in this Corporate Governance Report.

CORPORATE GOVERNANCE

The Company is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company acknowledges the important role of its Board in providing effective leadership and direction to its business, and ensuring transparency and accountability of its operations.

In the opinion of the Directors, the Company has complied with the applicable code provisions as set out in the CG Code throughout the Period save for code provision A.1.8.

Code provision A.1.8 of the CG Code stipulates that the Company should arrange appropriate insurance cover in respect of legal action against its Directors. Currently, the Company does not have insurance cover for legal action against its Directors. As newly listed on the Stock Exchange, the Company is in the process of arranging such appropriate insurance. The Board believes with the current internal control system and the close supervision of the management, the Directors' risk of being sued or getting involved in litigation in their capacity as Directors is relatively low.

The Company will, from time to time, review and enhance its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.

THE BOARD OF DIRECTORS

Responsibilities

The Board is responsible for leadership and control of the Company and oversees the businesses, strategic decisions and performance of the Group. The Board has delegated to the executive Directors and senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

All Directors carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

CORPORATE GOVERNANCE REPORT

Board Composition

The Board currently comprises six members, consisting of three executive Directors and three independent non-executive Directors.

The Company has throughout the Period met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, and accounting or related financial management expertise. At all times during the Period, the independent non-executive Directors represent at least one-third of the Board.

The Board comprises the following Directors:

Executive Directors:

LIN Qingxiong *(Chairman)*

QIU Zhiqiang

DENG Qinghui

Independent non-executive Directors:

YU Yubin

MA Chongqi

CHAN Sui Wa

A description of the biographies of the Directors is set out in the section headed "Directors and Senior Management" in this annual report.

The list of Directors is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

All Directors, including the independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, Remuneration Committee and Nomination Committee of the Company.

The Board members have no financial, business, family or other material/relevant relationship with each other.

CORPORATE GOVERNANCE REPORT

Chairman and Chief Executive Officer

The chairman of the Company, Mr. Lin Qingxiong, leads the Board in the determination of the strategy of the Group and in the achievement of its objectives. He is responsible for organizing the business of the Board, ensuring its effectiveness and setting agenda but not involved in the day-to-day business of the Group.

The Company at present does not have a Chief Executive Officer. The duties and responsibilities of the Chief Executive Officer of daily operation of the Group are carried out by the executive Directors and they are accountable to the Board for financial and operational performance of the Group.

Appointment and Re-election of Directors

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years commencing from 27 March 2014, which may be terminated by not less than three months' notice. Each of the independent non-executive Directors has been appointed by the Company for an initial term of three years commencing from 27 March 2014, and such appointment may be terminated by not less than one month's written notice.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's articles of association. Pursuant to the Company's articles of association, all Directors are subject to retirement by rotation at least once every three years and any new Director appointed to fill a causal vacancy shall hold office until the first general meeting of the Company after his appointment and be eligible for re-election thereat and any Director appointed as an addition to the Board shall hold office until the next following annual general meeting of the Company after his appointment and be eligible for re- election thereat. Where vacancies arise at the Board, candidates will be proposed and put forward to the Board by the Nomination Committee.

Induction and Continuing Development of Directors

Each newly appointed Director receives comprehensive induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

According to code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding suitable training, as well as placing an appropriate emphasis on the roles, functions and duties of the Directors.

The Directors did not participate in any professional development courses during the Period. The Directors confirm that they will comply with the relevant code provision in the coming year.

CORPORATE GOVERNANCE REPORT

Board Meetings

Board Practices and Conduct of Meetings

Directors' resolutions were passed by way of written resolutions or by physical meetings during the Review Period.

The Board is expected to meet regularly and at least four times a year. The Directors have full access to information on the Group and independent professional advice at all times whenever deemed necessary by the Directors.

The Company has to comply with the CG Code provisions with regard to the conduct of meetings, have annual meeting schedules and draft agenda of each meeting made available to directors in advance and serve notice of regular Board meetings to all directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is required to be given.

Board papers together with all appropriate, complete and reliable information have to be sent to all Directors at least 3 days before each Board meeting or committee meeting to keep Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management where necessary.

The Company's articles of association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

No meeting of the Board was held during the Period. The Company expects to hold not less than four Board meetings each year.

BOARD COMMITTEES

The Company established a nomination committee (the "Nomination Committee"), a remuneration committee (the "Remuneration Committee") and an audit committee (the "Audit Committee") on 27 March 2014 with written terms of reference in compliance with the CG Code. The Company also established a regulatory compliance committee (the "Regulatory Compliance Committee") on 26 February 2014.

Nomination Committee

The Nomination Committee comprises three members who are all the independent non-executive Directors, namely Mr. Yu Yubin, Mr. Chan Sui Wa and Mr. Ma Chongqi. Mr. Yu Yubin is the chairman of the Nomination Committee.

The primary duties of the Nomination Committee include reviewing the Board structure and composition, developing and formulating relevant procedures for nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of directors, and assessing the independence of the independent non-executive Directors based on criteria such as integrity, accomplishment, experience, professional and educational background and time commitments.

CORPORATE GOVERNANCE REPORT

No Nomination Committee meeting was held during the Period. From 2014, the Nomination Committee will meet at least once a year.

Remuneration Committee

The Remuneration Committee comprises three members who are all the independent non-executive Directors, namely Mr. Ma Chongqi, Mr. Chan Sui Wa and Mr. Yu Yubin. Mr. Ma Chongqi is the chairman of the Remuneration Committee.

The primary functions of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive Directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his associates will participate in deciding his own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

No Remuneration Committee meeting was held during the Period. From 2014, the Remuneration Committee will meet at least once a year.

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of the senior management by band for the year ended 31 December 2013 is set out below:

In the band of	Number of individuals
Nil to HK$1,000,000	3

CORPORATE GOVERNANCE REPORT

Audit Committee

The Audit Committee comprises three members who are the independent non-executive Directors, namely Mr. Chan Sui Wa, Mr. Yu Yubin and Mr. Ma Chongqi. Mr. Chan Sui Wa is the chairman of the Audit Committee.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function, internal auditor or external auditors before submission to the Board.
- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendations to the Board on the appointment, re- appointment and removal of external auditors.
- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee oversees the internal control system of the Group, reports to the Board on any material issues, and makes recommendations to the Board.

No Audit Committee meeting was held during the Period. From 2014, the Audit Committee will meet at least once a year.

Regulatory Compliance Committee

The Regulatory Compliance Committee comprises of three members, namely Mr. Qiu Zhiqiang, Mr. Deng Qinghui and Mr. Siu Kai Chun. Mr. Qiu Zhiqiang is the chairman of the Regulatory Compliance Committee.

The primary duties of the Regulatory Compliance Committee is to ensure that the Group's business operations and activities are in compliance with the relevant laws and regulations, and the Regulatory Compliance Committee directly reports to the Board.

No Regulatory Compliance Committee meeting was held during the Period. From 2014, the Regulatory Compliance Committee will meet at least once a year.

CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY

The Nomination Committee is also responsible to review the Board diversity policy. The Board diversity policy ensures the Nomination Committee nominates and appoints candidates on merit basis to enhance the effectiveness of the Board so to maintain high standards of corporate governance. The Company sees diversity at the Board level as an essential element in maintaining a competitive advantage. The Company aims to ensure that Board appointments will be made on the basis of a range of diversity factors, including gender, age, cultural background, educational background, industry experience and professional experience. Selection of candidates to join the Board will be, in part, dependent on the pool of available candidates with the necessary skills, knowledge and experience. The ultimate decision will be based on merit and the contribution the chosen candidate will bring to the Board, having regard for the benefits of diversity on the Board.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the Period.

DELEGATION OF MANAGEMENT FUNCTIONS

The Board reserves for its decision all major matters of the Company including approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the executive Directors and the senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2013.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

The reporting responsibility of the external auditor of the Company on the consolidated financial statements of the Group are set out in the Independent Auditor's Reports in this annual report.

INTERNAL CONTROL AND RISK MANAGMENT

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets and with the support of the Audit Committee, reviewing the effectiveness of such system on an annual basis. The Group has developed its systems of internal control and risk management. The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group.

The Company has engaged an independent internal control consultant. The annual review of the Group's internal control system was not conducted during the Period. The annual review of the effectiveness of the internal control system of the Company including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget and also any non-compliances with the applicable laws and regulations, including bill-financing activities will be conducted as soon as possible when appropriate in 2014.

AUDITOR'S REMUNERATION

For the year ended 31 December 2013, the remuneration paid/payable to the Company's auditor, PricewaterhouseCoopers, amounted to approximately RMB1.3 million in respect of the annual audit service and amounted to approximately RMB2.3 million in respect of the service for acting as the reporting accountant and other services in relation to the Listing of the Company, respectively.

INDEPENDENT AUDITOR

The Audit Committee reviews and monitors the independent auditor's independence, objectivity and effectiveness of the audit process. It receives each year letter from the independent auditor confirming their independence and objectivity and holds meetings with representatives of the independent auditor to consider the scope of its audit, approve its fees, and the scope and appropriateness of non-audit services, if any, to be provided by it. The Audit Committee also makes recommendations to the Board on the appointment and retention of the independent auditor.

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

The company secretary of the Company, Mr. Siu Kai Chun, is a full-time employee of the Group. Please refer to his biographical details as set out on page 16 of this annual report.

Rights of Shareholders to Convene an Extraordinary General Meeting

Pursuant to article 58 of the articles of association of the Company, shareholders holding at the date of deposit of the requisition not less than one tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two 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.

Sending Enquiries to the Board and Procedures for Putting Forward Proposals at Shareholders' Meetings

Shareholders or investors can contact the Company in the following ways to make enquiry or to provide suggestions:

Contact Person: Mr. Siu Kai Chun, company secretary
Postal Address: Unit 02, 15th Floor, Convention Plaza Office Tower, 1 Harbour Road, Wanchai, Hong Kong

To put forward proposals at a general meeting, the shareholders should submit a written notice of those proposals with detailed contact information to the company secretary at the Company's principal place of business stated above.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Company continues to enhance communication and relationship with its investors. Enquiries from investors are dealt with in an informative and timely manner.

SHAREHOLDER RIGHTS

To safeguard shareholder interests and rights, a separate resolution would be proposed for each substantially separate issue at shareholder meetings, including the election of individual directors.

All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each shareholder meeting.

INVESTOR RELATIONS

The Articles were adopted on 27 March 2014 and there is no significant changes in the Articles since the date of adoption of the Articles up to the date of this report.

REPORT OF THE DIRECTORS

The Directors of the Company (the "Directors") are pleased to present the first annual report of the Company with the audited consolidated financial statements of the Group for the year ended 31 December 2013.

REORGANISATION

The Company was incorporated in the Cayman Islands on 29 April 2013 as an exempted company with limited liability under the Company Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Pursuant to a group reorganisation (the "Reorganisation"), which was completed on 10 October 2013 in preparation for listing the Company's shares on the Stock Exchange, the Company became the holding company of the subsidiaries comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 10 April 2014 (the "Prospectus").

PRINCIPAL ACTIVITIES

The Group is engaged in the design, manufacturing and sales of fabrics and yarns in the People's Republic of China. The principal activity of the Company is investment holding. Details of the principal activities of its principal subsidiaries are set out in note 9 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2013 are set out in the consolidated financial statements of this annual report.

RESERVES

Details of movement in the reserves of the Group for the year ended 31 December 2013 are set out in note 14 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

As at 31 December 2013, there was no reserve of the Company available for distribution (2012: nil).

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the aggregate sales attributable to the Group's largest and five largest customers were 4.8% and 21.6% of the Group's total sales respectively (2012: 7.5% and 26.7%). The aggregate purchases attributable to the Group's largest and five largest suppliers were 9.6% and 37.1% of the Group's total purchases respectively during the year under review (2012: 9.8% and 30.1%).

During the year, none of the Directors, their associates or any shareholders (who to the knowledge of the Directors owned more than 5% of the issued share capital of the Company) had any interest in any of the five largest customers or suppliers of the Group.

REPORT OF THE DIRECTORS

BANK AND OTHER BORROWINGS

Particulars of borrowings of the Company and the Group as at 31 December 2013 are set out in note 15 to the consolidated financial statements.

DONATIONS

The Group did not make any charitable and other donations during the year (2012: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of property, plant and equipment of the Group are set out in note 7 to the consolidated financial statements.

SHARE CAPITAL

Details of and reasons for movements in the share capital of the Company during the year under review are set out in note 13 to the consolidated financial statements.

THREE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last three financial years is set out on page 99-100 of this annual report.

PRE-EMPTIVE RIGHTS

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

DIRECTORS

The Directors of the Company during the year and up to the date of this report are as follows:

Executive Directors

Mr. Lin Qingxiong *(Chairman)*
Mr. Qiu Zhiqiang
Mr. Deng Qinghui

Independent non-executive Directors

Mr. Ma Chongqing
Mr. Yu Yubin
Mr. Chan Sui Wa

REPORT OF THE DIRECTORS

The Company has received, from each of the independent non-executive Directors, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors are independent.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an term of three years commencing from 27 March 2014. Each of the independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of three years commencing from 27 March 2014. None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the management on the basis of their merit, qualifications and competence.

The Remuneration Committee considers and recommends to the Board on the remuneration and other benefits paid by the Company to the Directors by reference to the Company's operating results, individual performance and comparable market rates. The remuneration of all Directors is subject to regular monitoring by the Remuneration Committee to ensure that the levels of their remuneration and compensation are appropriate.

As at 31 December 2013, the Group had an aggregate of 898 full-time employees. Employee costs excluding directors' amendments totalled RMB25.3 million for the year of 2013. The Group recruited and promoted individual persons according to their strength and development potential. The Group determined the remuneration packages of all employees including the Directors with reference to individual performance and current market salary scale.

Details of Directors' remuneration are set out in note 21 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the paragraph headed "Related Party Transactions and Connected Transactions", no contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries or its holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year under review.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding company, or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

The Company conditionally adopted the share option scheme on 27 March 2014, and such scheme has become effective on the Listing Date (the "Share Option Scheme"). The purpose of the Share Option Scheme is to recognize and acknowledge the contribution of the eligible participants made to the Group. The Board may, at its discretion, grant options pursuant to the Share Option Scheme to Directors (including the independent non-executive Directors), the Company's subsidiaries, employees of the Group and other persons the Board considers have contributed or will contribute to the Group. The maximum number of shares in respect of which options may be granted under the Share Option Scheme must not in aggregate exceed 10% of the issued share capital of the Company (i.e. 100,000,000 shares), unless otherwise approved by the shareholders of the Company in general meeting and/or other requirements prescribed under the Listing Rules. The subscription price of a share in respect of a particular option shall be not less than the highest of (a) the official closing price of the Shares on the daily quotation sheet of the Stock Exchange; (b) the average official closing price of the shares on the daily quotation sheet of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) the nominal value of a share. The Share Option Scheme shall remain effective within a period of 10 years from that date.

From the date that the Share Option Scheme became effective and unconditional and up to the date of this annual report, no share options were granted under the Share Option Scheme.

DISCLOSURE OF INTERESTS IN SECURITIES

A. Directors' interests in the shares of the Company

As at the date of this annual report, the interests and/or short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which will have to be 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 taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, once the shares are listed, will be as follows:

Name of Director	Capacity/Nature of interest	Number of shares held in the Company	Approximate percentage of shareholding in the Company
Mr. Lin Qingxiong	Interest of a controlled corporation	267,000,000 shares (note) (long position)	26.70%
Mr. Qiu Zhiqiang	Beneficial owner	135,000,000 shares (long position)	13.50%

Note:

These shares are held by Merit Lead Investments Limited, the entire issued share capital of which is owned by Mr. Lin Qingxiong.

REPORT OF THE DIRECTORS

Name of Director	Name of associated corporation	Capacity/Nature of interest	Number of shares held in the associated corporation	Approximate percentage of shareholding in the associated corporation
Mr. Lin Qingxiong	Merit Lead Investments Limited	Beneficial owner	One share of US$1.00 (long position)	100%

B. Substantial shareholders' interests in the shares of the Company

As at the date of this report, so far as the Directors are aware, the following persons (not being a Director or a chief executive of the Company) will have an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 5% or more of the Company's issued share capital:

Name of shareholder	Capacity/Nature of interest	Number of shares	Approximate percentage of shareholding in the Company
Merit Lead Investments Limited (note 1)	Beneficial owner	267,000,000 shares (long position)	26.70%
Mr. Cai Jinxu	Beneficial owner	112,500,000 shares (long position)	11.25%
Hong Kong Investments Group Limited (note 2)	Beneficial owner	66,750,000 shares (long position)	6.68%
Mr. Cheung Chi Mang	Interest of a controlled corporation	66,750,000 shares (long position)	6.68%

Notes:

1. Merit Lead Investments Limited is a company incorporated in the British Virgin Islands, the entire issued share capital of which is owned by Mr. Lin Qingxiong.

2. Hong Kong Investments Group Limited is a company incorporated in the British Virgin Islands, the entire issued share capital of which is owned by Mr. Cheung Chi Mang. Accordingly, Mr. Cheung Chi Mang is deemed to be interested in the shares held by Hong Kong Investments Group Limited.

REPORT OF THE DIRECTORS

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of the significant related party transactions undertaken in the normal course of business are provided under Note 30 to the financial statements, and none of which constitutes a discloseable connected transaction as defined under the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, from the Listing Date and up to the date of this report, the Company has maintained a sufficient public float of at least 25% of the Company's issued share capital as required under the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

As the Company's shares were not listed during the year under review, the issue regarding purchase, sale or redemption by the Company, or any of its subsidiaries of its listed securities is not applicable to the Company.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Each of the Directors has confirmed that he is neither engaged, nor interested, in any business which, directly or indirectly, competes or may compete with the Group's business.

NON-COMPETITION UNDERTAKINGS BY THE CONTROLLING SHAREHOLDERS

Each of Merit Lead Investments Limited, Mr. Lin Qingxiong, Mr. Qiu Zhiqiang and Mr. Cai Jinxu, being controlling shareholders of the Company, has entered into a deed of non-competition on 27 March 2014 (the "Deed of Non-Competition") so as to better safeguard the Group from any potential competition and so as to better safeguard the Group from any potential competition and to formalise the principles for the management of potential conflicts between them and to enhance its corporate governance in connection with the listing of the shares on the Stock Exchange.

The independent non-executive Directors were not required to review any matter in relation to compliance and enforcement of the Deed of Non-Competition during the Period.

CHARGE ON ASSETS

The leasehold land and land use rights with net book value of approximately RMB19,769,000 as at 31 December 2013 (2012: RMB1,365,000), was pledged as collaterals for certain borrowings from banks and other financial institutions of the Group (Note 15(a) of Accountant's Report of the prospectus).

As at 31 December 2013, buildings of the Group with net book value of approximately RMB100,512,000 (2012: RMB37,985,000), and machinery and equipment of the Group with net book value of approximately RMB38,920,000 (2012: RMB5,110,000) was pledged as collaterals for certain borrowings from banks and other financial institutions of the Group (Note 15(a) of Accountant's Report of the prospectus).

REPORT OF THE DIRECTORS

As at 31 December 2013, machinery and equipment of the Group with net book value of approximately RMB111,445,000 (2012: RMB65,889,000) was pledged as collaterals for certain other borrowings of the Group (Note 15(c) of Accountant's Report of the prospectus).

As at 31 December 2013, the restricted bank deposits of approximately RMB32.8 million (2012: RMB49.0 million) were pledged as security for issuing bank acceptance notes.

EXCHANGE RATE

The functional currency of the Company and its subsidiaries is RMB since the Company is an investment holding company and the operations carried out by its subsidiaries are in the PRC.

The Group has limited exposure to foreign exchange risk since it does not have sales or purchase transactions denominated in foreign currencies. The Group's exposure to foreign exchange risk is limited to the recognised assets or liabilities, such as other receivables (Note 11 to the Accountant's Report of the prospectus), cash and cash equivalents (Note 12 to the Accountant's Report of the prospectus), borrowings (Note 15 to the Accountant's Report of the prospectus) and other payables (Note 17 to the Accountant's Report of the prospectus). The Group does not hedge its foreign exchange risk during the Relevant Periods.

For the year ended 31 December 2013, if RMB had reasonably strengthened/weakened by 5% against HK$ with all other variables held constant, the post-tax profit for the year then ended would have changed by approximately RMB342,000 (2012: approximately RMB304,000) mainly as a result of foreign exchange gains/losses on translation of HK$ denominated monetary assets and liabilities (Note 3 to the Accountant's Report of the prospectus).

AUDITOR

The financial statements for the year ended 31 December 2013 have been audited by PricewaterhouseCoopers.

In the past three years, there is no change in auditors.

On behalf of the Board

Lin Qingxiong
Chairman

Hong Kong, 28 April 2014

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Wang Tai Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Wang Tai Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 35 to 98, which comprise the consolidated and company balance sheets as at 31 December 2013 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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 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 International Standards on Auditing issued by International Accounting Standards Committee. 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 judgment, 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 *(Continued)*

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 2013, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 April 2014

CONSOLIDATED BALANCE SHEET

As at 31 December 2013

	Note	As at 31 December 2013 RMB'000	As at 31 December 2012 RMB'000
ASSETS			
Non-current assets			
Leasehold land and land use rights	6	24,690	25,221
Property, plant and equipment	7	477,469	302,995
Deferred income tax assets	8	1,380	443
		503,539	328,659
Current assets			
Inventories	10	75,647	62,533
Trade and other receivables	11	167,228	88,015
Cash and cash equivalents	12	47,922	7,278
Restricted bank deposits	12	32,799	48,954
		323,596	206,780
Total assets		827,135	535,439
EQUITY			
Capital and reserve attributable to owners of the Company			
Share capital	13	1	—
Other reserves	14	130,266	113,382
Retained earnings		136,651	70,527
Total equity		266,918	183,909
LIABILITIES			
Non-current liabilities			
Borrowings	15	85,361	19,214
Other payables	17	29,875	—
Deferred income	16	16,945	14,557
		132,181	33,771

CONSOLIDATED BALANCE SHEET *(Continued)*

As at 31 December 2013

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
Current liabilities			
Borrowings	15	**182,727**	132,686
Trade and other payables	17	**156,379**	65,436
Notes payables	18	**70,498**	111,848
Current income tax liabilities		**18,432**	7,789
		428,036	317,759
Total liabilities		**560,217**	351,530
Total equity and liabilities		**827,135**	535,439
Net current liabilities		**(104,440)**	(110,979)
Total assets less current liabilities		**399,099**	217,680

The notes on pages 41 to 98 are an integral part of these consolidated financial statements.

The financial statements on pages 35 to 98 were approved by the Board of Directors on 27 March 2014 and were signed on its behalf.

COMPANY BALANCE SHEET

As at 31 December 2013

	Note	As at 31 December 2013 RMB'000
ASSETS		
Non-current assets		
Investment in a subsidiary	9	**241,413**
Current assets		
Other receivables	11	**1,234**
Total assets		**242,647**
EQUITY		
Capital and reserve attributable to owners of the Company		
Share capital	13	**1**
Other reserves	14	**241,482**
Accumulated losses		**(9,462)**
Total equity		**232,021**
Current liabilities		
Other payables	17	**10,626**
Total liabilities		**10,626**
Total equity and liabilities		**242,647**
Net current liabilities		**(9,392)**
Total assets less current liabilities		**232,021**

The notes on pages 41 to 98 are an integral part of these consolidated financial statements.

The financial statements on pages 35 to 98 were approved by the Board of Directors on 27 March 2014 and were signed on its behalf.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

		Year ended 31 December	
	Note	2013 RMB'000	2012 RMB'000
Continuing operations			
Revenue	5	**791,518**	405,286
Cost of sales	19	**(643,364)**	(329,681)
Gross profit		**148,154**	75,605
Selling expenses	19	**(2,189)**	(1,411)
Administrative expenses	19	**(31,477)**	(13,807)
Other income – net	22	**4,634**	1,121
Operating profit		**119,122**	61,508
Finance income	23	**1,368**	1,308
Finance costs	23	**(17,000)**	(15,722)
Finance costs – net		**(15,632)**	(14,414)
Profit before income tax		**103,490**	47,094
Income tax expense	24	**(28,516)**	(12,257)
Total comprehensive income and profit for the year, attributable to owners of the Company		**74,974**	34,837
Earnings per share for profit attributable to owners of the Company			
– Basic and diluted earnings per share (expressed in RMB per share)	25	**10.00 cents**	4.64 cents

The notes on pages 41 to 98 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

		Attributable to owners of the Company			
	Note	Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total Equity RMB'000
Balance at 1 January 2012		—	109,729	39,343	149,072
Comprehensive income:					
– Profit for the year		—	—	34,837	34,837
Appropriation to statutory reserves	14(b)	—	3,653	(3,653)	—
Balance at 31 December 2012		—	113,382	70,527	183,909
Comprehensive income:					
– Profit for the year		—	—	74,974	74,974
Transactions with owners:					
– Issue of new shares		1	—	—	1
– Waiver of amounts due to owners	14(a)	—	8,034	—	8,034
Appropriation to statutory reserves	14(b)	—	8,850	(8,850)	—
Balance at 31 December 2013		1	130,266	136,651	266,918

The notes on pages 41 to 98 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Note	Year ended 31 December 2013 RMB'000	2012 RMB'000
Cash flows from operating activities			
Cash generated from operations	27(a)	**79,230**	83,298
Income tax paid		**(18,810)**	(8,281)
Net cash generated from operating activities		**60,420**	75,017
Cash flows from investing activities			
Purchases of property, plant and equipment		**(148,890)**	(119,338)
Proceeds from disposal of property, plant and equipment	27(b)	**52**	—
Payments for leasehold land and land use rights		—	(18,998)
Cash received from government grants for purchase of non-current assets		**2,680**	14,606
Interest received		**1,368**	1,308
Repayments of advances to third parties		**4,855**	262
Advances granted to shareholders		—	(90,569)
Repayments of advances to shareholders		**158**	161,877
Advances granted to a related party		—	(6,152)
Repayments of advances to a related party		—	39,444
Net cash used in investing activities		**(139,777)**	(17,560)
Cash flows from financing activities			
Proceeds from borrowings and notes payables		**360,344**	189,094
Repayments of borrowings and notes payables		**(248,796)**	(246,757)
Net (increase)/decrease of restricted bank deposits		**16,155**	12,543
Proceeds from borrowing from shareholders		**59,598**	121,692
Repayments of borrowings from shareholders		**(53,706)**	(116,690)
Interest and bank charges paid		**(12,360)**	(10,559)
Share issuance cost		**(1,234)**	—
Net cash (used in)/generated from financing activities		**120,001**	(50,677)
Net (decrease)/increase in cash and cash equivalents		**40,644**	6,780
Cash and cash equivalents at beginning of the year		**7,278**	498
Cash and cash equivalents at end of the year		**47,922**	7,278

The notes on pages 41 to 98 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

1 GENERAL INFORMATION OF THE GROUP, REORGANISATIONS AND BASIS OF PRESENTATION

Wang Tai Holdings Limited (the "Company") was incorporated in the Cayman Islands on 29 April 2013 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company in Hong Kong is at Unit 02, 15th Floor, Convention Plaza Office Tower, 1 Harbour Road, Wanchai, Hong Kong.

The Company is an investment holding company and its subsidiaries are principally engaged in the design, manufacturing and sales of fabrics and yarns in the People's Republic of China (the "PRC").

The Company completed its initial public offering and its shares have been listed on The Stock Exchange of Hong Kong Limited on 25 April 2014.

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These Financial statements have been approved for issue by the Board of Directors on 28 April 2014.

Reorganisation

The principal business of the Group was previously carried out by Hongtai (China) Co., Ltd ("Hongtai (China)"), a subsidiary of the Company in the PRC. Hongtai (China), formerly named as Shishi Hongtai Textile Development Co., Ltd. prior to 26 July 2010, was previously owned by Mr. Lin Qingxiong ("Mr. Lin") as to 40%, Mr. Qiu Zhiqiang ("Mr. Qiu") as to 33% and Mr. Cai Jinxu ("Mr. Cai") as to 27%. Mr. Lin, Mr. Qiu and Mr. Cai have been acting as a group to make decisions together. On 22 June 2009, Hongtai Group (Int'l) Holding Limited ("Hongtai (Hong Kong)") was established by Mr. Lin, Mr Qiu and Mr. Cai. On 11 June 2010, pursuant to an equity transfer agreement, Mr. Lin, Mr. Qiu, and Mr. Cai transferred their respective equity interests in Hongtai (China) to Hongtai (Hong Kong) at a total consideration of HK$10 million. Thereafter, Hongtai (Hong Kong) became the holding company of Hongtai (China).

On 24 May 2012, Hongtai (China) set up Hongsheng (Hubei) Textile Co., Ltd. ("Hongsheng (Hubei)") as a wholly owned subsidiary. The principal business of Hongsheng (Hubei) is design, manufacturing and sales of fabrics and yarns in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

1 GENERAL INFORMATION OF THE GROUP, REORGANISATIONS AND BASIS OF PRESENTATION *(Continued)*

Reorganisation *(Continued)*

In preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited, in 2013, the Group underwent a further reorganisation (the "Reorganisation") as set out below:

(i) On 29 April 2013, the Company was incorporated in the Cayman Islands as an exempted company with limited liability with an authorised share capital of HK$1,000,000 divided into 10,000,000 shares of HK$0.10 each. One share of par value HK$0.10 was allotted and issued as nil paid to the initial subscriber, and was subsequently transferred to Mr. Lin, as nil paid share. The Company subsequently allotted and issued 3,999 shares to Mr. Lin, 3,300 shares to Mr. Qiu and 2,700 shares to Mr. Cai, all nil paid.

(ii) On 18 March 2013, Potent Union Holdings Limited ("Potent Union") was incorporated in the British Virgin Islands ("BVI"). On 23 May 2013, Potent Union allotted and issued 100 shares to the Company for cash at par.

(iii) On 10 September 2013, Mr. Lin, Mr. Qiu and Mr. Cai transferred their respective shareholding in Hongtai (Hong Kong) to Potent Union. In consideration of the transfers, Potent Union allotted and issued a total of 100 shares to the Company, as directed by Mr. Lin, Mr. Qiu and Mr. Cai.

On 10 October 2013, Mr. Lin, Mr. Qiu and Mr. Cai completed the transfer of certain shares in the Company to certain Pre-IPO investors pursuant to the relevant agreements entered into by Mr. Lin, Mr. Qiu, Mr. Cai and the Pre-IPO investors in 2012.

Upon completion of the Reorganisation, on 10 October 2013, the Company became the holding company of the companies now comprising the Group. The ultimate controlling parties of the Company remain as Mr. Lin, Mr. Qiu and Mr. Cai.

As at the date of this report, the Company had direct and indirect interests in the subsidiaries set out in Note 9 to these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.1.1 Going concern

As at 31 December 2013, the Group had current liabilities of RMB104,440,000. This condition indicated the existence of an uncertainty that may cast doubt about the Group's ability to continue its business as a going concern.

The Directors have been making effort to ensure that there is sufficient financing to the Group. Taking into account the funds generated internally from the Group's operations, the unutilised loan facilities of approximately RMB165.4 million available to the Group as at 31 December 2013, the Directors believe that the Group will be able to meet its debts and commitments as they fall due within the next twelve months after 31 December 2013. Accordingly, these financial statements have been prepared on a going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2013 and have a material impact on the Group:

- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

- IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. It also sets out the accounting requirements for the preparation of consolidated financial statements. The Group assessed that adoption of IFRS 10 did not result in any change in the consolidation status of its subsidiaries.

- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Changes in accounting policies and disclosures *(Continued)*

(a) New and amended standards adopted by the Group *(Continued)*

The following new and amended standards, and interpretations have been adopted by the Group for the first time for the financial year beginning on 1 January 2013 but not currently relevant or do not have material impact to the Group (although they may affect the accounting for future transactions and events):

IAS 1 (Amendment)	First time adoption, on government loans
IAS 16	Property plant and equipment
IAS 19 (Amendment)	Employee benefits
IAS 27 (Revised 2011)	Separate financial statements
IAS 28 (Revised 2011)	Associates and joint ventures
IAS 32	Financial instruments: Presentation
IFRS 7 (Amendment)	Financial instruments: Disclosures - Offsetting financial assets and financial liabilities
IFRS 11 (Amendment)	Transition guidance
IFRS 11	Joint arrangements
IFRIC 20	Stripping costs in the production phase of a surface mine

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Changes in accounting policies and disclosures *(Continued)*

(b) New standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2013 and have not been early adopted

		Effective for accounting period beginning on or later
IAS 32 (Amendment)	Financial instruments: Presentation-Offsetting financial assets and financial liabilities	1 January 2014
IAS 36 (Amendment)	Recoverable amount disclosures of non- financial assets	1 January 2014
IFRIC 21	Levies	1 January 2014
IFRS 9	Financial Instruments	1 January 2015(note)
IFRS 7 and IFRS 9 (Amendment)	Mandatory effective date and transition disclosures	1 January 2015
IFRS 8 (Amendment)	Operating segments	1 July 2014
IAS 16 (Amendment)	Property, Plant and Equipment	1 July 2014
IAS 24 (Amendment)	Related Party Disclosures	1 July 2014
IAS 38 (Amendment)	Intangible Assets	1 July 2014
IRFS 13 (Amendment)	Fair value measurement	1 July 2014
IFRS 14	Regulatory deferral accounts	1 January 2016

Note: As part of the Limited Amendments to IFRS 9 project, the IASB decided in November 2013 to defer the mandatory effective date of IFRS 9. The IASB agreed that the mandatory effective date should no longer be annual periods beginning on or after 1 January 2015 but rather be left open pending the finalisation of the impairment and classification and measurement requirements. As a result of these decisions and the changes being proposed to IFRS 9, the transitional guidance will change.

Management is in the process of making an assessment of the impact of these new standards, amendments to existing standards and interpretation on the financial statements of the Group in the initial application. The adoption of above is not expected to have a material effect on the Group's operating results or financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also 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.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors, Mr. Lin Qingxiong ("Mr. Lin"), Mr. Qiu Zhiqiang ("Mr. Qiu") and Mr. Deng Qinghui ("Mr. Deng") ("the Management") that makes strategic decisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation

(a) 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"). These consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit or loss within 'finance income or cost'. All other foreign exchange gains and losses are presented in the profit or loss within 'other income-net'.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) 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 rates on the dates the transactions);

(iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, corresponding exchange differences that are recorded in other comprehensive income are recognised in the profit or loss as part of the gains or losses on sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Leasehold land and land use rights

Leasehold land and land use rights are carried at their historical cost less accumulated amortisation. It is amortised over its contractual life (from date of availability to termination of contract) using the straight-line method over 50 years.

2.6 Property, plant and equipment

Buildings comprise mainly factories and offices. Plant and equipment classified as finance lease and all other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Construction-in-progress represents properties under construction and is stated at cost less accumulated impairment losses. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated until such time as the assets are completed and are ready for operational use.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

–	Buildings	20 years
–	Machinery and equipment	10 years
–	Office equipment, furniture and vehicles	5 years

The assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other income-net' in the profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of an impairment at each reporting date.

2.8 Research and development expense

Costs associated with making research on developing new products are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique fabrics products controlled by the Group are recognised as intangible assets when the following criteria are met:

– It is technically feasible to complete the fabrics and yarns products so that it will be available for use;

– Management intends to complete the fabrics and yarns products and use or sell it;

– There is an ability to use or sell the fabrics and yarns products;

– It can be demonstrated how the fabrics and yarns products will generate probable future economic benefits;

– Adequate technical, financial and other resources to complete the development and to use or sell the fabrics and yarns products are available; and

– The expenditure attributable to the fabrics and yarns products during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Financial assets

2.9.1 Classification

The Group classifies its financial assets under the category of loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' and 'restricted bank deposits' in the consolidated balance sheets (Notes 2.13 and 2.14).

2.9.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date-the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated profit or loss.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Restricted bank deposits are excluded from cash and cash equivalents.

2.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade, notes and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade, notes and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade, notes and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

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

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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 end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Borrowings costs

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

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.

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

2.19 Current and deferred income tax

The income tax expense for the year comprises current and deferred income tax.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Current and deferred income tax *(Continued)*

(b) Deferred income tax *(Continued)*

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 Employee benefits

The Group entities in Mainland China participate in defined contribution retirement benefit plans organized by relevant government authorities for its employees in Mainland China and contribute to these plans based on certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans.

The Group has no further obligation for post-employment benefits beyond the contributions made. The Group’s contributions to these plans are charged to the consolidated profit or loss as incurred.

2.21 Provision

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the profit or loss on a straight-line basis over the expected lives of the related assets.

2.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

(a) **Sales of goods**

Revenue from the sales of goods is recognised when the risk and reward of the goods has been transferred to the customer, which is usually when the customer has picked up the products from the Group's warehouse or the Group has delivered the products to the customer's warehouse, the collectability of the related receivables is reasonably assumed and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

(b) **Interest income**

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

(c) **Dividend income**

Dividend income is recognised when the right to receive payment is established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Leases

(a) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated profit or loss on a straight-line basis over the period of the lease.

(b) Finance leases

The Group leases certain plant and equipment under finance lease. Leases of plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Sale and leaseback transactions with a call option that is set at a significant discount to the expected fair value when it becomes exercisable and other factors indicate that the seller needs the asset to use on an ongoing basis (seller/lessee effectively controls the asset) are treated as secured borrowings instead of finance leases.

2.25 Dividend distribution

Dividend distribution to the owner is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the owners.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The functional currency of the Company and its subsidiaries is RMB since the Company is an investment holding company and the operations carried out by its subsidiaries are in the PRC.

The Group has limited exposure to foreign exchange risk since it does not have sales or purchase transactions denominated in foreign currencies. The Group's exposure to foreign exchange risk is limited to the recognised assets or liabilities, such as other receivables (Note 11), cash and cash equivalents (Note 12), borrowings (Note 15) and other payables (Note 17). The Group does not hedge its foreign exchange risk during the year ended 31 December 2013.

For the years ended 31 December 2013 and 2012, if RMB had reasonably strengthened/weakened by 5% against HK$ with all other variables held constant, the post-tax profit for each of the years then ended would have changed mainly as a result of foreign exchange gains/losses on translation of HK$ denominated monetary assets and liabilities. Details of the changes are as follows:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Post-tax profit increase/(decrease)	**813,798**	976,377
– Strengthened 5%	**342**	304
– Weakened 5%	**(342)**	(304)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. **FINANCIAL RISK MANAGEMENT** *(Continued)*

3.1 **Financial risk factors** *(Continued)*

(a) **Market risk** *(Continued)*

(ii) ***Cash flow and fair value interest rate risk***

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Except for cash and cash equivalents and restricted bank deposits, the Group has no other significant interest-bearing assets. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of cash and cash equivalents and restricted bank deposits are not expected to change significantly.

The Group's interest-rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The Group does not hedge its cash flow and fair value interest rate risk. The interest rates and terms of repayments of borrowings and are disclosed in Note 15.

For the years ended 31 December 2013 and 2012, if interest rates on cash and bank balances and borrowings had been higher/lower by 10% of current interest rate, with other variables held constant, post-tax profit for each of the years then ended would have been changed mainly as a result of higher/lower interest expense on floating rate net borrowings (cash and bank balances less borrowings from banks and other financial institutions). Details of the changes are as follows:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Post-tax profit increase/(decrease)	**813,798**	976,377
– Lower 10%	**109**	52
– Higher 10%	**(109)**	(52)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(iii) Price risk

Raw cotton and cotton yarns are the main raw materials for the Group's production. They account for a substantial portion of the Group's costs of sales. The prices of raw cotton and cotton yarns are affected by various factors which are beyond the control of the Group, such as changes in government policies, the supply-demand relation and other unexpected events. The fluctuations of the price may have favourable or unfavourable impacts on the Group. The Group monitors the changes in the market price of raw cotton and cotton yarns and makes purchases of raw materials when the prices are considered appropriate. The Group also maintains inventory of raw materials at a lower level when the market prices of raw cotton and cotton yarns decrease continually within a certain period. The Group did not enter into any hedging of its price risk during the year ended 31 December 2013.

(b) Credit risk

Credit risk arises from cash and cash equivalents, restricted bank deposits, trade and other receivables, as well as credit exposures to customers, including outstanding receivables, committed transactions and financial guarantees provided to third parties and related parties.

The Group has no significant concentrations of credit risk. The carrying amounts of cash and cash equivalents, restricted bank deposits, trade and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets. As at 31 December 2013, all cash and cash equivalents and restricted bank deposits were deposited into highly reputable and sizable banks and financial institutions without significant credit risk. For sales of goods, majority of the Group's sales are settled in cash on delivery of goods or advances before delivery. Credit will only be granted to selected customers with long-term relationship and good credit history. The Group performs ongoing credit evaluations of its customers' financial conditions and has policies in place to ensure that trade receivables are followed up on a timely basis. Advances will only be granted to third parties with long-term reliable relationship and certain related parties. The Group performs ongoing credit evaluations of their financial conditions and monitors the timely collection of the advances. Except for financial guarantees given by the Group as set out in Note 28, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees as at 31 December 2013 is disclosed in Note 28.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

Cash flow is managed at group level by the finance controller. The finance controller monitors the Group's liquidity requirements to ensure that it has sufficient cash to meet operational needs at all times and does not breach borrowing limits or covenants on any of its borrowing facilities. The finance controller usually takes into consideration the Group's debt financing plans, covenant compliance and compliance with internal balance sheet ratio targets.

The finance controller mainly invests surplus cash in time deposits, with appropriate maturities.

The tables below analyses the Group and Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows.

Group

	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Total RMB'000
As at 31 December 2013				
Borrowings – borrowings from banks and other financial institutions	153,680	8,452	14,135	176,267
Interest payable on bank borrowings	4,331	1,634	994	6,959
Borrowings – finance lease liabilities	5,883	1	—	5,884
Borrowings – other borrowings	21,548	11,086	2,753	35,387
Loans from government	6,500	1,500	51,500	59,500
Trade and other payables	83,397	8,025	21,850	113,272
Notes payables	70,498	—	—	70,498
	345,837	30,698	91,232	467,767

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

Group

	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Total RMB'000
As at 31 December 2012				
Borrowings – borrowings from banks and other financial institutions	111,241	502	—	111,743
Interest payable on borrowings from banks and other financial institutions	3,304	485	—	3,789
Borrowings – finance lease liabilities	5,899	5,884	—	11,783
Borrowings – other borrowings	19,482	12,345	1,882	33,709
Financial guarantees (Note 28)	21,000	—	—	21,000
Trade and other payables	38,615	—	—	38,615
Notes payables	111,848	—	—	111,848
	311,389	19,216	1,882	332,487

Company

	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Total RMB'000
As at 31 December 2013				
Trade and other payables	9,716	—	—	9,716

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holder and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holder, return capital to equity holder or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total equity. Total debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheets), amounts due to related parties and amounts due to third parties.

The gearing ratios as at 31 December 2013 and 2012 were as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Total borrowings (Note 15)	**268,088**	151,900
Amounts due to related parties (Note 17)	**8,283**	10,435
Total debt (a)	**276,371**	162,335
Total equity (b)	**266,918**	183,909
Gearing ratio (a)/(b)	**103.5%**	88.3%

The gearing ratio increased from 88.3% as at 31 December 2012 to 103.5% as at 31 December 2013 as a result of the increase in the borrowings to finance the investments in long-term assets of Hongsheng (Hubei) Texitile Co,. Ltd. ("Hongsheng (Hubei)"), a subsidiary of the Group.

3.3 Fair value estimation

The carrying amount of the Group's financial assets including trade and other receivables, cash and cash equivalents and restricted bank deposits and financial liabilities including trade and other payables (current portion) and borrowings are assumed to approximate their fair values due to their short-term maturities or related liabilities being charged at interest rates approximately to that of market. The carrying values less any estimated credit adjustments for financial assets with a maturity of less than one year are a reasonable approximation of their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its 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. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairment of trade and other receivables

The Group's management estimates the provision of impairment of trade and other receivables by assessing their recoverability. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible and require the use of estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of trade and other receivables and impairment charge in the period in which such estimate has been changed.

(c) Net realisable value of inventories

The Group's management estimates the provision of impairment of inventories by assessing their net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale. Provisions are applied to inventories where events or changes in circumstances indicate that the inventory cost may exceed the net realisable value and require the use of estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of inventories and impairment charge in the period in which such estimate has been changed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(d) Current income tax and deferred income tax

The Group is mainly subject to income tax in the Mainland China. Significant judgement is required in determining the provision for income tax. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. 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 provisions in the year in which such determination is made.

Deferred income tax assets and liabilities are determined using income tax rates that are expected to apply when the related deferred income tax assets are realised or the deferred income tax liabilities are settled. The expected applicable income tax rate is determined based on the enacted tax laws and regulations and the actual situation of the Group. The management of the Group will revise the expectation where the final income tax rate is different from the original expectation.

5. REVENUE AND SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Management. The Management reviews the Group's internal reporting in order to assess performance and allocate resources. The Management has determined the operating segments based on these reports. The Management considers the business and assesses the performance on the basis of product lines, including (i) fabrics and (ii) cotton yarns.

The manufacturing and sales of fabrics has been the core business of the Group during the years ended 31 December 2013 and 2012. In May 2012, the Group started the manufacturing and sales of cotton yarns. No geographical segment information is presented as all the sales and operating profits of the Group are derived within the PRC and all the operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

Segment assets consist primarily of land use rights, property, plant and equipment, inventories, trade and other receivables and prepayments. They exclude deferred income tax assets, prepaid tax, restricted bank deposits and cash and cash equivalents.

Segment liabilities comprise operating liabilities. They exclude borrowings from banks and other financial institutions, loans from government, current income tax liabilities and other payables due to related parties.

The segment information is set out below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2013

The Group was engaged in the manufacturing and sales of fabrics and yarns during the year ended 31 December 2013. The segment information is presented below:

	Fabrics RMB'000	Yarns RMB'000	Total RMB'000
Segment results			
Segment revenue	680,352	130,144	810,496
Inter-segment sales	—	(18,978)	(18,978)
External revenue	680,352	111,166	791,518
Segment profit	134,118	14,036	148,154
Other operating expenses			(33,666)
Other income – net			4,634
Finance costs – net			(15,632)
Profit before income tax			103,490
Income tax expense			(28,516)
Profit for the year			74,974
Other segment items			
Capital expenditure	205,077	1,655	206,732
Amortisation of leasehold land and land use rights	499	32	531
Depreciation of property, plant and equipment	24,752	7,364	32,116
As at 31 December 2013			
Segment asset and liabilities			
Segment assets	626,142	99,994	726,136
Unallocated assets			100,999
Total assets			827,135
Segment liabilities	281,802	20,433	302,235
Unallocated liabilities			257,982
Total liabilities			560,217

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2012

The Group was engaged in the manufacturing and sales of fabrics during the year ended 31 December 2012 and started the manufacturing and sales of yarns in May 2012. The segment information is presented below:

	Fabrics RMB'000	Yarns RMB'000	Total RMB'000
Segment results			
Segment revenue	360,449	67,831	428,280
Inter-segment sales	—	(22,994)	(22,994)
External revenue	360,449	44,837	405,286
Segment profit	70,407	5,198	75,605
Other operating expenses			(15,218)
Other income – net			1,121
Finance costs – net			(14,414)
Profit before income tax			47,094
Income tax expense			(12,257)
Profit for the year			34,837
Other segment items			
Capital expenditure	94,986	59,675	154,661
Amortisation of leasehold land and land use rights	180	34	214
Depreciation of property, plant and equipment	14,565	4,816	19,381

As at 31 December 2012

	Fabrics RMB'000	Yarns RMB'000	Total RMB'000
Segment asset and liabilities			
Segment assets	363,615	114,442	478,057
Unallocated assets			57,382
Total assets			535,439
Segment liabilities	166,363	55,200	221,563
Unallocated liabilities			129,967
Total liabilities			351,530

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

6. LEASEHOLD LAND AND LAND USE RIGHTS – GROUP

Leasehold land and land use rights represent the net book amount of prepaid operating lease payments. All the land use rights of the Group are located in the PRC and are held on leases with remaining periods of between 41 to 50 years.

Movements in leasehold land and land use rights are as follows:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
At beginning of year		
Cost	**26,556**	7,558
Accumulated amortisation	**(1,335)**	(1,121)
Net book amount	**25,221**	6,437
Opening net book amount	**25,221**	6,437
Additions	**—**	18,998
Amortisation for the year	**(531)**	(214)
Closing net book amount	**24,690**	25,221
At end of year		
Cost	**26,556**	26,556
Accumulated amortisation	**(1,866)**	(1,335)
Net book amount	**24,690**	25,221

The leasehold land and land use rights with net book value of approximately RMB19,769,000 and RMB1,365,000 as at 31 December 2013 and 2012, respectively, were pledged as collaterals for certain borrowings from banks and other institutions of the Group (Note 15(a)).

Amortisation expense has been charged to "Administrative expenses" in the profit or loss.

The Group has obtained land use right certificates of all the leasehold land of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

7. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Buildings RMB'000	Machinery and equipment RMB'000	Office equipment, furniture and vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2012					
Cost	60,348	102,570	1,370	68,782	233,070
Accumulated depreciation	(13,806)	(31,743)	(749)	—	(46,298)
Net book amount	46,542	70,827	621	68,782	186,772
Year ended 31 December 2012					
Opening net book amount	46,542	70,827	621	68,782	186,772
Additions	—	20,168	3,736	111,759	135,663
Transfer from construction in progress upon completion	73,714	41,467	—	(115,181)	—
Disposals (Note 27(b))	—	(45)	—	(14)	(59)
Depreciation (Note 19)	(5,296)	(13,794)	(291)	—	(19,381)
Closing net book amount	114,960	118,623	4,066	65,346	302,995
At 31 December 2012					
Cost	134,062	164,137	5,106	65,346	368,651
Accumulated depreciation	(19,102)	(45,514)	(1,040)	—	(65,656)
Net book amount	114,960	118,623	4,066	65,346	302,995
Year ended 31 December 2013					
Opening net book amount	114,960	118,623	4,066	65,346	302,995
Additions	873	3,401	911	201,547	206,732
Transfer from construction in progress upon completion	158,544	107,143	—	(265,687)	—
Disposals (Note 27(b))	—	(142)	—	—	(142)
Depreciation (Note 19)	(10,233)	(21,323)	(610)	—	(32,116)
Closing net book amount	264,144	207,752	4,367	1,206	477,469

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

7. PROPERTY, PLANT AND EQUIPMENT – GROUP *(Continued)*

	Buildings RMB'000	Machinery and equipment RMB'000	Office equipment, furniture and vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2013					
Cost	293,479	274,304	6,017	1,206	575,006
Accumulated depreciation	(29,335)	(66,552)	(1,650)	—	(97,537)
Net book amount	264,144	207,752	4,367	1,206	477,469

Depreciation expenses have been charged to the profit or loss as follows:

	Year ended 31 December 2013 RMB'000	2012 RMB'000
Cost of sales	27,267	16,021
Administrative expenses	4,849	3,360
	32,116	19,381

For the year ended 31 December 2013, the Group capitalised interest on borrowings amounting to approximately RMB1,181,000 (2012: RMB2,554,000) on qualifying assets, respectively. Borrowing costs were capitalised at the weighted average rate of 10.23% (2012: 10.23%) per annum for the years ended 31 December 2013, respectively.

As at 31 December 2013 and 2012, buildings of the Group with net book value of approximately RMB100,512,000 and RMB37,985,000, and machinery and equipment of the Group with net book value of approximately RMB38,920,000 and RMB5,110,000, respectively, were pledged as collaterals for certain borrowings from banks and other financial institutions of the Group (Note 15(a)).

As at 31 December 2013 and 2012, machinery and equipment of the Group with net book value of approximately RMB111,445,000 and RMB65,998,000, respectively, were pledged as collaterals for certain other borrowings of the Group (Note 15(c)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

7. PROPERTY, PLANT AND EQUIPMENT – GROUP *(Continued)*

As at 31 December 2013 and 2012, the net book value of the Group's machinery and equipment under finance leases were as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Cost	**16,325**	16,325
Accumulated depreciation	**(3,323)**	(2,800)
Net book amount	**13,002**	13,525

8. DEFERRED INCOME TAX – GROUP

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income tax related to the same tax authority.

The analysis of deferred income tax assets and deferred income tax liabilities as at 31 December 2013 and 2012 is as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Deferred income tax assets:		
– to be recovered after more than 12 months	**(448)**	(665)
– to be recovered within 12 months	**1,828**	1,108
	1,380	443

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

8. DEFERRED INCOME TAX – GROUP *(Continued)*

The gross movements on the deferred income tax accounts are as follows:

	Capitalised interest RMB'000	Accrued payroll RMB'000	Tax losses RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
At 1 January 2012	(669)	1,136	—	—	658	1,125
(Charged)/credited to the profit or loss	(597)	(129)	153	—	(109)	(682)
At 31 December 2012	(1,266)	1,007	153	—	549	443
(Charged)/credited to the profit or loss	(226)	736	(153)	670	(90)	937
At 31 December 2013	(1,492)	1,743	—	670	459	1,380

No deferred income tax liabilities for unremitted earnings of the PRC subsidiaries that was earned from 1 January 2008 to 31 December 2013 have been recognised as there is no plan of the dividends distribution of such earnings in the foreseeable future. Management intend to reinvest the earnings in the PRC permanently. As at 31 December 2013 and 2012, the undistributed profits of the PRC subsidiaries were approximately RMB155,256,000 and RMB71,365,000, respectively. The corresponding unrecognised deferred income tax liabilities were RMB15,526,000 and RMB7,137,000 as at 31 December 2013 and 2012, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

9. INVESTMENT IN A SUBSIDIARY – COMPANY

	As at 31 December 2013 RMB'000
Unlisted shares, at cost	241,413

As at 31 December 2013, investment in a subsidiary represented 100% equity interests in Potent Union Holdings Limited which is incorporated in BVI as a limited liability company and holds investments in subsidiaries now comprising the Group. On 10 September 2013, as part of the reorganisation, certain newly issued shares of Potent Union Holdings Limited were assigned by Mr. Lin, Mr. Qiu and Mr. Cai Jinxu ("Mr. Cai") to the Company immediately upon the completion of transfer of their equity interest in Hongtai Group (Int'l) Holding Limited to Potent Union Holdings Limited. Therefore, the Company became the holding company of the below subsidiaries now comprising the Group:

Name of subsidiaries	Place of incorporation and operation	Particulars of issued/registered and paid up capital	Effective interest held by the Group	Principal activities
Direct Interests:				
Potent Union	BVI	US$100	100%	Investment holding
Indirect Interests:				
Hongtai (Hong Kong)	Hong Kong	HK$10,000	100%	Investment holding
Hongtai (China)	Fujian, the PRC	HK$120 million	100%	Design, manufacturing and sales of fabrics and yarns
Hongsheng (Hubei)	Hubei, the PRC	RMB15 million	100%	Manufacturing and sales of fabrics and yarns
Hongtai (Hubei) Sales Co., Ltd. ("Hongtai (Hubei)")	Hubei, the PRC	RMB2 million	100%	Sales of fabrics and yarns

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

10. INVENTORIES – GROUP

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Raw materials and packaging materials	38,298	15,323
Work in progress	19,887	17,579
Finished goods	17,462	29,631
	75,647	62,533

The cost of inventories recognised as expenses and included in cost of sales amounted to approximately RMB568,395,000 and RMB281,510,000 for each of the years ended 31 December 2013 and 2012, respectively.

11. TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY

Group

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Trade receivables		
– Third parties	75,158	27,357
Notes receivables		
– Third parties	29,930	10,000
	105,088	37,357
Other receivables		
– Prepayments for purchase of raw materials	41,539	44,391
– Amounts due from related parties (Note 30(b) (ii))	—	158
– Amounts due from third parties	—	4,855
– Deductible value-added tax ("VAT") pending for validation	18,898	707
– Prepaid professional fees in respect of the initial public offering	1,234	—
– Others	469	547
	62,140	50,658
	167,228	88,015

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

11. TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY *(Continued)*

Group *(Continued)*

Notes:

(a) Trade and notes receivables

The Group has a large number of customers, mainly in Fujian province and nearby regions. There is no concentration of credit risk with respect to trade receivables. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. Majority of the Group's sales are based on cash upon delivery and the remaining sales are made with credit terms. Major customers with good repayment history are normally offered credit terms of not more than three months.

The ageing analysis of trade and notes receivables as at the balance sheet dates based on invoice date was as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Within 3 months	**96,991**	35,076
4 to 6 months	**8,095**	2,210
Over 6 months	**2**	71
	105,088	37,357

As at 31 December 2013 and 2012, trade receivables of approximately RMB8,097,000 and RMB2,281,000 were aged more than 3 months and regarded as past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amount can be recovered. The ageing analysis of these trade receivables is as follows:

	Group	
	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Past due within 3 months	**8,095**	2,210
Past due in 3 to 12 months	**2**	71
	8,097	2,281

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

11. TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY *(Continued)*

Group *(Continued)*

Notes: *(Continued)*

(a) Trade and notes receivables *(Continued)*

The carrying amounts of the Group's trade and notes receivables were all denominated in RMB and approximated their fair values as at the respective balance sheet dates.

As at 31 December 2013 and 2012, trade and notes receivables with carrying value of approximately nil and RMB6,250,000 were pledged to banks as security for the short-term loans of the Group amounting to nil and RMB5,000,000, respectively (Note 15(a)).

(b) Other receivables

The Group provided advances to related parties, as disclosed in Note 30(b) (ii), and certain third parties. These advances were unsecured, interest-free and repayable on demand. As at 31 December 2012, the amount due from related parties and third parties was not past due.

The carrying amounts of the Group's other receivables approximated their fair values and were denominated in RMB as at the balance sheet dates, except for other receivables amounting to RMB1,392,000 and RMB158,000, which were denominated in HK$, as at 31 December 2013 and 2012, respectively.

Company

	As at 31 December 2013 RMB'000
Prepaid professional fees in respect of the initial public offering	1,234

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

12. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS – GROUP

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Cash and cash equivalents		
Cash on hand and at banks	**47,922**	7,278
Restricted bank deposits	**32,799**	48,954
Total cash and bank balance	**80,721**	56,232

The restricted bank deposits represented deposits pledged as security for issuing bank acceptance notes (notes payables) (Note 18). The restricted bank deposits have deposit periods within one year and are interest bearing at 2.76% and 2.89% per annum during the years ended 31 December 2013 and 2012, respectively.

Cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
HK$	**105**	45
US$	**1**	—
RMB	**47,816**	7,233
	47,922	7,278

All restricted bank deposits are denominated in RMB.

The Group's bank balances denominated in RMB are deposited with banks in the PRC. Conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

13. SHARE CAPITAL – GROUP AND COMPANY

	Number of ordinary shares	Nominal value of ordinary shares HK$	Equivalent nominal value of ordinary shares RMB
Authorised:			
Ordinary shares of HK$ 0.1 each	10,000,000	1,000,000	780,000
Issued:			
Issue of shares to Mr. Lin	4,000	400	320
Issue of shares to Mr. Qiu	3,300	330	264
Issue of shares to Mr. Cai	2,700	270	217
Balance at 31 December 2013	10,000	1,000	801

The movements in share capital of the Company are as follows:

- The Company was incorporated in the Cayman Islands on 29 April 2013 as an exempted company with an authorised share capital of HK$1,000,000 divided into 10,000,000 shares of HK$0.10 each.
- One share was allotted and issued as nil paid to the initial subscriber on 29 April 2013, and was subsequently transferred to Mr. Lin on the same date as nil paid share. On the same date, the Company allotted and issued 3,999 shares to Mr. Lin, 3,300 shares to Mr. Qiu and 2,700 shares to Mr. Cai, all nil paid.
- Pursuant to a shareholders' resolution dated 27 March 2014, the authorised share capital of the Company was increased from HK$1,000,000 to HK$1,000,000,000 divided into 10,000,000,000 ordinary shares of par value HK$0.1 each by the creation of an additional 9,990,000,000 shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

14. OTHER RESERVES – GROUP AND COMPANY

Group

These financial statements have been prepared as if the current group structure had been in existence throughout each of the years ended 31 December 2013 and 2012 or since the respective dates of incorporation/establishment of the companies now comprising the Group, or since the date when these companies first came under the control of Mr. Lin, Mr. Qiu and Mr. Cai, where there is a shorter period. Apart from profit for the years, below are the movements in other reserves during the years ended 31 December 2013 and 2012:

	Capital reserves RMB' 000 Note (a)	Statutory reserves RMB' 000 Note (b)	Total RMB' 000
At 1 January 2012	105,476	4,253	109,729
Appropriation to statutory reserves	—	3,653	3,653
At 31 December 2012	105,476	7,906	113,382
Waiver of amounts due to owners	8,034	—	8,034
Appropriation to statutory reserves	—	8,850	8,850
At 31 December 2013	113,510	16,756	130,266

Notes:

(a) Capital reserves

The capital reserves of the Group mainly represent the reserves arising from the reorganisations.

In June 2013, Mr. Lin, Mr. Qiu and Mr. Cai waived the considerations payable by the Group's companies to them as the owners of the Group for the acquisition of the companies now comprising the Group during the reorganisation in 2010.

(b) Statutory reserve

In accordance with the PRC regulations and the articles of association of the companies now comprising the Group, before distributing the net profit of each year, companies registered in the PRC are required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under relevant PRC accounting standards to the statutory surplus reserve fund. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

14. OTHER RESERVES – GROUP AND COMPANY *(Continued)*

Company

	Capital reserves RMB'000
At 29 April 2013 (date of incorporation)	—
Acquisition of subsidiaries	**241,482**
At 31 December 2013	**241,482**

15. BORROWINGS – GROUP

	As at 31 December	
	2013 RMB'000	2012 RMB'000
Non-current		
Borrowings from banks and other financial institutions		
– secured	**22,587**	502
Finance lease liabilities	**1**	5,546
Other borrowings – secured	**12,773**	13,166
Loan from government – unsecured	**50,000**	—
	85,361	19,214
Current		
Borrowings from banks and other financial institutions		
– short term – secured	**101,000**	53,500
– short term – unsecured	**44,930**	52,000
– current portion of long term – secured	**7,750**	2,865
– current portion of long term – unsecured	—	2,876
Finance lease liabilities	**5,545**	4,982
Other borrowings – secured	**18,502**	16,463
Loans from government – unsecured	**5,000**	—
	182,727	132,686
	268,088	151,900

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

15. BORROWINGS – GROUP *(Continued)*

(a) Borrowings from banks and other financial institutions

The Group's borrowings from banks and other financial institutions were repayable as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Within one year	153,680	111,241
Between 1 and 2 years	8,452	502
Between 2 and 3 years	9,218	—
Between 3 and 4 years	4,917	—
	176,267	111,743

The secured borrowings from banks and other financial institutions were secured by the Group's leasehold land and land use rights, property, plants and equipment and trade receivables as detailed below. In addition, these borrowings from banks and other financial institutions were also supported by guarantees from related parties totalling RMB49,000,000 and RMB3,367,000 as at 31 December 2013 and 2012, respectively.

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Carrying amounts of collaterals:		
Leasehold land and land use rights (Note 6)	19,769	1,365
Buildings (Note 7)	100,512	37,985
Machinery and equipment (Note 7)	38,920	5,110
Trade receivables	—	6,250
	159,201	50,710

The unsecured borrowings from banks and other financial institutions of the Group were supported by guarantees from third parties and related parties jointly and severally in the amounts of RMB15,000,000 and RMB54,876,000 as at 31 December 2013 and 2012, respectively.

The weighted average effective interest rate on borrowings from banks and other financial institutions was10.76% and 10.30% per annum for each of the years ended 31 December 2013 and 2012, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

15. BORROWINGS – GROUP *(Continued)*

(a) Borrowings from banks and other financial institutions *(Continued)*

The carrying amounts of the Group's borrowings from banks and other financial institutions approximated their fair value as at the balance sheet dates.

The carrying amounts of the Group's borrowings from banks and other financial institutions were denominated in the following currencies as at the balance sheet dates:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
HK$	—	2,876
RMB	**176,267**	108,867
	176,267	111,743

(b) Finance lease liabilities

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Gross finance lease liabilities		
– minimum lease payments		
No later than 1 year	**5,883**	5,899
Later than 1 year and no later than 5 years	**1**	5,884
	5,884	11,783
Future finance charges on finance leases	**(338)**	(1,255)
Present value of finance lease liabilities	**5,546**	10,528

The present value of the finance lease liabilities was as follows:

No later than 1 year	5,545	4,982
Later than 1 year and no later than 5 years	1	5,546
	5,546	10,528

The rights to the leased assets will be reverted to the lessor in the event of default of the lease liabilities by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

15. BORROWINGS – GROUP *(Continued)*

(b) Finance lease liabilities *(Continued)*

The effective annual interest rate range of these finance lease arrangements were as follows:

	Year ended 31 December	
	2013	2012
Effective annual interest rate range	**11.07%**	9.13%~ 11.07%

The finance leases were supported by joint guarantees from shareholders (Note 30(b) (iv)) and certain third parties.

The carrying amount of the Group's finance lease liabilities were denominated in RMB and approximated their fair value as at the balance sheet dates.

(c) Other borrowings

The Group's other borrowings were repayable as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Within one year	**18,502**	16,463
Between 1 and 2 years	**10,093**	11,314
Between 2 and 3 years	**2,680**	1,852
	31,275	29,629

The other borrowings were obtained from certain leasing companies and secured by the Grop's certain machinery and equipment with net book value amounting to RMB111,445,000 and RMB65,998,000 as at 31 December 2013 and 2012, respectively. In addition, part of such borrowings were supported by joint guarantees from shareholders (Note 30(b) (iv)) and certain third parties.

The weighted average effective interest rate on other borrowings was 13.35% and 13.35% per annum for each of the years ended 31 December 2013 and 2012, respectively.

The carrying amounts of the Group's other borrowings were denominated in RMB and approximated their fair value as at the balance sheet dates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

15. BORROWINGS – GROUP *(Continued)*

(d) Loans from government

In September 2013, the Group obtained a loan of RMB50 million from the local government of Huang Mei County for the purpose of financing the development of Hongsheng (Hubei), a subsidiary of the Group. The interest rate of the loan is 3% per annum and repayable in full in September 2016.

In October 2013, Hongsheng (Hubei) obtained another loan of RMB5 million from the local government. The loan is interest free and repayable in October 2014.

The carrying amounts of the Group's government loans were denominated in RMB and approximated their fair value as at the balance sheet dates.

(e) Undrawn loan facilities

The Group had the following undrawn loan facilities as at the balance sheet dates:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Borrowings from banks and other financial institutions		
Floating rate:		
– Expiring within one year	**110,371**	20,500
Fixed rate:		
– Expiring within one year	**5,000**	—
Loan from government		
Fixed rate:		
– Expiring beyond one year	**50,000**	—
	165,371	20,500

The facilities that will expire beyond one year are annual facilities subject to review at various dates during 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

16. DEFERRED INCOME – GROUP

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Government grants relating to leasehold land and land use right	**14,265**	14,557
Government grants relating to plant and equipment	**2,680**	—
	16,945	14,557

The government grants were received from the local government as a subsidy to the Group's purchase of leasehold land of Hongsheng (Hubei) and the technical improvement project of Hongtai (China) Co., Ltd. ("Hongtai (China)"), a subsidiary of the Group. They are amortised to the profit or loss on a straight-line basis over the expected useful lives of the related assets.

The movements of the above government grant during the years ended 31 December 2013 and 2012 were as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
At beginning of the year	**14,557**	—
Granted during the year	**2,680**	14,606
Amortised as income (Note 22)	**(292)**	(49)
At end of the year	**16,945**	14,557

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

17. TRADE AND OTHER PAYABLES – GROUP AND COMPANY

Group

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Non-current		
Payables for purchase of property, plant and equipment	29,875	—
Current		
Trade payables		
– Third parties	40,200	21,692
Advanced payments from customers		
– Third parties	54,944	20,378
– Related party (Note 30(b) (i))	—	—
	54,944	20,378
Amounts due to related parties (Note 30(b) (ii))	8,283	10,435
Amounts due to third parties	—	—
Salary and welfare payables	6,968	4,025
Payables for purchase of property, plant and equipment	27,967	6,488
Other taxes payable	8,785	2,418
Accrued professional fees in respect of the initial public offering	2,285	—
Other payables	6,947	—
	116,179	43,744
	156,379	65,436

The ageing analysis of the trade payables as at the balance sheet dates based on invoice date was as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Within 3 months	27,936	19,729
4 months to 12 months	12,174	1,963
Over 12 months	90	—
	40,200	21,692

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

17. TRADE AND OTHER PAYABLES – GROUP AND COMPANY *(Continued)*

Group *(Continued)*

Advances from customers represent cash advances received from customers for purchases of the Group's products and will be applied to settlements when sales occur.

The carrying amounts of the Group's trade and other payables approximated their fair values and were denominated in RMB as at the balance sheet dates, except for other payables amounting to RMB10,569,000 and RMB5,440,000, which are denominated in HK$, as at 31 December 2013 and 2012, respectively.

Company

	As at 31 December 2013 RMB'000
Amount due to shareholders	3,521
Amount due to subsidiaries	4,820
Others payables	2,285
	10,626

The Company's other payables are unsecured, interest free and repayable on demand. The carrying amounts of the Company's other payables approximated their fair values and were denominated in HK$ as at the balance sheet dates.

18. NOTES PAYABLES – GROUP

	As at 31 December	
	2013 RMB'000	2012 RMB'000
Bank acceptance notes	70,498	111,848

The notes payables were secured by bank deposits of the Group amounted to RMB32,799,000 and RMB48,954,000 as at 31 December 2013 and 2012, respectively.

The carrying amounts of the Group's notes payables were denominated in RMB and approximated their fair values as at the balance sheet dates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

19. EXPENSES BY NATURE

Expenses included in cost of sales, selling expenses and administrative expenses are analysed as follows:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Raw materials and consumables used	**558,534**	288,949
Change of inventories of finished goods and work in progress	**9,861**	(7,439)
Employee benefit expenses (Note 20)	**25,345**	18,019
Amortisation of leasehold land and land use rights	**531**	214
Depreciation of property, plant and equipment	**32,116**	19,381
Repairs and maintenance expenses	**865**	411
Miscellaneous tax charges other than VAT and income tax	**6,837**	3,239
Utility expenses	**25,990**	17,544
Auditors' remuneration	**1,362**	35
Advertisement expenses	**200**	436
Professional fees in respect of the initial public offering	**9,424**	—
Office and other expenses	**5,965**	4,110
	677,030	344,899

20. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Wages, salaries and bonuses	**20,145**	16,794
Pension costs	**1,816**	630
Medical, housing and other benefits	**3,384**	595
	25,345	18,019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

21. DIRECTORS' EMOLUMENTS

(a) Directors' emoluments

The remuneration of each director for the years ended 31 December 2013 and 2012 is set out as follows:

Name	Fees RMB '000	Salary RMB '000	Bonus (discretionary) RMB '000	Pension costs RMB '000	Other benefits RMB '000	Total RMB '000
Year ended 31 December 2013						
Mr. Lin (Chief executive)	—	114	—	9	18	132
Mr. Qiu	—	114	—	8	18	132
Mr. Deng	—	103	—	8	11	114
	—	331	—	25	47	378
Year ended 31 December 2012						
Mr. Lin (Chief executive)	—	115	10	5	14	139
Mr. Qiu	—	115	10	5	14	139
Mr. Deng	—	102	9	4	7	118
	—	332	29	14	35	396

Mr. Deng was appointed as directors of the Company on 30 July 2013, and the independent non-executive directors Mr. Yu Yubin, Mr. Ma Chongqi and Mr. Chan Sui Wa were appointed as directors of the Company on 27 March 2014. During the years ended 31 December 2013 and 2012, the independent non-executive directors have not yet been appointed and received nil directors' remuneration in the capacity of independent non-executive directors.

No directors waived or agreed to waive any emoluments during the years ended 31 December 2013 and 2012. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any directors during the years ended 31 December 2013 and 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

21. DIRECTORS' EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group are all senior management and included three and two directors for the years ended 31 December 2013 and 2012, respectively, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individuals during the years ended 31 December 2013 and 2012 were as follows:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Salaries	**528**	318
Bonus (discretionary)	**—**	29
Pension costs	**25**	14
Medical, housing and other benefits	**9**	12
	562	373

The number of highest paid non-director individuals, whose remuneration for the years ended 31 December 2013 and 2012 fell within the following bands:

	Year ended 31 December	
	2013	2012
– Nil to RMB 800,000 (equivalent to Nil to HK$1,000,000)	**2**	3

During the years ended 31 December 2013 and 2012, no emoluments have been paid to the non-director highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

22. OTHER INCOME – NET

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Government subsidies received	**5,030**	934
Amortisation of deferred income of government grants relating to assets (Note 16)	**292**	49
Others	**(688)**	138
	4,634	1,121

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

23. FINANCE COSTS – NET

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Finance income:		
Interest income from bank deposits	**(1,368)**	(1,308)
Finance costs:		
Interest expense of borrowings from banks and other financial institutions	**12,518**	11,722
Interest expense of finance leases and other borrowings	**4,640**	5,163
Less: capitalised interest expense (Note 7)	**(1,181)**	(2,554)
Net interest expense of borrowings	**15,977**	14,331
Bank charges	**1,023**	1,391
	17,000	15,722
Finance costs, net	**15,632**	14,414

24. INCOME TAX EXPENSE

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Current income tax	**29,453**	11,575
Deferred income tax	**(937)**	682
	28,516	12,257

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

24. INCOME TAX EXPENSE *(Continued)*

The reconciliation between tax on the Group's profit before tax and the theoretical amount that would arise using the tax rate applicable to profits is as follows:

Profit before income tax	103,490	47,094
Tax calculated at income tax rates applicable to profits in the respective years (25%)	25,873	11,773
Effect of tax exemption and reduction	—	—
Expenses not deductible for tax purposes	2,643	484
Tax charges	28,516	12,257
Effective tax rate	27.55%	26.03%

(a) Cayman Islands profits tax

The Company is not subject to any taxation in the Cayman Islands.

(b) Hong Kong profits tax

No Hong Kong profits tax has been provided as the Group has no taxable profit derived in Hong Kong. The applicable Hong Kong profits tax rate is 16.5% for the years ended 31 December 2013 and 2012.

(c) PRC Corporate income tax ("CIT")

CIT is provided on the assessable income of entities of the Group incorporated in the PRC. Pursuant to the PRC Corporate Income Tax Law (the "New CIT Law"), the CIT is unified at 25% for all types of entities effective from 1 January 2008.

Hongtai (China), a subsidiary of the Company was qualified as a foreign investment manufacturing enterprise and was entitled to full tax exemption for years ended 31 December 2007 and 2008 and 50% tax reduction for years ended 31 December 2009 to 2011. Since 2012, the applicable income tax rate for Hongtai (China) is 25%.

(d) PRC withholding income tax

According to the New CIT Law, starting form 1 January 2008, a 10% withholding tax will be levied on the immediate holding company established out of the PRC when their PRC subsidiary declares dividends out of their profits earned after 1 January 2008. A lower withholding tax rate of 5% may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding company.

No deferred income tax liabilities for unremitted earnings of the PRC subsidiaries that was earned from 1 January 2008 to 31 December 2013 have been recognised as there is no plan of distribution of dividends from such earnings in the foreseeable future. Management intend to reinvest such earnings in the PRC permanently (Note 8).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

25. EARNINGS PER SHARE

The basic earnings per share is calculated based on the profit attributable to equity holders of the Company for the years ended 31 December 2013 and 2012 and on the assumption that 750,000,000 Shares, (including 10,000 shares issued after the completion of the Reorganisation and the capitalisation issue of 749,990,000 shares pursuant to the shareholders' resolutions dated 27 March 2014), were deemed to have been issued since 1 January 2012.

	Year ended 31 December	
	2013	2012
Net profit attributable to the equity holders of Company (RMB'000)	**74,974**	34,837
Weighted average number of ordinary shares outstanding for basic and diluted earnings per share	**750,000,000**	750,000,000
Basic and diluted earnings per share (RMB) (Note)	**10.00 cents**	4.64 cents

The Company has no potential dilutive ordinary shares as at 31 December 2013 and 2012. Diluted earnings per share therefore equal to basic earnings per share.

26. DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation, and by the companies now comprising the Group during the years ended 31 December 2013 and 2012.

27. NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Reconciliation of profit before income tax to cash generated from operations

	2013 RMB'000	2012 RMB'000
Profit before income tax	**103,490**	47,094
Adjustments for:		
– Amortisation of leasehold land and land use right (Note 6)	**531**	214
– Depreciation of property, plant and equipment (Note 7)	**32,116**	19,381
– Losses on disposal of property, plant and equipment	**90**	59
– Amortisation of deferred income	**(292)**	(49)
– Finance income (Note 23)	**(1,368)**	(1,308)
– Finance costs (Note 23)	**17,000**	15,722
Change in working capital:		
– Inventories	**(13,114)**	(5,062)
– Trade and other receivables	**(82,992)**	(36,972)
– Trade and other payables	**65,119**	(8,479)
– Notes payables	**(41,350)**	52,698
Cash generated from operations	**79,230**	83,298

(b) Proceeds from disposal of property, plant and equipment

In the consolidated statements of cash flows, proceeds from sale of property, plant and equipment comprise:

	2013 RMB'000	2012 RMB'000
Net book value (Note 7)	**142**	59
Losses on disposal of property, plant and equipment	**(90)**	(59)
Proceeds from disposal of property, plant and equipment	**52**	—

(c) Non-cash investing and financing transactions

	2013 RMB'000	2012 RMB'000
Financing activities not affecting cash:		
Finance lease obligations incurred for acquisition of machinery and equipment	**—**	16,325

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

28. FINANCIAL GUARANTEES

The Group's subsidiary, Hongtai (China), provided corporate guarantees in favour of certain third parties' borrowings in return for counter-guarantees provided by certain third parties in favour of the Group's borrowings as disclosed in Note 15 above. The balances of the third parties' borrowings covered by guarantees from Hongtai (China) amounted to and RMB21,000,000 as at 31 December 2012. No default in repayment of the borrowings by the third parties and the related party had occurred in the past. The Directors are therefore of the view that no liability arose from the corporate guarantees provided to the third parties and the related party as at 31 December 2013 and 2012.

29. COMMITMENTS

(a) Capital commitments

The Group's future aggregate minimum capital payments under these contracts were as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Contracted but not provided for		
– Plants and buildings	—	109,243
– Machinery and equipment	—	69,817
	—	179,060

(b) Operating lease commitments – the Group's entities as lessee

The Group leases buildings under non-cancellable lease agreements. The Group's future aggregate minimum lease payments under these non-cancellable operating leases were as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
No later than 1 year	**797**	—
Later than 1 year and no later than 5 years	**997**	—
	1,794	—

30. RELATED-PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

Save as disclosed elsewhere in the financial statements, the following is a summary of the significant transactions carried out between the Group and its related parties during the years ended 31 December 2013 and 2012, and balances as at 31 December 2013 and 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

30. RELATED-PARTY TRANSACTIONS *(Continued)*

(a) Related parties

The directors of the Company are of the view that the following companies that had transactions or balances with the Group are related parties:

Name	Relationship with the Group
Mr. Lin	Founding shareholder of the Company
Mr. Qiu	Founding shareholder of the Company
Mr. Cai	Founding shareholder of the Company
Mr. Lin Hong Peng	Son of Mr. Lin
Hongtai (Fujian) Industrial Development Co.,Ltd. ("Hong Tai Industrial")	Beneficially owned by Mr. Lin before July 2012
Shishi City Jia Lun Textile Trading Co., Ltd. ("Jia Lun Textile")	Beneficially owned by Mr. Lin Hong Peng before July 2012

(b) Related party transactions and balances

(i) Sale of goods

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Discontinued transactions		
Hong Tai Industrial	—	2,673
Jia Lun Textile	—	14,756
	—	17,429

Mr. Lin and Mr. Lin Hong Peng disposed their equity interests in Hong Tai Industrial and Jia Lun Textile in June and July 2012, respectively. Accordingly, the related party transactions for the year ended 31 December 2012 represented only five months' and six months' transactions, respectively, and the transactions with Hong Tai Industrial and Jia Lun Textile are not disclosed for the year ended 31 December 2013.

Sales of goods to related parties were carried out in the normal course of business at mutually agreed prices and terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

30. RELATED-PARTY TRANSACTIONS *(Continued)*

(b) Related party transactions and balances *(Continued)*

(ii) Advances to and from related parties

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Amounts due from related parties included in trade and other receivables		
Mr. Qiu	—	158
Amount due to related parties included in trade and other payables		
Mr. Lin	**8,283**	8,248
Mr. Cai	—	2,187
	8,283	10,435

The maximum amounts of the advances to related parties during the years ended 31 December 2013 and 2012 were as follows:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Mr. Lin	—	120,581
Mr. Qiu	**1,365**	2,233
Hong Tai Industrial	—	33,292

The above balances were unsecured, interest free and receivable/repayable on demand. The carrying values of the balances approximated their fair values as at the balance sheet dates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

30. RELATED-PARTY TRANSACTIONS *(Continued)*

(b) Related party transactions and balances *(Continued)*

(iii) Key management compensation

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Salary	**1,073**	650
Bonus	**—**	57
Pension costs	**36**	31
Medical, housing and other benefits	**42**	20
	1,151	758

(iv) Guarantees

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Guarantees provided by shareholders to the Group's short-term borrowings from banks and other financial institutions	**64,000**	40,000
Guarantees provided by shareholders to the Group's long-term borrowings from banks and other financial institutions	**—**	6,243
Guarantees provided by shareholders to the Group's finance lease liabilities	**5,546**	10,528
Guarantees provided by shareholders to the Group's other borrowings	**30,563**	25,612
	100,109	82,383

31. SUBSEQUENT EVENTS

Pursuant to a shareholders' resolution dated 27 March 2014, the authorised share capital of the Company was increased from HK$1,000,000 to HK$1,000,000,000 divided into 10,000,000,000 ordinary shares of HK$0.1 each.

The Company completed its initial public offering in Hong Kong and its shares have been listed on The Stock Exchange of Hong Kong Limited on 25 April 2014.

FINANCIAL SUMMARY

OPERATING RESULTS

	Year ended 31 December		
	2013	2012	2011
Revenue – From continuing business *(RMB'000)*	791,518	405,286	262,072
Gross profit – From continuing business *(RMB'000)*	148,154	75,605	42,502
Gross profit margin – From continuing business	18.7%	18.7%	16.2%
Profit and total comprehensive income attributable to owners of our Company *(RMB'000)*			
– From continuing business	74,974	34,837	23,265
– From discontinued business	—	—	5,718
Net profit margin – From continuing business	9.5%	8.6%	8.9%

CONSOLIDATED BALANCE SHEET

The following table sets forth our assets/liabilities position as at 31 December 2011, 2012 and 2013:-

	As at 31 December		
	2013 RMB'000	2012 RMB'000	2011 RMB'000
Current assets	323,596	206,780	275,372
Current liabilities	428,036	317,759	305,933
Net current liabilities	(104,440)	(110,979)	(30,561)
Net assets	266,918	183,909	149,072

FINANCIAL INDICATORS

	Year ended 31 December		
	2013	2012	2011
Return on equity (%) *(Note 1)*	28.1	18.9	19.4
Return on assets (%) *(Note 2)*	9.1	6.5	6.2
Interest coverage *(Note 3)*	7.0	3.9	3.8

	As at 31 December		
	2013	2012	2011
Current ratio (%) *(Note 4)*	75.6	65.1	90.0
Quick ratio (%) *(Note 5)*	57.9	45.4	71.2
Gearing ratio (%) *(Note 6)*	103.5	88.3	109.1
Debt to equity ratio (%) *(Note 7)*	73.3	57.7	67.5

FINANCIAL SUMMARY

Notes:-

(1) Return on equity for the years ended 31 December 2011, 2012 and 2013 was calculated based on our total comprehensive income for the respective year divided by the total equity of the respective year and multiplied by 100%.

(2) Return on assets for the years ended 31 December 2011, 2012 and 2013 was calculated based on our total comprehensiveincome for the respective year divided by our total assets of the respective year and multiplied by 100%.

(3) Interest coverage ratio for the years ended 31 December 2011, 2012 and 2013 was calculated based on our operatingprofit for the respective year divided by our finance costs for the respective year.

(4) Current ratio as at 31 December 2011, 2012 and 2013 were calculated based on our current assets of the respective date divided by our current liabilities of the respective date and multiplied by 100%.

(5) Quick ratio as at 31 December 2011, 2012 and 2013 were calculated based on our current assets minus inventories as at the respective date divided by our current liabilities as at the respective date and multiplied by 100%.

(6) Gearing ratio as at 31 December 2011, 2012 and 2013 were calculated based on our total debts (being sum of our total borrowings and amounts due to related parties and third parties) as at the respective date divided by total equity as at the respective year and multiplied by 100%.

(7) Debt to equity ratio as at 31 December 2011, 2012 and 2013 were calculated based on our net debts (being total debts net of cash and cash equivalents and restricted bank deposits) as at the respective date divided by total equity as at the respective year and multiplied by 100%.